CREE INC
Form DEF 14A
September 10, 2013
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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 x
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))
x 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):

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

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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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

To the Shareholders of Cree, Inc.:

The 2013 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 29, 2013, 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 seven directors
- Proposal No. 2—Approval of the 2013 Long-Term Incentive Compensation Plan
- Proposal No. 3—Approval of amendments to the 2005 Employee Stock Purchase Plan to increase the number of shares authorized for issuance under the plan by 2,000,000 shares and extend the plan term for five years
- Proposal No. 4—Ratification of the appointment of Ernst & Young LLP as independent auditors for the fiscal year ending June 29, 2014
- Proposal No. 5—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 30, 2013 are entitled to notice of and to vote at the meeting.

By order of the Board of Directors,

Bradley D. Kohn
Secretary
Durham, North Carolina
September 10, 2013

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 16, 2013, we expect to mail to our shareholders a Notice of Internet Availability of Proxy Materials which will indicate how to access our 2013 Proxy Statement and 2013 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) over the Internet, by accessing the website address www.proxyvote.com; (2) by telephone, by calling the toll-free telephone number 1-800-690-6903; 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

2013 PROXY SUMMARY

This summary highlights information contained in this proxy statement. The summary does not contain all of the information that you should consider; please read the entire proxy statement carefully before voting.

Annual Meeting of Shareholders	• Place: Cree, Inc. offices at 4425 Silicon Drive, Durham, North Carolina 27703 • Date and time: Tuesday, October 29, 2013, at 10:00 a.m. • Record Date: August 30, 2013 • Approximate Date of Availability of Proxy Materials: September 16, 2013 • Voting: Shareholders as of the record date are entitled to vote. Each share of common stock is entitled to vote for each director nominee and to one vote for each of the other proposals to be voted on.
Voting matters and Board recommendations	• Election of seven directors (FOR THE NOMINEES) • Approval of a 2013 Long-Term Incentive Compensation Plan (FOR) • Approval of amendments to our 2005 Employee Stock Purchase Plan to increase the number of shares authorized for issuance under the plan by 2,000,000 shares and extend the plan term for five years (FOR) • Ratification of the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending June 29, 2014 (FOR) • Advisory (nonbinding) vote to approve executive compensation (FOR)
Board nominees	• Charles M. Swoboda. Cree, Inc. Chairman, President and Chief Executive Officer. Cree Director since 1999. • Clyde R. Hosein. Executive Vice President and Chief Financial Officer of RingCentral, Inc. Cree Director since 2005. • Robert A. Ingram. General Partner in Hatteras Venture Partners. Cree Director since 2008. • Franco Plastina. President and Founder of Arc & Company, LLC. Cree Director since 2007. • Alan J. Ruud. Cree, Inc. Vice Chairman–Lighting. Cree Director since 2011. • Robert L. Tillman. Former Chairman, President and Chief Executive Officer of Lowe’s Companies, Inc. Cree Director

since 2010.

- Thomas H. Werner. Chief Executive Officer and Director of SunPower Corporation. Cree Director since 2006.

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Named executive officers for fiscal 2013	• Charles M. Swoboda, Chairman, President and Chief Executive Officer • Michael E. McDevitt, Executive Vice President and Chief Financial Officer • Norbert W. G. Hiller, Executive Vice President–LEDs • Tyrone D. Mitchell, Jr., Executive Vice President–Lighting
Approval of 2013 Long-Term Incentive Compensation Plan	We are seeking shareholder approval of our 2013 Long-Term Incentive Compensation Plan to replace our current plan that expires in 2015 and to allow for an increase in the number of shares available for grant. Our Board of Directors recommends a FOR vote because we believe that the ability to make equity awards to our employees and directors is important to align their interests with those of our shareholders and to enable us to retain and motivate our employees.
Approval of amendments to our 2005 Employee Stock Purchase Plan	We are seeking shareholder approval of amendments to our 2005 Employee Stock Purchase Plan to increase the number of shares authorized for issuance under the plan by 2,000,000 shares and extend the plan term, which currently expires in 2015, until 2020. Our Board of Directors recommends a FOR vote because we believe that the plan helps align the interests of our employees with those of our shareholders and helps us to retain and motivate our employees.
Independent auditors	Although not required, we ask shareholders to ratify the selection of Ernst & Young as our auditors for our fiscal year ending June 29, 2014. Our Board of Directors recommends a FOR vote.
Advisory (nonbinding) vote to approve executive compensation	Annually, our shareholders consider and vote on the compensation of our named executive officers on an advisory (nonbinding) basis. Our Board of Directors recommends a FOR vote.

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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 2013 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 29, 2013, 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 seven directors listed in this proxy statement; (2) approval of a 2013 Long-Term Incentive Compensation Plan, or the Proposed LTIP; (3) approval of amendments to the 2005 Employee Stock Purchase Plan, or the ESPP, to increase the number of shares authorized for issuance under the plan by 2,000,000 shares and extend the plan term for five years; (4) ratification of the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending June 29, 2014; and (5) 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 Proposed LTIP, FOR approval of the amendments to the ESPP, FOR ratification of the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending June 29, 2014, and FOR the advisory (nonbinding) vote to approve executive compensation.

Beginning on or about September 16, 2013, proxy materials for the annual meeting, including this proxy statement and our 2013 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 29, 2013:

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 16, 2013, 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 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 by telephone, 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. If, however, 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, 2013 are entitled to vote at the meeting and any adjournments of the meeting. At that time, there were 120,114,210 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 Internet. You can vote over the Internet by following the directions on your Notice to access the website address at www.proxyvote.com. The deadline for voting over the Internet is Monday, October 28, 2013 at 11:59 p.m. Eastern time.
- Voting by Telephone. You can vote by calling the toll-free telephone number at 1-800-690-6903. The deadline for voting by telephone is Monday, October 28, 2013 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 28, 2013.
- 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 over the Internet, by telephone, 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 as described above without giving voting instructions, your shares will be voted FOR the election of the director nominees listed in this proxy statement, FOR approval of the Proposed LTIP, FOR approval of the amendments to the ESPP, FOR ratification of the appointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending June 29, 2014, 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 (and many other matters, including Proposals 2, 3 and 5) 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 because brokers will have discretionary voting authority only with respect to Proposal 4 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

- Proposal 1 (Election of Directors). Directors will be elected by a plurality of the votes cast. 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.

As set forth in the Corporate Governance Principles adopted by the Board of Directors, except in cases when there are more nominees than available seats, if a nominee elected to the Board by plurality vote received a number of "withhold" votes that is greater than 50% of all votes cast with respect to that nominee, the nominee shall tender the nominee's resignation from the Board in writing to the Chairman prior to the first regular meeting of the Board that follows the meeting of shareholders at which the election was held and any meeting of the Board held in connection with it. The resignation will be effective if and when it is accepted by the Board. Promptly after the Board reaches a decision, the Company will publicly disclose the action taken by the Board regarding the director's tendered resignation.

- Proposal 2 (Approval of 2013 LTIP), Proposal 3 (Approval of Amendments to the ESPP) and Proposal 4 (Ratification of Appointment of Auditors). The Proposed LTIP, the proposed amendments to the ESPP, and ratification of the appointment of Ernst & Young LLP as the Company's independent auditors for fiscal 2014 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 has 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 2013 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.
- Proposal 5 (Advisory (Nonbinding) Vote to Approve Executive Compensation). With respect to the advisory (nonbinding) vote to approve executive compensation, the executive compensation will be approved if the votes cast for approval exceed the votes cast against approval. Because your vote to approve executive compensation is advisory, it will not be binding upon the Board of Directors, it will not overrule any decision by the Board, and it will not create or imply any additional fiduciary duties on the Board or any member of the Board. The Compensation Committee will, however, 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 seven persons nominated for election to the Board of Directors at the annual meeting are currently serving as directors of the Company. Harvey A. Wagner, who has served on the Board since 2004, is not standing for re-election, because Mr. Wagner has reached the recommended retirement age for service as a director as set forth in the Corporate Governance Principles adopted by the Board of Directors. 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. 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 tables list the nominees for election and information about each nominee. The Governance and Nominations Committee has recommended each nominee to the Board of Directors. Each nominee meets the criteria set forth in the Corporate Governance Principles, including that no nominee will be 72 years old or older at the time of the annual meeting and that no Company director shall serve on more than four public company boards of directors, inclusive of service on the Company’s Board. 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 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, within five years after election or appointment to the Board.

Under the charter of the Governance and Nominations Committee, the Committee is responsible for identifying from a wide field of candidates, including women and minority candidates, and recommending that the Board select qualified candidates for membership on the Board. In identifying candidates, the Committee takes into account such factors as it considers appropriate, which may include (1) ensuring that the Board, as a whole, is diverse as to race, gender, culture, thought and geography, such that the Board reflects a range of viewpoints, backgrounds, skills, experience and expertise, and consists of individuals with various and relevant career experience, relevant technical skills, industry knowledge and experience, financial expertise and local or community ties; (2) minimum individual qualifications, including strength of character, mature judgment, familiarity with the Company’s business and industry, independence of thought and an ability to work collegially; (3) questions of independence, possible conflicts of interest and whether a candidate has special interests or a specific agenda that would impair his or her ability to effectively represent the interests of all shareholders; (4) the extent to which the candidate would fill a present need on the Board; and (5) whether the candidate can make sufficient time available to perform the duties of a director.

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Name	Age	Principal Occupation and Background	Director Since
Charles M. Swoboda	46	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. Mr. Swoboda's employment with the Company for the past 20 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 thirteen years, including his service as Chairman of the Board for the past eight 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.	2000
Clyde R. Hosein	54	Mr. Hosein has been a member of the Board of Directors since December 2005. Since August 2013, he has served as Executive Vice President and Chief Financial Officer of RingCentral, Inc., a provider of software-as-a-service cloud-based business communications solutions. From June 2008 to October 2012, he 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 Candescent Technologies, a developer of flat panel display technology. Early in his career he spent 14 years in financial and engineering roles at IBM Corporation. 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 eight 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.	2005

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Name	Age	Principal Occupation and Background	Director Since
Robert A. Ingram	70	Mr. Ingram joined the Board of Directors in December 2008 and has served as Lead Independent Director since October 2011. Since January 2010, he has been a General Partner in 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 Board of Directors of 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., Pharmaceutical Product Development, Inc. and Allergan, Inc. until 2005, 2006, 2008, May 2011, December 2011 and December 2012 respectively. 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.	2008

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Name	Age	Principal Occupation and Background	Director Since
Franco Plastina	50	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 26 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 Audit Committee for the past six years and as Chairman of the Audit Committee since October 2012, his private equity investment experience and his qualifications as an audit committee financial expert.	2007
Alan J. Ruud	66	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. 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 continues to expand its lighting business.	2011

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Name	Age	Principal Occupation and Background	Director Since
Robert L. Tillman	70	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. 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.	2010
Thomas H. Werner	53	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. Mr. Werner's qualifications to serve as a director include his seven years of service on the Company's Board of Directors and his six 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 ten years.	2006

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Summary of Skills of Nominees

	Swoboda	Hosein	Ingram	Plastina	Ruud	Tillman	Werner
Senior executive experience (CEO/CFO)	×	×	×	×	×	×	×
Previous public board experience			×	×		×	×
Public technology, lighting fixture or source products, retail and/or industrial sales channels and distribution or consumer product marketing experience	×	×	×	×	×	×	×
Global experience with a public company	×	×	×	×	×	×	×
Current in issues related to corporate governance	×	×	×	×	×	×	×
Track record of achievements that fueled their company's growth	×	×	×	×	×	×	×

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 49), Norbert W. G. Hiller (age 53) and Tyrone D. Mitchell, Jr. (age 46) also serve as executive officers of the Company.

Mr. McDevitt was appointed as Executive Vice President and Chief Financial Officer of the Company effective February 4, 2013. Mr. McDevitt previously served as the Company's Vice President and Interim Chief Financial Officer from May 2012 to February 2013, as Director–Sales Operations from 2011 to May 2012, as Director–Financial Planning from 2005 to 2011 and as Corporate Controller from 2002 to 2005. 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 with the Company, 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 determining the number within that range from time to time. Seven persons have been nominated for election at the annual meeting. The accompanying proxy cannot be voted for more than seven 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 the Nasdaq Listing Rules. Currently, the Board of Directors is composed of Messrs. Swoboda, Hosein, Ingram, Plastina, Ruud, Tillman and Werner, as well as Mr. Wagner, who is not standing for re-election at the annual meeting because he has reached the recommended retirement age for service as a director as set forth in the Corporate Governance Principles. 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 Nasdaq Listing Rules.

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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 each bring to the Board, as detailed in the section captioned "Nominees for Election as Directors" on page 6. 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.

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

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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 current Long-Term Incentive Compensation Plan, or Current LTIP, and our Proposed LTIP;
- performance unit awards payable to our Chief Executive Officer, or CEO, under our Current LTIP and our Proposed 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.

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 2013, and the Committee concurred with management's assessment.

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Attendance at Meetings

The Board of Directors held five meetings during fiscal 2013. 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 2012 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 (1) the quality and integrity of the Company's financial statements and internal accounting and financial controls; (2) 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 (3) 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 body of the Board of Directors.

The members of the Audit Committee are Messrs. Plastina, Hosein and Wagner. 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. Plastina is Chairman of the Audit Committee and has served in that capacity since October 2012. The Board of Directors has determined that each of Messrs. Plastina, Hosein and Wagner 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 nine meetings during fiscal 2013. 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 (1) 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; (2) upon the recommendation of the Compensation Committee, determining compensation arrangements for non-employee directors; (3) developing and recommending to the Board of Directors corporate governance principles for the Company; and (4) otherwise taking a leadership role in shaping the corporate governance of the Company.

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 "2014 Annual Meeting of Shareholders" on page 67 below. The Governance and Nominations Committee held four meetings during fiscal 2013. 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. In addition, the Compensation Committee is charged with conducting appropriate review and oversight of any related person transactions involving compensation for directors or executive officers or their immediate family members and engaging and evaluating the Company's compensation advisors, including evaluation of the advisors' independence in advance of engagement.

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 "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 2013. 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 38 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 2013. 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 from Intematix pursuant to standard purchase orders in the ordinary course of business. During fiscal 2013, the Company purchased $3.2 million of raw materials from Intematix pursuant to standard purchase orders. The

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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 cash and shares of the Company's common stock. A portion of the cash and equity consideration was deposited in escrow pursuant to escrow arrangements agreed to by the Company and the Ruud Lighting shareholders as the primary (and, in some cases, the sole) source of recovery with respect to post-closing working capital and related adjustments and damages for which the Company is indemnified under the Stock Purchase Agreement. As a result of the purchase, Ruud Lighting became a wholly owned subsidiary of the Company. It merged into the Company in January 2013.

Immediately after the purchase, Alan Ruud, a 25.1% shareholder of Ruud Lighting (including shares held by the AJR Legacy Trust he established), was appointed to the Board of Directors of the Company. In addition, Christopher Ruud (the son of Alan Ruud) was a 31.9% shareholder of Ruud Lighting (including shares held by the JZC Legacy Trust he established), and Cynthia Ruud-Johnson (the daughter of Alan Ruud) was an 8.0% shareholder of Ruud Lighting. 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.

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.

On April 19, 2013, 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 April 2013 Letter Agreement, resolving certain indemnification claims. Pursuant to the April 2013 Letter Agreement, which was approved by the Audit Committee on April 22, 2013, in the fourth quarter of fiscal 2013, the Company received approximately $1.1 million in cash and 17,331 shares of the Company's common stock from escrow.

In addition to the amounts received under the April 2013 Letter Agreement, since June 25, 2012, the Company has received approximately $1.4 million in cash and 23,537 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.

Employment of Alan Ruud: In connection with the transaction and pursuant to an offer letter, Alan Ruud continued as an employee of the Company and serves as the Company's Vice Chairman–Lighting (a senior leadership role and not a Board of Directors position). In addition to this senior leadership role, Alan Ruud also serves on the Company's Board of Directors. For details regarding the compensation Mr. Ruud received during fiscal 2013, please refer to the section below on page 62 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 the Company. 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 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, and in September 2013, Christopher Ruud also received 3,200 shares of restricted common stock of the Company and options to purchase 20,000 shares of the Company's common stock, all pursuant to the Current 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.

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Airplane Joint Ownership: On August 17, 2011, pursuant to an Aircraft Purchase and Sale Agreement and a Joint Ownership Agreement with Ruud Lighting, Inc. (now the Company), 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 the Company 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, the Company has been provided the right to purchase the ownership interests of LSA and Light Speed for fair market value. If the Company does not exercise this right, LSA and Light Speed, jointly, have been provided the right to purchase the ownership interest of the Company for fair market value. Further, if Alan Ruud ceases to be an employee of the Company, the Company has the right to purchase the ownership interest of LSA for fair market value, and, alternatively, Alan Ruud has the right to require the Company to purchase the ownership interest of LSA for fair market value. If Christopher Ruud ceases to be an employee of the Company, the Company has the right to purchase the ownership interest of Light Speed for fair market value, and, alternatively, Christopher Ruud has the right to require the Company 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 2013, the Company billed LSA and Light Speed $311,000 and $318,000, respectively, for use of the aircraft, and LSA and Light Speed have reimbursed the Company for these amounts. The Company also had unbilled receivables of $186,000 and $209,000 for LSA and Light Speed, respectively, as of June 30, 2013.

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 must approve any related person transaction, other than any related person transaction for which the Board of Directors has delegated review to another independent body of the Board of Directors. The Board of Directors has delegated review of any related person transaction involving compensation for directors or executive officers or their immediate family members to the Compensation Committee. “Related person transaction” is defined in the Audit Committee and Compensation Committee charters as any transaction required to be disclosed pursuant to Securities and Exchange Commission Regulation S-K, Item 404, and any other transactions for which approval by an independent body of the Board of Directors 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, the Compensation 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.

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Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, 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 2013, except that a report on Form 4 was not timely filed for the open market purchase of 337 shares by Mr. Ruud's spouse on November 28, 2012.

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PROPOSAL NO. 2—APPROVAL OF 2013 LONG-TERM INCENTIVE COMPENSATION PLAN

Overview

On August 30, 2013, the Board of Directors, on the recommendation of the Compensation Committee, unanimously adopted, subject to shareholder approval, the Company's 2013 Long-Term Incentive Compensation Plan, or the Proposed LTIP. The Board unanimously recommends that shareholders approve the Proposed LTIP. The Proposed LTIP will become effective upon approval by the shareholders and will replace the Company's current Long-Term Incentive Compensation Plan, or the Current LTIP, effective January 1, 2014, as the sole plan for providing stock-based incentive compensation to eligible employees and non-employee directors. The Current LTIP expires in November 2015. Outstanding awards under the Current LTIP, however, will continue to be governed by the Current LTIP. No awards may be granted under the Proposed LTIP after the tenth anniversary of the date on which the shareholders approve the Proposed LTIP. However, awards outstanding under the Proposed LTIP will continue to be governed by the Proposed LTIP until all awards granted prior to that date are no longer outstanding.

The Proposed LTIP is filed as Appendix B to the Company's definitive proxy statement (File No. 000-21154) filed with the Securities and Exchange Commission on September 10, 2013, which is available online through the Commission's EDGAR System and through the "Investor Relations" section of the Company's website at investor.cree.com/sec.cfm. You may also request a copy of the Proposed LTIP by sending a written request to: Director, Investor Relations, Cree, Inc., 4600 Silicon Drive, Durham, North Carolina 27703.

For additional information regarding outstanding awards under our equity compensation plans, please refer to the section below on page 28 entitled "Equity Compensation Plans." We believe that a broad-based stock option program is an essential employee incentive and retention tool that benefits all of our shareholders. Stock-based compensation has been a key element of our incentive compensation programs since the Company's inception and we believe has contributed to the Company's success.

We believe that our equity program helps motivate employees to act with the shareholders' perspective in mind and complements our cash-based incentives that are directed to achieving revenue, earnings and other financial goals. We also believe that our equity program over the years has enabled us to recruit and retain the talent needed to develop new technologies and to grow our business with lower base pay and cash incentive compensation than otherwise would have been required. Without our equity program, we would find it necessary to consider offering higher levels of cash compensation to provide competitive compensation packages necessary to recruit and retain essential personnel.

As of September 5, 2013, there were outstanding options to purchase 10,778,622 shares and there remained 4,511,311 shares authorized for future awards under the Current LTIP. The outstanding options had a weighted average exercise price of $40.50 per share and a weighted average remaining term of approximately 5.42 years. We will grant no additional awards under the Current LTIP after December 31, 2013. Shares authorized for future awards under the Current LTIP as of January 1, 2014, including shares subject to outstanding awards on that date that later expire, are canceled or otherwise terminate unexercised or unused for any reason, may thereafter be used for awards under the Proposed LTIP. In addition, the Proposed LTIP authorizes an additional 2,500,000 shares for future awards, or approximately 2.1% of the shares outstanding on September 5, 2013.

The last sale price of the Company's common stock on September 5, 2013 was $56.18 per share, as reported by Nasdaq.

To allow for awards under the Proposed LTIP to qualify as tax-deductible performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code (referred to as Section 162(m)), as explained below, we are also asking shareholders to approve the material terms of the performance goals under the Proposed LTIP as well as certain other key terms of the Proposed LTIP. Approval of the Proposed LTIP will constitute approval of the performance goals and other key terms specified in the Proposed LTIP for purposes of the approval requirements of Section 162(m).

We believe the Proposed LTIP 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.

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Purpose of Proposed LTIP

The objectives of the Proposed LTIP are to (1) attract and retain employees of the Company and its affiliates as well as non-employee members of the Board by providing competitive compensation opportunities; (2) provide incentives to those individuals who contribute significantly to the long-term performance and growth of the Company and its affiliates; and (3) align the long-term financial interests of employees of the Company and its affiliates and non-employee members of the Board with those of shareholders.

In evaluating this proposal, shareholders should specifically consider the information set forth under the section entitled “Plan Summary” below.

Section 162(m)

The Board believes that it is in the best interests of the Company and our shareholders to maintain an equity incentive plan under which awards may be eligible to qualify for deductibility for federal income tax purposes. Accordingly, the Proposed LTIP is designed to permit the grant of awards that are intended to qualify as “performance-based compensation” to be exempt from the $1,000,000 deduction limit of Section 162(m). In general, under Section 162(m), in order for the Company to be able to deduct compensation in excess of $1,000,000 paid in any one year to certain executive officers (the Chief Executive Officer and three other executive officers identified as specified in Section 162(m) based on their compensation ranking), the compensation must qualify as “performance-based.” One of the requirements for “performance-based” compensation is that the material terms of the performance goals under which the compensation may be paid must be disclosed to and approved by our shareholders at least once every five years. For purposes of Section 162(m), the material terms include (1) the employees eligible to receive compensation; (2) a description of the business criteria on which the performance goals are based; and (3) the maximum amount of compensation that can be paid to an employee under the performance goals. With respect to the various types of awards available under the Proposed LTIP, each of these aspects is discussed below. In addition, as noted above, shareholder approval of the Proposed LTIP will constitute approval of each of these aspects of the Proposed LTIP for purposes of the approval requirements of Section 162(m).

Plan Summary

The following summary of the material terms of the Proposed LTIP is qualified in its entirety by reference to the full text of the Proposed LTIP, which is filed as Appendix B to the Company’s definitive proxy statement filed with the Securities and Exchange Commission on September 10, 2013.

The Proposed LTIP is not a qualified deferred compensation plan under Section 401(a) of the Code, and is not intended to be an employee benefit plan within the meaning of ERISA.

Administration of the Proposed LTIP. The Proposed LTIP will be administered by the Compensation Committee or such other committee consisting of two or more members as may be appointed by the Board to administer the Proposed LTIP, referred to as the Committee. So long as shares are traded on Nasdaq, all of the members of the Committee must be independent directors within the meaning of Nasdaq’s Corporate Governance Requirements. If any member of the Committee does not qualify as (1) a “non-employee director” within the meaning of Rule 16b-3 of the Exchange Act; and (2) an “outside director” within the meaning of Section 162(m), the Board will appoint a subcommittee of the Committee, consisting of at least two members of the Board, to grant awards to individuals who are subject to the limitations of Section 162(m) (referred to as Covered Employees) and to officers and members of the Board who are subject to Section 16 of the Exchange Act (referred to as Insiders), and each member of such subcommittee must satisfy the requirements of (1) and (2) above. References to the Committee in this summary include and, as appropriate, apply to any such subcommittee. Except with respect to awards to non-employee members of the Board, the Board may exercise the Committee’s authority under the Proposed LTIP.

Subject to the express provisions of the Proposed LTIP, the Committee is authorized and empowered to do all things that it determines to be necessary or appropriate in connection with the administration of the Proposed LTIP. The Committee may delegate its authority to one or more of its members (but not less than two members with respect to Covered Employees and Insiders). To the extent permitted by law and applicable stock exchange rules,

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the Committee may also delegate its authority to one or more persons who are not members of the Board, except that no such delegation will be permitted with respect to Covered Employees and Insiders.
Eligible Participants. Employees of the Company or certain affiliates and non-employee members of the Board will be eligible for selection by the Committee for the grant of awards under the Proposed LTIP. As of September 5, 2013, there were approximately 6,141 employees, including part-time and temporary employees, and six non-employee directors who would be eligible to participate in the Proposed LTIP.
Types of Awards. The Proposed LTIP authorizes the Committee to provide equity-based compensation to employees of the Company and its subsidiaries in the form of non-qualified stock options or NQSOs, incentive stock options or ISOs, stock appreciation rights or SARs, restricted stock, restricted stock units or RSUs, performance shares, performance units and other stock-based awards. It also authorizes the Committee to provide equity-based compensation to non-employee members of the Board in the form of NQSOs, SARs, restricted stock, RSUs and other stock-based awards.
Award Pool. The number of shares that will be available for issuance pursuant to awards granted under the Proposed LTIP is two million five hundred thousand (2,500,000) plus the number of shares that are authorized for issuance under the Current LTIP but not covered by outstanding awards on January 1, 2014 (referred to as the Award Pool). If shareholders approve the Proposed LTIP, no further grants may be made under the Current LTIP after December 31, 2013.
If shares awarded or subject to issuance under the Proposed LTIP are not issued or are reacquired by the Company for reasons including, but not limited to, due to the forfeiture, cancellation or expiration of such awards without having been exercised or settled in shares or the withholding of shares for the payment of taxes pursuant to the terms of the Proposed LTIP, those number of shares will be added back to the Award Pool. Similarly, if shares awarded or subject to issuance under the Current LTIP on December 31, 2013 are not issued or are reacquired by the Company due to the expiration, cancellation or termination of such awards without having been exercised or settled in shares, those shares will be added back to the Award Pool. However, shares with respect to which an SAR is exercised will not again be available for issuance under the Proposed LTIP and will not be added back to the Award Pool.

The shares issued by the Company under the Proposed LTIP will be authorized but unissued shares or shares currently held (or subsequently acquired) as treasury shares, including shares purchased on the open market or in private transactions.
The number of shares available for issuance pursuant to ISOs granted under the Proposed LTIP is two million five hundred thousand (2,500,000). All shares included in the Award Pool are available for issuance pursuant to other types of awards granted under the Proposed LTIP.
Each share of restricted stock, each share-settled restricted stock unit, each share of unrestricted stock and each other stock-based/stock-settled award will be counted as one share subject to an award and deducted from the Award Pool (restricted stock units and other stock-based awards that may not be settled in shares will not result in a deduction from the Award Pool). Each performance share that may be settled in shares will be counted as one share subject to an award (based on the number of shares that would be paid for achievement of target performance) and deducted from the Award Pool. Each performance unit that may be settled in shares will be counted as a number of shares subject to an award (based on the number of shares that would be paid for achievement of target performance), with the number determined by dividing the value of the performance unit at the time of grant by the fair market value of a share at the time of grant (the last sale price reported for a share of the Company on Nasdaq during the regular trading session on the grant date), and the resulting number of shares will be deducted from the Award Pool. If a performance share or performance unit is later settled based on above-target performance, the number of shares corresponding to the above-target performance, calculated pursuant to the applicable methodology specified above, will be deducted from the Award Pool at the time of settlement; in the event that the Award is later settled upon below-target performance, the number of shares corresponding to the below-target performance, calculated pursuant to the applicable methodology specified above, will be added back to the Award Pool. Performance shares and units that may not be settled in shares will not result in a reduction in the Award Pool. Each NQSO, ISO, and SAR that may be settled in shares will be counted as one share subject to an award and deducted from the Award Pool. SARs that may not be

settled in shares will not result in a reduction of the Award Pool.

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Individual Limits. The Committee will 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. Subject to adjustment as described in the Proposed LTIP, and except to the extent the Committee determines that an award is not intended to comply with the performance-based compensation provisions of Section 162(m), the maximum number of NQSOs, ISOs, and SARs that, in the aggregate, may be granted pursuant to awards in any one fiscal year to any one participant is three million (3,000,000), the maximum number of shares of restricted stock and restricted stock units that, in the aggregate, may be granted pursuant to awards in any one fiscal year to any one participant is one million (1,000,000), the maximum number of performance shares and performance units (valued as of the grant date) that, in the aggregate, may be granted in any one fiscal year to any one participant is equal to the value of two million (2,000,000) shares, and the maximum number of other awards (valued as of the grant date) that, in the aggregate, may be granted pursuant to awards in any one fiscal year to any one participant is equal to the value of five hundred thousand (500,000) shares. The limitations on performance shares, performance units and other awards will be applied based on the maximum amount that could be paid under each such award.

Adjustments. The Committee will make equitable adjustments in the number and class of securities available for issuance under the Proposed LTIP (including under any awards then outstanding), the number and type of securities subject to the individual limits set forth in the Proposed LTIP, and the terms of any outstanding award, as it determines are necessary and appropriate, to reflect any merger, reorganization, consolidation, recapitalization, reclassification, stock split, reverse stock split, spin-off combination, or exchange of shares, distribution to shareholders (other than an ordinary cash dividend), or similar corporate transactions or events.

Stock Options. An option provides the participant with the right to buy a specified number of shares at a specified price (referred to as the exercise price) after certain conditions have been met. The Committee may grant both NQSOs and ISOs under the Proposed LTIP. The tax treatment of NQSOs is different from the tax treatment of ISOs, as explained in the section entitled “Certain Federal Income Tax Consequences” beginning on page 26 of this proxy statement. The Committee will determine and specify in the agreement evidencing the option whether the option is an NQSO or ISO, the number of shares subject to the option, the exercise price of the option and the period of time during which the option may be exercised (including the impact of a termination of employment). Generally (except as otherwise described in the Proposed LTIP), no option can be exercisable more than seven years after the date of grant and the exercise price of a stock option must be at least equal to the fair market value of a share on the date of grant of the option. However, with respect to an ISO granted to a participant who is a shareholder holding more than 10% of the Company’s total voting stock, the ISO cannot be exercisable more than five years after the date of grant and the exercise price must be at least equal to 110% of the fair market value of a share on the date of grant. The Committee may provide for accelerated vesting of options in the event of a death, disability or retirement (as defined in the applicable award agreement) or the occurrence of certain corporate events (e.g., a merger with an unrelated corporation or the sale of substantially all of the Company’s assets to an unrelated entity).

A participant may pay the exercise price under an option in cash; in a cash equivalent approved by the Committee; 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 by a combination of these payment methods. The Committee may also allow cashless exercises as permitted under the Federal Reserve Board’s Regulation T, subject to applicable securities law restrictions, or by any other means which the Committee determines to be consistent with the Proposed LTIP’s purpose and applicable law. No certificate representing a share (to the extent shares are so evidenced) will be delivered until the full option price has been paid.

Stock Appreciation Rights (SARs). A SAR entitles the participant to receive cash, shares, a combination thereof, or such other consideration as the Committee may determine, in an amount equal to the excess of the fair market value of a share on the exercise date over the exercise price for the SAR, after certain conditions have been met. The Committee will determine and specify in the SAR award agreement the number of shares subject to the SAR, the SAR price (which generally (except as otherwise described in the Proposed LTIP) must be at least equal to the fair market value of a share on the date of grant of the SAR) and the period of time during which the SAR may be exercised (including the impact of a termination of employment). Generally, (except as otherwise described in the Proposed

LTIP), no SAR can be exercisable more than seven years after the date of grant. SARs may be granted in tandem with a 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 may provide for accelerated vesting of SARs in

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the event of a death, disability or retirement (as defined in the applicable award agreement) or the occurrence of certain corporate events (e.g., a merger with an unrelated corporation or the sale of substantially all of the Company's assets to an unrelated entity).

Restricted Stock and Restricted Stock Units. The Committee will specify the terms of a restricted stock or restricted stock unit award in the award agreement, including the number of shares of restricted stock or units; the purchase price, if any, to be paid for such restricted stock/unit, which may be more than, equal to, or less than the fair market value of a share and may be zero, subject to such minimum consideration as may be required by applicable law; any restrictions applicable to the restricted stock/unit such as continued service or achievement of performance goals; the length of the restriction period and whether any circumstances, such as death, disability, retirement (as defined in the applicable award agreement) or a change in control, shorten or terminate the restriction period; the 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 restricted stock units that accrue dividend equivalents; and whether restricted stock units will be settled in cash, shares or a combination of both. The restriction period may be of any duration. The Committee may provide in the restricted stock/unit agreement for lapse of the restriction period in monthly or longer installments over the course of the restriction period.

Performance Shares and Units. A performance share will have an initial value equal to the fair market value of a share on the date of grant. A performance unit will have an initial value that is established by the Committee at the time of grant. In addition to any non-performance terms applicable to the performance share or performance unit, the Committee will set performance goals which, depending on the extent to which they are met, will determine the number or value of the performance shares or units that will be paid out to the participant. The Committee may provide for payment of earned performance shares/units in cash or in shares or in the form of other awards granted under the Proposed LTIP which have a fair market value equal to the value of the earned performance shares/units at the close of the applicable performance period. The Committee may provide that performance shares/units are earned notwithstanding achievement of the performance goals in the event of death or disability or the occurrence of certain corporate events (for example, a merger with an unrelated corporation or the sale of substantially all of the Company's assets to an unrelated entity). For performance shares/units that are not intended to comply with the performance-based compensation exception under Section 162(m), the Committee may also provide that the performance shares/units are earned notwithstanding achievement of the performance goals in the event of retirement (as defined in the applicable award agreement).

Performance shares/units will not possess voting rights and will accrue dividend equivalents only to the extent provided in the agreement evidencing the award; provided, however, that rights to dividend equivalents are permitted only to the extent they comply with, or are exempt from, Section 409A of the Code (referred to as Section 409A). Any rights to dividend equivalents will be subject to the same restrictions on vesting and payment as the underlying award. With respect to Covered Employees, the Committee may apply any restrictions it deems appropriate to the payment of dividends declared with respect to performance shares/units such that the dividends or performance shares/units maintain eligibility for the performance-based compensation exception under Section 162(m).

Performance Measures. For awards under the Proposed LTIP that are intended to qualify under the performance-based compensation provisions of Section 162(m), the performance measure or measures to be used for purposes of such awards must be chosen from among the following: earnings (GAAP and non-GAAP), earnings per share (GAAP and non-GAAP), consolidated pre-tax earnings (GAAP and non-GAAP), net earnings (GAAP and non-GAAP), net income (GAAP and non-GAAP), operating income (GAAP and non-GAAP), EBIT (earnings before interest and taxes) (GAAP and non-GAAP), EBITDA (earnings before interest, taxes, depreciation and amortization) (GAAP and non-GAAP), gross margin (GAAP and non-GAAP), operating margin (GAAP and non-GAAP), profit margin (GAAP and non-GAAP), revenues, revenue growth, market value added, market share, economic value added, return measures (including but not limited to return on equity, return on investment, return on assets, return on net assets, and return on capital employed), total shareholder return, profit (GAAP and non-GAAP), operating profit (GAAP and non-GAAP), economic profit, capitalized economic profit, after-tax profit (GAAP and non-GAAP), pre-tax profit (GAAP and non-GAAP), cash, cash flow measures (including but not limited to operating cash flow, free cash flow, cash flow return, and cash flow per share), sales, sales volume, sales growth, assets, inventory turnover ratio, productivity ratios, share price, cost, unit cost, expense targets or ratios, charge-off levels, operating efficiency, operating expenses (GAAP and non-GAAP), customer satisfaction, improvement in or attainment of expense levels, working capital, improvement in or attainment of working capital

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levels, debt, debt to equity ratio, debt reduction, capital targets and/or consummation of acquisitions, dispositions, projects or other specific events or transactions. Any performance measure may be applied to the Company and certain affiliates in the aggregate, to a selection of or one or more of these entities, to each as a whole or alternatively, or to any business unit of the Company or certain of its affiliates, either individually, alternatively or in any combination and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to results for previous years or to a designated comparison group of entities or to a published or stock market or other index, in each case as specified by the Committee. The Committee will specify the period over which the performance goals for a particular award will be measured.

The Committee may also establish other performance measures for awards granted to participants that are not intended to qualify for the performance-based compensation exception from Section 162(m).

The Committee will determine whether the applicable performance goals have been met with respect to a particular award and, if they have, the Committee must so certify in writing and ascertain the amount payable under the award. The Committee is authorized to make adjustments in performance-based criteria or in the terms and conditions of other awards in recognition of unusual or nonrecurring events affecting the Company or its financial statements (including, but not limited to, asset write-downs; litigation or claim judgments or settlements; reorganizations or restructuring programs; extraordinary, unusual, or nonrecurring items of gain or loss as defined under U.S. generally accepted accounting principles; mergers, acquisitions or divestitures; and foreign exchange gains and losses) or changes in applicable laws, regulations or accounting principles. In the case of awards to Covered Employees (as defined for purposes of Section 162(m)) that are intended to qualify under the performance-based compensation exception from the deductibility limitations of Section 162(m), the adjustments must be made in accordance with guidelines established by the Committee at the time the performance-based award is granted (or within such period thereafter as may be permissible under Section 162(m)). In addition, in the event that the Committee determines that it is advisable to grant awards which are not intended to qualify for the performance-based compensation exception from the deductibility limitations of Section 162(m), the Committee may make such grants without satisfying the requirements of Section 162(m).

Other Awards. The Committee may grant other forms of equity-based or equity-related awards that the Committee determines to be consistent with the purpose of the Proposed LTIP and the interests of the Company. These other awards may provide for cash payments based in whole or in part on the value or future value of shares, for the acquisition or future acquisition of shares, or any combination thereof. Where the value of such an award is based on the difference in the value of a share at different points in time, the grant or exercise price must generally (except as otherwise described in the Proposed LTIP) not be less than 100% of the fair market value of a share on the date of grant.

Amendment and Termination. The Committee may amend or terminate the Proposed LTIP in whole or in part at any time, but the amendment or termination cannot adversely affect any rights or obligations with respect to an award previously granted without the affected participant’s written consent. The Company must obtain the approval of the shareholders before amending the Proposed LTIP to the extent required by Section 162(m) or Section 422 of the Code or the Nasdaq rules or other applicable law.

The Committee may amend an outstanding award agreement in a manner not inconsistent with the terms of the Proposed LTIP, but the amendment will not be effective without the participant’s written consent if the amendment is adverse to the participant. However, the Committee cannot reprice a stock option or SAR except in accordance with the adjustment provisions of the Proposed LTIP (as described above) or to the extent the shareholders approve the repricing. For this purpose, a repricing generally is an amendment to the terms of an outstanding stock option or SAR that would reduce the option exercise price or SAR price or a cancellation, exchange, substitution, buyout or surrender of an outstanding stock option or SAR in exchange for cash, another award or stock option or SAR with an option exercise price or SAR price that is less than the option exercise price or SAR price of the original stock option or SAR. The Committee may provide for clawback provisions in award agreements based on “detrimental activity” (as defined in the Proposed LTIP) or for other reasons.

Transferability. Awards generally may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated by a participant other than by will or the laws of descent and distribution, and each option or SAR may be exercisable only by the participant during his or her lifetime. However, the Committee may provide in an award agreement for an NQSO that the NQSO be transferable consistent with securities law and other applicable law. NQSOs may not be transferred for value or consideration.

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Certain Federal Income Tax Consequences for Participants Subject to U.S. Tax Law

The following is intended only as a brief summary of the federal income tax rules relevant to the primary types of awards available for issuance under the Proposed LTIP and is based on the terms of the Code as currently in effect. The applicable statutory provisions are highly technical and subject to change in the future (possibly with retroactive effect), as are their interpretations and applications. Because federal income tax consequences may vary as a result of individual circumstances, participants are encouraged to consult their personal tax advisors with respect to their tax consequences. The following summary is limited to United States federal income tax treatment. It does not address state, local, gift, estate, social security or foreign tax consequences, which may be substantially different. Certain intended Proposed LTIP participants are residents of foreign countries.

NQSOs. A participant generally is not taxed upon the grant of an NQSO, unless the NQSO has a readily ascertainable fair market value (usually meaning that the NQSO is traded on a securities market). However, the participant must recognize ordinary income upon exercise of the NQSO in an amount equal to the difference between the NQSO exercise price and the fair market value of the shares acquired on the date of exercise. If the participant is subject to suit under Section 16(b) of the Exchange Act (the short swing profits rule), the participant recognizes ordinary income in the amount by which the fair market value of the shares determined as of a later date exceeds the exercise price for the shares, with such later date being the earlier of (i) the expiration of six months from the date of exercise; or (ii) the first day on which the disposition of the shares would not subject the participant to suit under Section 16(b) of the Exchange Act, unless the participant makes a timely election under Section 83(b) of the Code (referred to as Section 83(b)), in which event the fair market value of the shares will be determined on the date of exercise. The Company generally will have a deduction in an amount equal to the amount of ordinary income recognized by the participant in the Company's tax year during which the participant recognizes ordinary income.

Upon the sale of shares acquired pursuant to the exercise of an NQSO, the participant will recognize capital gain or loss to the extent that the amount realized from the sale is different than the fair market value of the shares on the date of exercise (or, if the participant was subject to Section 16(b) of the Exchange Act and did not make a timely election under Section 83(b), the fair market value on the delayed determination date, if applicable). This gain or loss will be long-term capital gain or loss if the shares have been held for more than one year after exercise.

ISOs. A participant is not taxed on the grant or exercise of an ISO. The difference between the exercise price and the fair market value of the shares covered by the ISO on the exercise date will, however, be a preference item for purposes of the alternative minimum tax. If a participant holds the shares acquired upon exercise of an ISO for at least two years following the ISO grant date and at least one year following exercise, the participant's gain, if any, upon a subsequent disposition of the shares is long-term capital gain. The amount of the gain is the difference between the proceeds received on disposition and the participant's basis in the shares (which generally equals the ISO exercise price). If a participant disposes of shares acquired pursuant to exercise of an ISO before satisfying these holding periods, the participant will recognize both ordinary income and capital gain in the year of disposition. The Company is not entitled to a federal income tax deduction on the grant or exercise of an ISO or on the participant's disposition of the shares after satisfying the holding period requirement described above. If the holding periods are not satisfied, the Company will be entitled to a deduction in the year the participant disposes of the shares in an amount equal to the ordinary income recognized by the participant.

In order for an option to qualify as an ISO for federal income tax purposes, the grant of the option must satisfy various other conditions specified in the Code. In the event an option intended to be an ISO fails to qualify as an ISO, it will be taxed as an NQSO as described above.

Restricted Stock Awards. A participant generally will recognize taxable ordinary income upon the receipt of a restricted stock award if the shares are not subject to a substantial risk of forfeiture. The income recognized will be equal to the fair market value of the shares at the time of receipt less any purchase price paid for the shares. If the shares are subject to a substantial risk of forfeiture, the participant generally will recognize taxable ordinary income when the substantial risk of forfeiture lapses. If the substantial risk of forfeiture lapses in increments over several years, the participant will recognize income in each year in which the substantial risk of forfeiture lapses as to an increment. If the participant cannot sell the shares without being subject to suit under Section 16(b) of the Exchange Act (the short swing profits rule), the shares will be treated as subject to a substantial risk of forfeiture. The income recognized upon lapse of a substantial risk of forfeiture will be equal to the fair market value of the shares determined as of the time that the substantial risk of forfeiture lapses less any purchase price paid for the shares. The Company generally will be entitled to a deduction in an amount equal to the amount of ordinary income recognized by the participant.

Alternatively, if the shares are subject to a substantial risk of forfeiture, the participant may make a timely election under Section 83(b) to recognize ordinary income for the taxable year in which the participant received the shares in an amount equal to the fair market value of the shares at that time. That income will be taxable at ordinary income tax rates. If a participant makes a timely Section 83(b) election, the participant will not recognize income at the time the substantial risk of forfeiture lapses with respect to the shares. At the time of disposition of the shares, a participant who has made a timely Section 83(b) election will recognize gain in an amount equal to the difference between the purchase price, if any, and the amount received on the disposition of the shares. The gain will be taxable at the applicable capital gains rate. If the participant forfeits the shares after making a Section 83(b) election, the participant is not entitled to a deduction with respect to the income recognized as a result of the election. To be timely, the Section 83(b) election must be made within 30 days after the participant receives the shares. The Company will generally be entitled to a deduction in an amount equal to the amount of ordinary income recognized by the participant at the time of the election.

Restricted Stock Units (RSUs). A participant generally is not taxed upon the grant of an RSU. Generally, if an RSU is designed to be paid on or shortly after the RSU is no longer subject to a substantial risk of forfeiture, then the participant will recognize ordinary income equal to the amount of cash and the fair market value of the shares received by the participant, and the Company will be entitled to an income tax deduction for the same amount. However, if an RSU is not designed to be paid on or shortly after the RSU is no longer subject to a substantial risk of forfeiture, the RSU may be deemed a nonqualified deferred compensation plan under Section 409A. In that case, if the RSU is designed to meet the requirements of Section 409A, then the participant will recognize ordinary income equal to the amount of cash and the fair market value of the shares received by the participant, and the Company will be entitled to an income tax deduction for the same amount. However, if the RSU is not designed to meet the requirements of Section 409A, the participant will be subject to ordinary income when the substantial risk of forfeiture lapses as well as an additional twenty-percent (20%) excise tax, and additional tax could be imposed each following year.

Performance Share/Unit Awards; Stock Appreciation Rights (SARs). A participant generally is not taxed upon the grant of a performance share/unit or SAR. The participant will recognize taxable income at the time of settlement of the performance share/unit or at the time of exercise of the SAR in an amount equal to the amount of cash and the fair market value of the shares received upon settlement or exercise. However, if the participant is subject to suit under Section 16(b) of the Exchange Act (the short swing profits rule), the participant will recognize taxable income at the time of settlement or exercise, as applicable, in an amount equal to the amount of cash received at that time and the fair market value (determined as of the earlier of (i) the expiration of six months from the date of settlement or exercise, as applicable; or (ii) the first day on which the disposition of the shares would not subject the participant to suit under Section 16(b) of the Exchange Act, unless the participant makes a timely election under Section 83(b)) of the shares received upon such settlement or exercise. The income recognized will be taxable at ordinary income tax rates. The Company generally will be entitled to a deduction in an amount equal to the amount of ordinary income recognized by the participant. Any gain or loss recognized upon the disposition of the shares acquired pursuant to settlement of a performance share/unit or exercise of a SAR will qualify as long-term capital gain or loss if the shares have been held for more than one year after settlement or exercise.

Golden Parachute Payments. The terms of the agreement evidencing an award under the Proposed LTIP may provide for accelerated vesting or accelerated payout of the award in connection with a change in ownership or control of the Company. In such event, certain amounts with respect to the award may be characterized as "parachute payments" under the golden parachute provisions of the Code. Under Section 280G of the Code, no federal income tax deduction is allowed to the Company for "excess parachute payments" made to "disqualified individuals," and receipt of such payments subjects the recipient to a 20% excise tax under Section 4999 of the Code. For this purpose, "disqualified individuals" are generally officers, shareholders or highly compensated individuals performing services for the Company, and the term "excess parachute payments" includes payments in the nature of compensation which are contingent on a change in ownership or effective control of the Company, to the extent that such payments (in present value) exceed three times the recipient's average annual taxable compensation from the Company for the previous five years. Certain payments for reasonable compensation for services rendered after a change of control and payments from tax-qualified plans are generally not included in

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determining "excess parachute payments." If payments or accelerations may occur with respect to awards granted under the Proposed LTIP, certain amounts in connection with such awards may possibly constitute "parachute payments" and be subject to these "golden parachute" tax provisions.

New Proposed LTIP Benefits

No awards have been granted yet under the Proposed LTIP. The Committee will grant future awards at its discretion. We cannot determine the number of awards that may be granted in the future.

Registration with the SEC

We intend to file a Registration Statement on Form S-8 relating to the issuance of shares of common stock under the Proposed LTIP with the SEC pursuant to the Securities Act of 1933, as amended, as soon as practicable after approval of the Proposed LTIP by our shareholders.

Equity Compensation Plans

As of September 5, 2013:

- There were options to purchase 10,794,005 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 5.42 years, and the weighted average exercise price was $40.45.
- There were 944,083 shares outstanding subject to restricted stock and stock unit awards that remain subject to forfeiture.
- There were 4,511,311 shares available for future grants under the Current LTIP, of which no more than 166,508 shares can be awarded as restricted stock, stock units and performance units, 653,917 shares available for future issuance under the ESPP and 92,773 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 30, 2013, 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 (2)	(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	8,752,602	(3)	$35.74	8,438,943	(4)
Equity compensation plans not approved by security holders	24,312	(5)	$3.45	93,028	(6)
Total	8,776,914		$35.67	8,531,971	

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

(2) The weighted average exercise price relates solely to outstanding stock option shares because shares subject to restricted stock units have no exercise price.

(3) Includes shares issuable upon exercise of outstanding options and restricted stock units under the Current LTIP.

(4) Includes shares remaining for future issuance under the following plans in the amounts indicated: Current LTIP — 7,785,026 shares (of which 678,500 shares are available for issuance as restricted stock, stock units or performance shares); and ESPP — 653,917 shares.

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(5) 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 — 2,030 shares; and LED Lighting Fixtures, Inc. 2006 Stock Plan, or the LLF Plan — 15,310 shares. Also includes shares issuable under the Deferral Program — 6,972 shares. The Company assumed (i) the options outstanding under the INTRINSIC Plan, which have a weighted average exercise price of $7.40 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 $2.92 per share, in connection with the Company's acquisition of LLF in February 2008.

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

As of June 30, 2013, 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:

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 30, 2013, there were 1,230 incentive stock options and 800 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 30, 2013, there were 15,310 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 31 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 30, 2013, there were 100,000 shares reserved for issuance under the Deferral Program, of which 6,972 shares have been credited to directors' accounts.

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PROPOSAL NO. 3—APPROVAL OF AMENDMENTS TO 2005 EMPLOYEE STOCK PURCHASE PLAN

General

We are requesting that shareholders approve proposed amendments to the 2005 Employee Stock Purchase Plan, or ESPP. The amendments were approved at a meeting of the Board of Directors on August 27, 2013 and will become effective only upon shareholder approval. If approved by the shareholders, the proposed amendments will: (1) increase the number of shares that may be issued under the ESPP by 2,000,000 shares; and (2) extend the term of the ESPP by five additional years to November 3, 2020.

If approved, the amendments would revise Sections 13(a) and 26 of the ESPP to read as follows:

13(a) "Subject to adjustment pursuant to Section 18(a), the maximum number of shares of the Common Stock authorized for issuance under the Plan is four million five hundred thousand (4,500,000) shares. Such shares shall be made available from Common Stock currently authorized but unissued."

26. "The Plan shall become effective on November 3, 2005, subject to and conditioned upon the stockholders of the Company approving the Plan at their annual meeting on such date. It shall continue in effect for a term of 15 years unless sooner terminated in accordance with its terms."

The ESPP is filed as Appendix C to the Company's definitive proxy statement (File No. 000-21154) filed with the Securities and Exchange Commission on September 10, 2013, which is available online through the Commission's EDGAR System and through the "Investor Relations" section of the Company's website at investor.cree.com/sec.cfm. You may also request a copy of the ESPP, as currently in effect, by sending a written request to: Director, Investor Relations, Cree, Inc., 4600 Silicon Drive, Durham, North Carolina 27703.

On November 3, 2005, the Company's shareholders approved the ESPP to succeed the Company's 1999 Employee Stock Purchase Plan, which terminated on October 31, 2005. Upon its adoption in 2005, the ESPP authorized up to 600,000 shares of the Company's common stock for issuance under the plan. On October 30, 2008, the Company's shareholders approved an amendment to the ESPP increasing the number of shares that may be issued under the plan by 900,000 shares and on October 25, 2011, the Company's shareholders approved an amendment to the ESPP increasing the number of shares that may be issued under the plan by 1,000,000 shares. As of September 5, 2013, a total of 1,846,083 shares have been purchased pursuant to the ESPP, leaving 653,917 shares remaining for future issuance. If the amendments are approved, the number of shares authorized for issuance under the ESPP would increase by 2,000,000 shares.

The ESPP is scheduled to terminate on November 3, 2015. If the amendments are approved, the term of the ESPP will be extended by five years to November 3, 2020. If the amendments are not approved, then the ESPP will continue in accordance with its current terms until November 3, 2015, or such earlier date on which the remaining shares available for issuance pursuant to the ESPP have been issued.

We believe the ESPP is essential to the Company's future success and encourage shareholders to vote in favor of the amendments.

The Board of Directors recommends
shareholders vote FOR Proposal No. 3.

Description of ESPP

The following is a description of the ESPP 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 the Company's definitive proxy statement filed with the Securities and Exchange Commission on September 10, 2013.

Purpose. The purpose of the ESPP is to provide employees (including officers) of the Company and certain of its subsidiary corporations with an opportunity to purchase common stock through payroll deductions.

Administration. The ESPP is currently administered by the Compensation Committee of the Board of Directors. All questions of interpretation or application of the ESPP will be determined by the Committee, whose decisions will be final, conclusive and binding upon all parties.

Eligibility and Participation. Any individual who is treated as an active employee in the records of the Company or certain of its subsidiary corporations, as designated from time to time by the Committee (other than employees subject to the laws of certain countries that would prohibit participation in the ESPP) and who has been employed for at least

30 continuous days

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prior to the date of his or her participation is eligible to participate in the ESPP, subject to additional limitations imposed by Section 423(b) of the Code and limitations on stock ownership described in the ESPP. As of September 5, 2013, there were approximately 3,540 employees eligible to participate in the ESPP.

Eligible employees become participants in the ESPP by delivering to the Company's stock plan administrator, prior to the commencement of the applicable participation period, a subscription agreement authorizing payroll deductions or by such telephone or other electronic arrangements as the Committee may prescribe.

Participation Periods. The ESPP is implemented by participation periods of twelve months' duration, with new participation periods beginning on May 1 and November 1 of each year. Each participation period has two six-month purchase periods concluding with a purchase every October 31 and April 30. The ESPP also provides for special interim participation periods to enable employees of subsidiaries that become designated subsidiaries under the plan after the beginning of a participation period, but at least three months prior to the beginning of the next participation period, to participate in the ESPP. The Committee has the power to alter the duration of the participation periods and purchase dates without shareholder approval.

Securities to be Sold. The Company is authorized to issue shares of the Company's common stock, par value $0.00125 per share, pursuant to options granted under the ESPP. Shares subject to options under the plan will be made available from the authorized and unissued shares of the Company's common stock. If the amendments are approved by shareholders, the aggregate number of shares that may be issued under the ESPP will be 4,500,000 of which 1,846,083 shares have previously been issued. The last sale price of the Company's common stock on September 5, 2013 was $56.18 per share, as reported by Nasdaq.

Purchase Price. The purchase price at which shares are sold on a purchase date under the ESPP is the sum of (1) 85% of the fair market value of common stock on the first day of the twelve-month participation period or the purchase date, whichever is lower; and (2) any transfer, excise or similar tax imposed on the transaction. The fair market value of common stock on a given date is the closing sale price on Nasdaq for that date, unless it is not open for trading on that date, in which case the fair market value will be the closing sale price reported by Nasdaq on the last trading day immediately preceding the given date.

Payroll Deductions. The purchase price of the shares to be acquired under the ESPP is accumulated by payroll deductions over each purchase period. The rate of deductions may not exceed 15% of a participant's compensation. A participant may decrease the rate of payroll deductions by filing with the Company a new authorization for payroll deductions and may only increase the rate of payroll deductions at the beginning of each purchase period. All payroll deductions made for a participant are credited to the participant's account under the ESPP and deposited with the general funds of the Company to be used for any corporate purpose.

Grant and Exercise of Option. At the beginning of a participation period, each participant is granted an option to purchase on each purchase date during that participation period up to the number of shares of the Company's common stock determined by dividing the sum of the participant's accumulated payroll deductions for the participation period by the applicable purchase price; provided that the number of shares subject to an option shall not exceed 2,000 shares of the Company's common stock on any purchase date. On each purchase date prior to a participant's withdrawal from the ESPP, the maximum number of full shares subject to an option that are purchasable with the accumulated payroll deductions in the participant's account will be purchased for the participant at the applicable purchase price. If, on any purchase date, the number of shares with respect to which options are to be exercised exceeds the number of shares remaining available for issuance under the ESPP, the Committee may make a pro rata allocation of the shares remaining available for purchase in as uniform a manner as practicable. With respect to any payroll deductions that are not used to purchase common stock due to such pro rata allocation, the Committee will direct the refund of the unused payroll deductions to the participant. If the Committee determines that it will not seek authorization from shareholders for additional shares for issuance under the ESPP for subsequent participation periods, the ESPP will automatically terminate.

No employee may participate in the ESPP if, immediately after the grant of an option, the employee would own 5% or more of the total combined voting power or value of all classes of stock of the Company or of its majority-owned subsidiaries (including stock that may be purchased under the ESPP or pursuant to any outstanding options), and no employee will be granted an option under the ESPP to the extent that the employee's rights to buy stock under all employee stock purchase plans of the Company or any subsidiary accrues at a rate that exceeds $25,000 worth of stock (determined based on the fair market value of the shares at the time the option is granted) for each calendar year in which any such option is outstanding at any time.

Withdrawal. An employee may terminate his or her participation in a given participation period by giving written notice to the Company of his or her election to withdraw at any time prior to a purchase date during such participation period. All payroll deductions taken during the participation period that have not been used to purchase shares will be returned to the participant upon receipt of the withdrawal notice. Such withdrawal will automatically terminate the participant’s interest in that participation period; the participant will not be automatically enrolled in a subsequent participation period but may choose to enroll in a subsequent participation period by timely delivering to the Company a new subscription agreement.

Under an automatic reset feature, if the fair market value of a share of the Company's common stock on the trading day immediately before the first day of a participation period is less than the fair market value of a share on the first day of the immediately preceding participation period, all participants will be automatically withdrawn from the immediately preceding participation period following the purchase of shares on the first purchase date of that participation period and re-enrolled in the next succeeding participation period.

Termination of Employment. If a participant's employment terminates for any reason, including retirement or death, the participant will be deemed to have withdrawn from the ESPP on the date of employment termination.

Adjustments for Changes in Capitalization. In the event any change is made in the Company's capitalization during a participation period, such as a stock split or stock dividend on common stock, which results in an increase or decrease in the number of shares of common stock outstanding without receipt of consideration by the Company, appropriate adjustments will be made in the purchase price and in the number of shares subject to purchase under the ESPP, as well as in the number of shares reserved for issuance under the ESPP.

In the event of the proposed dissolution or liquidation of the Company, the participation periods then in progress will be shortened. A new purchase date prior to the date of the proposed dissolution or liquidation will be set, and the ESPP will terminate thereafter. In the event of a merger or sale of substantially all of the assets of the Company, outstanding options under the ESPP will be assumed by the successor corporation or equivalent options will be substituted, or the participation periods then in effect will be shortened and a new purchase date will be set prior to the date of the proposed sale or merger.

Nonassignability. No rights or accumulated payroll deductions of an employee under the ESPP may be pledged, assigned, transferred or otherwise disposed of in any way for any reason other than death. Any attempt to do so may be treated by the Committee as an election to withdraw from the ESPP.

Amendment and Termination of ESPP. The Committee may at any time amend the ESPP without the consent of shareholders or participants, except that any such action will be subject to the approval of the Board of Directors and the Company's shareholders at or before the next annual meeting of shareholders after such Board action if such approval is required by any laws, rules or regulations, and the Committee may, at its discretion, determine to submit other changes to the ESPP to the Board and shareholders for approval. In no case may any amendment materially impair the rights of a participant with respect to any shares of common stock previously purchased for the participant under the ESPP without the participant's consent or disqualify the ESPP under Section 423 of the Code. If the amendments are approved by shareholders, the ESPP will terminate on November 3, 2020, unless sooner terminated.

Foreign Jurisdictions. The Committee may, in its sole discretion, amend or vary the terms of the ESPP in order to conform such terms to the requirements of a jurisdiction outside of the United States in which an eligible employee is located in order to meet the goals and objective of the plan. The Committee may also establish one or more sub-plans for these purposes and/or establish administrative rules and procedures to facilitate the operation of the ESPP in such jurisdictions.

Certain Federal Income Tax Consequences for Participants Subject to U.S. Tax Law

The ESPP is intended to qualify as an "employee stock purchase plan" under the provisions of Sections 421 and 423 of the Code. Under these provisions, participants will not recognize income for federal income tax purposes either upon enrollment in the ESPP or upon any purchase of stock thereunder. All tax consequences are deferred until a participant sells the stock acquired under the ESPP, disposes of such stock by gift or dies.

Upon disposition of the shares, a participant will be subject to tax, and the amount of the tax will depend upon the holding period for the shares. If the shares have been held by the participant for more than two years after the date of the option grant and more than one year after exercise of the option, the participant will recognize ordinary income equal to the lesser of (1) the excess of the fair market value of the shares at the time of such disposition over the purchase price; or (2) 15% of the fair market value of the shares at the time the option was granted. The ordinary income recognized by the participant will be added to the participant's basis in the shares, and any additional gain or loss realized by the participant upon disposition of the shares will be taxed as long-term capital gain or loss. If the participant disposes of the shares before the expiration of these holding periods, the participant will generally recognize ordinary income for federal income tax purposes equal to the excess of the fair market value of the shares on the purchase date over the purchase price. The ordinary income recognized by the participant will be added to the participant's basis in the shares, and any additional gain or loss will be taxed as long-term or short-term capital gain or loss, depending on the holding period.

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The Company will be entitled to a deduction for amounts taxed as ordinary income to a participant only to the extent that ordinary income must be reported upon disposition of shares by the participant before the expiration of the holding periods described above.

The foregoing does not purport to be a complete summary of the effect of federal income taxation of ESPP transactions upon participants and the Company. It also does not address the tax consequences of a participant's death or the provisions of the income tax laws of any municipality, state or foreign country in which a participant may reside.

Plan Awards

Participation in the ESPP is voluntary and dependent on each eligible employee's election to participate and his or her determination as to the level of payroll deductions. Accordingly, future purchases under the ESPP are not determinable. Non-employee directors are not eligible to participate in the ESPP. The following table sets forth with respect to each individual and group listed below (1) the aggregate number of shares of the Company's common stock purchased under the ESPP since its inception through the most recent purchase date, April 30, 2013; and (2) the dollar value of the benefit received with respect to such purchases.

Cumulative Grants Since
Plan Inception in 2004

	No. of Shares	Dollar Value of Benefit (1)
Charles M. Swoboda Chairman, Chief Executive Officer and President	7,139	$58,005
Michael E. McDevitt Executive Vice President and Chief Financial Officer	6,932	$54,708
Norbert W. G. Hiller Executive Vice President–LEDs	7,009	$57,139
Tyrone D. Mitchell, Jr. Executive Vice President–Lighting	6,989	$57,113
Clyde R. Hosein	—	—
Robert A. Ingram	—	—
Franco Plastina	—	—
Alan J. Ruud	2,723	$40,328
Robert L. Tillman	—	—
Thomas H. Werner	—	—
All current executive officers as a group	28,069	$226,965
All current directors who are not executive officers as a group	2,723	$40,328
All associates of directors, executive officers or nominees	2,961	$22,334
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	1,818,014	$15,816,758

(1) Market value of shares on the date of purchase, minus the purchase price under the ESPP.

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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 5, 2013 by (1) each person known to the Company to be the beneficial owner of more than 5% of the outstanding common stock; (2) each person named in the Summary Compensation Table on page 51; (3) each person serving as a director or nominated for election as a director; and (4) 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	15,760,017	13.1%
ClearBridge Investments, LLC (3) 620 8th Avenue New York, NY 10018	9,479,026	7.9%
PRIMECAP Management Company (4) 225 South Lake Avenue, #400 Pasadena, CA 91101	9,115,291	7.6%
BlackRock, Inc. (5) 40 East 52nd Street New York, NY 10022	7,156,873	6.0%
Alan J. Ruud (6)	1,478,305	1.2%
Charles M. Swoboda (7)	650,804	*
Tyrone D. Mitchell, Jr. (8)	126,124	*
Norbert W. G. Hiller (9)	106,850	*
Michael E. McDevitt (10)	82,205	*
Clyde R. Hosein (11)	53,750	*
Robert A. Ingram (12)	48,500	*
Franco Plastina (13)	47,500	*
Harvey A. Wagner (14)	46,000	*
Thomas H. Werner (15)	43,500	*
Robert L. Tillman (16)	27,500	*
All current directors and executive officers as a group (11 persons) (17)	2,711,038	2.3%

*Less than 1%.

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

(2) As reported by FMR LLC in a Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2013, which states that FMR LLC has sole dispositive power with respect to all of such shares and sole voting power with respect to 828,153 of such shares.

(3) As reported by ClearBridge Investments, LLC in a Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2013, which states that Clearbridge Investments, LLC has sole dispositive power with respect to all of such shares and sole voting power with respect to 9,419,097 shares.

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(4) As reported by PRIMECAP Management Company in a Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2013, which states that PRIMECAP Management Company has sole dispositive power with respect to all of such shares and sole voting power with respect to 4,541,102 of such shares.

(5) As reported by BlackRock, Inc. in a Schedule 13G/A filed with the Securities and Exchange Commission on February 6, 2013, which states that BlackRock, Inc. has sole investment and voting authority with respect to all of such shares.

(6) Includes 30,000 shares subject to options exercisable within sixty days of September 5, 2013. Also includes 1,666 shares held by Mr. Ruud pursuant to a restricted stock award which had not vested as of September 5, 2013. The share amount reported for Mr. Ruud includes 967 shares held by Mr. Ruud's spouse and 246,155 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 246,155 shares held by the AJR Legacy Trust.

(7) Includes 320,000 shares subject to options exercisable within sixty days of September 5, 2013. Also includes 76,000 shares held by Mr. Swoboda pursuant to restricted stock awards which had not vested as of September 5, 2013.

(8) Includes 70,001 shares subject to options exercisable within sixty days of September 5, 2013. Also includes 15,700 shares held by Mr. Mitchell pursuant to restricted stock awards which had not vested as of September 5, 2013.

(9) Includes 56,667 shares subject to options held by Mr. Hiller and 4,288 shares subject to options held by Mr. Hiller's spouse which are exercisable within sixty days of September 5, 2013. Also includes 20,700 shares held by Mr. Hiller pursuant to restricted stock awards which had not vested as of September 5, 2013.

(10) Includes 44,833 shares subject to options exercisable within sixty days of September 5, 2013. Also includes 11,250 shares held by Mr. McDevitt pursuant to restricted stock awards which had not vested as of September 5, 2013.

(11) Includes 28,000 shares subject to options exercisable within sixty days of September 5, 2013.

(12) Includes 21,750 shares subject to options exercisable within sixty days of September 5, 2013.

(13) Includes 15,500 shares subject to options exercisable within sixty days of September 5, 2013.

(14) Includes 18,000 shares subject to options exercisable within sixty days of September 5, 2013.

(15) Includes 23,000 shares subject to options exercisable within sixty days of September 5, 2013.

(16) Includes 11,750 shares subject to options exercisable within sixty days of September 5, 2013.

(17) For all current executive officers and directors as a group, includes a total of 643,789 shares subject to options exercisable within sixty days of September 5, 2013 and 125,316 shares held pursuant to restricted stock awards which had not vested as of September 5, 2013.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The following discussion and analysis describes the compensation of the Company's named executive officers for fiscal 2013. It is composed of the following sections explaining the decisions that were made in determining the fiscal 2013 compensation for each named executive officer:

1) Executive Summary: highlights the Company's compensation philosophy and elements, and fiscal 2013 performance and pay;
2) Compensation Philosophy and Objectives: discusses the philosophy behind the Company's compensation practices;
3) Compensation Process: discusses how each element of compensation is determined;
4) Elements of Executive Compensation and Analysis of Fiscal 2013 Compensation Decisions: provides greater detail on each element of compensation and the individual compensation of each named executive officer; and
5) Additional Information: discusses additional policies and arrangements related to executive compensation.

Named Executive Officers

The named executive officers for fiscal 2013 were:

- Charles M. Swoboda, Chairman, Chief Executive Officer and President;
- Michael E. McDevitt, Executive Vice President and Chief Financial Officer;
- Norbert W. G. Hiller, Executive Vice President–LEDs; and
- Tyrone D. Mitchell, Jr., Executive Vice President–Lighting.

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, which is paid under our long-term incentive compensation plan (or LTIP) for our CEO and under our management incentive compensation plan (or MICP) for our other named executive officers; 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 Company's financial and business objectives are achieved and shareholder value increased.

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The Company's financial performance in fiscal 2013 was strong and the Company achieved its strategic objectives of increasing LED lighting adoption and increasing revenues. The Company's stock price, which has historically been volatile, increased from $24.45 per share at the end of fiscal 2012 to $63.83 per share at the end of fiscal 2013. The Committee remains committed to reinforcing the Company's pay-for-performance philosophy. Key actions the Committee took with respect to fiscal 2013 compensation are summarized below:

- Base salaries. The Committee approved annual merit increases in base salary for Messrs. Swoboda, Hiller and Mitchell in August 2012 and approved additional increases in October 2012 to make the officers' salaries more competitive in the marketplace in response to concerns regarding the Company's ability to attract and retain executive officers. The Committee did not adjust Mr. McDevitt's base salary, which it previously evaluated and adjusted during fiscal 2012 in connection with his appointment to the role of Vice President and Interim Chief Financial Officer.
- Proportion of performance-based pay. Over 80% of the CEO's target total direct compensation for fiscal 2013 was comprised 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 2013 was comprised of these components.
- Aggressive financial targets for performance-based cash incentive compensation. The Committee established challenging annual financial targets for the fiscal 2013 performance-based cash incentive programs that applied to all of the Company's named executive officers, and the CEO established challenging quarterly financial targets under the MICP in which all of the named executive officers other than the CEO participate. The Committee also approved increases to the named executive officers' total target cash incentive awards to reflect our pay-for-performance philosophy and make this component of executive compensation more competitive in the marketplace. The Company achieved its aggressive annual financial targets, and therefore the CEO received cash incentive compensation under the LTIP and the other named executive officers received annual cash incentive compensation under the MICP. The Company also achieved its aggressive quarterly financial targets for the first three fiscal quarters, and the named executive officers who participate in the MICP received quarterly cash incentive compensation for those three quarters.
- Long-term equity compensation. The Company grants equity awards to the named executive officers in the form of stock options and restricted stock to align the interests of the named executive officers with the shareholders and to facilitate executive officer retention.

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. For fiscal 2013, the Committee targeted each component of compensation (base salary, short-term cash incentives and long-term equity awards) to be between the 50^{th} and the 75^{th} percentiles of the market data (as described in "Role of Benchmarking and Comparative Analysis" below). Actual performance-based compensation components vary based on corporate and individual performance.

In setting fiscal 2013 compensation for the named executive officers, the Committee:

- evaluated each element of compensation as compared to executives in similar roles in the Company's 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; and
- utilized equity compensation to create a culture of ownership and focus on long-term growth. Equity played a significant role in the total pay mix of the executives to ensure alignment with shareholder interests.

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Compensation Process

Role of Compensation Consultant

The Committee has engaged Radford, an Aon Hewitt Company, to act as the Committee's independent compensation consultant. The Committee has assessed Radford's independence and determined that Radford had no conflicts of interest in connection with its provision of services to the Committee. Radford reports directly to the Committee and works with management only at the Committee's direction. For fiscal 2013, 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 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 2013.

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 MICP and sets the quarterly Company performance goals under the MICP.

Role of Benchmarking and Comparative Analysis (Market Data)

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 a market composite (referred to herein as market data) equally weighted using data from two sources: (1) public company filings from a select peer group; and (2) the Radford Global Technology survey (composed of other technology companies of comparable size). Jobs of similar scope and responsibility as those at the peer companies and companies included in the Radford survey are identified and a market composite is created for each of the executive officer roles. The Committee uses this market data to analyze base salary, short-term cash incentive compensation, total cash compensation, equity compensation, and total direct compensation.

Peer Group

The Committee, assisted by Radford, selects the Company's 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; and
- 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 2012 was above the 65^{th} percentile of the peer group and revenue was between the 25^{th} and 50^{th} percentiles of the peer group. The companies comprising the peer group used in determining fiscal 2013 executive compensation remained the same as those used in fiscal 2012, except that Acuity Brands, Inc. was added in response to the Company's growing presence in the lighting market in fiscal 2013, and SunPower Corporation was removed because it experienced a change in control in 2011. The peer group companies for fiscal 2013 were:

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Acuity Brands, Inc.	Microchip Technology Incorporated
Altera Corporation	MICROSEMI CORPORATION
Fairchild Semiconductor International, Inc.	PMC-Sierra, Inc.
First Solar, Inc.	RF Micro Devices, Inc.
Hexcel Corporation	Silicon Laboratories Inc.
Integrated Device Technology Inc.	Skyworks Solutions, Inc.
Intersil Corporation	SunEdison, Inc.
Linear Technology Corp.	TriQuint Semiconductor, Inc.
Maxim Integrated Products, Inc.	Xilinx, Inc.

In fiscal 2013, the Committee evaluated the Company's performance against the performance of the peer group through fiscal 2012.

The Company's relative financial performance compared to that of the peer companies on a three- and five-year basis through fiscal 2012 is as follows:

- revenue growth—above the 90th percentile for both the three and five year periods; and
- net income growth—the highest of the peer group on a three-year basis and between the 25th and 50th percentiles on a five-year compounded annual 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 2013, the Committee selected data from the surveys for public high-technology companies with annual revenue levels between $500 million and $2.0 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 cash incentive compensation, total cash compensation, equity compensation and total direct compensation.

Determination of Target Total Direct Compensation

In April 2012, Radford presented the Committee an overview of regulatory trends and developments in executive compensation. In August 2012, Radford presented a comprehensive analysis of the Company's executive compensation as compared to market data. Radford presents analyses of base salary, performance-based cash incentives, and equity award levels for each executive officer and makes recommendations to the Committee using criteria that align with the Company's compensation philosophy. In addition, the CEO makes recommendations with respect to base salary adjustments for executive officers other than himself. The Committee assesses each compensation component as described below:

- Base salary increases 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;
  - responsibilities for which the executive is accountable; and
  - relative position to the market data for that job.
- Cash-based performance incentive targets as a percent of base salary 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 the market data and comparable short-term incentive targets as a percent of base salary for that job.
- 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;

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- 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 market data.

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

Determination of Financial and Individual Objectives

The Committee approves one or more annual financial targets that align with the Company's strategic and financial goals for the coming fiscal year. The annual financial targets approved by the Committee for fiscal 2013 were stated in terms of revenue and non-GAAP pre-tax income. Each named executive officer's performance is assessed against these objectives. The named executive officers, excluding the CEO, are also evaluated against quarterly financial 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 this 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 MICP, which is based on pre-approved financial targets at prescribed payout levels, previously 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 for the previous fiscal year, which is based solely on the Company's financial performance during the previous fiscal year. 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) Shareholder 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 2012 Annual Meeting of Shareholders, a substantial majority of the votes cast at that meeting (97%) 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 material 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 2013 Compensation Decisions

The primary elements of the Company's executive compensation program are described below. The term "market data" is described under "Role of Benchmarking and Comparative Analysis" above.

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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 percentiles 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, for all executive officers except the CEO, quarterly cash payments 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. The CEO is eligible for payouts under the LTIP and the other named executive officers are eligible for payouts under the MICP.
Long-term equity incentive compensation	Time-based stock options and restricted stock that 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.
Post-termination and severance benefits	To provide for certain limited economic security in the event an executive officer is terminated without cause or resigns with good reason.	The Company has entered into a change in control agreement with each named executive officer, which features a "double trigger," described in "Change in Control Agreements" on page 49 below. Each named executive officer is also 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 he is not entitled to severance under the severance plan if he is entitled to severance under the change in control agreement).
Other benefits	To attract and retain executives by providing market competitive benefits.	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.

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 the Company. See "Compensation Program Risk Assessment" on page 14 for details regarding the Committee's annual assessment of the compensation program.

Overall Program Design and Fiscal 2013 Implementation

For fiscal 2013, in August 2012 the Committee initially set targeted total direct compensation (which is comprised of base salary, target cash incentive compensation and the Black-Scholes value of stock options and restricted stock at target) at the 50^{th} percentile of the market data. In October 2012, to make the executive officers'

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compensation more competitive in the marketplace in response to concerns regarding the Company's ability to attract and retain executive officers, the Committee adjusted the compensation of Messrs. Swoboda, Hiller, and Mitchell to better align targeted total direct compensation with the Company's philosophy to target compensation between the 50^{th} and the 75^{th} percentiles of the market data.

The Committee also evaluated the Company's fiscal 2012 performance to determine performance rewards for fiscal 2012 performance and as a reference point in setting fiscal 2013 objectives.

The Company's financial results for fiscal 2012 were mixed. When analyzing the Company's fiscal 2012 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 2012. The information was reviewed on a one-year, three-year (compounded) and five-year (compounded) basis. Financial metrics for fiscal 2012 included:

- Fiscal 2012 revenue grew approximately 18% year-over-year to $1.2 billion. Net income, however, decreased approximately 70% to $44 million.
- Revenue growth for fiscal 2012 was above the 50^{th} percentile of the peer group while net income growth, earnings per share, and total shareholder return results were between the 25^{th} and 50^{th} percentiles of the peer group.
- For the three-year compounded measures, the Company was positioned above the 75^{th} percentile for revenue growth, net income growth and earnings per share growth. Compounded shareholder return, though improving, was below the 25^{th} percentile.
- For the five-year compounded measures, the Company performed above the 75^{th} percentile for revenue growth and net income and performed between the 25^{th} and 50^{th} percentiles for earnings per share and shareholder return growth.

Each compensation element is discussed and analyzed below along with the Committee's decisions regarding compensation actions for fiscal 2013.

Base Salary

Base salary ranges are established for each executive officer based on job responsibilities along with the competitive range derived from 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. The Committee also assesses competitive salary practices by 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 (base salary) and the portion that is comprised of at-risk compensation (performance based incentives). 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, while remaining within the market competitive range.

The Committee approved base salary merit increases for named executive officers in August 2012 and additional market competitiveness adjustments for Messrs. Swoboda, Hiller and Mitchell in October 2012 resulting in the following base salaries for fiscal 2013:

Executive Officer	Fiscal 2012 Salary	Fiscal 2013 Salary	Percentage Increase
Charles M. Swoboda	$625,000	$700,000 [2]	12.0%
Michael E. McDevitt	$375,000 [1]	$375,000	—
Norbert W. G. Hiller	$290,250	$375,000 [2]	29.2%
Tyrone D. Mitchell, Jr.	$290,000	$315,000 [2]	8.6%

[1] Effective May 2012 when appointed Vice President and Interim Chief Financial Officer.

[2] Effective October 21, 2012.

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The Committee considered the following factors when determining the fiscal 2013 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. Mr. Swoboda's received a base salary merit increase of 5.6% in August 2012 and a market competitiveness adjustment of 6.1% in October 2012, which positioned him slightly above the 50th percentile of the market data.
- Michael E. McDevitt. Mr. McDevitt was appointed Vice President and Interim Chief Financial Officer in May 2012. At that time, Mr. McDevitt's base salary was increased to $375,000 on an annualized basis for his tenure in that role. This positioned him at the 50th percentile of the market data. In February 2013, Mr. McDevitt was appointed Executive Vice President and Chief Financial Officer at the same base salary.
- Norbert W. G. Hiller. The Committee awarded Mr. Hiller a 12.0% base salary increase in August 2012 based on his strong individual performance during fiscal 2012 and market data. Mr. Hiller was also awarded a 15.4% market competitiveness adjustment in October 2012, which positioned him at the 50th percentile of the market data.
- Tyrone D. Mitchell, Jr. The Committee approved a 3.4% base salary increase for Mr. Mitchell in August 2012 based on individual performance during fiscal 2012 and market data. Mr. Mitchell was also awarded a 5% market competitiveness adjustment in October 2012, which positioned him at the 50th percentile of the market data.

Performance-Based Cash Incentive Compensation

The Company pays annual performance-based cash incentive compensation to the CEO for achievement of annual financial objectives under the Company's LTIP. Under the Company's MICP, the Company pays the other named executive officers annual performance-based cash incentive compensation for achievement of annual financial objectives and quarterly performance-based cash incentive compensation for achievement of quarterly objectives. The Committee measures the performance of the Company against annual financial objectives established at the beginning of the fiscal year. The CEO measures the performance of the other named executive officers against quarterly financial and individual objectives established at the beginning of each fiscal quarter.

Management Incentive Compensation Plan (MICP)

The MICP provides guidelines for the calculation of performance-based cash incentive compensation, subject to Committee oversight and modification. The participants in the MICP include 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.

In August 2012, the Committee approved amendments to the MICP provisions with respect to corporate performance goals. Enhancements were made to better align the MICP with the Company's strategy and pay-for-performance philosophy.

1) The annual corporate performance goals were changed from earnings per share and revenue to one or more annual financial targets recommended by the CEO and approved by the Committee at the beginning of the fiscal year. For fiscal 2013, the annual financial targets approved by the Committee were stated in terms of revenue and non-GAAP pre-tax income, which equaled targeted GAAP pre-tax income excluding expenses related to the amortization of acquired intangibles and stock-based compensation expense.
2) The requirement that both the annual earnings per share and revenue goals must be met in order for any annual award to be paid was removed. For fiscal 2013, the Committee determined that a single

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non-GAAP pre-tax income threshold must be met for the fiscal year in order for any annual award to be paid.

3) The quarterly corporate performance goals were changed from earnings per share and revenue to one or more financial targets established by the CEO for a fiscal quarter at the beginning of each quarter. For fiscal 2013, the quarterly financial targets were consistent with quarterly corporate financial guidance and were stated in terms of non-GAAP operating income, which equaled targeted GAAP operating income excluding expenses related to the amortization of acquired intangibles and stock-based compensation expense.

In addition to the above amendments to the MICP, for fiscal 2013 the Committee approved a maximum payout of 200% of the target incentive, increased from 150%, based on market data.

Individual goals are performance objectives specific to the individual or the individual's business unit's performance for the fiscal 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 CEO is eligible to receive annual performance-based cash incentive compensation under the LTIP (referred to as performance units). Mr. Swoboda does not participate in any other cash-based performance incentive plan, including the MICP described above. The LTIP is designed to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended, in that performance unit awards are contingent upon achievement of pre-determined corporate objectives of non-GAAP pre-tax income share and revenue. Awards are paid based on achievement of performance goals established under the LTIP and are calculated using a pre-defined formula based on the level of performance and the target awards are expressed as a percentage of the CEO's base salary. In August 2012, Mr. Swoboda received performance units for fiscal 2013 with the same targets as those established for the annual corporate performance goals under the MICP, and in November 2012, he received performance units with targets based on the Company's LED lighting systems revenue for the second through fourth quarters of fiscal 2013, so long as the Company meets the previously established non-GAAP pre-tax income thresholds for the period. Any payment under the performance units are paid in cash.

Except as provided in the severance plan discussed below, or with respect to death or long-term disability or a change in control, (1) the CEO must be continuously employed as an executive officer through the last day of the performance period; (2) the performance units will not be considered earned until the last day of the performance period; and (3) if he terminates his employment prior to the last day of the performance period, with or without cause, he will forfeit his performance units.

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Cash Incentive Targets and Components under MICP and LTIP

Consistent with Radford's analysis of the Company's executive compensation as compared to the market data, in November 2012 the Committee increased the CEO's annual target cash incentive award for fiscal 2013 from 100% of his base salary to 120% of his base salary. This increase, combined with his October 2012 base salary increase, moved the CEO's total target cash compensation from approximately the 25th percentile of the market data to slightly above the 50th percentile of the market data.

The target cash incentive awards for the other named executive officers are summarized as follows:

- In October 2012, the total cash incentive target increased from 65% of base salary to 80% of base salary, which, along with the simultaneous increase to base pay for Messrs. Hiller and Mitchell, more closely aligns total target cash compensation of the named executive officers slightly above the 50th percentile of the market data.
- Annual goals continue to comprise 60% of the target incentive (equal to 60% of 80%, which is 48% of base salary).
- Quarterly goals continue to comprise 40% of the target incentive (equal to 40% of 80%, which is 32% of base salary). 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.

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

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. For fiscal 2013, the Committee determined that no payout would be made for the annual corporate financial goals unless the minimum non-GAAP pre-tax income was achieved. Provided that the minimum non-GAAP pre-tax income goal was achieved, if attainment of a goal met or exceeded the minimum performance level but fell below the target, a payment would be earned of at least 50% but less than 100% of the target award

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opportunity for such annual corporate goal, and if attainment of a goal met or exceeded the target performance level but fell below the maximum, a payment would be earned of at least 100% but less than 200% of the target award opportunity for such corporate goal. The maximum payment for any annual award payout would be 200% of the target annual award opportunity.

MICP Quarterly Component

Quarterly targets are set at the beginning of each fiscal quarter. For fiscal 2013, quarterly targets were measured in terms of (1) non-GAAP operating income, consistent with quarterly corporate financial guidance; and (2) individual performance objectives specific to each named executive officer (other than the CEO). Individual performance objectives during fiscal 2013 for each of the named executive officers were as follows:

- Michael E. McDevitt. Mr. McDevitt's individual objectives encompassed Company financial goals as well as implementing segment reporting, strategic hiring to scale the Company's finance team and increasing efficiency of the Company's financial processes.
- Norbert W. G. Hiller. Mr. Hiller's individual objectives encompassed financial goals, new product releases, and sales volume for the LED business unit.
- Tyrone D. Mitchell, Jr. Mr. Mitchell's individual objectives encompassed financial goals, strategy development, new product releases, and increased brand awareness for the Lighting business unit.

Under the MICP, an executive can only earn a payout for a quarter if the minimum level of the corporate performance goal for that quarter was achieved. If the minimum level of the corporate performance goal was achieved for the quarter, the executive would receive 50% of the target quarterly award opportunity; if the executive also achieved individual performance goals, he could receive up to 100% of the target quarterly award opportunity, with the exact percentage depending on the level of achievement of his individual performance goals.

Performance Goals for Fiscal 2013

Annual Corporate Goals

Minimum, target, and maximum goals for fiscal 2013 for each performance measure were pre-set and approved by the Committee based upon a comparison to the actual revenue and non-GAAP pre-tax income actually achieved in fiscal 2012. Minimum revenue and non-GAAP pre-tax income goals for fiscal 2013 were equal to the fiscal 2012 actual results. The target revenue and non-GAAP pre-tax income goals were set at 22% and 45%, respectively, above the fiscal 2012 actual results, and the maximum revenue and non-GAAP pre-tax income goals were set at 47% and 74%, respectively, above the fiscal 2012 actual results.

The Committee established the following goals for fiscal 2013:

Performance Goal	Minimum	Target	Maximum
Revenue	$1.16B	$1.42B	$1.70B
Non-GAAP Pre-Tax Income	$127.1M	$183.3M	$220.6M

Results and Actual Payouts for Fiscal 2013

The Company exceeded the $127.1 million minimum level of non-GAAP pre-tax income required for the LTIP and MICP annual payments, achieving non-GAAP pre-tax income of $192.3 million. Revenue was $1.39 billion, above the minimum of $1.16 billion. Consequently, annual payouts were made to the CEO under the LTIP and to the other named executive officers under the MICP. The Company also achieved the financial goals for the first three quarters of fiscal 2013, so quarterly payouts were made for each of those fiscal quarters to each named executive officer other than the CEO. The named executive officers earned the following performance-based incentive cash awards for fiscal 2013:

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Executive Officer	Target Award	Actual Award Earned	Actual Award as a Percent of Target	Actual Award as a Percent of Salary
Charles M. Swoboda [1]	$805,660	$870,113	108%	128%
Michael E. McDevitt [2]	$282,133	$243,176	86%	65%
Norbert W. G. Hiller [2]	$278,883	$245,772	88%	70%
Tyrone D. Mitchell, Jr. [2]	$236,017	$212,099	90%	69%

[1] As described in "Performance-Based Cash Incentive Compensation, Long-Term Incentive Compensation Plan" on page 44 above, Mr. Swoboda was awarded performance units in August 2012 and in November 2012. Mr. Swoboda's target award was equal to 100% of his weighted average annual base salary for fiscal 2013 pursuant to his August 2012 award, plus 20% of his weighted average annual base salary for the second through fourth quarters of fiscal 2013 pursuant to his November 2012 award.

[2] As described in "Cash Incentive Targets and Components" on page 45 above, effective October 21, 2012, the total cash incentive target for Messrs. McDevitt, Hiller and Mitchell increased from 65% of base salary to 80% 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 2013, 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 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. The primary value of restricted stock, however, is that it creates an incentive for retention. Restricted stock has full value to the executive officers upon vesting and vests in equal tranches over four years.

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 2013 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 2013 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

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disability. Under the terms of the named executive officers' change in control agreements, however, vesting of options and restricted stock may also be accelerated in certain circumstances as discussed below.

Fiscal 2013 Equity Awards

The Committee approved the following equity grants to named executive officers at the August 2012 meeting. The awards were granted on September 4, 2012, and the stock options have an exercise price of $27.77:

Executive Officer	Stock Options	Shares of Restricted Stock
Charles M. Swoboda	120,000	35,000
Michael E. McDevitt	20,000	4,000
Norbert W. G. Hiller	40,000	10,000
Tyrone D. Mitchell, Jr.	40,000	10,000

In granting the awards, the Committee considered the Company's current and historical performance along with each executive's demonstrated ability to sustain performance over time. The Committee also reviewed equity usage and assessed the Company's practices as compared to the peer companies. Specifically, the Committee considered the Company's fiscal year end 2012 gross burn rate of 2.9% and an estimated fiscal year end 2013 gross burn rate of 3.0%. The Company's burn rate on a one-year basis was positioned between the 25th and 50th percentile of the peer group, and the Company's burn rate on a three-year basis approximated the 25th percentile of the peer group. The Committee also considered the Company's total equity overhang, which approximated the 25th percentile of the peer group.

Based on these considerations and the total direct compensation analysis prepared by Radford, in August 2012 the Committee determined that it was appropriate to grant the same number of stock options and shares of restricted stock to Messrs. Swoboda and Mitchell, and the same number of stock options to Mr. Hiller, as each had received in fiscal 2012, and to increase the number of shares of restricted stock awarded to Mr. Hiller to 10,000. Mr. McDevitt received 30,000 stock options and an award of 6,000 shares of restricted stock on June 1, 2012 in connection with his appointment as Vice President and Interim Chief Financial Officer, and received an additional 20,000 stock options and 4,000 of restricted shares in August 2012.

In October 2012, the Committee determined that it was appropriate to increase the numbers of shares of restricted stock that Messrs. Swoboda, Hiller and McDevitt received in fiscal 2013 to enhance the market competitiveness of their compensation and the Company's corresponding ability to attract and retain executive officers, and they were awarded 15,000, 10,000 and 5,000 additional shares of restricted stock, respectively, on November 1, 2012.

The equity grants awarded to the named executive officers in September and November 2012 reflect a Black-Scholes valuation between the 50th and 75th percentiles of the market data. The Committee believes that the grant sizes at this target level reinforce the focus on enhancing shareholder value and position the total direct compensation within the desired range.

Equity awards are reflected as compensation for fiscal 2013 in accordance with applicable reporting requirements in the Summary Compensation Table on page 51 under the "Stock Awards" and "Option Awards" columns and in the Grants of Plan-Based Awards table on page 52.

Additional Information

Other Benefits and Perquisites

Consistent with the Company's compensation philosophy, the Committee seeks to limit the perquisites provided to the named executive officers. For example, the Committee does not provide social or club memberships, paid personal travel or automobile allowances/company vehicles to the named executive officers. Generally, the named executive officers are eligible to participate in only those benefit and retirement programs available to other employees, including the Company's 401(k) plan, health and welfare plans, group term life insurance plan and the Company's employee stock purchase program. The named executive officers receive matching contributions under the 401(k) plan consistent with other participating employees. Such matching contributions for named executive officers for fiscal 2013 are included in the Summary Compensation Table on page 51 under the "All Other Compensation" column.

The named executive officers are eligible to participate in a voluntary executive physical program. This benefit is intended to encourage named executive officers to receive regular comprehensive physical examinations, as their future health and well being are important to the Company's success. Each participant is encouraged to voluntarily elect a comprehensive physical examination once every two calendar years until age 50 and once per calendar year thereafter at a facility designated by the Company.

Post-Termination Arrangements

The Company has entered into a change in control agreement with each named executive officer. This agreement provides for certain payments to the named executive officer in the event his employment is terminated without cause or he resigns for good reason in connection with a change in control of the Company. Additionally, the Committee has adopted the Severance Plan for Section 16 Officers, or the Severance Plan, which provides for severance benefits in the event an executive officer is terminated without cause or resigns for good reason and is not entitled to compensation under a change in control agreement. The only officers currently eligible to participate in this Severance Plan are the CEO, Executive Vice President and CFO, Executive Vice President–LEDs and Executive Vice President–Lighting. The Committee has approved these severance benefits following termination, both in the context of a change in control and in other circumstances, to encourage executive officers to act in the Company's best interests without regard to potential concerns for loss of income in the event of a disagreement with management or the Board of Directors that leads to termination of employment.

Change in Control Agreements

The Company has entered into a Change in Control Agreement with each named executive officer to promote the stability and continuity of senior management as well as to ensure that the executive remains focused on the Company's shareholders' interests, rather than his own, in the context of a change in control transaction. Further, the change in control agreement features a double trigger, which means that payments are not triggered on a change in control unless, in connection with the change in control, the executive either (1) is terminated without cause; or (2) terminates his employment for good reason. Termination is considered to be in connection with a change in control if it occurs within 12 months following a change in control, or, with respect to our CEO, within 24 months following a change in control. See "Potential Payments upon Termination or Change in Control" on page 54 below.

In determining the various circumstances that trigger payment or provision of severance benefits to the named executive officers and the payment and benefit levels associated with each circumstance (other than such payments and benefits that are generally available to all employees), the Compensation Committee reviewed severance benefits data derived from proxy materials filed by our peer group. The Compensation Committee utilized this competitive severance benefits data as a check to determine whether each of the proposed severance payments and benefits for the named executive officers was set at an appropriate level for the circumstance that triggers payment or provision of benefits in light of market conditions. The Compensation Committee generally seeks to confirm that the level of each severance payment or benefit for the named executive officers is at or slightly above the median level of comparable payments and benefits offered to similarly situated executives in our peer group. In approving the provision of severance benefits to the named executive officers and the payment and benefit levels associated with each circumstance, the Compensation Committee was briefed by Radford on the overall competitiveness of the proposed severance payment and benefit levels for the named executive officers in a broader cross-section of the total market.

Severance Plan

The Severance Plan provides severance benefits in the event of termination of employment without cause or resignation for good reason to the Company's officers who are subject to the reporting requirements of Section 16 of the Securities Exchange Act of 1934, as amended, or Section 16 Officers. All of the current executive officers are therefore eligible to participate in the Severance Plan. The Severance Plan will not apply to a Section 16 Officer, however, if he becomes entitled to the payment of severance benefits upon termination of employment in connection with a change in control pursuant to a separate agreement with the Company, such as the Change in Control Agreements described above.

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In the event of termination of the CEO's employment without cause or his resignation for good reason, he is entitled to 18 months' continuation of base salary and a lump sum payment equal to 18 months of COBRA premiums. All other Section 16 Officers are entitled to 12 months' continuation of base salary and a lump sum payment equal to 12 months of COBRA premiums. In addition, for any completed performance period, the Section 16 Officer will be entitled to receive any amounts he has otherwise earned under his incentive compensation arrangement even though he is no longer employed on the date of payment.

The Severance Plan also provides that if the Section 16 Officer becomes generally disabled and his employment is terminated before he becomes eligible for benefits under the Company's long-term disability program or if he elects to resign for good reason because the Company does not restore him to his prior position and level of authority after he returns from long-term disability leave, then he will be entitled to severance benefits under the Severance Plan. Severance benefits under the Severance Plan are subject to applicable tax withholdings and statutorily imposed payment terms and require the Section 16 Officer to sign a release of claims. The CEO is not required to extend his non-compete period as a condition to receipt of benefits under the Severance Plan.

Section 162(m) Treatment Regarding Performance-Based Equity Awards

The Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended, which provides that the Company may not be able to deduct compensation of more than $1,000,000 that is paid to certain executive officers. Performance-based compensation within the meaning of Section 162(m), including stock and cash incentive compensation under the LTIP, is excluded from this limitation. The Company seeks to structure the performance-based portion of the compensation of the executive officers in a manner that complies with Section 162(m) when the Company considers it to be in the Company's best interests, taking into account all relevant factors. The deductibility of compensation payable to the executive officers, however, is only one among a variety of factors that the Committee may consider in determining appropriate levels or forms of compensation.

Share Ownership Guidelines

The Board of Directors has adopted Corporate Governance Principles for the Company that include share ownership guidelines for members of the Board of Directors and executive officers. Under these guidelines, within five years after election or appointment:

- the CEO is expected to own shares with a value not less than five times his base salary;
- each other executive officer is expected to own shares with a value not less than two times the officer's 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.

Presently all directors and executive officers meet these minimum ownership guidelines.

Compensation Committee Report

The Compensation Committee met on August 26, 2013 and reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

THE COMPENSATION COMMITTEE

Thomas H. Werner, Chairman
Robert A. Ingram
Robert L. Tillman

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Summary of Cash and Certain Other Compensation

The following table summarizes the compensation of the Company's chief executive officer and all other persons who served as named executive officers during fiscal 2013.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Stock Awards ($) (1)	Option Awards ($) (1)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($) (2)	Total ($)
(a)	(b)	(c)	(e)	(f)	(g)	(i)	(j)
Charles M. Swoboda	2013	$681,429	$1,443,250	$1,424,628	$870,113	$9,519	$4,428,939
Chairman, Chief Executive	2012	$620,742	$1,082,200	$1,413,060	—	$8,287	$3,124,289
Officer and President	2011	$595,154	$1,935,500	$2,812,092	—	$8,925	$5,351,671
Michael E. McDevitt	2013	$375,000	$268,180	$237,438	$243,176	$12,292	$1,136,086
Executive Vice President and	2012	$223,965	$141,720	$380,397	$17,041	$7,458	$770,581
Chief Financial Officer (3)							