

CREE INC
Form DEF 14A
September 09, 2014
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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):

x No fee required.

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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):

4) Proposed maximum aggregate value of transaction:

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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 2014 Annual Meeting of Shareholders of Cree, Inc. will be held at Bay 7, on the American Tobacco Campus at 318 Blackwell Street, Durham, North Carolina 27701, on Tuesday, October 28, 2014, 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 nine directors

• Proposal No. 2—Approval of an amendment to the 2013 Long-Term Incentive Compensation Plan to increase the number of shares authorized for issuance under the plan by 2,000,000 shares

• Proposal No. 3—Ratification of the appointment of PricewaterhouseCoopers LLP as independent auditors for the fiscal year ending June 28, 2015

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

All shareholders are invited to attend the meeting in person. Only shareholders of record at the close of business on August 29, 2014 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 9, 2014

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 15, 2014, we expect to mail to our shareholders a Notice of Internet Availability of Proxy Materials which will indicate how to access our 2014 Proxy Statement and 2014 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

2014 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: Bay 7, on the American Tobacco Campus at 318 Blackwell Street, Durham, North Carolina 27701
- Parking: Bay 7 is equidistant from the North and South Parking Decks accessible from Julian Carr Street: www.americantobaccohistoricdistrict.com/parking.
- Date and time: Tuesday, October 28, 2014, at 10:00 a.m.
- Record Date: August 29, 2014
- Approximate Date of Availability of Proxy Materials: September 15, 2014
- 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 nine directors (FOR THE NOMINEES)
- Approval of amendment to our 2013 Long-Term Incentive Compensation Plan to increase the number of shares authorized for issuance under the plan by 2,000,000 shares (FOR)
- Ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditors for the fiscal year ending June 28, 2015 (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.
- John B. Replogle. Chief Executive Officer and President of Seventh Generation, Inc. Cree Director since 2014.
- Alan J. Ruud. Cree, Inc. Vice Chairman–Lighting. Cree Director since 2011.
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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.
 - Anne C. Whitaker. Chief Executive Officer and President of Synta Pharmaceuticals Corp. Cree Director since 2013.
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Executive officers	<ul style="list-style-type: none">• 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–Lighting
Approval of amendment to our 2013 Long-Term Incentive Compensation Plan	<p>We are seeking shareholder approval of an amendment to our 2013 Long-Term Incentive Compensation Plan to increase in the number of shares available for grant by 2,000,000 shares. 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.</p>
Independent auditors	<p>Although not required, we ask shareholders to ratify the selection of PricewaterhouseCoopers LLP as our auditors for our fiscal year ending June 28, 2015. Our Board of Directors recommends a FOR vote.</p>
Advisory (nonbinding) vote to approve executive compensation	<p>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.</p>

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MEETING INFORMATION

The Board of Directors of Cree, Inc. (“Cree” or the “Company”) is asking for your proxy for use at the 2014 Annual Meeting of Shareholders and any adjournments of the meeting. The meeting will be held at Bay 7, on the American Tobacco Campus at 318 Blackwell Street, Durham, North Carolina 27701, on Tuesday, October 28, 2014, 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 nine directors listed in this proxy statement; (2) approval of an amendment to the 2013 Long-Term Incentive Compensation Plan, or the LTIP, to increase the number of shares authorized for issuance under the plan by 2,000,000 shares; (3) ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditors for the fiscal year ending June 28, 2015; and (4) advisory (nonbinding) vote to approve executive compensation.

The Board of Directors recommends that you vote FOR the election of the director nominees listed in this proxy statement, FOR approval of the amendment to the LTIP, FOR ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditors for the fiscal year ending June 28, 2015, and FOR the advisory (nonbinding) vote to approve executive compensation.

Beginning on or about September 15, 2014, proxy materials for the annual meeting, including this proxy statement and our 2014 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 28, 2014:

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 15, 2014, 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 29, 2014 are entitled to vote at the meeting and any adjournments of the meeting. At that time, there were 119,471,472 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 27, 2014 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 27, 2014 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 27, 2014.

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 amendment to the LTIP, FOR ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent auditors for the fiscal year ending June 28, 2015, 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 and 4) 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 3 if you do not instruct your broker how you wish to vote your shares.

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Quorum Required

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

Vote Required

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 an Amendment to the LTIP) and Proposal 3 (Ratification of Appointment of Auditors). The proposed amendment to the LTIP and ratification of the appointment of PricewaterhouseCoopers LLP as the Company’s independent auditors for fiscal 2015 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 PricewaterhouseCoopers LLP is not ratified by a majority of the votes cast at the 2014 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 4 (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 nine persons nominated for election to the Board of Directors at the annual meeting are currently serving as directors of the Company. The Company is not aware of any nominee who will be unable or will decline to serve as a director. If a nominee becomes unable or declines to serve, the accompanying proxy may be voted for a substitute nominee, if any, designated by the Board. 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 or her 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	47	<p>Mr. Swoboda has served as the Company's Chief Executive Officer since June 2001, as President since January 1999, as a member of the Board of Directors since October 2000 and as chairman since April 2005. He was Chief Operating Officer of the Company from 1997 to June 2001 and Vice President for Operations from 1997 to 1999. Prior to his appointment as Vice President for Operations, Mr. Swoboda served as Operations Manager from 1996 to 1997, as General Manager of the Company's former subsidiary, Real Color Displays, Incorporated, from 1994 to 1996 and as LED Product Manager from 1993 to 1994. He was previously employed by Hewlett-Packard Company.</p> <p>Mr. Swoboda's employment with the Company for the past 21 years in diverse roles, his leadership as the Company's Chief Executive Officer for thirteen years and his service on the Board of Directors for fourteen years, including his service as Chairman of the Board for the past nine years, uniquely qualify him for election to the Board of Directors. He brings to the Board a critical perspective and understanding of the Company's business strategy, and he is enabled by his experience and position as Chief Executive Officer to provide the Board valuable insight into the management and operations of the Company.</p>	2000
Clyde R. Hosein	55	<p>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 publicly traded 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 mixed-signal semiconductor solutions. From 2001 to 2003, he served as Senior Vice President, Finance and Administration and Chief Financial Officer of Advanced Interconnect Technologies, a semiconductor assembly and test company. He has also held other senior level financial positions, including the role of Chief Financial Officer at Candescant Technologies, a developer of flat panel display technology. Early in his career he spent 14 years in financial and engineering roles at IBM Corporation.</p> <p>Mr. Hosein's qualifications to serve as a director include his service on the Company's Board of Directors and its Audit Committee during the past nine years, his years of experience as an executive officer in publicly traded companies in the semiconductor industry, including his roles in operational management, his substantial experience as a chief financial officer responsible for the finance and accounting functions of publicly traded companies, his qualifications as an audit committee financial expert, and his technical background and significant experience in technology-based companies generally.</p>	2005

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Name	Age	Principal Occupation and Background	Director Since
Robert A. Ingram	71	<p>Mr. Ingram joined the Board of Directors in December 2008 and has served as Lead Independent Director since October 2011. Since January 2007, 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 Regeneron Pharmaceuticals, Inc., and serves as Lead Director of Valeant Pharmaceuticals International, Inc. He also served as Chairman of the Board of Directors of OSI Pharmaceuticals, Inc. from January 2003 until its sale in June 2010, and served on the Board of Directors of Elan Corporation, plc from December 2010 until its sale in December 2013 and as its Chairman from January 2011 until December 2013. 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.</p>	2008

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Name	Age	Principal Occupation and Background	Director Since
Franco Plastina	51	<p>Mr. Plastina joined the Board of Directors in December 2007. Since May 2012, he has served as President and Founder of Arc & Company, LLC, an advisory and angel investment firm. He has also served as an Entrepreneur-in-Residence with the Blackstone Entrepreneurs Network in Research Triangle Park, North Carolina since October 2011. From February 2006 until January 2011 he served as President and Chief Executive Officer, and as a board member, of Tekelec, a publicly traded provider of telecommunications network systems and software applications. From September 2005 through February 2006 Mr. Plastina served as Executive in Residence at Warburg Pincus LLC, a private equity firm, where he was responsible for evaluating potential investments and providing executive support to portfolio companies. From 2003 to 2005, he held various executive positions with Proxim Corporation, a provider of Wi-Fi and broadband wireless access products, including Executive Chairman, President and Chief Executive Officer. From 1987 until 2002, Mr. Plastina served in a series of management and executive positions with Nortel Networks Corporation, a multi-national telecommunications equipment provider.</p> <p>Mr. Plastina brings to the Board significant senior executive leadership experience, including seven years of experience from his service as chief executive officer of two publicly traded companies as well as over 27 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 seven 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.</p>	2007
John B. Replogle	48	<p>Mr. Replogle joined the Board of Directors in January 2014. Since March 2011, he has served as Chief Executive Officer and President of Seventh Generation, Inc., a manufacturer and distributor of sustainable household products. From 2006 to 2011 Mr. Replogle served as President and Chief Executive Officer of Burt's Bees, Inc., and from 2003 to 2006 he served as General Manager of Unilever's Skin Care division. Previously, he worked for Diageo, Plc for seven years in a number of different capacities, including as President of Guinness Bass Import Company and Managing Director of Guinness Great Britain. He started his career with the Boston Consulting Group. Mr. Replogle also served as a director of Sealy Corporation, a publicly traded mattress manufacturer, from 2010 to 2013, until its sale to Tempur-Pedic International Inc.</p> <p>Mr. Replogle's qualifications to serve as a director include significant senior executive leadership experience, including eight years of experience as chief executive officer at two companies, as well as deep experience in marketing, branding and distribution of consumer goods. This experience provides him valuable perspective in his role as a director and member of our Audit Committee.</p>	2014

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Name	Age	Principal Occupation and Background	Director Since
Alan J. Ruud	67	<p>Mr. Ruud joined the Board of Directors in August 2011, when the Company acquired Ruud Lighting, Inc., or Ruud Lighting, and also began serving as the Company's Vice Chairman—Lighting at that time. Mr. Ruud is a founder of Ruud Lighting and served in various roles at Ruud Lighting since its founding in 1982, including as its Chief Executive Officer, President and as a member of its Board of Directors. Most recently, and until the acquisition, Mr. Ruud served as the Chief Executive Officer and as Chairman of the Board of Directors of Ruud Lighting, positions which he held for over a decade. Mr. Ruud also served as the President of Ruud Lighting until November 2009.</p> <p>Mr. Ruud's roles as a founder, executive officer, and director of Ruud Lighting since its incorporation and his nationally-recognized expertise in the lighting industry uniquely qualify him for election to the Company's Board of Directors as the Company continues to expand its lighting business.</p>	2011
Robert L. Tillman	71	<p>Mr. Tillman joined the Board of Directors in October 2010. From November 1994 to January 2005, he served as a director of Lowe's Companies, Inc., as its Chairman from January 1998 to January 2005, and as its President and Chief Executive Officer from August 1996 to January 2005. After his retirement from Lowe's, he served on the Board of Directors of Bank of America Corporation from April 2005 to May 2009, and also served as a member of its Asset Quality and Executive Committees.</p> <p>Mr. Tillman brings substantial leadership experience as a chief executive officer in a substantial publicly traded company in the retail distribution industry. His knowledge and operational expertise in that environment, particularly with respect to consumer product marketing, and his substantial board experience, qualify him to serve on the Company's Board.</p>	2010
Thomas H. Werner	54	<p>Mr. Werner has been a member of the Board of Directors since March 2006. He has served as Chief Executive Officer for SunPower Corporation, a publicly traded manufacturer of high-efficiency solar cells and solar panels, since June 2003, and is also a member of its Board of Directors. Prior to SunPower, he served as Chief Executive Officer of Silicon Light Machines Corporation, an optical solutions subsidiary of Cypress Semiconductor Corporation, from July 2001 to June 2003. Earlier, Mr. Werner was Vice President and General Manager of the Business Connectivity Group of 3Com Corporation, a network solutions company. He is currently also a director of Silver Spring Networks, Inc., an energy solutions company.</p> <p>Mr. Werner's qualifications to serve as a director include his eight years of service on the Company's Board of Directors and his seven 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</p>	2006

technology” company for the past eleven years.

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Name	Age	Principal Occupation and Background	Director Since
Anne C. Whitaker	47	<p>Ms. Whitaker joined the Board of Directors in December 2013. Since September 2014, she has served as the Chief Executive Officer and President and as a member of the Board of Directors of Synta Pharmaceuticals Corp., a publicly traded biopharmaceutical company. She previously served from September 2011 to August 2014 as the President of North America Pharmaceuticals for Sanofi S.A., a global integrated healthcare leader focused on patients' needs. From September 2009 to September 2011, Ms. Whitaker served as Senior Vice President and Business Unit Head, Cardiovascular, Metabolic and Urology (CVMU) at GlaxoSmithKline plc, a publicly traded pharmaceutical research and development company. From October 2008 to August 2009, she served as Senior Vice President of Leadership and Organization Development, and prior to that served in various leadership positions in GlaxoSmithKline's commercial organization. Ms. Whitaker began her pharmaceutical career in 1991 as a metabolic disease specialist with Upjohn Company before joining GlaxoSmithKline as a sales representative in 1992.</p> <p>Ms. Whitaker brings to the Board her experience as a senior executive and commercial leader in sales and marketing, as well as human resource experience beneficial to the Company as we seek to grow the Company and expand our leadership capabilities. Ms. Whitaker's leadership experience in the life sciences industry, along with her insights on operations and business generally, such as research and development and intellectual property creation and protection, provide her with a unique perspective in her role as a director and member of our Compensation Committee.</p>	2013

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Summary of Skills of Nominees

	Swoboda	Hosein	Ingram	Plastina	Replogle	Ruud	Tillman	Werner	Whitaker
Senior executive experience (CEO/CFO)	×	×	×	×	×	×	×	×	×
Previous public board experience			×	×	×		×	×	
Public technology, lighting 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 50) and Norbert W. G. Hiller (age 54) 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–Lighting of the Company in December 2013, and served prior to this as Executive Vice President–LEDs of the Company from 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.

Code of Ethics

We have adopted a Code of Ethics applicable to our senior financial officers, including our Chief Executive Officer, or CEO, Chief Financial Officer, or CFO, 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. Nine persons have been nominated for election at the annual meeting. The accompanying proxy cannot be voted for more than nine 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, Replogle, Ruud, Tillman, Werner and Ms. Whitaker. The Board of Directors has determined that seven of the present directors—Messrs. Hosein, Ingram, Plastina, Replogle, Tillman, Werner and Ms. Whitaker—are each an “independent director” within the meaning of the applicable Nasdaq Listing Rules. Additionally, the Board of Directors previously determined that Harvey A. Wagner, who served on the Board of Directors until his retirement in October 2013, was also an “independent” director within the meaning of these 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 CEO 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 CEO, 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 CEO 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, restricted stock awards and performance stock awards under the LTIP;
- performance unit awards payable to our CEO and to our Executive Vice Presidents under the LTIP which provide for cash payments based upon achieving annual corporate financial goals;
- awards under our Management Incentive Compensation Program, or the 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 at that time. Management and Radford concluded that there have been no material changes in our risk profile arising from compensation policies and practices since August 2013, and have updated the Compensation Committee accordingly.

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Attendance at Meetings

The Board of Directors held six meetings during fiscal 2014. 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 in which he or she was a director and the number of meetings of committees on which he or she served that were held during the period of his or her 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 2013 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, Ingram and Replogle. 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, Ingram and Replogle 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 2014. 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, Replogle, Tillman, Werner and Ms. Whitaker. 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

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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 "2015 Annual Meeting of Shareholders" on page 66 below. The Governance and Nominations Committee held four meetings during fiscal 2014. 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 CEO, 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 CEO 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 2014. 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 35 below.

The members of the Compensation Committee are Messrs. Werner and Tillman and Ms. Whitaker. 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 2014. 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, CEO 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 2014, the Company purchased \$8.8 million of raw materials from Intematix pursuant to standard purchase orders, and the Company had

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\$0.3 million outstanding payable to Intematix as of June 29, 2014. The Company anticipates that it will continue to purchase raw materials from Intematix in the future pursuant to standard purchase orders.

Transactions with Ruud Lighting 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 which 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, and it was merged into the Company in January 2013.

Immediately after the purchase, Alan Ruud, a 25.1% shareholder of Ruud Lighting prior to the purchase (including shares held by the AJR Legacy Trust he established), was appointed to the Board of Directors of the Company. In addition, prior to the purchase, 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.

Under the Stock Purchase Agreement, the Ruud Lighting shareholders agreed to indemnify the Company for a portion of the expenses related to the litigation among the Company (as successor-in-interest to Ruud Lighting), Alan Ruud, Christopher Ruud, Cooper Lighting LLC and Illumination Management Solutions that had commenced prior to the Company's acquisition of Ruud Lighting, or the IMS/Cooper litigation. In September 2013, the Company and the other parties to the IMS/Cooper litigation reached a binding term sheet agreement to settle the litigation. Related to the settlement, in September 2013, the Company also entered into a letter agreement, approved by the Audit Committee, with Christopher Ruud (individually and acting as the Seller Representative for the former Ruud Lighting shareholders) and Alan Ruud. Pursuant to the letter agreement, and in full satisfaction of the Ruud Lighting shareholders' indemnification obligations to the Company with respect to the IMS/Cooper litigation, the Company received the full amount of the remaining escrow funds set aside under the Stock Purchase Agreement with respect to the IMS/Cooper litigation. Accordingly, the Company received \$8,885,329 in cash and 143,964 shares of the Company's common stock from the Ruud Lighting shareholders during fiscal 2014, with the final escrow amounts received by the Company during the third quarter of fiscal 2014 upon the execution of the final settlement agreement among the IMS/Cooper litigation parties.

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 2014, please refer to the section below on page 59 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, for fiscal 2014 in the amount of \$275,000 and for fiscal 2015 in the amount of \$160,000, and is eligible for a target bonus of up to 50% of his base salary. 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, and in September 2014, Christopher Ruud also received 3,000 shares of restricted stock units of the Company and options to purchase 15,000 shares of the Company's common stock, all pursuant to the LTIP. The restricted stock awards vest in four annual installments, and the option awards vest in three annual installments and have a term of seven years. Christopher Ruud is also eligible to participate in insurance, benefit and compensation plans available to employees generally.

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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 (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. On June 25, 2014, for \$1.5 million the Company acquired the combined 20% interest in the aircraft from LSA and Light Speed, resulting in the Company having 100% ownership of the aircraft.

Pursuant to the Joint Ownership Agreement, each of LSA and Light Speed was responsible for its share of flight crew, direct, fixed and other expenses attributable to its use of the aircraft. During fiscal 2014, the Company billed LSA and Light Speed \$234,000 and \$697,000, respectively, for use of the aircraft. Of these billed amounts, LSA and Light Speed have reimbursed the Company for \$225,000 and \$630,000, respectively, as of June 29, 2014. The Company also had unbilled receivables of \$6,000 and \$46,000 for LSA and Light Speed, respectively, as of June 29, 2014.

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 initial 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 2014.

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

General

We are requesting that shareholders approve a proposed amendment to the LTIP. The amendment would increase the aggregate number of shares that may be issued under the LTIP by 2,000,000 shares. The amendment was approved at a meeting of the Board of Directors on August 26, 2014 and will become effective only upon shareholder approval.

The LTIP is currently the only plan under which we are authorized to award share-based compensation to employees and outside directors, including stock options and restricted stock units.

If approved, the amendment would revise Section 4.1(a) of the LTIP to read as shown in Appendix B. The LTIP is filed as Exhibit 10.1 to our Current Report on Form 8-K (File No. 000-21154) filed with the Securities and Exchange Commission on October 29, 2013, which is available online through the Commission's EDGAR System and through the "Investor Relations" section of our website at investor.cree.com/sec.cfm. You may also request a copy of the LTIP, as currently in effect, by sending a written request to: Director, Investor Relations, Cree, Inc., 4600 Silicon Drive, Durham, North Carolina 27703.

As of September 4, 2014, there remained 3,683,641 shares available for future awards under the LTIP. If the amendment is approved, the number of shares authorized for issuance under the plan would increase by 2,000,000 shares. Based on the awards outstanding as of September 4, 2014, if the amendment is approved, there would be 5,683,641 shares available for future awards under the plan. For additional information regarding outstanding awards under our equity compensation plans, please refer to the section below on page 29 entitled "Equity Compensation Plans."

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

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

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Description of LTIP

The following is a description of the LTIP as proposed to be amended. This description is merely a summary of material provisions of the plan and is qualified by the full text of the amended plan as filed as Appendix C to our definitive proxy statement filed with the Securities and Exchange Commission on September 9, 2014.

Administration of the LTIP. The 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 LTIP, referred to as the Committee. So long as shares are traded on The Nasdaq Stock Market LLC, or 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) of the Internal Revenue Code of 1986, as amended, or the Code (referred to as 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 LTIP.

Subject to the express provisions of the 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 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, 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 LTIP. As of September 1, 2014, there were approximately 7,077 employees, including part-time and temporary employees, and seven non-employee directors who would be eligible to participate in the LTIP.

Types of Awards. The 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. As of September 4, 2014, there remained 3,683,641 shares available for future awards under the LTIP. If the amendment is approved, the number of shares authorized for issuance under the plan would increase by 2,000,000 shares. Based on the awards outstanding as of September 4, 2014, if the amendment proposed by Proposal No. 2 is approved, there would be 5,683,641 shares available for future awards under the plan.

If shares awarded or subject to issuance under the 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 LTIP, those number of shares will be added back to the Award Pool. Similarly, if shares awarded or subject to issuance under the Company's 2004 Long-Term Compensation Plan, as amended, or the 2004 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 a SAR is exercised will not again be available for issuance under the LTIP and will not be added back to the Award Pool.

The shares of the Company's common stock, par value \$0.00125, issued by the Company under the 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 last sale price of the common stock on September 4, 2014 was \$44.49 per share, as reported by Nasdaq.

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The number of shares available for issuance pursuant to ISOs granted under the LTIP is 2,500,000. All shares included in the Award Pool are available for issuance pursuant to other types of awards granted under the 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.

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 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 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 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 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 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 LTIP (including under any awards then outstanding), the number and type of securities subject to the individual limits set forth in the 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 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 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).

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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 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 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 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 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 award 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 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

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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 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 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 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 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 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

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shareholders before amending the LTIP to the extent required by Section 162(m) or Section 422 of the Code or the Nasdaq Listing Rules or other applicable law.

The Committee may amend an outstanding award agreement in a manner not inconsistent with the terms of the 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 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 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.

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 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 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 suit under 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

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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

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

Plan Awards

The following table sets forth with respect to each individual and group listed below (i) the number of shares of common stock issued or issuable pursuant to stock options granted under the LTIP, (ii) the number of shares underlying restricted stock and stock unit awards granted under the LTIP and (iii) the number of shares of common stock issued or issuable pursuant to performance units granted under the LTIP, in each case since the LTIP’s effectiveness on October 29, 2013 through September 4, 2014. Any future awards to eligible participants under the LTIP are subject to the discretion of the Committee or Board of Directors and therefore are not determinable at this time. To date, no incentive stock options have been granted under the LTIP and none are presently contemplated. The table does not include grants made under any of the Company’s other compensation plans.

Table of ContentsCumulative Grants Since
Plan Inception in 2013

	No. of Shares Underlying Options Granted	No. of Shares Underlying Restricted Stock and Stock Unit Awards Granted	No. of Shares Underlying Performance Units Granted
Charles M. Swoboda Chairman, CEO and President	64,000	60,000	20,000
Michael E. McDevitt Executive Vice President and CFO	16,000	16,000	9,000
Norbert W. G. Hiller Executive Vice President–Lighting	13,000	13,000	9,000
Tyrone D. Mitchell, Jr. Former Executive Vice President–Lighting	33,700	5,600	—
Clyde R. Hosein	—	4,244	—
Robert A. Ingram	—	4,244	—
Franco Plastina	—	4,244	—
John B. Replogle	4,000	8,244	—
Alan J. Ruud	30,000	—	—
Robert L. Tillman	—	4,244	—
Thomas H. Werner	—	4,244	—
Anne C. Whitaker	4,000	8,244	—
All current executive officers as a group	93,000	89,000	38,000
All current directors who are not executive officers as a group	38,000	37,708	—
All associates of directors, executive officers or nominees	16,125	3,000	—
All other persons who received or are to receive 5% of plan awards	—	—	—
All employees, including all current officers who are not executive officers, as a group (1)	3,215,537	237,718	30,000

(1) Amounts reported are the gross number of shares underlying grants; 30,900 options and 4,000 RSUs have been forfeited upon termination of service.

The Company in August 2014 also granted additional performance units to Messrs. Swoboda, McDevitt and Hiller under the LTIP. Pursuant to these awards, if the Company achieves certain annual financial goals during fiscal 2015, Messrs. Swoboda, McDevitt and Hiller may earn incentive compensation in target amounts equal to 140%, 48% and 48%, respectively, of their base salary. These awards do not provide for settlement in shares. The actual payouts may range from 0% to 200% of the target amount depending upon the Company's financial performance.

Equity Compensation Plans

As of September 4, 2014:

There were options to purchase 11,765,925 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 5.25 years, and the weighted average exercise price was \$42.96.

There were 927,087 shares subject to outstanding stock awards that remain subject to forfeiture.

- There were 3,683,641 shares available for future grants under the LTIP, 2,199,865 shares available for future issuance under the 2005 Employee Stock Purchase Plan, or ESPP, and 90,240 shares available for future issuance under the Non-Employee Director Stock Compensation and Deferral Program, or the Deferral

Program.

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The following table provides information, as of June 29, 2014, 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)	
				(4)
Equity compensation plans approved by security holders	9,460,162	(3) \$41.90	9,381,779	(4)
Equity compensation plans not approved by security holders	20,268	(5) \$2.95	91,242	(6)
Total	9,480,430	\$41.85	9,473,021	

(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 2004 LTIP - 9,302,962 shares; and LTIP - 157,200 shares.

(4) Includes shares remaining for future issuance under the following plans in the amounts indicated: LTIP - 7,392,491 shares and ESPP - 2,199,865 shares.

(5) Includes shares issuable upon exercise of outstanding options under the LED Lighting Fixtures, Inc. 2006 Stock Plan, or the LLF Plan - 11,510 shares. Also includes shares issuable under the Deferral Program - 8,758 shares.

(6) The Company assumed the options outstanding under the LLF Plan, which have a weighted average exercise price of \$2.95 per share, in connection with the Company's acquisition of LLF in February 2008.

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

As of June 29, 2014, 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 LLF Plan. The LLF Plan has 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:

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 29, 2014, there were 11,510 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 29, 2014, there were 100,000 shares reserved for issuance under the Deferral Program, of which 8,758 shares have been credited to directors' accounts.

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OWNERSHIP OF SECURITIES

Principal Shareholders and Share Ownership by Management

The following table sets forth information regarding the beneficial ownership of the Company's common stock as of September 4, 2014 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 48; (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) 245 Summer Street Boston, MA 02210	15,720,276	13.2%
ClearBridge Investments, LLC (3) 620 8 th Avenue New York, NY 10018	12,201,201	10.2%
PRIMECAP Management Company (4) 225 South Lake Avenue, #400 Pasadena, CA 91101	8,247,491	6.9%
BlackRock, Inc. (5) 40 East 52 nd Street New York, NY 10022	8,160,073	6.8%
Waddell & Reed Financial, Inc. (6) 6300 Lamar Avenue Overland Park, KS 66202	7,560,493	6.3%
The Vanguard Group (7) 100 Vanguard Blvd. Malvern, PA 19355	6,599,159	5.5%
Alan J. Ruud (8)	1,108,764	*
Charles M. Swoboda (9)	613,460	*
Norbert W. G. Hiller (10)	122,925	*
Michael E. McDevitt (11)	100,969	*
Tyrone D. Mitchell, Jr. (12)	94,927	*
Clyde R. Hosein (13)	52,750	*
Robert A. Ingram (14)	52,500	*
Franco Plastina (15)	51,500	*
Thomas H. Werner (16)	47,500	*
Robert L. Tillman (17)	31,500	*
Anne C. Whitaker	—	*
John B. Replogle	2,500	*
All current directors and executive officers as a group (11 persons) (18)	2,184,368	1.8%

*Less than 1%.

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

As reported by FMR LLC in a Schedule 13G/A filed with the Securities and Exchange Commission on February (2) 14, 2014, which states that FMR LLC has sole dispositive power with respect to all of such shares and sole voting power with respect to 829,709 shares.

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- As reported by ClearBridge Investments, LLC in a Schedule 13G/A filed with the Securities and Exchange Commission on February 7, 2014, which states that Clearbridge Investments, LLC has sole dispositive power with respect to all of such shares and sole voting power with respect to 11,937,806 shares.
- As reported by PRIMECAP Management Company in a Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2014, which states that PRIMECAP Management Company has sole dispositive power with respect to all of such shares and sole voting power with respect to 3,810,402 shares.
- As reported by BlackRock, Inc. in a Schedule 13G/A filed with the Securities and Exchange Commission on January 28, 2014, which states that BlackRock, Inc. has sole dispositive power with respect to all of such shares and sole voting power with respect to 7,484,887 shares.
- As reported by Waddell & Reed Financial, Inc. in a Schedule 13G filed with the Securities and Exchange Commission on February 7, 2014, which states that Waddell & Reed Financial, Inc. has sole investment and voting authority with respect to all of such shares.
- As reported by The Vanguard Group in a Schedule 13G filed with the Securities and Exchange Commission on February 12, 2014, which states that The Vanguard Group has sole dispositive power with respect to 6,503,699 shares, shared dispositive power with respect to 95,460 shares and sole voting power with respect to 113,360 shares.
- Includes 60,000 shares subject to options exercisable within sixty days of September 4, 2014. The share amount reported for Mr. Ruud includes 967 shares held by Mr. Ruud's spouse and 33,418 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 33,418 shares held by the AJR Legacy Trust.
- Includes 376,667 shares subject to options exercisable within sixty days of September 4, 2014. Also includes 40,750 shares held by Mr. Swoboda pursuant to restricted stock awards which had not vested as of September 4, 2014.
- Includes 81,000 shares subject to options held by Mr. Hiller and 5,563 shares subject to options held by Mr. Hiller's spouse which are exercisable within sixty days of September 4, 2014. Also includes 12,250 shares held by Mr. Hiller pursuant to restricted stock awards which had not vested as of September 4, 2014.
- Includes 66,834 shares subject to options exercisable within sixty days of September 4, 2014. Also includes 7,500 shares held by Mr. McDevitt pursuant to restricted stock awards which had not vested as of September 4, 2014.
- Mr. Mitchell served as Executive Vice President from October 2011 to December 2013. Includes 61,000 shares subject to options exercisable within sixty days of September 4, 2014. Also includes 8,500 shares held by Mr. Mitchell pursuant to restricted stock awards which had not vested as of September 4, 2014.
- Includes 27,000 shares subject to options exercisable within sixty days of September 4, 2014.
- Includes 25,750 shares subject to options exercisable within sixty days of September 4, 2014.
- Includes 19,500 shares subject to options exercisable within sixty days of September 4, 2014.
- Includes 22,000 shares subject to options exercisable within sixty days of September 4, 2014.
- Includes 15,750 shares subject to options exercisable within sixty days of September 4, 2014.
- For all current executive officers and directors as a group, includes a total of 700,064 shares subject to options exercisable within sixty days of September 4, 2014 and 60,500 shares held pursuant to restricted stock awards which had not vested as of September 4, 2014.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The following discussion and analysis describes the compensation of Cree's named executive officers for fiscal 2014. It is composed of the following sections explaining the decisions that were made in determining the fiscal 2014 compensation for each named executive officer:

- 1) Executive Summary: highlights Cree's compensation philosophy and elements, and fiscal 2014 performance and pay;
- 2) Compensation Philosophy and Objectives: discusses the philosophy behind Cree's compensation practices;
- 3) Compensation Process: discusses how each element of compensation is determined;
- 4) Elements of Executive Compensation and Analysis of Fiscal 2014 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 who were serving as executive officers of Cree at the end of fiscal 2014 were:

- Charles M. Swoboda, Chairman, Chief Executive Officer and President;
- Michael E. McDevitt, Executive Vice President and Chief Financial Officer; and
- Norbert W. G. Hiller, Executive Vice President—Lighting.

In addition, Tyrone D. Mitchell, Jr., former Executive Vice President—Lighting, served as a named executive officer for a portion of fiscal 2014.

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 Cree's performance;
- align the interests of the executives with those of Cree'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 Cree's peer companies.

The primary elements of Cree's executive compensation program are:

- base salary;
- performance-based cash incentive compensation, which is paid annually under our long-term incentive compensation plan (or LTIP) for our CEO and our other named executive officers, and which is paid quarterly under our management incentive compensation plan (or MICP) for our named executive officers other than the CEO; and
- long-term equity incentive compensation, in the form of options, restricted stock units (RSUs) and performance stock units (PSUs).

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

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compensation actually earned can vary substantially from the target depending on the degree to which Cree's financial and business objectives are achieved and shareholder value increased.

Cree's financial performance in fiscal 2014 was strong and Cree achieved its strategic objectives of leading with innovation across our product lines; building the Cree brand; focusing on select markets where Cree can drive LED lighting adoption; and leveraging new product momentum to grow revenue and profit. For fiscal 2014, Cree increased revenues by 19%, to a record \$1.65 billion, and increased non-GAAP net income by 31% to \$203 million or \$1.65 per diluted share (Cree's net income on a GAAP basis was \$124 million or \$1.01 per diluted share; Cree's non-GAAP results exclude stock-based compensation expense and amortization or impairment of acquisition-related intangibles, net of tax). The Committee remains committed to reinforcing Cree's pay-for-performance philosophy in fiscal 2015 and beyond.

Key actions the Committee took with respect to setting fiscal 2014 compensation targets are summarized below.

These actions are discussed in depth below under "Elements of Executive Compensation and Analysis of Fiscal 2014 Compensation Decisions—Overall Program Design and Fiscal 2014 Implementation."

Base salaries. The Committee approved annual merit increases in base salary for Messrs. Swoboda, McDevitt, Hiller and Mitchell in August 2013 to make the officers' salaries more competitive in the marketplace.

Proportion of performance-based pay. Over 85% of the CEO's target total direct compensation (as defined below) for fiscal 2014 was comprised of variable performance-based pay in the form of short-term cash incentives and long-term equity awards. On average, over 76% of the other named executive officers' target total direct compensation for fiscal 2014 was comprised of these components.

Aggressive financial targets for performance-based cash incentive compensation. The Committee established challenging annual financial targets for the fiscal 2014 performance-based cash incentive programs that applied to all of Cree's named executive officers, and the CEO similarly established challenging quarterly financial and individual targets under the MICP in which all of the named executive officers other than the CEO participate. Cree achieved some of its annual financial targets, and therefore the CEO and the other named executive officers received a portion of the targeted annual cash incentive compensation under the LTIP. Cree also achieved its quarterly financial targets for three of the four fiscal quarters, and therefore the named executive officers who participate in the MICP (all named executive officers other than the CEO) received quarterly cash incentive compensation for those three quarters.

Long-term equity compensation. Cree grants equity awards to the named executive officers in the form of stock options, RSUs and PSUs 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 Cree meets or exceeds these goals. For fiscal 2014, the Committee endeavored to create compensation packages for the named executive officers with the general goal that approximately 75% (or more) of such individuals' total direct compensation would be at risk, and would generally only be earned by the executives based on increasing Cree's operating profits, which historically have been highly correlated with an increase in Cree shareholder value.

For fiscal 2014, the Committee generally targeted total target cash compensation (consisting of base salary and targeted short-term cash incentives), and total target direct compensation (consisting of total target cash compensation plus long-term equity compensation valued using Black-Scholes), to be between the 50th and the 75th percentiles of the "market data" (as such term is described and defined in "Role of Benchmarking and Comparative Analysis" below), although only two of the named executive officers' target total cash compensation for fiscal 2014 (Messrs. McDevitt and Hiller) fell between the 50th and the 75th percentiles of the market data. Each of Mr. Swoboda's and Mr. Mitchell's target total cash compensation for fiscal 2014 was below the 50th percentile of the market data. Actual total cash compensation, or TCC, and actual total direct compensation, or TDC, would then vary with the performance-based elements of TCC or TDC based on corporate and individual performance.

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In setting fiscal 2014 compensation for the named executive officers, the Committee:

- evaluated each element of compensation as compared to executives in similar roles in Cree's Peer Group (as defined below) 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 within Cree;
- emphasized variable and performance-based compensation to motivate executives to achieve Cree's business objectives and align pay with performance; and
- utilized equity compensation to create a culture of ownership and focus on long-term growth to ensure that equity compensation would continue to play a significant role in the total pay mix for the executives, in order to ensure their alignment with shareholder interests.

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 2014, Radford was given the overall directive to assist the Committee with implementing Cree'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 Cree's severance and change in control arrangements as compared to those of the Peer Group. Cree 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 2014.

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 to the Committee 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 Cree'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 (the "Peer Group"); and (2) the Radford Global Technology survey (composed of other technology companies of comparable size to Cree). Jobs of similar scope and responsibility as those at the Peer Group 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, TCC, equity compensation, and TDC.

Peer Group

The Committee, assisted by Radford, selects Cree'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);

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comparable revenue, market capitalization, and market capitalization as a multiple of revenue;
 comparable number of employees; and
 companies against which Cree 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 fiscal 2014, in May 2013 the Committee decided to remove five companies from the peer group for fiscal 2013, or the 2013 Peer Group, and add four new companies for fiscal 2014 for the reasons discussed below. Based on data furnished to the Committee by Radford, the Committee noted that for comparative purposes (when compared to the 2013 Peer Group), Cree's employee size was above the 70th percentile of the 2013 Peer Group and revenue was between the 25th and 50th percentiles of the 2013 Peer Group, while both the one year and three year revenue growth were above the 90th percentile. Moreover, a number of the 2013 Peer Group companies appeared to be outliers from a revenue and market capitalization perspective. Accordingly, based on size of company by net income, market capitalization, revenues and employees, among other factors, Radford recommended and the Committee decided to remove five companies from the fiscal 2013 Peer Group (Integrated Device Technology, Intersil, PMC-Sierra, Silicon Laboratories and TriQuint Semiconductor) and to add four new companies for fiscal 2014 (Analog Devices, Atmel, AVX and LSI). Accordingly, the Peer Group companies for Cree for fiscal 2014 were:

Acuity Brands, Inc.	LSI Corporation
Altera Corporation	Maxim Integrated Products, Inc.
Analog Devices, Inc.	Microchip Technology Incorporated
Atmel Corporation	Microsemi Corporation
AVX Corporation	RF Micro Devices, Inc.
Fairchild Semiconductor International, Inc.	Skyworks Solutions, Inc.
First Solar, Inc.	SunEdison, Inc.
Hexcel Corporation	Xilinx, Inc.
Linear Technology Corporation	

In May 2014, the Committee evaluated Cree's performance against the performance of the 2014 Peer Group through their last completed fiscal years for which data was available. Cree's relative financial performance compared to that of the Peer Group companies on a one-, three- and five-year basis through the last completed fiscal year is as follows:
 revenue growth rate—the highest of the Peer Group for both the one and five year periods, and above the 75th percentile for the three year period; and
 net income growth—the highest of the Peer Group for both the one and five year periods and above the 70th percentile on a three-year compounded annual basis.

Radford Global Technology Survey

The Committee also considered 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 2014, the Committee selected data from the surveys for public high-technology companies with annual revenue levels between \$1 billion and \$3 billion for Messrs. Swoboda and McDevitt. Radford benchmarked Messrs. Hiller and Mitchell against companies with revenues of \$500 million to \$1.5 billion and \$250 million to \$750 million, respectively. 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, TCC, equity compensation, and TDC.

Determination of Target Total Direct Compensation (TDC)

In April 2014, as part of the Committee's typical compensation process, Radford presented the Committee an overview of regulatory trends and developments in executive compensation. In August 2014, Radford presented a comprehensive analysis of Cree's executive compensation as compared to market data and in light of these trends and developments. Radford presented analyses of base salary, performance-based cash incentives, and equity award levels for each executive officer and made recommendations to the Committee using criteria that align with Cree's

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compensation philosophy. In addition, the CEO made recommendations with respect to base salary adjustments for executive officers other than himself. The Committee then assessed each compensation component as described below:

Base salary increases, if any, are 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 percentage 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, RSU and PSU 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 Cree's shareholders;

scope of responsibilities for which the executive is accountable; and

competitive position of Cree's target long-term equity incentive compensation as compared to the market data.

After a comprehensive review of these elements, the Committee developed target TCC and target TDC for each of the named executive officers.

Determination of Financial and Individual Objectives

The Committee approves one or more annual financial targets that align with Cree's strategic and financial goals for the coming fiscal year. The annual financial targets approved by the Committee for fiscal 2014 were stated in terms of revenue and non-GAAP operating income, which is equal to Cree's GAAP operating income less stock-based compensation expense and amortization or impairment of acquisition-related intangibles. 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, if any, 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 for the performance units for the named executive officers under the LTIP, which is based on pre-approved financial targets at prescribed payout levels, all as previously approved by the Committee in the previous August (at the beginning of the fiscal year). These recommendations are presented to the Committee and are one factor the Committee considers in making final compensation decisions for the recently completed fiscal year and the upcoming fiscal year.

Each August, the independent members of the Board of Directors evaluate the CEO's performance for the just ended fiscal year. His performance is assessed based on financial results, overall leadership, and achievement of strategic objectives for that completed fiscal year. 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 Cree's

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financial performance during that previous fiscal year. The Committee then also determines the pay actions that will be taken for the CEO for the upcoming fiscal year, including target TCC and target TDC.

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 the Committee 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

Cree 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 2013 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 Cree’s executive compensation program. The Committee considered the result of this vote, and following such consideration, did not make any material changes to Cree’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 2014 Compensation Decisions

The primary elements of Cree’s executive compensation program are described below. The term “market data” is described under “Role of Benchmarking and Comparative Analysis” above.

Compensation Element	Purpose	Practice
Base salary	Annual cash compensation for services rendered during the fiscal year.	Competitive market ranges are established using the 50 th and 75 th 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 Cree’s success and individual performance and may be outside of these goal posts (and often is outside these goal posts given the Committee’s desire to have significant performance based compensation). 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.
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.	The CEO and other named executive officers are eligible for annual payouts under the LTIP, and the other named executive officers are also eligible for quarterly payouts under the MICP. 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.
Long-term equity incentive compensation	Time-based stock options, restricted stock units and performance stock units 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.

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Compensation Element	Purpose	Practice
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.	Cree has entered into a change in control agreement with each named executive officer serving as an executive officer as of the end of fiscal 2014, which features a “double trigger,” described in “Change in Control Agreements” on page 51 below. Each such 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 are generally those available to all employees. The only perquisite offered to named executive officers is the availability of a voluntary comprehensive physical examination once every two calendar years until age 50 and once per calendar year over age 50.
Other benefits	To attract and retain executives by providing market competitive benefits.	

The Committee demonstrates its commitment to paying executive officers based on performance through the design of Cree’s compensation programs and the setting of stretch goals that support Cree’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 Cree. See “Compensation Program Risk Assessment” on page 15 for details regarding the Committee’s annual assessment of the compensation program.

Overall Program Design and Fiscal 2014 Implementation

For fiscal 2014, in August 2013 the Committee evaluated Cree’s fiscal 2013 performance to determine performance rewards for fiscal 2013 performance and as an initial reference point in setting fiscal 2014 objectives. Cree’s results for fiscal 2013 were strong:

- Revenue increased 19% to a record \$1.386 billion;
- Non-GAAP net income increased 42% to \$155 million, or \$1.32 per diluted share;
- Cash and investments increased to more than \$1 billion; and
- Cree made excellent progress on all four of its key objectives for fiscal 2013: leading the market and accelerating adoption of LED lighting; growing the LED component product line; opening a new generation of applications for its Power and RF products; and utilizing new product innovation to drive growth by taking share from traditional technologies in each of its businesses.

Based on this strong performance and other factors, the Committee determined to set targeted TDC for the named executive officers between the 50th and 75th percentiles of the market data.

Each compensation element is discussed and analyzed below along with the Committee’s decisions regarding compensation actions for fiscal 2014.

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 and where 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 Group companies and as

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reported in the Radford Global Technology survey. Further, the Committee considers the portion of each named executive officer's TDC 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 TDC, while remaining within the market competitive range.

The Committee approved base salary merit increases for the named executive officers in August 2013, resulting in the following base salaries for fiscal 2014:

Executive Officer	Fiscal 2013 Salary		Fiscal 2014 Salary	Percentage Increase
Charles M. Swoboda	\$ 700,000	¹	\$ 750,000	7.1%
Michael E. McDevitt	\$ 375,000		\$ 395,000	5.3%
Norbert W. G. Hiller	\$ 375,000	¹	\$ 380,000	1.3%
Tyrone D. Mitchell, Jr.	\$ 315,000	¹	\$ 330,000	² 4.8%

¹ Effective October 21, 2012.

² Effective December 2, 2013, Mr. Mitchell, formerly the Company's Executive Vice President–Lighting, was appointed as the Vice President of Operations–Lighting. In connection with this job change, his salary was adjusted effective December 30, 2013 to an annual salary of \$290,000 per year.

The Committee considered the following factors when determining the fiscal 2014 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 reflected in his annual performance evaluation when approving this base salary increase. Mr. Swoboda's base salary merit increase also reflected that he had been below the 50th percentile in base salary and his TCC was approximately 25th percentile of the market data. Following his base salary increase, Mr. Swoboda's base salary was slightly under the 50th percentile of the market data.

Michael E. McDevitt. Mr. McDevitt has served as Cree's Executive Vice President and Chief Financial Officer since February 2013, having previously served as the Vice President and Interim Chief Financial Officer since May 2012. Based on his strong individual performance during his time as Chief Financial Officer and market data, Mr. McDevitt was given the base salary increase described above. Even with this base salary increase, Mr. McDevitt was still slightly below the 50th percentile of the market data in base salary.

Norbert W. G. Hiller. The Committee had awarded Mr. Hiller base salary increases in both August 2012 and October 2012 based on his strong individual performance and market data. As a result, Mr. Hiller received a small merit increase for fiscal 2014, which positioned him at approximately the 50th percentile of the market data.

Tyrone D. Mitchell, Jr. The Committee had awarded Mr. Mitchell base salary increases in both August 2012 and October 2012 based on his individual performance and market data. Mr. Mitchell also received the merit increase described above for fiscal 2014, which positioned him between the 25th and 50th percentile of the market data at that time.

Performance-Based Cash Incentive Compensation

Cree pays annual performance-based cash incentive compensation to the CEO and the other named executive officers for achievement of annual financial objectives under the LTIP. In addition, under the MICP, Cree pays the named executive officers (other than the CEO) quarterly performance-based cash incentive compensation for achievement of quarterly financial and individual objectives. The Committee measures the performance of Cree 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.

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Long-Term Incentive Compensation Plan (LTIP)

As explained above, the CEO and the other named executive officers are 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. The LTIP is designed to comply with Section 162(m) in that performance unit awards are contingent upon achievement of pre-determined corporate objectives. Awards are paid based on achievement of these performance goals established under the LTIP and are calculated using a pre-defined formula based on the level of Cree's financial performance, and the target awards are expressed as a percentage of the named executive officer's base salary. Any payment under these performance units are paid only in cash. In August 2013, each of the named executive officers received performance units under the LTIP for fiscal 2014 with the same annual targets as those established for the annual corporate performance goals under the MICP (discussed below).

For fiscal 2014, the annual financial targets approved by the Committee were stated in terms of revenue and non-GAAP operating income (equal to GAAP operating income less stock-based compensation expense and amortization or impairment of acquisition-related intangibles). In addition, before any annual payouts could be made under the LTIP (or the MICP) for fiscal 2014 performance, the Committee determined that a minimum non-GAAP operating income threshold for fiscal 2014 must be met first in order for any annual award to be paid (even if the revenue target was otherwise met).

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 named executive officer must have been continuously employed as an executive officer through the last day of the performance period; (2) the performance units would not be considered earned until the last day of the performance period; and (3) if the named executive officer terminated his employment prior to the last day of the performance period, with or without cause, he would have forfeited his performance units.

Management Incentive Compensation Plan (MICP)

Like the LTIP, the MICP provides guidelines for the calculation of annual and quarterly 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. As described above, for fiscal 2014, named executive officers, other than Mr. Swoboda (who does not participate in the MICP), were granted performance units under the LTIP instead of participating in the annual component of the MICP. Accordingly, only the quarterly components of the MICP are discussed below.

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. Under the MICP, the annual corporate performance goals are one or more annual financial targets recommended by the CEO and approved by the Committee at the beginning of the fiscal year. For fiscal 2014, the annual financial targets approved by the Committee were the same under the LTIP and the MICP. In addition, before any annual payouts could be made under the MICP (or the LTIP, as described above) for fiscal 2014 performance, the Committee determined that a minimum non-GAAP operating income threshold for fiscal 2014 must be met first in order for any annual award to be paid (even if the revenue target was otherwise met).

Similarly, under the MICP, quarterly corporate performance goals are one or more financial targets established by the CEO for a fiscal quarter at the beginning of each quarter. For fiscal 2014, the quarterly financial targets were consistent with quarterly corporate financial guidance and were stated in terms of revenue and non-GAAP operating income.

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 Cree 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 Cree'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 Cree shall be made without Committee approval. The

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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 retirement, death or disability or in connection with a change in control, eligible participants must be employed by Cree 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, Cree'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%, Cree'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.

Cash Incentive Targets and Components under MICP and LTIP

Consistent with Radford's analysis of Cree's executive compensation as compared to the market data, in August 2013, the Committee increased Mr. Swoboda's annual target cash incentive award for fiscal 2014 to 125% of his base salary.

This increase moved Mr. Swoboda's target TCC to approximately the 50th percentile of the market data.

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