CREE INC
Form 10-K
August 20, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 29, 2008

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 0-21154

CREE, INC.

(Exact name of registrant as specified in its charter)

North Carolina	**56-1572719**
(State or other jurisdiction of incorporation or organization))	(I.R.S. Employer Identification No.)
4600 Silicon Drive	
Durham, North Carolina	**27703**
(Address of principal executive offices)	(Zip Code)

(919) 313-5300

(Registrant s telephone number, including area code)

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of common stock held by non-affiliates of the registrant as of December 30, 2007, the last business day of the registrant s most recently completed second fiscal quarter, was $2,383,709,350 (based on the closing sale price of $27.85 per share).

The number of shares of the registrant s Common Stock, $0.00125 par value per share, outstanding as of August 12, 2008 was 88,097,596.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held October 30, 2008 are incorporated by reference into Part III.

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CREE, INC.

FORM 10-K

For the Fiscal Year Ended June 29, 2008

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Forward-Looking Information

Information set forth in this Annual Report on Form 10-K contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). All information contained in this report relative to future markets for our products and trends in and anticipated levels of revenue, gross margins and expenses, as well as other statements containing words such as believe, project, may, will, anticipate, target, plan, estimate, expect and intend and other similar expressions constitute forward-looking statements. These forward-looking statements are subject to business, economic and other risks and uncertainties, both known and unknown, and actual results may differ materially from those contained in the forward-looking statements. Any forward-looking statements we make are as of the date made and we have no duty to update them if our views later change. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date of this Annual Report. Examples of risks and uncertainties that could cause actual results to differ materially from historical performance and any forward-looking statements include, but are not limited to, those described in Risk Factors in Item 1A of this Annual Report.

PART I

Item 1. *Business*

Overview

Cree, Inc. (Cree, we, our, or us,), develops and manufactures semiconductor materials and devices primarily based on silicon carbide (SiC), gallium nitride (GaN) and related compounds. The physical and electronic properties of SiC and GaN offer technical advantages over traditional silicon, gallium arsenide (GaAs), sapphire and other materials used for certain electronic applications. We currently focus our expertise in SiC and GaN on light emitting diode (LED) products, which consist of LED chips, LED components and LED lighting solutions. We also develop power and radio frequency (RF) products, including power switching and RF devices. We have products commercially available in each of these categories.

We derive the majority of our revenue from sales of our LED products. We also generate revenue from sales of SiC and GaN materials, including gemstone materials, and we earn revenue under government contracts that support some of our research and development programs to the extent the contract funding exceeds our direct cost of performing those activities.

History

Cree is a North Carolina Corporation established in 1987. The majority of our products historically have been manufactured at our main production facilities located in North Carolina, in a six-part process, which includes SiC crystal growth, wafering, polishing, epitaxial deposition, fabrication and testing. Additionally, we package certain LED components and power and RF products at our North Carolina facilities, our facility in Huizhou, China and in other foreign countries through the use of subcontractors. We also operate research and development facilities in Goleta, California and Hong Kong.

In fiscal 2005, we operated our business in two reportable segments. In the fourth quarter of fiscal 2005, we announced the closure of the Cree Microwave segment, our silicon-based RF and microwave semiconductor business located in Sunnyvale, California. Effective December 25, 2005, we reported Cree Microwave as a discontinued operation. For further information about this business closure, see Note 4, Discontinued Operations, in our consolidated financial statements included in Item 8 of this Annual Report. As a result of the closure of the Cree Microwave silicon business, we now operate our business in one reportable segment.

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In July 2006, we acquired INTRINSIC Semiconductor Corporation (INTRINSIC), which merged into Cree, Inc. in June 2007. This acquisition enabled us to accelerate the commercialization of low-defect SiC substrates and power devices.

In March 2007, we acquired COTCO Luminant Device Limited (COTCO) (now Cree Hong Kong Limited), which is headquartered in Hong Kong and has production facilities in China. This acquisition provided us a broader LED component portfolio, a lower cost manufacturing facility and expanded our sales distribution channels in China.

In February 2008, we acquired LED Lighting Fixtures, Inc. (LLF) (now Cree LED Lighting Solutions, Inc. or LLS). Through this acquisition we acquired what we believe to be key technologies to drive retrofit solutions to convert existing lighting infrastructure to energy-efficient lighting and to accelerate the adoption of LED lighting into the general illumination market.

For further information concerning our recent acquisitions, see Note 3, Acquisitions, in our consolidated financial statements included in Item 8 of this Annual Report.

Products

We produce LED products, SiC and GaN materials products, and power and RF products using our SiC and GaN materials.

LED Products.

LED revenue includes sales of LED chips, LED components and LED lighting solutions. LED revenue represented 84%, 78% and 81% of revenue from continuing operations for the fiscal years ended June 29, 2008, June 24, 2007 and June 25, 2006, respectively.

LED Chips. Our LED chips include blue and green devices made from GaN and related materials grown on SiC substrates. LED chips or die are solid-state electronic components used in a number of applications, including backlighting for mobile products, automotive interior lighting, full-color electronic displays, gaming equipment, consumer products and other electronic equipment. Some of our customers combine our blue LED chips with phosphors to create white LEDs. Our customers white LED products are used in various applications for mobile products, including the backlight for full-color display screens, white keypads and the camera flash function. Our customers white LEDs also are used as a light source for a number of specialized lighting applications. Some of our customers use our blue and green high-brightness LED chips for video screens, gaming displays such as pachinko, and automotive backlighting. LEDs offer several advantages over small incandescent bulbs, including longer life, lower maintenance costs, reduced energy consumption, and smaller space requirements. We have historically sold the majority of our LEDs in chip form to customers who package and sell them in a variety of applications. Our LED chips are currently available in a variety of brightness levels, wavelengths (color) and sizes.

LED Components. Our LED components include a range of packaged LED products from our XLamp® LED components for lighting applications to our high-brightness LED components consisting of surface mount (SMD) and through-hole LED products for signage, gaming and other applications.

Our XLamp LED components are high power or lighting class packaged LED products designed to meet a broad range of market needs for lighting applications including general illumination (both indoor and outdoor applications), portable, architectural, signal and transportation lighting.

Our high-brightness LED components consist of SMD and through-hole packaged LED products. Our SMD LED component products are available in a full range of colors designed to meet a broad range of market needs,

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including automotive, signage, gaming and specialty lighting. Our through-hole packaged LED component products provide users with a color and brightness consistency across a wide viewing area. These products are available in a full range of colors primarily designed for the signage and amusement markets.

LED Lighting Solutions. Our LED lighting solutions currently include the LR6, a six-inch architectural recessed LED down light, and the LR4, a four-inch architectural recessed LED down light. These lighting products are targeted for new construction, retrofit and renovation projects in residential and commercial applications.

Materials Products

Our materials products consist of SiC and GaN wafer and epitaxy products, as well as bulk SiC materials used for gemstone applications. Materials product revenue represented 6%, 10% and 9% of revenue from continuing operations for the fiscal years ended June 29, 2008, June 24, 2007 and June 25, 2006, respectively.

SiC Wafers. We manufacture SiC wafers for sale to corporate customers who use the wafers to manufacture products for optoelectronic, microwave and power switching applications. Corporate, government and university customers also buy SiC materials for research and development directed at optoelectronic, microwave and high power devices. We sell our wafers as a bare wafer or a customized wafer with epitaxial films of SiC or GaN materials. We currently sell two-inch, three-inch and four-inch wafers and are continuing to develop SiC wafers that are larger and of higher quality.

Bulk Materials Used for Gemstones. We manufacture SiC crystals in near colorless form for use in gemstone applications. Single crystalline SiC has characteristics that are similar to diamond, including properties relating to color, hardness and brilliance. We sell SiC in bulk crystal form exclusively to Charles & Colvard, Ltd. (Charles & Colvard). Charles & Colvard produces and markets gemstone products made from SiC crystals.

Power and RF Products

These products include SiC power devices and RF devices. Revenue from our power and RF products have represented 4% of our revenues from continuing operations for the fiscal years ended June 29, 2008, June 24, 2007 and June 25, 2006.

Power Devices. SiC-based power devices operate at significantly higher breakdown voltages than silicon-based power devices and provide faster switching speeds than comparable silicon-based power devices at similar breakdown voltages. These attributes create a lower switching loss, which yields power savings due to higher efficiency, enabling smaller and more efficient systems. Our current SiC-based power products include 300, 600 and 1,200-volt Schottky diodes. Our customers currently purchase Schottky diode products for use in power factor correction circuits for power supplies in computer servers and other applications such as solar inverters. We are developing additional SiC-based power devices that could have a number of potential uses in applications for power conditioning, solar inverters and power switching in power supplies and motor control applications.

RF Devices. RF devices made from SiC or GaN operate at higher voltages that allow for higher power densities as compared to silicon or GaAs-based devices. Additionally, this characteristic allows SiC-based and GaN-based devices to be significantly smaller while carrying the same or greater power level than silicon-based or GaAs-based devices. At this time, there is a higher cost associated with SiC and GaN than silicon for RF transistors. We currently offer 10-watt and 60-watt SiC transistors, or metal-semiconductor field effect transistor (MESFET) products, as well as a variety of GaN high electron mobility transistors (HEMTs) and monolithic microwave integrated circuits (MMICs), which are optimized for either broadband amplifiers or for WiMAX applications.

We also provide foundry services for wide bandgap MMICs. These RF circuits can be used in a variety of wide bandwidth communications applications, high-power radar amplifiers, electronic warfare and wireless infrastructure. The MMIC foundry service allows a customer to design its own custom RF circuit to be fabricated in our MMIC foundry, or have us provide custom MMIC design for the customer and fabricate the chips.

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Financial Information About Geographic Areas of Customers and Assets

We derive our product revenue primarily from international sales and contract revenue from agencies of the U.S. Government. For information concerning geographical areas of our customers and geographic information concerning our long-lived assets, please see Note 16, Geographic Segment Information, in our consolidated financial statements included in Item 8 of this Annual Report. International operations expose us to risks that are different from operating in the United States, including foreign currency translation and transaction risk, risk of changes in tax laws, application of import/export laws and regulations and other risks described further in Item 1A Risk Factors of this Annual Report.

Government Contract Funding

We derive a portion of our revenue from funding that we receive pursuant to research contracts or subcontracts funded by various agencies of the U.S. Government. We had 33, 21 and 26 government contracts in effect during the fiscal years ended June 29, 2008, June 24, 2007 and June 25, 2006, respectively, which represented 6%, 7% and 6% of revenue from continuing operations, respectively.

The revenue that we recognize pursuant to these contracts represents reimbursement by various U.S. Government entities that aid in the development of new technology. The applicable contracts generally provide that we may elect to retain ownership of inventions made in performing the work subject to a non-exclusive license retained by the U.S. Government to use the inventions for government purposes. Our government contracts typically cover work performed anywhere from several months or up to five years and require us to conduct the research effort described in the statement of work section of the contract. These contracts may be modified or terminated at the discretion of the government and typically are subject to appropriation and allocation of the required funding on an annual basis. For further information about our government contracts, see Note 2, Basis of Presentation and Summary of Significant Accounting Policies, in our consolidated financial statements included in Item 8 of this Annual Report.

Research and Development

We invest significant resources in research and development aimed at improving our semiconductor materials, production technology and developing new LED components and lighting systems. Our core materials research is directed at improving the quality and diameter of our SiC and GaN substrates. We are also working to improve the quality and attributes of the SiC and nitride epitaxial materials we grow to produce devices and to improve device yields by reducing variability in our processes. These efforts are in addition to ongoing projects focused on brighter LED chips, new and improved LED components, three-inch and four-inch LED wafer process development, new LED lighting solutions, higher power diodes/switches and higher power/higher linearity RF devices. We recorded $58.8 million in fiscal 2008, $58.8 million in fiscal 2007 and $54.9 million in fiscal 2006 for direct expenditures relating to research and development activities from continuing operations. When customers participate in funding our research and development programs, we record the amount funded as a reduction of research and development expenses. For further information about our treatment of research and development, see Note 2, Basis of Presentation and Summary of Significant Accounting Policies, in our consolidated financial statements included in Item 8 of this Annual Report.

Sales and Marketing

We have traditionally marketed and sold our products to a relatively small group of customers through targeted selling, promotions, select advertising and attendance at trade shows. However, we continue to make significant investments to expand our global sales, marketing and distribution capabilities. Most notably, we are sponsoring and participating in several initiatives to enable and further support the adoption of LED lighting. These include our LED City®, LED Workplace and LED University programs.

LED City. Our LED City program is an international initiative to promote the deployment of energy-efficient LED lighting to municipal infrastructure. Our partners include an expanding community of government and industry parties who are working to promote and utilize LED lighting technology across their infrastructure.

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Current partners include domestic cities such as Raleigh, NC, Austin, TX, Ann Arbor, MI and Anchorage, AK. International partners include the cities of Toronto, Canada, Torraca, Italy, and Tianjin, China, which is China s third largest city.

LED Workplace. Our LED Workplace program is an initiative to promote LED lighting as an energy-efficient, low-maintenance solution for offices and other workplaces. We were the first participant to join the initiative and are in the process of converting our Durham facilities entirely to LED lighting.

LED University. Our LED University program is an international community of universities working to accelerate the adoption of energy-efficient LEDs. Current partnering universities include North Carolina State University, Marquette University, University of Arkansas, University of California at Santa Barbara and Tianjin Polytechnic University (China).

Our direct sales and marketing team is headquartered in our Durham, North Carolina facility, with local sales offices in Shanghai and Shenzhen, China; Hong Kong; Tokyo, Japan; and Munich, Germany. We also have sales personnel in England, Italy, Korea, Malaysia, Singapore, Sweden and Taiwan. We plan to continue expanding our sales and marketing efforts globally to support our new product lines and promote the adoption of LED lighting.

Customers

We have historically had a few key customers who have represented more than 10% of our consolidated revenues. In fiscal 2008, revenues from sales to Sumitomo Corporation represented 13% and revenues from sales to Seoul Semiconductor Co., Ltd represented 13% of our total consolidated revenue. For further discussion regarding customer concentration, please see Note 13, Concentrations of Credit Risk, in our consolidated financial statements included in Item 8 of this Annual Report. The loss of any large customer could have a material adverse effect on our business and results of operations.

Seasonality

Sales of our products can be subject to seasonal fluctuations and variations in customer demand. If anticipated sales or shipments do not occur when expected, our results of operations for that quarter, and potentially for future quarters, may be adversely affected.

Backlog

As of June 29, 2008, we had a backlog of approximately $89.3 million, consisting of approximately $70.3 million of product orders and $19.0 million under research contracts signed with the U.S. Government, for which approximately $6.4 million of the contracted funds have not yet been appropriated. We estimate our entire backlog could be filled during fiscal 2009, with the exception of approximately $5.0 million in U.S. Government funded contracts.

As of June 24, 2007, we had a backlog of approximately $69.8 million, consisting of approximately $33.2 million of product orders and $36.6 million under research contracts signed with the U.S. Government, for which approximately $19.0 million of the contracted funds had not yet been appropriated.

Our backlog could be adversely affected if our customers fail to honor their purchase commitments, reduce or cancel orders, or if the U.S. Government exercises its rights to terminate our government contracts or does not appropriate and allocate all of the funding contemplated by the contracts.

Sources of Raw Materials

We depend on a limited number of suppliers for certain raw materials, components and equipment used in our products, including certain key materials and equipment used in our crystal growth, wafering, polishing,

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epitaxial deposition, device fabrication and device assembly processes. We generally purchase these limited source items pursuant to purchase orders and have limited guaranteed supply arrangements with our suppliers. We believe our current supply of essential materials is sufficient to meet our needs. However, shortages have occurred from time to time and could occur again.

Competition

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

LED Products

LED Chips. The primary competition for our LED chips comes from companies that manufacture and/or sell nitride-based LED chips. We consider Nichia Corporation (Nichia), which sells packaged LEDs and most often competes directly with our chip customers, to be a competitor. Nichia currently sells the majority of its packaged LED products to markets requiring white LEDs, which Nichia fabricates combining its phosphor solution with blue LED chips. We believe, based on industry information, that Nichia currently has the largest market share for nitride-based LEDs.

Many Asia-based chip producers also produce blue, green and white LED products, such as Toyoda Gosei Co., Ltd. (Toyoda Gosei) and Epistar Corporation. They traditionally have been successful in securing new business, primarily in Asia, for blue keypad applications in mobile products and other cost sensitive applications. Some of these Asia-based competitors offer chips with brightness similar to some of our existing high-brightness products and have made some inroads into higher end applications like camera flash units.

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

LED Components. The market for high power or lighting class LED components is concentrated primarily in the specialty lighting area, including portable torch lamps (flashlights); color changing and white architectural lighting; traffic signs and signals; interior and exterior automotive and truck lighting; and emergency vehicle lighting (for example, for fire and rescue vehicles). Philips Lumileds Lighting Company, LLC (Philips) is one of our main competitors in this market. Philips sells high power LED components that compete indirectly with our target customers for LED chips and compete directly with our XLamp LED components. Several other companies have products designed to compete with our XLamp LED components, including Avago Technologies Limited, Edison Opto Corporation, Kingbright Corporation, Nichia, OSRAM Semiconductor GmbH, Toyoda Gosei and Seoul Semiconductor Co., Ltd. We are positioning our XLamp LED components to compete in this market based on price, performance and usability.

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

LED Lighting Solutions. Our competition for LED lighting fixtures is currently very limited and fragmented as the market is in its early stages of development. However, this will likely change as the technology continues to develop. Our LED lighting solutions products also compete with traditional lighting technologies such as incandescent and fluorescent lamp fixtures.

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Materials Products

We have continued to maintain our well-established quality and volume leadership position in the sale of SiC and GaN wafer and epitaxy products, as well as bulk SiC materials used for gemstone applications. We have seen limited competition in this market, although other companies continue to announce advancements and seek to become more competitive with us.

Power and RF Products

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

RF Devices. Currently, Eudyna Devices, Inc. is the main company offering products that compete directly with our SiC MESFET and GaN HEMT products, although several other companies such as RF Micro Devices Inc., Nitronex Corporation and Triquint Corporation have announced products for this market. Our products also face heavy competition from existing silicon and GaAs-based products.

Patents and Other Intellectual Property Rights

We believe it is important to protect our investment in technology by obtaining and enforcing intellectual property rights, including rights under patent, trademark, trade secret and copyright laws. We seek to protect inventions we consider significant by applying for patents in the United States and other countries when appropriate. We have also acquired, through license grants and assignments, rights to patents on inventions originally developed by others. As of June 29, 2008, we owned or held exclusive rights under 423 issued U.S. patents with expiration dates extending to 2026, as well as corresponding foreign patent rights. For proprietary technology that is not patented, we generally seek to protect the technology and related know-how and information as trade secrets. We also own other intellectual property rights, including trademark registrations in several countries for trademarks used in conjunction with our products.

Licensing activities and lawsuits to enforce intellectual property rights, particularly patent rights, are a common feature of the semiconductor industry. We both make and receive inquiries regarding possible patent infringements in the normal course of business. Depending on the circumstances, we may seek to negotiate a license or other acceptable resolution, including entering into cross-licensing arrangements with others, some of whom may be our competitors. If we are unable to achieve a resolution by agreement, we may seek to enforce our rights or defend our position through litigation. Patent litigation is expensive and the outcome is often uncertain. We believe that the strength of our portfolio of patent rights is important in helping us resolve or avoid such disputes with other companies in our industry. In addition, we believe that many customers ascribe additional value to our LEDs as a result of our portfolio, particularly for high-end products destined for the United States, as compared to LEDs from manufacturers who are not licensed under the relevant patents in the portfolio. We believe our ongoing efforts to enforce our patent rights against infringers are essential to sustaining this higher perceived value.

Environmental Regulation

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

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Working Capital

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

Employees

As of June 29, 2008, we employed 3,168 regular full and part-time employees. We also employ individuals on a temporary full-time basis and use the services of contractors as necessary. Certain of our employees in various countries outside of the United States are subject to laws providing representation rights to these employees. We consider relations with our employees to be good.

Available Information

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

Item 1A. ***Risk Factors***

Described below are various risks and uncertainties that may affect our business. These risks and uncertainties are not the only ones we face. Additional risks and uncertainties, both known and unknown, including ones that we currently deem immaterial or that are similar to those faced by other companies in our industry or business in general, may also affect our business. If any of the risks described below actually occur, our business, financial condition or results of operations could be materially and adversely affected.

Our operating results and margins may fluctuate significantly.

We have experienced significant fluctuation in our revenue, earnings and margins over the past few years, and we may experience significant fluctuations in our revenue, earnings and margins in the future. Historically, the prices of our LEDs have declined based on market trends. We attempt to maintain our margins by constantly developing improved or new products, which provide greater value and result in higher prices, or by lowering the cost of our LEDs. If we are unable to do so, our margins will decline. Our operating results and margins may vary significantly in the future due to many factors, including the following:

- average sales prices for our products declining at a greater rate than anticipated;
- fluctuations in foreign currency as more of our revenue may be in non-U.S. currencies;
- our ability to develop, manufacture and deliver products in a timely and cost-effective manner;
- variations in the amount of usable product produced during manufacturing (our yield);
- our ability to improve yields and reduce costs in order to allow lower product pricing without margin reductions;

our increased reliance on and our ability to ramp up capacity at our factories and our subcontractors;

our ability to ramp up production of our new products;

our ability to convert our substrates used in our volume manufacturing to larger diameters;

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our ability to produce higher brightness and more efficient LED products that satisfy customer design requirements;

our ability to continue improving our current products and develop new products to specifications that meet the evolving needs of our customers;

changes in demand for our products and our customers products that may cause fluctuations in revenue and possible inventory obsolescence;

raw material price fluctuations, including certain commodities consumed in our production process;

effects of an economic slow down on both consumer and non-consumer spending on products that incorporate our products;

changes in the competitive landscape, such as inventions of new technology, availability of higher brightness LED products, higher volume production and lower pricing from competitors;

changes in the mix of products we sell, which may vary significantly;

product returns or exchanges due to quality-related matters or improper use of our products;

changes in purchase commitments permitted under our contracts with large customers;

changes in production capacity and variations in the utilization of that capacity;

disruptions of manufacturing that could result from fire, flood, drought or other disasters, particularly in the case of our single site for SiC wafer and LED production or disruptions from some of our sole source vendors;

changes in legislation, regulations, or tax or accounting rules or changes in their interpretation; and

changes in the amount of litigation costs we incur to protect our intellectual property rights.

These or other factors could adversely affect our future operating results and margins. If our future operating results or margins are below the expectations of stock market analysts or our investors, our stock price will likely decline.

If we fail to evaluate, implement and integrate strategic opportunities successfully, our business may suffer.

From time to time we evaluate strategic opportunities available to us for product, technology or business acquisitions. For example, in July 2006 we acquired INTRINSIC, in March 2007 we acquired COTCO, and in February 2008 we acquired LLF. If we choose to make acquisitions, we face certain risks, such as failure of the acquired business to meet our performance expectations, diversion of management attention, retention of existing customers of our current and acquired business, and difficulty in integrating the acquired business s operations, personnel and financial and operating systems into our current business. We may not be able to successfully address these risks or any other problems that arise from our recent or future acquisitions. Any failure to successfully evaluate strategic opportunities and address risks or other problems that arise related to any acquisition could adversely affect our business, results of operations and financial condition.

If we are unable to effectively expand the distribution channels for our component products, our operating results may suffer.

We have expanded into new business channels that are different from those that we have historically operated in as we grow our business and sell more LED components versus LED chips. If we are unable to penetrate these new distribution channels to ensure our products are reaching the appropriate customer base, our financial results may be impacted. In addition, if we successfully penetrate these new distribution channels, we cannot guarantee that customers will accept our components or that we will be able to manufacture and deliver them in the timeline established by our customers.

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Our LED revenues are highly dependent on our customers ability to produce and sell more integrated products using our LED products.

Because our customers integrate our LED products into the products that they market and sell, our LED revenues depend on getting our LED products designed into a larger number of our customers products and our customers ability to sell those products. For example, some of our current customers, as well as prospective customers, create white LED components using our blue LEDs, in combination with phosphors. Sales of blue LED chips are highly dependent upon our customers ability to procure efficient phosphors, develop high quality and highly efficient white LED components and gain access to the necessary intellectual property rights. Even if our customers are able to develop competitive white LED components using our blue LED chips, there can be no assurance that our customers will be successful in the marketplace. We also have current and prospective customers that create lighting systems using our LED components. Sales of LED components for these applications are highly dependent upon our customers ability to develop high quality and highly efficient lighting products, including thermal design, optical design and power conversion. The lighting industry has traditionally not had this level of technical expertise for LED related designs, which may limit the success of our customers products. Even if our customers are able to develop efficient systems, there can be no assurance that our customers will be successful in the marketplace.

As a result of our entry into and continued expansion in new markets, such as packaged LEDs and LED lighting fixtures, our traditional customers may reduce orders.

Through acquisitions and organic growth, we have moved into and continue to expand in new markets, such as packaged LEDs and LED lighting fixtures, where some of our current customers may now perceive us as a competitor. In response, our customers may reduce their orders for our products. This reduction in orders could occur faster than our sales growth in these new markets, which could adversely affect our business, results of operations and financial condition.

Our operating results are substantially dependent on the development and acceptance of new products based on our technology.

Our future success may depend on our ability to develop new and lower cost solutions for existing and new markets and for customers to accept those solutions. We must introduce new products in a timely and cost-effective manner, and we must secure production orders for those products from our customers. The development of new products is a highly complex process, and we historically have experienced delays in completing the development and introduction of new products. The successful development and introduction of these products depends on a number of factors, including the following:

- achievement of technology breakthroughs required to make commercially viable devices;
- the accuracy of our predictions of market requirements and evolving standards;
- acceptance of our new product designs;
- acceptance of new technology in certain markets;
- the availability of qualified research and development personnel;
- our timely completion of product designs and development;
- our ability to expand sales and influence key customers to adopt our products;

our ability to develop repeatable processes to manufacture new products in sufficient quantities and at low enough costs for commercial sales;

our customers ability to develop competitive products incorporating our products; and

acceptance of our customers products by the market.

If any of these or other factors become problematic, we may not be able to develop and introduce these new products in a timely or cost-effective manner.

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We face significant challenges managing our growth.

We have experienced a period of significant growth over the past few years that may challenge our management and other resources. We are also in the process of transforming our business to support a global components customer base. In order to manage our growth and change in our strategy effectively, we must continue to:

- expand global sales, marketing and distribution;
- implement and improve operating and information technology systems;
- maintain adequate manufacturing facilities and equipment to meet customer demand;
- maintain a sufficient supply of raw materials to support our growth;
- expand the skills and capabilities of our current management team;
- add experienced senior level managers;
- attract and retain qualified people with experience in engineering, design, sales and marketing; and
- recruit and retain qualified manufacturing employees.

We expect to spend substantial amounts of money in supporting our growth and may have additional unexpected costs. We may not be able to expand quickly enough to exploit potential market opportunities. Our future operating results will also depend on expanding sales and marketing, research and development and administrative functions to support a global components customer base. If we cannot attract qualified people or manage growth and change effectively, our business, results of operations and financial condition could be adversely affected.

Litigation could adversely affect our operating results and financial condition.

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

Our business may be impaired by claims that we, or our customers, infringe intellectual property rights of others.

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

pay substantial damages;

indemnify our customers;

stop the manufacture, use and sale of products found to be infringing;

incur asset impairment charges;

discontinue the use of processes found to be infringing;

expend significant resources to develop non-infringing products and processes; and/or

obtain a license to use third party technology.

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

There are limitations on our ability to protect our intellectual property.

Our intellectual property position is based in part on patents owned by us and patents exclusively licensed to us by North Carolina State University, Boston University and others. The licensed patents include patents relating to the SiC crystal growth process that is central to our SiC materials and device business. We intend to continue to file patent applications in the future, where appropriate, and to pursue such applications with U.S. and foreign patent authorities.

However, our existing patents are subject to expiration and we cannot be sure that additional patents will be issued on any new applications around the covered technology or that our existing or future patents will not be successfully contested by third parties. Also, since issuance of a valid patent does not prevent other companies from using alternative, non-infringing technology, we cannot be sure that any of our patents, or patents issued to others and licensed to us, will provide significant commercial protection, especially as new competitors enter the market.

In addition to patent protection, we also rely on trade secrets and other non-patented proprietary information relating to our product development and manufacturing activities. We try to protect this information through appropriate efforts to maintain its secrecy, including requiring employees and third parties to sign confidentiality agreements. We cannot be sure that these efforts will be successful or that the confidentiality agreements will not be breached. We also cannot be sure that we would have adequate remedies for any breach of such agreements or other misappropriation of our trade secrets, or that our trade secrets and proprietary know-how will not otherwise become known or be independently discovered by others.

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

Our operations in foreign countries, including China and other Asian countries, expose us to certain risks inherent in doing business internationally, which may adversely affect our business, results of operations and financial condition.

As a result of acquisitions and organic growth, we have operations, manufacturing facilities and subcontract arrangements in foreign countries, which expose us to certain risks, including the following:

- foreign exchange fluctuations, as we conduct operations and have sales denominated in non-U.S. currencies;
- protection of intellectual property and trade secrets;
- tariffs and other barriers;
- timing and availability of export licenses;

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rising labor costs;

disruptions in the infrastructure of the foreign countries where we operate;

difficulties in accounts receivable collections;

difficulties in staffing and managing distant international operations;

the burden of complying with foreign and international laws and treaties; and

the burden of complying with and changes in international taxation policies.

In some instances, we have been provided and may continue to receive incentives from foreign governments to encourage our investment in certain countries, regions, or areas. In particular, we have received and may continue to receive such incentives in connection with our operations in China, as the Chinese national and local governments seek to encourage the development of the technology industry in China. Government incentives may include tax rebates, reduced tax rates, favorable lending policies and other measures, some or all of which may be available to us due to our foreign operations. Any of these incentives could be reduced or eliminated by governmental authorities at any time. Any reduction or elimination of incentives currently provided to our operations could adversely affect our business and results of operations.

We are subject to risks related to international sales.

We expect that revenue from international sales will continue to represent the majority of our total revenue. International sales are subject to a variety of risks, including risks arising from currency fluctuations, tariffs, trade barriers, collection issues and taxes. Our international sales are subject to variability as prices become less competitive in countries with currencies that are low or are declining in value against the U.S. Dollar and more competitive in countries with currencies that are high or increasing in value against the U.S. Dollar. In addition, international sales are subject to numerous U.S. and foreign laws and regulations, including, without limitation, regulations relating to import-export control, technology transfer restrictions, the International Traffic in Arms Regulation promulgated under the Arms Export Control Act, the Foreign Corrupt Practices Act and the anti-boycott provisions of the U.S. Export Administration Act. If we fail to comply with these laws and regulations, we could be liable for administrative, civil or criminal liabilities, and in the extreme case, we could be suspended or debarred from government contracts or our export privileges could be suspended, which could have a material adverse effect on our business.

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

As customer demand for our products, particularly new products, changes, we must be able to ramp up or adjust our production capacity to meet demand. We are continually taking steps to address our manufacturing capacity needs for our products. If we are not able to increase our capacity or if we increase our capacity too quickly, our business and results of operations could be adversely impacted. If we experience delays or unforeseen costs associated with adjusting our capacity levels, we may not be able to achieve our financial targets.

Variations in our production yields impact our ability to reduce costs and could cause our margins to decline and our operating results to suffer.

All of our products are manufactured using technologies that are highly complex. The number of usable items, or yield, from our production processes may fluctuate as a result of many factors, including but not limited to the following:

variability in our process repeatability and control;

contamination of the manufacturing environment;

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equipment failure, power outages or variations in the manufacturing process;

lack of consistency and adequate quality and quantity of piece parts and other raw materials;

losses from broken wafers or human errors;

defects in packaging either within our control or at our subcontractors; and

any transitions or changes in our production process, planned or unplanned.

If our yields decrease, our costs could increase, our margins could decline and our operating results would be adversely affected. In the past, we have experienced difficulties in achieving acceptable yields on new products, which has adversely affected our operating results. We may experience similar problems in the future, and we cannot predict when they may occur or their severity. In some instances, we may offer products for future delivery at prices based on planned yield improvements. Reduced yields or failure to achieve planned yield improvements could continue to significantly affect our margins and operating results.

We rely on a few key sole source and limited source suppliers.

We depend on a small number of sole source and limited source suppliers for certain raw materials, components, services and equipment used in manufacturing our products, including key materials and equipment used in critical stages of our manufacturing processes. Although alternative sources generally exist for these items, qualification of many of these alternative sources could take up to six months or longer. Where possible, we are attempting to identify alternative sources for our sole and limited source suppliers.

We generally purchase these sole or limited source items with purchase orders, and we have limited guaranteed supply arrangements with such suppliers. We do not control the time and resources that these suppliers devote to our business, and we cannot be sure that these suppliers will perform their obligations to us. In the past, we have experienced decreases in our production yields when suppliers have varied from previously agreed upon specifications that have impacted our cost of sales.

Any delay in product delivery or other interruption or variation in supply from these suppliers could prevent us from meeting commercial demand for our products. If we were to lose key suppliers, our key suppliers were unable to support our demand or we were unable to identify and qualify alternative suppliers, our manufacturing operations could be interrupted or hampered significantly.

The markets in which we operate are highly competitive and have evolving technology standards.

The markets for our products are highly competitive. In the LED market, we compete with companies that manufacture or sell nitride-based LED chips as well as those that sell packaged LEDs. Competitors are offering new blue, green and white LEDs with aggressive prices and improved performance. These competitors may reduce average sales prices faster than our cost reduction, and competitive pricing pressures may accelerate the rate of decline of our average sales prices. The market for SiC wafers is also becoming competitive as other firms in recent years have begun offering SiC wafer products or announced plans to do so.

Competition is increasing. In order to achieve our revenue growth objectives in fiscal 2009 and beyond, we need to continue to develop new products that enable our customers to win new designs and increase market share in key areas such as mobile products and general lighting class applications. One major supplier dominates the market in which products incorporating our LED chip products compete and we anticipate that the increased competition for these designs will result in pressure to lower sales prices of our products. Therefore, our ability to provide higher performance LEDs at lower costs will be critical to our success. Competitors may also try to align with some of our strategic customers. This could mean lower prices for our products, reduced demand for our products and a corresponding reduction in our ability to recover development, engineering and manufacturing costs. Competitors also could invent new technologies that may make our products obsolete. Any of these developments could have an adverse effect on our business, results of operations and financial condition.

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If government agencies discontinue or curtail their funding for our research and development programs, our business may suffer.

Changes in federal budget priorities could adversely affect our contract revenue. Historically, government agencies have funded a significant portion of our research and development activities. When the government changes budget priorities, such as in times of war, our funding has the risk of being redirected to other programs. Government contracts are also subject to the risk that the government agency may not appropriate and allocate all funding contemplated by the contract. In addition, our government contracts generally permit the contracting authority to terminate the contracts for the convenience of the government. The full value of the contracts would not be realized if they were prematurely terminated. Furthermore, we may be unable to incur sufficient allowable costs to generate the full estimated contract values and there is some risk that any technologies developed under these contracts may not have commercial value. If government funding is discontinued or reduced, our ability to develop or enhance products could be limited, and our business, results of operations and financial condition could be adversely affected.

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

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

regulatory penalties, fines and legal liabilities;

suspension of production;

alteration of our fabrication and assembly and test processes; and

curtailment of our operations or sales.

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

If our products fail to perform or meet customer requirements, we could incur significant additional costs.

The manufacture of our products involves highly complex processes. Our customers specify quality, performance and reliability standards that we must meet. If our products do not meet these standards, we may be required to replace or rework the products. In some cases, our products may contain undetected defects or flaws that only become evident after shipment. We have experienced product quality, performance or reliability problems from time to time. Defects or failures may occur in the future. If failures or defects occur, we could:

lose revenue;

incur increased costs, such as warranty expense and costs associated with customer support;

experience delays, cancellations or rescheduling of orders for our products;

write down existing inventory; or

experience product returns.

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Changes in our effective tax rate may have an adverse effect on our results of operations.

Our future effective tax rates may be adversely affected by a number of factors including:

- changes in tax laws or interpretation of such tax laws and changes in generally accepted accounting principles;
- the jurisdiction in which profits are determined to be earned and taxed;
- the resolution of issues arising from tax audits with various authorities;
- changes in the valuation of our deferred tax assets and liabilities;
- adjustments to estimated taxes upon finalization of various tax returns;
- increases in expenses not deductible for tax purposes, including write-offs of acquired in-process research and development and impairment of goodwill in connection with acquisitions;
- changes in available tax credits;
- changes in share-based compensation expense; and
- the repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes.

Any significant increase in our future effective tax rates could adversely impact net income for future periods. In addition, the determination of our income tax provision requires significant judgment. To the extent our income tax liability materially differs from our income tax provisions and accruals due to factors, including the above, that were not anticipated at the time we estimated our tax provision, our net income or cash flows could be adversely affected.

In order to compete, we must attract, retain and motivate key employees, and our failure to do so could harm our results of operations.

In order to compete, we must attract, retain and motivate executives and other key employees, including those in managerial, technical, sales, marketing and support positions. We generally do not have long-term employment agreements or other arrangements with our employees that would deter them from leaving. Hiring and retaining qualified executives, scientists, engineers, technical staff and sales personnel are critical to our business, and competition for experienced employees in our industry can be intense. To help attract, retain and motivate key employees, we use share-based incentive awards such as employee stock options and restricted stock. If the value of such stock awards does not appreciate as measured by the performance of the price of our common stock or if our share-based compensation otherwise ceases to be viewed as a valuable benefit, our ability to attract, retain and motivate employees could be weakened, which could harm our business and results of operations.

We are exposed to fluctuations in the market value of our investment portfolio and in interest rates, and therefore, impairment of our investments or lower investment income could harm our earnings.

We are exposed to market value and interest rate risk related to our investment portfolio. We have historically invested portions of our available cash in fixed interest rate securities such as high-grade corporate debt, commercial paper, government securities and other fixed interest rate investments. The primary objective of our investments is to preserve principal while maximizing yields. Although we only acquire investments

rated A grade or better in accordance with our cash management policy, declines in the underlying interest rates will have a negative impact on the income generated from our investments, which could materially adversely affect our results of operations.

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Fluctuations in foreign currency exchange rates may affect our operating results as costs of operating certain of our foreign subsidiaries are incurred in other currencies.

We conduct business in countries outside the United States, which exposes us to fluctuations in foreign currency exchange rates. In addition, our financial statements are presented in U.S. Dollars, which requires that results of these foreign operations be translated at average exchange rates into U.S. Dollars for financial reporting purposes. As a result, fluctuations in exchange rates may affect our expenses and results of operations as well as the value of our assets and liabilities. We have not entered into any foreign currency derivative financial instruments; however, we may choose to do so in the future in an effort to manage or hedge our foreign exchange rate risk.

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

We are required under generally accepted accounting principles to review our amortizable intangible assets and investments in equity interests for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization and slower growth rates in our industry. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined to exist. This could adversely impact our results of operations.

Our business may be adversely affected by our, or our customers , ability to access the capital markets.

Although we believe we have adequate liquidity and capital resources to fund our operations internally, in light of current market conditions, our inability or the inability of our customers to access the capital markets, on favorable terms or at all, may adversely affect our financial performance. The inability to obtain adequate financing from debt or capital sources could force us to self-fund strategic initiatives or even forgo certain opportunities, potentially harming our performance. Additionally, the inability of our customers to access capital efficiently could cause disruptions in their businesses, thereby negatively impacting ours.

Catastrophic events or geo-political conditions may disrupt our business.

A disruption or failure of our systems or operations in the event of a major earthquake, weather event, cyber-attack, terrorist attack or other catastrophic event could cause delays in completing sales or performing other mission-critical functions. A catastrophic event that results in the destruction or disruption to our supply chain or any of our critical business or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our operating results could be adversely affected. Abrupt political change, terrorist activity and armed conflict pose a risk of general economic disruption in affected countries, which could result in an adverse effect on our business and results of operations.

Our results of operations could vary as a result of the methods, estimates and judgments that we use in applying our accounting policies.

The methods, estimates and judgments that we use in applying our accounting policies have a significant impact on our results of operations (see Critical Accounting Policies and Estimates in Item 7 of this Annual Report). Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and factors may arise over time that lead us to change our methods, estimates and judgments. Changes in those methods, estimates and judgments could significantly affect our results of operations.

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Item 1B. ***Unresolved Staff Comments***

Not applicable.

Item 2. ***Properties***

The table below sets forth information with respect to our significant owned and leased facilities as of June 29, 2008. The sizes of the locations represent the approximate gross square footage of each site s building.

	Size (approximate square footage)				
Location	**Total**	**Production**	**Facility Services and Warehousing**	**Administrative Function**	**Housing / Other**
Owned Facilities					
Durham, NC	689,000	469,000	106,000	114,000	
Research Trangle Park, NC	147,500	57,000	56,000	34,500	
Total Owned	836,500	526,000	162,000	148,500	
Leased Facilities					
Hong Kong	10,500			10,500	
Huizhou, China	183,600	113,000	19,000	38,000	13,600
Shanghai, China	50,700		16,100	34,600	
Durham, NC	15,700			15,700	
Goleta, CA	36,000			36,000	
Sunnyvale, CA	50,000				50,000
Misc. sales and support offices	15,600		3,300	12,300	
Total Leased	362,100	113,000	38,400	147,100	63,600
Total	1,198,600	639,000	200,400	295,600	63,600

In the United States, our corporate headquarters as well as our primary manufacturing operations are located at our Durham, North Carolina facility. This facility sits on approximately 48 acres of developed land that we own. We also own approximately 80 acres of undeveloped land near this site.

We are increasingly manufacturing our LED components at our leased facility in Huizhou, China, which represents our lowest cost manufacturing facility. This facility was obtained through our acquisition of COTCO in 2007. Our power and RF products are primarily produced at our owned manufacturing facility located in Research Triangle Park, North Carolina. This facility sits on approximately 55 acres of land that we own.

We also maintain sales and support offices, through our subsidiaries, in leased office premises in Shenzhen and Shanghai, China; Hong Kong; Tokyo, Japan; Penang, Malaysia; and Munich, Germany. In addition, we lease a facility in Goleta, California that is used for research and development and administrative functions.

We have ceased business operations at our Sunnyvale, California facility; however, we remain liable for the operating lease through 2011. We have sublet this facility through the remainder of the lease.

Item 3. ***Legal Proceedings***

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

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2008.

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PART II

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

Common Stock Market Information

Our common stock is traded on the NASDAQ Global Select Market and is quoted under the symbol CREE. There were 663 holders of record of our common stock as of July 29, 2008. The following table sets forth, for the quarters indicated, the high and low sales prices as reported by NASDAQ.

	Fiscal 2008		Fiscal 2007	
	High	Low	High	Low
First Quarter	$ 34.87	$ 22.54	$ 24.00	$ 16.52
Second Quarter	33.68	20.48	23.68	15.25
Third Quarter	35.50	23.11	19.06	15.27
Fourth Quarter	31.80	23.02	28.55	16.16

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

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Stock Performance Graph

The following information in this Item 5 of this Annual Report on Form 10-K is not deemed to be soliciting material or to be filed with the SEC or subject to Regulation 14A or 14C under the Exchange Act or to the liabilities of Section 18 of the Exchange Act, and will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent we specifically incorporate it by reference into such filing.

The following graph compares the cumulative total return on our common stock with the cumulative total returns of The NASDAQ Composite Index and The NASDAQ Electronic Components Index for the five-year period commencing June 29, 2003. The stock price performance shown on the graph below is not necessarily indicative of future price performance.

	6/29/03	6/27/04	6/26/05	6/25/06	6/24/07	6/29/08
Cree, Inc.	**100.00**	**142.47**	**156.74**	**146.23**	**159.09**	**140.38**
NASDAQ Composite	**100.00**	**126.78**	**128.17**	**136.47**	**164.73**	**150.56**
NASDAQ Electronic Components	**100.00**	**133.81**	**114.71**	**109.72**	**136.58**	**120.74**

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Sale of Unregistered Securities

Except as previously disclosed in our Current Report on Form 8-K filed March 3, 2008, there were no sales of unregistered securities during fiscal 2008.

Stock Repurchase Program

The following table summarizes our stock repurchase activity for the fourth quarter of fiscal 2008 (in thousands, except per share amounts):

	Issuer Purchases of Equity Securities			
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that may yet be Purchased under the Program (1)
March 31 April 27, 2008	725	$ 26.53	725	3,658
April 28 May 25, 2008	1,246	$ 25.62	1,246	4,597
May 26 June 29, 2008				4,597
Total	1,971	$ 25.95	1,971	4,597

(1) On January 18, 2001, we announced the authorization by our Board of Directors of a program to repurchase shares of our outstanding common stock. Several times since then, the Board of Directors has renewed the program and increased the number of shares that can be repurchased under the program. Most recently, on May 15, 2008, the Board of Directors approved the extension of our stock repurchase program through June 28, 2009. As of June 29, 2008, 14.3 million shares of our common stock had been approved for repurchase under the program, of which 4.6 million shares remain authorized for future repurchase.

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Item 6. ***Selected Financial Data***

The consolidated statement of income data set forth below with respect to the fiscal years ended June 29, 2008, June 24, 2007, and June 25, 2006 and the consolidated balance sheet data at June 29, 2008 and June 24, 2007 are derived from, and are qualified by reference to, the audited consolidated financial statements included elsewhere in this report and should be read in conjunction with those financial statements and notes thereto. The consolidated statement of income data for the fiscal years ended June 26, 2005 and June 27, 2004 and the consolidated balance sheet data at June 25, 2006, June 26, 2005 and June 27, 2004 are derived from audited consolidated financial statements not included herein. All consolidated statement of income data excludes Cree Microwave as it has been accounted for as a discontinued operation. Certain fiscal 2007, fiscal 2006, fiscal 2005 and fiscal 2004 amounts have been reclassified to conform to fiscal 2008 classifications. These reclassifications had no effect on previously reported income from continuing operations or shareholders equity.

	Fiscal Years Ended				
(in thousands, except per share amounts)	**June 29, 2008**	**June 24, 2007[1]**	**June 25, 2006**	**June 26, 2005**	**June 27, 2004**
Statement of Income Data:					
Product revenue, net	$ 464,907	$ 364,718	$ 395,464	$ 363,102	$ 272,694
Contract revenue, net	28,389	29,403	27,488	21,356	26,947
Total revenue from continuing operations	$ 493,296	$ 394,121	$ 422,952	$ 384,458	$ 299,641
Income from continuing operations	$ 31,812	$ 50,193	$ 79,959	$ 106,564	$ 64,309
Income from continuing operations per share, basic	$ 0.37	$ 0.64	$ 1.05	$ 1.42	$ 0.87
Income from continuing operations per share, diluted	$ 0.36	$ 0.63	$ 1.02	$ 1.38	$ 0.85
Weighted Average Shares Outstanding:					
Basic	86,366	78,560	76,270	74,995	74,008
Diluted	88,077	79,496	78,207	77,172	75,745
Statement of Cash Flows Data:					
Net cash provided by operating activities	$ 102,807	$ 110,932	$ 151,530	$ 175,579	$ 152,388

(in thousands)	**June 29, 2008**	**June 24, 2007**	**June 25, 2006**	**June 26, 2005**	**June 27, 2004**
Balance Sheet Data:					
Cash, cash equivalents and marketable investments	$ 371,032	$ 311,018	$ 404,690	$ 298,196	$ 252,895
Working capital	$ 408,193	$ 379,683	$ 339,108	$ 246,325	$ 189,911
Total assets	$ 1,313,407	$ 1,116,230	$ 900,200	$ 777,408	$ 628,000
Shareholders equity	$ 1,145,740	$ 1,015,999	$ 827,613	$ 712,918	$ 579,132

Certain prior year amounts have been reclassified to conform to the current year presentation.

(1) During fiscal 2007, we acquired COTCO. See Note 3, Acquisitions, in our consolidated financial statements included in Item 8 of this Annual Report for a description of the transaction and pro forma financial information for fiscal 2007 and fiscal 2006.

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operation***

Executive Summary

The following discussion is designed to provide a better understanding of our consolidated financial statements, including a brief discussion of our business and products, key factors that impacted our performance, and a summary of our operating results. This executive summary should be read in conjunction with the more detailed discussion and analysis of our financial condition and results of operations in this Item 7, Risk Factors in Item 1A and our consolidated financial statements and the notes thereto included in Item 8 of this Annual Report.

Overview of our Business and Products

We are a manufacturer of semiconductor materials and devices primarily based on SiC, GaN and related compounds. We currently focus our expertise in SiC and GaN on LED products, which consist of LED chips, LED components and LED lighting solutions. We also develop power and RF products, including power switching and RF devices.

We derive the majority of our revenue from sales of our LED products. We also generate revenue from sales of SiC and GaN materials, including gemstone materials, and we earn revenue under government contracts that support some of our research and development programs to the extent the contract funding exceeds our direct cost of performing those activities. We generate revenues from the following product lines:

LED products. We derive the largest portion of our revenue from the sale of our LED products. Our LED products consist of our LED chips, LED components, including our XLamp LED components and high-brightness LED components, and LED lighting solutions.

Materials products. These products include our SiC and GaN wafers, which are used in manufacturing LEDs, RF and microwave devices, power devices and for research and development. They also include SiC material in bulk crystal form, which is used in gemstone applications.

Power and RF products. These products include power switching devices made from SiC, which provide faster switching speeds than comparable silicon-based power devices, and also include RF devices made from SiC or GaN, which allow for higher power densities as compared to silicon or gallium arsenide.

Contracts with government agencies. Government agencies provide us with funding to support the development of primarily SiC and GaN based new technology.

The majority of our products historically have been manufactured at our main production facilities in North Carolina. We also have been increasingly utilizing our facility in Huizhou, China for the manufacture of certain of our LED components and use contract manufacturers in Asia for certain aspects of our manufacturing process.

Operating Segments

We currently operate our business as one reportable segment. In fiscal 2005, we operated our business in two reportable segments. In the fourth quarter of fiscal 2005, we announced the closure of the Cree Microwave segment, our silicon-based RF and microwave semiconductor business located in Sunnyvale, California. Effective December 25, 2005, we reported Cree Microwave as a discontinued operation. For further information about this business closure, see Note 4, Discontinued Operations, in our consolidated financial statements included in Item 8 of this Annual Report.

Industry Dynamics

Our business is primarily focused on selling our LED products. LEDs are currently used to provide energy-efficient lighting in the automotive, mobile phone, liquid crystal display (LCD) backlighting, gaming, signals,

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indoor and outdoor illumination and video screen markets. LED lighting products are in the initial stages of introduction to the general illumination market. As LED technology continues to develop and improve, the potential market for LED lighting applications is expanding.

Select industry factors affecting our business include, among others:

Overall demand for products and applications using LEDs. LED lighting is a developing technology especially as it concerns the general illumination market. The pace of adoption of LED lighting technology in the general illumination market and others will impact the demand for LEDs.

Intense and constantly evolving competitive environment. Competition in the industry is intense. Product pricing pressures exist as market participants often undertake pricing strategies to gain or protect market share. To remain competitive, market participants generally must increase product performance and reduce costs to support lower average sales prices.

Intellectual property issues. Market participants rely on patented and non-patented proprietary information relating to product development, manufacturing capabilities and other core competencies of their business. Protection of intellectual property is critical. As such, steps such as additional patent applications, confidentiality and non-disclosure agreements, as well as other security measures are generally taken. To enforce or protect intellectual property rights, litigation or threatened litigation commonly occurs.

Fiscal 2008 Highlights

The following is a summary of key financial results and certain non-financial results achieved for the year ended June 29, 2008:

Our revenues from continuing operations for the year increased 25% to $493.3 million. We experienced strong sales growth in our LED products, which increased $107.2 million or 35% from the prior year. Revenues from the sale of our LED components increased substantially from the prior year, more than offsetting a decline in revenues attributable to sales of our LED chips. Revenues from the sales of our LED components represented approximately half of our total revenues from LED products in fiscal 2008.

Our gross margin was similar to the prior year at 34% of revenue, reflecting the continued investment in new product introductions and a competitive environment for our LED chips.

We achieved consolidated net income of $33.4 million in fiscal 2008 compared to $57.3 million in fiscal 2007. Net income per diluted share was $0.38 in fiscal 2008 compared to $0.72 in fiscal 2007.

We generated positive cash flow from operations of $102.8 million in fiscal 2008 compared to $110.9 million for fiscal 2007.

Combined cash, cash equivalents and marketable investments increased $60.0 million or 19% to $371.0 million at June 29, 2008 compared to $311.0 million at June 24, 2007.

We purchased and retired nearly two million outstanding shares of our common stock.

We made significant progress in the integration of COTCO into our business.

We initiated the transition of our production process from a three-inch to four-inch wafer. This transition is targeted to improve our chip yield per wafer and consequently lower our cost per chip.

On February 29, 2008, we closed the acquisition of LLF. Through this acquisition we acquired what we believe to be key technologies to drive retrofit solutions to convert existing lighting infrastructure to energy-efficient lighting and to accelerate the adoption of LED lighting into the general illumination market.

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Business Outlook

We project that the markets for our products will remain highly competitive during fiscal 2009. We anticipate focusing on the following key areas, among others, in response to this competitive environment:

Continue efforts to enable LED lighting. We plan to continue to invest in and support initiatives that we believe will enable and potentially accelerate the adoption of LED lighting in the general illumination market. We believe these efforts can ultimately help to increase the demand for our LED products.

Invest in technology, product development and infrastructure. We plan to continue enhancing our existing products, developing new products and expanding our portfolio of intellectual property through significant investments in research and development. In addition, to support unit volume growth and to meet anticipated capacity needs in our Asian operations, we target investing no less in capital expenditures in fiscal 2009 than we have on average in recent history.

Expand our global sales and distribution channels. We intend to continue to expand our global direct sales force, agents, partnerships and distributor relationships.

Continue focus on operating improvements. We continue focusing on identifying new ways to improve our operating efficiency and processes in all facets of our operations, including those outside of manufacturing, to maintain and improve our profitability. This includes shifting production to our lower cost manufacturing facility in Huizhou, China or contract manufacturers in Asia, leveraging investments in information technology, constant monitoring and adjustment of our working capital to fluctuations in our business, robust budgeting and planning processes and continuing efforts to streamline our processes and procedures to properly manage operating expenses.

Continue to focus on growing our power and RF product revenue. We have had success in winning new designs in certain volume applications, yet we still have a limited number of customers. Our goal over the next year is to begin to realize more of the potential of power and RF products by expanding sales to a broader customer base, which should provide the increased volume needed to reduce costs and improve margins on these products.

Evaluate strategic opportunities. We intend to continue to evaluate and potentially pursue appropriate strategic opportunities such as technology licensing arrangements, acquisitions, partnerships or joint ventures that complement or expand our existing business.

Results of Operations

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

	2008		2007		2006	
(dollars in thousands, except per share amounts)	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue
Net revenue	**$ 493,296**	**100.0%**	**$ 394,121**	**100.0%**	**$ 422,952**	**100.0%**
Cost of revenue	327,469	66.4%	260,133	66.0%	222,059	52.5%
Gross margin	**165,827**	**33.6%**	**133,988**	**34.0%**	**200,893**	**47.5%**
Research and development	58,846	11.9%	58,836	14.9%	54,871	13.0%
Sales, general and administrative	76,607	15.5%	53,105	13.5%	44,760	10.6%

Amortization of acquisition related intangibles	17,127	3.5%	4,192	1.1%		0.0%
Loss on disposal or impairment assets	1,206	0.2%	1,199	0.3%	2,421	0.6%
Income from operations	**12,041**	**2.5%**	**16,656**	**4.2%**	**98,841**	**23.3%**
Gain on sale of investments, net	14,117	2.9%	19,233	4.9%	587	0.1%
Other non-operating income	364	0.1%	238	0.1%	42	0.0%
Interest income, net	14,527	2.9%	14,984	3.8%	12,893	3.0%
Income before income taxes	**41,049**	**8.4%**	**51,111**	**13.0%**	**112,363**	**26.4%**
Income tax expense	9,237	1.9%	918	0.2%	32,404	7.7%
Income from continuing operations	**31,812**	**6.5%**	**50,193**	**12.8%**	**79,959**	**18.7%**
Net income (loss) discontinued operations	1,627	0.3%	7,141	1.8%	(3,286)	-0.8%
Net income	**$ 33,439**	**6.8%**	**$ 57,334**	**14.6%**	**$ 76,673**	**17.9%**
Diluted EPS continuing operations	**$ 0.36**		**$ 0.63**		**$ 1.02**	

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Revenues

Revenues for fiscal 2008, 2007 and 2006 are comprised of the following (in thousands, except percentages):

	Fiscal Years Ended			Year-Over-Year Change			
	June 29, 2008	June 24, 2007	June 25, 2006	2007 to 2008		2006 to 2007	
LED products	$ 414,948	$ 307,761	$ 343,394	$ 107,187	35%	$ (35,633)	-10%
Materials products	28,582	39,544	36,932	(10,962)	-28%	2,612	7%
Power and RF products	21,377	17,413	15,138	3,964	23%	2,275	15%
Total product revenues	464,907	364,718	395,464	100,189	27%	(30,746)	-8%
Contracts	28,389	29,403	27,488	(1,014)	-3%	1,915	7%
Total revenues	$ 493,296	$ 394,121	$ 422,952	$ 99,175	25%	$ (28,831)	-7%

Revenues from continuing operations increased 25% to $493.3 million in fiscal 2008 from $394.1 million in fiscal 2007. Product revenue increased 27% to $464.9 million in fiscal 2008 from $364.7 million in fiscal 2007. The overall increase in revenue was driven by growth in our LED products that offset a decline in revenues related to our materials products.

Comparing fiscal 2007 to fiscal 2006, revenues from continuing operations decreased 7% to $394.1 million from $423.0 million. Product revenue decreased 8% to $364.7 million from $395.5 million in the year-to-year comparison. The decrease in product revenue resulted from the decline in revenue from LED chips, which was partially offset by increases in revenue from our LED components, materials products and power and RF devices.

LED Products (in thousands, except percentages)

	Fiscal Years Ended			Year-Over-Year Change			
	June 29, 2008	June 24, 2007	June 25, 2006	2007 to 2008		2006 to 2007	
LED products	$ 414,948	$ 307,761	$ 343,394	$ 107,187	35%	$ (35,633)	-10%
Percent of total revenues	84%	78%	81%				

Revenue from our LED products increased 35% to $414.9 million in fiscal 2008 from $307.8 million in fiscal 2007. Growth was strongest from our LED components, which increased year over year and offset a decline in LED chip sales. The growth in revenues from sales of our high-brightness LED components was primarily attributable to the inclusion of the operations acquired through the acquisition of COTCO for the entire year in fiscal 2008 as opposed to only one quarter in fiscal 2007. Revenues generated from the sale of our XLamp LED components grew on the strength of higher sales volumes. The blended average selling price for our LED products increased 40% in fiscal 2008 from fiscal 2007 due to a shift in product mix to a higher proportion of revenues generated from sales of our LED components in fiscal 2008.

Revenues from LED products decreased 10% to $307.8 million in fiscal 2007 from $343.4 million in fiscal 2006. While unit shipments of our LED products increased 12% over fiscal 2006 due to higher customer demand for LED chips and LED components, our blended average sales price decreased 26% due to a combination of changes in product mix and price competition. Additionally, in fiscal 2007 we purchased the operations of COTCO, which previously was a customer for our LED products.

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Materials Products (in thousands, except percentages)

	Fiscal Years Ended			Year-Over-Year Change			
	June 29, 2008	June 24, 2007	June 25, 2006	2007 to 2008		2006 to 2007	
Materials products	$ 28,582	$ 39,544	$ 36,932	$ (10,962)	-28%	$ 2,612	7%
Percent of total revenues	6%	10%	9%				

Revenues from materials products were $28.6 million, $39.5 million and $36.9 million for fiscal 2008, 2007 and 2006, respectively. The decline of 28% from fiscal 2007 to fiscal 2008 was due primarily to lower sales to Charles & Colvard for use of our materials products in gemstone applications. The increase of 7% from fiscal 2006 to fiscal 2007 was due to changes in product mix resulting in a 3% decrease in the number of units sold offset by an 11% increase in the average sales price. Revenues from materials products comprised 6%, 10% and 9% of our total revenues for fiscal 2008, 2007 and 2006, respectively.

Power and RF Products (in thousands, except percentages)

	Fiscal Years Ended			Year-Over-Year Change			
	June 29, 2008	June 24, 2007	June 25, 2006	2007 to 2008		2006 to 2007	
Power and RF products	$ 21,377	$ 17,413	$ 15,138	$ 3,964	23%	$ 2,275	15%
Percent of total revenues	4%	4%	4%				

Revenue from our power and RF products increased 23% to $21.4 million in fiscal 2008 from $17.4 million in fiscal 2007. The increase in revenue was primarily the result of a 94% increase in unit shipments of products. The increase in unit shipments was offset by a 37% decrease in the blended average sales price due to changes in product mix. Revenues from power and RF products comprised 4% of our total revenues for fiscal 2008, 2007 and 2006.

Contracts (in thousands, except percentages)

	Fiscal Years Ended			Year-Over-Year Change			
	June 29, 2008	June 24, 2007	June 25, 2006	2007 to 2008		2006 to 2007	
Contracts	$ 28,389	$ 29,403	$ 27,488	$ (1,014)	-3%	$ 1,915	7%
Percent of total revenues	6%	7%	6%				

Revenues from contracts were $28.4 million, $29.4 million, and $27.5 million for fiscal 2008, 2007, and 2006, respectively. The fluctuations in contract revenue from year-to-year are generally due to changes in the timing of the initiation of new research contracts, the value of those contracts and timing of the work performed. Revenues from contracts comprised 6%, 7% and 6% of our total revenues for fiscal 2008, 2007 and 2006, respectively.

Gross Margin

Cost of revenue includes materials, labor and overhead costs incurred internally or paid to contract manufacturers to produce our products. Gross margin in dollars and gross margin percentages were as follows (in thousands, except percentages):

	Fiscal Years Ended			Year-Over-Year Change			
	June 29, 2008	June 24, 2007	June 25, 2006	2007 to 2008		2006 to 2007	
Products, net	$ 160,244	$ 127,593	$ 193,052	$ 32,651	26%	$ (65,459)	-34%
Percent of total revenues	34%	35%	49%				
Contracts, net	5,583	6,395	7,841	(812)	-13%	(1,446)	-18%

Percent of total revenues	20%	22%	29%				
Total gross margin	$ 165,827	$ 133,988	$ 200,893	$ 31,839	24%	$ (66,905)	-33%
Percent of total revenues	34%	34%	47%				

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Total gross margin from continuing operations was 34%, 34% and 47% for fiscal 2008, 2007 and 2006, respectively. Our gross margin percentage remained consistent at 34% of revenues from fiscal 2007 to fiscal 2008. Lower gross margins on sales of LED chips in fiscal 2008 were offset by higher margins on our LED components. Overall declines in blended average selling prices were offset by lower costs per unit.

Gross margin from continuing operations in fiscal 2007 declined 33% to $134.0 million from $200.9 million in fiscal 2006. Our gross margin percentage decreased from 47% to 34% of revenue caused primarily by lower margins on sales of LED chips as average selling prices declined faster than product costs, higher costs related to our new LED component products and lower factory utilization.

Contract gross margins were $5.6 million, $6.4 million and $7.8 million for fiscal 2008, 2007 and 2006, respectively. Gross margin percentage related to contracts will fluctuate year-to-year based upon the mix of active contracts between cost share versus for profit research arrangements, and mix of work actually performed on those contracts in any given year. Gross margin percentage related to contract revenue was 20%, 22% and 29% for fiscal 2008, 2007 and 2006, respectively.

Research and Development

Research and development expenses include costs associated with the development of new products, enhancements of existing products and general technology research. These costs consist primarily of employee salaries and benefits, occupancy costs, consulting costs and the cost of development equipment and supplies.

The following sets forth our research and development expenses in dollars and as a percentage of revenues (in thousands, except percentages):

	Fiscal Years Ended			Year-Over-Year Change			
	June 29, 2008	June 24, 2007	June 25, 2006	2007 to 2008		2006 to 2007	
Research and development	$ 58,846	$ 58,836	$ 54,871	$ 10	0%	$ 3,965	7%
Percent of total revenues	12%	15%	13%				

Year over year research and development expenses from continuing operations remained consistent in fiscal 2008 at $58.8 million but decreased as a percent of sales from 15% in fiscal 2007 to 12% in fiscal 2008. In fiscal 2007, research and development expenses from continuing operations increased 7% to $58.8 million from $54.9 million in fiscal 2006. We are currently focusing our research and development activities on higher brightness LED chips, new and improved LED components, larger wafer and other production process improvement initiatives, power and RF devices and LED lighting solutions.

Sales, General and Administrative

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

	Fiscal Years Ended			Year-Over-Year Change			
	June 29, 2008	June 24, 2007	June 25, 2006	2007 to 2008		2006 to 2007	
Sales, general and administrative	$ 76,607	$ 53,105	$ 44,760	$ 23,502	44%	$ 8,345	19%
Percent of total revenues	16%	13%	11%				

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Sales, general and administrative expenses, from continuing operations increased 44% in fiscal 2008 to $76.6 million compared to $53.1 million in fiscal 2007. The increase in costs in fiscal 2008 is primarily attributable to (1) the inclusion of a full year of the acquired operations of COTCO in fiscal 2008 as opposed to only one quarter in fiscal 2007 and (2) increased spending on sales and marketing. Additionally, costs increased due to the general expansion of our business, increased employee compensation costs, including costs related to salaries, stock based compensation and higher costs related to certain patent litigation.

In fiscal 2007, sales, general and administrative expenses from continuing operations increased 19% to $53.1 million compared to $44.8 million in fiscal 2006. The increase primarily related to increased costs incurred in connection with patent litigation, increased spending on sales and marketing to support our new product lines and additional expenses related to our acquisitions of INTRINSIC and COTCO.

Amortization of Acquisition Related Intangibles

As a result of our acquisitions, we have recorded various intangible assets including customer relationships and developed technologies. Amortization of intangible assets related to our acquisitions is as follows (in thousands):

	Fiscal Years Ended			Year-Over-Year Change	
	June 29, 2008	June 24, 2007	June 25, 2006	2007 to 2008	2006 to 2007
INTRINSIC	$ 745	$ 714	$	$ 31	$ 714
COTCO	15,336	3,478		11,858	3,478
LLF	1,046			1,046	
Total	$ 17,127	$ 4,192	$	$ 12,935	$ 4,192

Amortization of acquisition related intangibles from continuing operations was $17.1 million in fiscal 2008 compared to $4.2 million in fiscal 2007. The increase is due primarily to an increase in amortization of intangible assets in fiscal 2008 resulting from our acquisition of COTCO in fiscal 2007. During fiscal 2007, we acquired INTRINSIC and COTCO, resulting in $63.7 million of amortizable intangible assets principally composed of customer relationships and developed technology. In fiscal 2008, we acquired LLF, resulting in an additional $41.2 million of amortizable intangible assets. These intangible assets were principally composed of developed technology, that specifically relates to technologies underlying the development of LED lighting products for the general illumination market.

Loss on Disposal or Impairment of Long-Lived Assets

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

	Fiscal Years Ended