CREE INC
Form 10-Q
January 23, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 30, 2012
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) 407-5300
(Registrant's telephone number, including area code)
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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X] No [ ]
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 the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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 Exchange Act).
Yes [ ] No[X]
The number of shares outstanding of the registrant's common stock, par value $0.00125 per share, as of January 16, 2013, was 116,649,539.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
CREE, INC.
CONSOLIDATED BALANCE SHEETS

	December 30, 2012 (unaudited)	June 24, 2012
	(Thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$179,608	$178,885
Short-term investments	706,195	565,628
Total cash, cash equivalents, and short-term investments	885,803	744,513
Accounts receivable, net	144,552	152,258
Inventories	185,006	188,849
Deferred income taxes	21,931	21,744
Prepaid expenses and other current assets	61,117	56,917
Total current assets	1,298,409	1,164,281
Property and equipment, net	555,049	582,461
Intangible assets, net	366,520	376,075
Goodwill	616,345	616,345
Other assets	7,733	8,336
Total assets	$2,844,056	$2,747,498
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$94,487	$78,873
Accrued salaries and wages	39,907	29,837
Income taxes payable	8,904	3,834
Other current liabilities	32,655	36,633
Total current liabilities	175,953	149,177
Long-term liabilities:		
Deferred income taxes	15,733	15,609
Other long-term liabilities	16,762	22,695
Total long-term liabilities	32,495	38,304
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred stock, par value $0.01; 3,000 shares authorized at December 30, 2012 and June 24, 2012; none issued and outstanding	—	—
Common stock, par value $0.00125; 200,000 shares authorized at December 30, 2012 and June 24, 2012; 116,650 and 115,906 shares issued and outstanding at December 30, 2012 and June 24, 2012, respectively	145	144
Additional paid-in-capital	1,900,500	1,861,502
Accumulated other comprehensive income, net of taxes	11,199	11,133
Retained earnings	723,764	687,238
Total shareholders' equity	2,635,608	2,560,017
Total liabilities and shareholders' equity	$2,844,056	$2,747,498

The accompanying notes are an integral part of the consolidated financial statements.

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CREE, INC.
(UNAUDITED)
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	December 30, 2012	December 25, 2011	December 30, 2012	December 25, 2011
	(Thousands, except per share amounts)			
Revenue, net	$346,286	$304,118	$662,039	$573,098
Cost of revenue, net	212,810	199,000	412,514	369,952
Gross profit	133,476	105,118	249,525	203,146
Operating expenses:				
Research and development	39,941	35,886	77,488	70,288
Sales, general and administrative	60,100	49,176	112,745	94,715
Amortization of acquisition-related intangibles	7,719	7,367	15,389	11,292
Loss on disposal or impairment of long-lived assets	624	497	1,522	1,272
Total operating expenses	108,384	92,926	207,144	177,567
Operating income	25,092	12,192	42,381	25,579
Non-operating income:				
Other non-operating income (expense), net	535	(111)	2,128	863
Interest income, net	1,946	1,800	3,738	3,769
Income before income taxes	27,573	13,881	48,247	30,211
Income tax expense	7,170	1,803	11,721	5,314
Net income	$20,403	$12,078	$36,526	$24,897
Earnings per share:				
Basic	$0.18	$0.10	$0.32	$0.22
Diluted	$0.18	$0.10	$0.31	$0.22
Shares used in per share calculation:				
Basic	115,965	115,536	115,760	113,701
Diluted	116,410	115,883	116,249	114,239

The accompanying notes are an integral part of the consolidated financial statements.

CREE, INC.
(UNAUDITED)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended	
	December 30, 2012	December 25, 2011	December 30, 2012	December 25, 2011
	(In thousands)			
Net income	$20,403	$12,078	$36,526	$24,897
Other comprehensive income:				
Currency translation (loss) gain, net of tax benefit (expense) of $20, $418, ($91) and $221, respectively	(33)	(685)	149	(362)
Net unrealized (loss) on available-for-sale securities, net of tax benefit of $376, $544, $54 and $1,206, respectively	(617)	(899)	(83)	(1,991)
Other comprehensive (loss) income	(650)	(1,584)	66	(2,353)
Comprehensive income	$19,753	$10,494	$36,592	$22,544

The accompanying notes are an integral part of the consolidated financial statements.

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CREE, INC.
(UNAUDITED)
CONSOLIDATED STATEMENTS OF CASH FLOW

	Six Months Ended	
	December 30, 2012	December 25, 2011
	(In thousands)	
Cash flows from operating activities:		
Net income	$36,526	$24,897
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	76,395	68,303
Stock-based compensation	27,029	22,635
Excess tax benefit from share-based payment arrangements	(117)	(201)
Loss on disposal or impairment of long-lived assets	1,522	1,272
Amortization of premium/discount on investments	4,744	4,017
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	7,683	(12,973)
Inventories	3,854	28,572
Prepaid expenses and other assets	(3,644)	8,755
Accounts payable, trade	14,581	(14,923)
Accrued salaries and wages and other liabilities	9,721	(8,117)
Net cash provided by operating activities	178,294	122,237
Cash flows from investing activities:		
Purchases of property and equipment	(30,430)	(53,038)
Purchases of investments	(364,027)	(145,802)
Proceeds from maturities of investments	194,754	66,040
Proceeds from sale of property and equipment	301	2
Proceeds from sale of available-for-sale investments	23,825	252,152
Purchase of acquired business, net of cash acquired	—	(456,008)
Purchases of patent and licensing rights	(10,021)	(8,043)
Net cash used in investing activities	(185,598)	(344,697)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	8,177	2,648
Excess tax benefit from share-based payment arrangements	117	201
Repurchases of common stock	(638)	—
Net cash provided by financing activities	7,656	2,849
Effects of foreign exchange changes on cash and cash equivalents	371	664
Net change in cash and cash equivalents	723	(218,947)
Cash and cash equivalents:		
Beginning of period	178,885	390,598
End of period	$179,608	$171,651

The accompanying notes are an integral part of the consolidated financial statements.

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CREE, INC.
(UNAUDITED)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation and Changes in Significant Accounting Policies

Overview

Cree, Inc. (the “Company”) is a leading innovator of lighting-class light emitting diode (LED) products, lighting products and semiconductor products for power and radio-frequency (RF) applications. The Company's products are targeted for applications such as indoor and outdoor lighting, video displays, transportation, electronic signs and signals, power supplies, solar inverters and wireless systems.

The Company 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) and other materials used for electronic and opto-electronic applications.

The Company's LED products consist of LED components, LED chips, and SiC wafers. As LED technology improves, the Company believes the potential market for LED lighting will continue to expand. The Company's success in selling LED products depends upon the ability to offer innovative products and its ability to enable its customers to develop and market LED based products that successfully compete and drive LED adoption against traditional lighting products.

The Company's lighting products consist of both LED and traditional lighting systems. The Company designs, manufactures and sells lighting systems for indoor and outdoor applications, with a primary focus on LED lighting systems for the commercial and industrial markets. The Company also uses its LED systems expertise to accelerate LED lighting adoption and expand the market for its LED components.

In addition, the Company develops, manufactures and sells power and RF devices. The Company's power products are made from SiC and provide faster switching speeds than comparable silicon-based power devices for a given power level. The Company's RF devices are made from GaN and produce higher power densities as compared to silicon or gallium arsenide.

The majority of the Company's products are manufactured at its production facilities located in North Carolina, Wisconsin, and China. The Company also uses contract manufacturers for certain aspects of product fabrication, assembly and packaging. The Company operates research and development facilities in North Carolina, California, Wisconsin, and China.

The Company currently operates its business as three reportable segments:

- LED Products
- Lighting Products
- Power and RF Products

Basis of Presentation

The consolidated balance sheet at December 30, 2012, the consolidated statements of income for the three and six months ended December 30, 2012 and December 25, 2011, the consolidated statements of comprehensive income for the three and six months ended December 30, 2012 and December 25, 2011, and the consolidated statements of cash flow for the six months ended December 30, 2012 and December 25, 2011 (collectively, the “consolidated financial statements”) have been prepared by the Company and have not been audited. In the opinion of management, all normal and recurring adjustments necessary to present fairly the consolidated financial position, results of operations and cash flows at December 30, 2012, and for all periods presented, have been made. All significant intercompany accounts and transactions have been eliminated. The consolidated balance sheet at June 24, 2012 has been derived from the audited financial statements as of that date. The three and six month periods ended December 30, 2012 include one additional week as compared to the three and six month periods ended December 25, 2011.

Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 24, 2012 (“fiscal 2012”). The results of

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operations for the three and six months ended December 30, 2012 are not necessarily indicative of the operating results that may be attained for the entire fiscal year ending June 30, 2013 (“fiscal 2013”).

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual amounts could differ materially from those estimates.

Certain fiscal 2012 amounts in the accompanying consolidated financial statements have been reclassified to conform to the fiscal 2013 presentation. These reclassifications had no effect on previously reported consolidated net income or shareholders’ equity.

Recently Adopted Accounting Pronouncements

Presentation of Comprehensive Income

In June 2011, the Financial Accounting Standards Board ("FASB") issued new guidance concerning the presentation of total comprehensive income and its components. Under this guidance, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This guidance also requires an entity to present on the face of the financial statements reclassification adjustments from other comprehensive income to net income. In December 2011, the FASB issued an accounting standards update that deferred the presentation requirement for other comprehensive income reclassifications on the face of the financial statements. This guidance, as amended, became effective for the Company beginning in the first quarter of fiscal 2013. The Company's adoption of the new accounting guidance did not have a significant impact on the consolidated financial statements.

Note 2. Acquisitions

On August 17, 2011, the Company entered into a Stock Purchase Agreement with all of the shareholders of Ruud Lighting, Inc. ("Ruud Lighting"). Pursuant to the terms of the Stock Purchase Agreement and concurrently with the execution of the Stock Purchase Agreement, the Company acquired all of the outstanding share capital of Ruud Lighting in exchange for consideration consisting of 6.1 million shares of the Company's common stock valued at approximately $211.0 million and $372.2 million cash, subject to certain post-closing adjustments. The acquisition allowed the Company to expand its product portfolio into outdoor LED lighting.

Prior to the Company completing its acquisition of Ruud Lighting, Ruud Lighting completed the re-acquisition of its e-conolight business by purchasing all of the membership interests of E-conolight LLC ("E-conolight"). Ruud Lighting previously sold its e-conolight business in March 2010 and had been providing operational services to E-conolight since that date. In connection with the stock purchase transaction with Ruud Lighting, the Company funded Ruud Lighting's re-acquisition of E-conolight and repaid Ruud Lighting's outstanding debt in the aggregate amount of approximately $85.0 million.

Following the acquisition, the Company recorded certain post-closing purchase price adjustments resulting in a $2.3 million reduction to the purchase price and a total purchase price of approximately $666.0 million.

The Company incurred total transaction costs related to the acquisition of approximately $3.6 million, of which, $3.1 million were expensed in the first quarter of fiscal 2012, in accordance with U.S. GAAP. These transaction costs were included in "Sales, general and administrative" expense in the consolidated statements of income. Ruud Lighting is included in the Lighting Products segment.

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The amounts of revenue and net income of Ruud Lighting in the consolidated statements of income from and including August 17, 2011 to December 25, 2011 are as follows (in thousands, except per share data):

	Three Months Ended	Six Months Ended
	December 25, 2011	December 25, 2011
Revenue	$61,148	$83,491
Operating income	1,647	1,125
Net income	1,319	655
Basic net income per share	$0.01	$0.01
Diluted net income per share	$0.01	$0.01

The following unaudited pro forma information presents a summary of the Company's consolidated results of operations as if the Ruud Lighting acquisition occurred as of June 27, 2011 (in thousands, except per share data).

	Six Months Ended
	December 25, 2011
Revenue	$603,430
Operating income	23,872
Net income	23,117
Basic net income per share	$0.20
Diluted net income per share	$0.20

The total revenue for Ruud Lighting included in the pro forma table above was $115.0 million for the six month period from June 27, 2011 to December 25, 2011.

Note 3. Financial Statement Details

Accounts Receivable, net

The following table presents a summary of the components of accounts receivable, net (in thousands):

	December 30, 2012	June 24, 2012
Billed trade receivables	$170,544	$173,145
Unbilled contract receivables	1,876	1,576
	172,420	174,721
Allowance for sales returns, discounts, and other incentives	(25,668)	(20,681)
Allowance for bad debts	(2,200)	(1,782)
Total accounts receivable, net	$144,552	$152,258

Inventories

The following table presents a summary of the components of inventories (in thousands):

	December 30, 2012	June 24, 2012
Raw material	$56,925	$57,618
Work-in-progress	68,514	74,241
Finished goods	59,567	56,990
Total inventories	$185,006	$188,849

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Other current liabilities

The following table presents a summary of the components of other current liabilities (in thousands):

	December 30, 2012	June 24, 2012
Accrued taxes	$9,683	$11,615
Accrued professional fees	6,628	7,412
Accrued warranty	7,243	5,513
Accrued other	9,101	12,093
Total other current liabilities	$32,655	$36,633

Other non-operating income (expense), net

The following table presents a summary of the components of other non-operating income (expense), net (in thousands):

	Three Months Ended		Six Months Ended	
	12/30/2012	12/25/2011	12/30/2012	12/25/2011
Foreign currency gain (loss), net	$301	$(24)	$128	$21
Gain on sale of investments, net	8	1	36	997
Other, net	226	(88)	1,964	(155)
Total other non-operating income (expense), net	$535	$(111)	$2,128	$863

Note 4. Investments

Short-term investments consist of high grade municipal and corporate bonds and other debt securities. The Company classifies its marketable securities as available-for-sale based upon management's determination that the underlying cash invested in these securities is available for operations as necessary.

The following tables provide a summary of marketable investments by type (in thousands):

	December 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal bonds	$236,819	$1,442	$(311)	$ 237,950
Corporate bonds	158,563	2,467	(49)	160,981
Certificates of deposit	225,000	—	—	225,000
U.S. agency securities	71,620	440	—	72,060
Non-U.S. government securities	10,172	32	—	10,204
Total	$702,174	$4,381	$(360)	$ 706,195

	June 24, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal bonds	$209,626	$2,036	$(58)	$ 211,604
Corporate bonds	144,942	1,848	(123)	146,667
Certificates of deposit	130,000	—	—	130,000
U.S. agency securities	68,156	450	(7)	68,599
Non-U.S. government securities	8,746	15	(3)	8,758
Total	$561,470	$4,349	$(191)	$ 565,628

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The following tables present the gross unrealized losses and estimated fair value of the Company's investment securities, aggregated by investment type and length of time that individual investments securities have been in a continuous unrealized loss position (in thousands):

	December 30, 2012					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Municipal bonds	$77,718	$(311)	$—	$—	$77,718	$(311)
Corporate bonds	21,128	(49)	—	—	21,128	(49)
Total	$98,846	$(360)	$—	$—	$98,846	$(360)
Number of securities with an unrealized loss		56		—		56

	June 24, 2012					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Municipal bonds	$30,102	$(58)	$—	$—	$30,102	$(58)
Corporate bonds	30,550	(123)	—	—	30,550	(123)
U.S. agency securities	3,014	(7)	—	—	3,014	(7)
Non-U.S. government securities	1,543	(3)	—	—	1,543	(3)
Total	$65,209	$(191)	$—	$—	$65,209	$(191)
Number of securities with an unrealized loss		33		—		33

The contractual maturities of marketable investments at December 30, 2012 were as follows (in thousands):

	December 30, 2012				
	Within One Year	After One, Within Five Years	After Five, Within Ten Years	After Ten Years	Total
Municipal bonds	$63,142	$174,808	$—	$—	$237,950
Corporate bonds	34,905	126,076	—	—	160,981
Certificates of deposit	225,000	—	—	—	225,000
U.S. agency securities	29,187	42,873	—	—	72,060
Non-U.S. government securities	2,523	7,681	—	—	10,204
Total	$354,757	$351,438	$—	$—	$706,195

Note 5. Fair Value of Financial Instruments

Under U.S. GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., “the exit price”) in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation approaches, including quoted market prices and discounted cash flows. U.S. GAAP also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

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Observable inputs are obtained from independent sources and can be validated by a third party, whereas, unobservable inputs reflect assumptions regarding what a third party would use in pricing an asset or liability. The fair value hierarchy is categorized into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical instruments that the Company is able to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 - Valuations based on quoted prices in active markets for instruments that are similar, or quoted prices in markets that are not active for identical or similar instruments, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The financial assets for which the Company performs recurring fair value remeasurements are cash equivalents and short-term investments. As of December 30, 2012, financial assets utilizing Level 1 inputs included money market funds. Financial assets utilizing Level 2 inputs included certificates of deposit, corporate bonds and municipal bonds, U.S. agency securities and non-U.S. government securities. Level 2 assets are valued using a third-party pricing services consensus price which is a weighted average price based on multiple sources. These sources determine prices utilizing market income models which factor in, where applicable, transactions of similar assets in active markets, transactions of identical assets in infrequent markets, interest rates, bond or credit default swap spreads and volatility. The Company does not have any financial assets requiring the use of Level 3 inputs. There were no transfers between Level 1 and Level 2 during the six months ended December 30, 2012.

The following table sets forth financial instruments carried at fair value within the U.S. GAAP hierarchy (in thousands):

	December 30, 2012				June 24, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents:								
Municipal bonds	$—	$—	$—	$—	$—	$3,000	$—	$3,000
Money market funds	4,425	—	—	4,425	31,318	—	—	31,318
Total cash equivalents	4,425	—	—	4,425	31,318	3,000	—	34,318
Short-term investments:								
Municipal bonds	—	237,950	—	237,950	—	211,604	—	211,604
Corporate bonds	—	160,981	—	160,981	—	146,667	—	146,667
Certificates of deposit	—	225,000	—	225,000	—	130,000	—	130,000
U.S. agency securities	—	72,060	—	72,060	—	68,599	—	68,599
Non-U.S. government securities	—	10,204	—	10,204	—	8,758	—	8,758
Total short-term investments	—	706,195	—	706,195	—	565,628	—	565,628
Total assets	$4,425	$706,195	$—	$710,620	$31,318	$568,628	$—	$599,946

The Company utilizes specific identification in computing realized gains and losses on the sale of investments. Realized gains from the sale of investments for the six months ended December 30, 2012 of approximately $36 thousand are included in "Other non-operating income (expense), net" and unrealized gains and losses are included as a separate component of equity, net of tax, unless the loss is determined to be “other-than-temporary.”

The Company evaluates its investments for possible impairment or a decline in fair value below cost basis that is deemed to be “other-than-temporary” on a periodic basis. It considers such factors as the length of time and extent to which fair value has been below cost basis, the financial condition of the investee, and its ability and intent to hold the investment for a period of time that may be sufficient for an anticipated recovery in market value.

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Note 6. Intangible Assets

The following table presents the components of intangible assets, net (in thousands):

	December 30, 2012			June 24, 2012		
	Gross	Accumulated amortization	Net	Gross	Accumulated amortization	Net
Intangible assets with finite lives:						
Customer relationships	$137,440	$(55,357)	$82,083	$137,440	$(51,103)	$86,337
Developed technology	162,760	(43,283)	119,477	160,360	(33,141)	127,219
Non-compete agreements	10,244	(3,057)	7,187	10,244	(2,077)	8,167
Trade names, finite-lived	520	(481)	39	520	(469)	51
Patent and license rights	106,399	(31,545)	74,854	97,812	(28,791)	69,021
Total intangible assets with finite lives	417,363	(133,723)	283,640	406,376	(115,581)	290,795
In-process research and development, indefinite-lived	—		—	2,400		2,400
Trade names, indefinite-lived	82,880		82,880	82,880		82,880
Total intangible assets	$500,243	$(133,723)	$366,520	$491,656	$(115,581)	$376,075

Total amortization expense, including the amortization of acquisition related intangibles, patents and license rights, recognized during the three and six months ended December 30, 2012 was $9.5 million and $18.7 million, respectively. For the three and six months ended December 25, 2011, total amortization expense, including the amortization of acquisition related intangibles, patents and license rights, was $8.8 million and $14.1 million, respectively.

Total annual amortization expense of intangible assets is estimated to be as follows (in thousands):

Fiscal Year Ending	
June 30, 2013 (remainder of fiscal 2013)	$18,784
June 29, 2014	35,539
June 28, 2015	32,572
June 26, 2016	32,296
June 25, 2017	30,335
Thereafter	134,114
Total	$283,640

Note 7. Shareholders' Equity

As of December 30, 2012, the Company is authorized by the Board of Directors to repurchase shares of its common stock having an aggregate purchase price not exceeding $200.0 million for all purchases from June 14, 2012 through the June 30, 2013 expiration of the program. During the six months ended December 30, 2012, there were no repurchases of common stock by the Company under the repurchase program.

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Note 8. Earnings Per Share

The following presents the computation of basic earnings per share (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	December 30, 2012	December 25, 2011	December 30, 2012	December 25, 2011
Basic:				
Net income	$20,403	$12,078	$36,526	$24,897
Weighted average common shares - basic	115,965	115,536	115,760	113,701
Basic earnings per share	$0.18	$0.10	$0.32	$0.22

The following computation reconciles the differences between the basic and diluted earnings per share presentations (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	December 30, 2012	December 25, 2011	December 30, 2012	December 25, 2011
Diluted:				
Net income	$20,403	$12,078	$36,526	$24,897
Weighted average common shares - basic	115,965	115,536	115,760	113,701
Dilutive effect of stock options, unvested shares and ESPP purchase rights	445	347	489	538
Weighted average common shares - diluted	116,410	115,883	116,249	114,239
Diluted earnings per share	$0.18	$0.10	$0.31	$0.22

Potential common shares that would have the effect of increasing diluted earnings per share are considered to be antidilutive and as such, these shares are not included in calculating diluted earnings per share. For the three and six months ended December 30, 2012, there were 10.2 million and 9.1 million, respectively, of potential common shares not included in the calculation of diluted earnings per share because their effect was antidilutive. For the three and six months ended December 25, 2011, there were 8.1 million and 6.6 million, respectively, of potential common shares not included in the calculation of diluted earnings per share because their effect was antidilutive.

Note 9. Stock-Based Compensation

The Company currently has one equity-based compensation plan from which stock-based compensation awards can be granted to employees and directors. In addition, the Company has plans that have been terminated as to future grants, but under which options are currently outstanding.

During the first quarter of fiscal 2013, the Company initiated grants of performance-based stock option and stock unit awards. The compensation expense for an award with a performance condition is based on the probable outcome of that performance condition. Compensation expense is recognized if the Company believes it is probable that the performance condition will be achieved and is adjusted for subsequent changes in the estimate or actual outcome. As with non-performance based awards, compensation expense is recognized over the vesting period. The vesting period runs from the date of grant to the expected date that the performance objective is likely to be achieved.

The Company also has an Employee Stock Purchase Plan ("ESPP") that provides employees with the opportunity to purchase the Company’s common stock at a discount. The ESPP was amended in the second quarter of fiscal 2012 to increase the six-month participation period to a twelve-month participation period, divided into two equal six-month purchase periods, and to provide for a look-back feature. At the end of each six-month period, employees purchase the Company's common stock through the ESPP at 15% less than the fair market value of the common stock on the first day of the twelve-month participation period or the purchase date, whichever is lower. The plan amendment also provides for an automatic reset feature to start participants on a new twelve-month participation period if the share value declines during the first six-month purchase period.

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Stock Option Awards

The following table summarizes outstanding option awards as of December 30, 2012, and changes during the six months then ended (shares in thousands):

	Number of Shares	Weighted-Average Exercise Price
Outstanding at June 24, 2012	8,800	$36.71
Granted	3,228	27.80
Exercised	(343)	