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Cree buying co-founder's company

Durham chip maker could pay \$103.4 million for LED Lighting Fixtures, which makes products using Cree's technology

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Cree is increasing its bet on the burgeoning market for energy-efficient lights.

The Durham chip maker announced Friday that it will buy LED Lighting Fixtures of Morrisville for as much as \$103.4 million. The deal combines two local companies working on a new generation of lights that they predict will replace traditional bulbs.

Privately held LED Lighting is run by F. Neal Hunter, an N.C. State alumnus who 20 years ago co-founded Cree, one of the Triangle's most successful publicly traded companies. Hunter, a former CEO at Cree, will rejoin the company as part of the deal, which is expected to close next month.

LED Lighting uses Cree's light-emitting diodes to develop lights for businesses and homes. Cree's tiny chips are used to illuminate cell phones, signs and other products, but it wants to capture more of the traditional lighting market.

"We're committed to being the leader of the LED lighting revolution," said Charles M. Swoboda, Cree's current CEO. "Combining our two technologies, we can drive the market faster."

Cree would pay \$77 million in cash and stock, plus \$26.4 million during the next three years. The extra money is tied to LED Lighting meeting product milestones and retaining employees.

Hunter "and his entire team are key to making this successful," Swoboda said. No jobs will be eliminated, he said.

Cree approached LED Lighting about an acquisition a couple of months ago after noticing the traction the company was gaining in the marketplace, said Cynthia Merrell, chief financial officer at LED Lighting. Merrell previously was Cree's finance chief.

Merrell noted that LED Lighting introduced its first lighting product in August and generated \$2 million in sales in its first four months. In the fall, the company's light fixture won the "2007 Lighting for Tomorrow" competition run by the U.S. Department of Energy and American Lighting Association.

"Cree just saw that momentum building," Merrell said.

LED Lighting was approached by other lighting companies and had serious talks with some, Merrell said. She declined to identify the suitors.

"It's very helpful to have a company with a lot of cash and very financially savvy behind you," Merrell said of being acquired by Cree. "This gives you unlimited growth potential."

Buying LED Lighting will add \$1 million to Cree's revenue for the current quarter and \$30 million in revenue during the fiscal year that starts in June. Cree reported \$394 million in revenue in its last fiscal year.

"I was concerned that might be overpaying, but the numbers don't suggest they are," said Jay Mullins, vice president of the D.L. Carlson Investment Group in New Hampshire, which owns 710,000 Cree shares. "They're buying attractive technology, and it bolsters their position in the market."

Cree's shares rose 42 cents to \$32.22 Friday. The stock has nearly doubled in the past year.

Lawmakers and regulators are embracing environmentally friendly lighting to combat the threat of global warming. That trend is expected to increase global demand for LED lights, which use a fraction of the energy consumed by traditional bulbs.

But LEDs remain a risky bet. They are more expensive than options such as compact fluorescent bulbs. And they are not widely available to consumers.

Another possible downside of the deal is that Cree would compete with its own customers in the lighting-fixture business.

But Cree and LED Lighting are developing better -- and brighter -- lights that can be used with existing sockets, said analyst Andrew Huang of American Technology Research. Rivals are focused on lights that aren't compatible with traditional sockets.

LED Lighting will be renamed Cree LED Lighting Solutions. Hunter will be president of that subsidiary.

Selling to Cree will likely enrich LED Lighting investors and executives. The company was founded in 2005 and has raised about \$23 million in private funding. Hunter declined to disclose his ownership stake in LED Lighting.

One appealing aspect was the currency -- cash plus Cree shares -- in the deal, Hunter said. "I kind of like our chances of seeing an appreciation in the stock," he said.

Plus, Hunter is returning to a company whose very name has a strong family connection: His late father was Charles Cree Hunter.

"I've got a huge obligation to make this work under the Cree brand now," Hunter said.

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