CREE INC
Form 10-Q
May 03, 2019
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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 March 31, 2019
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)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, $0.00125 par value	CREE	The Nasdaq Stock Market LLC

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 every Interactive Data File required to be submitted 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 such files).
Yes [X] No [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]
Accelerated filer [ ]
Smaller reporting company [ ]

Non-accelerated
filer
[ ]
Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Securities Act. [ ]

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 April 26, 2019, was 105,248,244.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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CREE, INC.
UNAUDITED CONSOLIDATED BALANCE SHEETS

	March 31, 2019	June 24, 2018
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$456,157	$118,924
Short-term investments	333,111	268,161
Total cash, cash equivalents and short-term investments	789,268	387,085
Accounts receivable, net	150,390	86,398
Income tax receivable	489	2,256
Inventories	172,793	151,636
Prepaid expenses	19,201	24,521
Other current assets	25,916	12,921
Current assets held for sale (Note 2)	340,782	225,544
Total current assets	1,498,839	890,361
Property and equipment, net	607,659	589,073
Goodwill	530,004	530,004
Intangible assets, net	203,016	215,815
Other long-term investments	44,122	57,501
Deferred income taxes	9,958	5,766
Other assets	5,559	11,604
Long-term assets held for sale (Note 2)	—	337,692
Total assets	$2,899,157	$2,637,816
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$111,203	$105,354
Accrued salaries and wages	63,361	41,877
Income taxes payable	1,701	—
Accrued contract liabilities (Note 3)	47,328	—
Other current liabilities	20,472	19,280
Current liabilities held for sale (Note 2)	90,355	82,053
Total current liabilities	334,420	248,564
Long-term liabilities:		
Long-term debt	—	292,000
Convertible notes, net	463,491	—
Deferred income taxes	5,878	3,148
Other long-term liabilities	29,453	518
Long-term liabilities held for sale (Note 2)	—	21,505
Total long-term liabilities	498,822	317,171
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred stock, par value $0.01; 3,000 shares authorized at March 31, 2019 and June 24, 2018; none issued and outstanding	—	—
Common stock, par value $0.00125; 200,000 shares authorized at March 31, 2019 and June 24, 2018; 104,515 issued and outstanding at March 31, 2019 and 101,488 shares issued and outstanding at June 24, 2018	131	127

Additional paid-in-capital	2,772,042	2,549,123
Accumulated other comprehensive income, net of taxes	2,554	596
Accumulated deficit	(713,780)	(482,710)
Total shareholders’ equity	2,060,947	2,067,136
Non-controlling interest	4,968	4,945
Total liabilities and equity	$2,899,157	$2,637,816

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

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

	Three Months Ended		Nine Months Ended	
	March 31, 2019	March 25, 2018	March 31, 2019	March 25, 2018
	(In thousands, except per share amounts)			
Revenue, net	$274,050	$225,200	$828,729	$659,128
Cost of revenue, net	173,596	150,337	526,444	445,198
Gross profit	100,454	74,863	302,285	213,930
Operating expenses:				
Research and development	40,722	31,144	117,235	95,184
Sales, general and administrative	61,626	46,631	157,937	128,743
Amortization or impairment of acquisition-related intangibles	3,906	1,516	11,717	3,224
Loss on disposal and impairment of other assets	5,286	1,112	5,708	6,940
Total operating expenses	111,540	80,403	292,597	234,091
Operating (loss) income	(11,086)	(5,540)	9,688	(20,161)
Non-operating (expense) income, net	(8,440)	(10,000)	(23,695)	14,942
Loss before income taxes	(19,526)	(15,540)	(14,007)	(5,219)
Income tax expense (benefit)	2,785	(5,377)	9,252	(17,633)
(Loss) Income from continuing operations	(22,311)	(10,163)	(23,259)	12,414
Loss from discontinued operations, net of tax	(205,420)	(230,370)	(218,085)	(259,067)
Net loss	(227,731)	(240,533)	(241,344)	(246,653)
Net income attributable to non-controlling interest	121	44	23	59
Net loss attributable to controlling interest	($227,852)	($240,577)	($241,367)	($246,712)
(Loss) Earnings per share - basic				
Continuing operations	($0.22)	($0.10)	($0.23)	$0.13
Discontinued operations	(1.98)	(2.30)	(2.12)	(2.62)
Loss per share - basic	($2.20)	($2.40)	($2.35)	($2.49)
(Loss) Earnings per share - diluted				
Continuing operations	($0.22)	($0.10)	($0.23)	$0.12
Discontinued operations	(1.98)	(2.30)	(2.12)	(2.57)
Loss per share - diluted	($2.20)	($2.40)	($2.35)	($2.45)
Weighted average shares used in per share calculation:				
Basic	103,659	100,140	102,807	99,046
Diluted	103,659	100,140	102,807	100,672

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

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

	Three Months Ended		Nine Months Ended	
	March 31, 2019	March 25, 2018	March 31, 2019	March 25, 2018
	(In thousands)			
Net loss	($227,731)	($240,533)	($241,344)	($246,653)
Other comprehensive income (loss)				
Currency translation (loss) gain	(250)	788	(784)	2,006
Net unrealized gain (loss) on available-for-sale securities, net of tax benefit of $0 and $0, respectively	1,948	(2,269)	2,742	(5,969)
Other comprehensive income (loss)	1,698	(1,481)	1,958	(3,963)
Comprehensive loss	(226,033)	(242,014)	(239,386)	(250,616)
Net income attributable to non-controlling interest	121	44	23	59
Comprehensive loss attributable to controlling interest	($226,154)	($242,058)	($239,409)	($250,675)

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

CREE, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock Number of Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Non-controlling Interest	Total Equity
(In thousands)								
Balance at June 24, 2018	101,488	$127	$2,549,123	($482,710)	$596	$2,067,136	$4,945	$2,072,081
Net loss	—	—	—	(11,067)	—	(11,067)	(67)	(11,134)
Currency translation gain, net of tax benefit of $0	—	—	—	—	343	343	—	343
Unrealized loss on available-for-sale securities, net of tax expense of $0	—	—	—	—	(275)	(275)	—	(275)
Comprehensive loss						(10,999)	(67)	(11,066)
Income tax expense from stock option exercises	—	—	(10,828)	—	—	(10,828)	—	(10,828)
Stock-based compensation	—	—	12,117	—	—	12,117	—	12,117
Exercise of stock options and issuance of shares	1,032	1	15,503	—	—	15,504	—	15,504
Adoption of ASC 606	—	—	—	10,299	—	10,299	—	10,299
Convertible note issuance	—	—	110,591	—	—	110,591	—	110,591
Balance at September 23, 2018	102,520	$128	$2,676,506	($483,478)	$664	$2,193,820	$4,878	$2,198,698
Net loss	—	—	—	(2,450)	—	(2,450)	(31)	(2,481)
Currency translation loss, net of tax benefit of $0	—	—	—	—	(877)	(877)	—	(877)
Unrealized gain on available-for-sale securities, net of tax expense of $0	—	—	—	—	1,069	1,069	—	1,069
Comprehensive loss	—	—	—	—	—	(2,258)	(31)	(2,289)
Income tax benefit from stock option exercises	—	—	9,278	—	—	9,278	—	9,278
Stock-based compensation	—	—	13,635	—	—	13,635	—	13,635
Exercise of stock options and issuance of shares	553	1	4,182	—	—	4,183	—	4,183
Balance at December 30, 2018	103,073	$129	$2,703,601	($485,928)	$856	$2,218,658	$4,847	$2,223,505

Net (loss) income	—	—	—	(227,852)	—	(227,852)	121	(227,731)
Currency translation loss, net of tax benefit of $0	—	—	—	—	(250)	(250)	—	(250)
Unrealized gain on available-for-sale securities, net of tax expense of $0	—	—	—	—	1,948	1,948	—	1,948
Comprehensive (loss) income	—	—	—	—	—	(226,154)	121	(226,033)
Income tax expense from stock option exercises	—	—	(469)	—	—	(469)	—	(469)
Stock-based compensation	—	—	15,647	—	—	15,647	—	15,647
Exercise of stock options and issuance of shares	1,442	2	53,263	—	—	53,265	—	53,265
Balance at March 31, 2019	104,515	$131	$2,772,042	($713,780)	$2,554	$2,060,947	$4,968	$2,065,915

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

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CREE, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock Number of Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Non-controlling Interest	Total Equity
(In thousands)								
Balance at June 25, 2017	97,674	$121	$2,419,517	($202,742)	$5,909	$2,222,805	—	$2,222,805
Net loss	—	—	—	(19,857)	—	(19,857)	(16)	(19,873)
Currency translation gain, net of tax benefit of $0	—	—	—	—	1,642	1,642	—	1,642
Unrealized loss on available-for-sale securities, net of tax expense of $0	—	—	—	—	(39)	(39)	—	(39)
Comprehensive loss						(18,254)	(16)	(18,270)
Income tax expense from stock option exercises	—	—	(3,798)	—	—	(3,798)	—	(3,798)
Stock-based compensation	—	—	10,226	—	—	10,226	—	10,226
Exercise of stock options and issuance of shares	371	—	118	—	—	118	—	118
Contributions from non-controlling interests	—	—	—	—	—	—	4,900	4,900
Balance at September 24, 2017	98,045	$121	$2,426,063	($222,599)	$7,512	$2,211,097	$4,884	$2,215,981
Net income	—	—	—	13,721		13,721	31	13,752
Currency translation loss, net of tax benefit of $0	—	—	—	—	(424)	(424)	—	(424)
Unrealized loss on available-for-sale securities, net of tax expense of $0	—	—	—	—	(3,660)	(3,660)	—	(3,660)
Comprehensive income	—	—	—	—	—	9,637	31	9,668
Income tax expense from stock option exercises	—	—	(849)	—	—	(849)	—	(849)
Stock-based compensation	—	—	11,780	—	—	11,780	—	11,780
Exercise of stock options and issuance of shares	1,843	2	46,430	—	—	46,432	—	46,432
Balance at December 24, 2017	99,888	$123	$2,483,424	($208,878)	$3,428	$2,278,097	$4,915	$2,283,012

Net (loss) income	—	—	—	(240,577)	—	(240,577)	44	(240,533)
Currency translation gain, net of tax benefit of $0	—	—	—	—	788	788	—	788
Unrealized loss on available-for-sale securities, net of tax expense of $0	—	—	—	—	(2,269)	(2,269)	—	(2,269)
Comprehensive (loss) income	—	—	—	—	—	(242,058)	44	(242,014)
Income tax (expense) benefit from stock option exercises	—	—	(1,291)	—	—	(1,291)	—	(1,291)
Stock-based compensation	—	—	11,471	—	—	11,471	—	11,471
Exercise of stock options and issuance of shares	599	1	15,692	—	—	15,693	—	15,693
Balance at March 25, 2018	100,487	$124	$2,509,296	($449,455)	$1,947	$2,061,912	$4,959	$2,066,871

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

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CREE, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	March 31, 2019	March 25, 2018
	(In thousands)	
Cash flows from operating activities:		
Net loss	($241,344)	($246,653)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	116,256	113,244
Amortization of debt issuance costs and discount	12,687	—
Stock-based compensation	40,497	33,319
Impairment charges	197,580	247,455
Loss on disposal or impairment of long-lived assets	2,842	8,803
Amortization of premium/discount on investments	2,113	3,943
Loss (gain) on equity investment	12,443	(7,510)
Foreign exchange loss (gain) on equity investment	936	(2,543)
Deferred income taxes	(1,655)	(49,875)
Changes in operating assets and liabilities:		
Accounts receivable, net	(56,339)	5,728
Inventories	(19,237)	(4,640)
Prepaid expenses and other assets	3,517	2,041
Accounts payable, trade	6,590	15,328
Accrued salaries and wages and other liabilities	110,083	6,783
Net cash provided by operating activities	186,969	125,423
Cash flows from investing activities:		
Purchases of property and equipment	(106,522)	(128,433)
Purchases of patent and licensing rights	(9,148)	(7,913)
Proceeds from sale of property and equipment	286	538
Purchases of short-term investments	(251,676)	(174,623)
Proceeds from maturities of short-term investments	146,368	166,771
Proceeds from sale of short-term investments	28,185	176,981
Purchase of acquired business, net of cash acquired	—	(427,120)
Net cash used in investing activities	(192,507)	(393,799)
Cash flows from financing activities:		
Proceeds from issuing shares to non-controlling interest	—	4,900
Payment of acquisition-related contingent consideration	—	(1,850)
Proceeds from long-term debt borrowings	95,000	555,000
Payments on long-term debt borrowings	(387,000)	(384,000)
Proceeds from convertible notes	575,000	—
Payments of debt issuance costs	(12,938)	—
Net proceeds from issuance of common stock	72,948	62,240
Net cash provided by financing activities	343,010	236,290
Effects of foreign exchange changes on cash and cash equivalents	(239)	715
Net increase (decrease) in cash and cash equivalents	337,233	(31,371)
Cash and cash equivalents:		
Beginning of period	118,924	132,597
End of period	$456,157	$101,226
Supplemental disclosure of cash flow information:		

Significant non-cash transactions:		
Accrued property and equipment	$15,247	$19,275

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

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CREE, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation and New Accounting Standards
Overview
Cree, Inc. (the Company) is an innovator of wide bandgap semiconductor products for power and radio-frequency (RF) applications and lighting-class light emitting diode (LED) products. The Company's products are targeted for applications such as transportation, power supplies, inverters, wireless systems, indoor and outdoor lighting, electronic signs and signals and video displays.
The Company's Wolfspeed segment's products consist of silicon carbide (SiC) and gallium nitride (GaN) materials, power devices and RF devices based on silicon (Si) and wide bandgap semiconductor materials. The Company's materials products and power devices are used in solar, electric vehicles, motor drives, power supplies and transportation applications. The Company's materials products and RF devices are used in military communications, radar, satellite and telecommunication applications.
The Company's LED Products segment's products consist of LED chips and LED components. The Company's LED products enable its customers to develop and market LED-based products for lighting, video screens, automotive and specialty lighting applications.
In addition, the Company designs, manufactures and sells LED lighting fixtures and lamps for the commercial, industrial and consumer markets. The Company refers to these product lines as the Lighting Products business unit. As discussed in Note 2, “Discontinued Operations,” on March 14, 2019, the Company executed a definitive agreement to sell its Lighting Products business unit to IDEAL Industries, Inc (IDEAL). As a result, the Company has classified the results of the Lighting Products business unit, which previously was identified as the Lighting Products segment, as discontinued operations in its consolidated statements of (loss) income for all periods presented. Additionally, the related assets and liabilities associated with the discontinued operations are classified as held for sale in the consolidated balance sheets. Unless otherwise noted, discussion within these notes to the consolidated financial statements relates to the Company's continuing operations.
The majority of the Company's products are manufactured at its production facilities located in North Carolina, California, Arkansas, Wisconsin and China. The Company also uses contract manufacturers for certain products and aspects of product fabrication, assembly and packaging. The Company operates research and development facilities in North Carolina, Arizona, Arkansas, California and China (including Hong Kong).
Cree, Inc. is a North Carolina corporation established in 1987 and is headquartered in Durham, North Carolina.
The Company's two reportable segments are:
- Wolfspeed
- LED Products

For financial results by reportable segment, please refer to Note 14, "Reportable Segments."
Basis of Presentation
The consolidated financial statements presented herein have been prepared by the Company and have not been audited. In the opinion of management, all normal and recurring adjustments necessary to fairly state the consolidated financial position, results of operations, comprehensive (loss) income, shareholders' equity and cash flows at March 31, 2019, and for all periods presented, have been made. All material intercompany accounts and transactions have been eliminated. The consolidated balance sheet at June 24, 2018 has been derived from the audited financial statements as of that date.
These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. 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, 2018 (fiscal 2018). The results of operations for the three and nine months ended March 31, 2019 are not necessarily indicative of the operating results that may be attained for the entire fiscal year ending June 30, 2019

(fiscal 2019). Historical periods presented include reclassifications to reflect discontinued operations (see Note 2).

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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, revenue and expenses, and the disclosure of contingent assets and liabilities. Actual amounts could differ materially from those estimates.

The Company has identified an error pertaining to the amounts presented as currency translation loss and unrealized gain on available-for-sale securities in the previously reported Consolidated Statements of Comprehensive Loss for the three and nine months ended March 25, 2018. As a result, the Company has revised the amounts for the three and nine months ended March 25, 2018 to reflect a currency translation gain of $0.8 million and $2.0 million, and net unrealized loss on available-for-sale securities of $2.3 million and $6.0 million, net of tax benefit, respectively. The Company concluded that these errors were not material individually or in the aggregate to any of the periods impacted.

Recently Issued Accounting Pronouncements Adopted

Nonemployee Stock Compensation

In June 2018, the FASB issued ASU 2018-07: Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The ASU applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The Company early adopted this standard in the second quarter of fiscal 2019. There was no material impact upon adoption of this standard.

Fair Value Measurement Disclosure

In August 2018, the FASB issued ASU 2018-13: Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The ASU modifies the disclosure requirements required for fair value measurements. The Company early adopted this standard in the first quarter of fiscal 2019.

Cloud Computing Arrangements

In August 2018, the FASB issued ASU 2018-15: Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. The ASU allows companies to capitalize implementation costs incurred in a hosting arrangement that is a service contract over the term of the hosting arrangement, including periods covered by renewal options that are reasonably certain to be exercised. The Company early adopted this standard in the first quarter of fiscal 2019. There was no significant impact on the financial statements.

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09: Revenue from Contracts with Customers (Topic 606). The FASB has subsequently issued multiple ASUs that amend and clarify the guidance in Topic 606. The ASU establishes a principles-based approach for accounting for revenue arising from contracts with customers and supersedes existing revenue recognition guidance. The ASU provides that an entity should apply a five-step approach for recognizing revenue, including (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. Also, the entity must provide various disclosures concerning the nature, amount and timing of revenue and cash flows arising from contracts with customers. The Company adopted this standard on June 25, 2018. The cumulative effect of this adjustment recorded to beginning retained earnings as of June 25, 2018 was $10.3 million, and the Company did not recognize a discrete tax impact related to the opening deferred tax balance as of June 25, 2018 due to the full U.S. valuation allowance. The Company recognized a loss of revenue of approximately $1.6 million for the nine months ended March 31, 2019, and expects the ongoing effect to be immaterial to the consolidated financial statements. See Note 3, "Revenue Recognition," for discussion of the impacted financial statement line items.

Goodwill Impairment Testing

In January 2017, the FASB issued ASU No. 2017-04: Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The ASU simplifies the manner in which an entity is required to test for goodwill impairment by eliminating Step 2 from the goodwill impairment test. Additionally, the ASU removes the requirement for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails such qualitative test, to continue to perform Step 1 of the goodwill impairment test. The Company early adopted this standard in the third quarter of fiscal 2018.

Recently Issued Accounting Pronouncements Pending Adoption

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Leases

In February 2016, the FASB issued ASU No. 2016-02: Leases (Topic 842) and ASU 2018-10: Codification Improvements to Topic 842, Leases. The FASB has subsequently issued multiple ASUs, which amend and clarify the guidance in Topic 842. These ASUs require that a lessee recognize in its statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. For income statement purposes, leases are still required to be classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. The effective date will be the first quarter of the Company's fiscal year ending June 28, 2020, using the modified retrospective method. The Company is currently analyzing the impact of this new pronouncement.

Note 2 – Discontinued Operations

On March 14, 2019, the Company entered into a Purchase Agreement (the Purchase Agreement) with IDEAL. The transaction, is targeted to close by the end of Cree's fiscal year 2019, subject to customary closing conditions and governmental approvals.

Pursuant to the Purchase Agreement, the Company will sell to IDEAL, and IDEAL will purchase from the Company, certain manufacturing facilities and equipment, inventory, intellectual property rights, contracts, and real estate of the Company comprising the Company’s Lighting Products business unit, which includes the LED lighting fixtures, lamps and corporate lighting solutions business for commercial, industrial and consumer applications, and all of the issued and outstanding equity interests of E-conolight LLC (E-conolight), Cree Canada Corp. and Cree Europe S.r.l. (collectively the Lighting Products business), IDEAL will also assume certain liabilities related to the Lighting Products business. The Lighting Products business represented all of the Lighting Products segment disclosed in our historical financial statements.

The aggregate consideration paid for the Lighting Products business will consist of $225 million in cash, which is subject to certain adjustments, and an earnout payment subject to the future performance of the Lighting Products business. In connection with the transaction, the Company and IDEAL will also enter into certain ancillary and related agreements, including (i) an Intellectual Property Assignment and License Agreement, which will assign to IDEAL certain intellectual property owned by the Company and license to IDEAL certain additional intellectual property owned by the Company; (ii) a Transition Services Agreement, which is designed to ensure a smooth transition of the Lighting Products business to IDEAL; (iii) an LED Supply Agreement, pursuant to which the Company will supply IDEAL with certain LED chip and component products for three years; and, (iv) a Real Estate License Agreement, which will allow IDEAL to use certain premises owned by the Company to conduct the Lighting Products business after closing.

The Company has classified the results of the Lighting Products business as discontinued operations in the Company’s consolidated statements of (loss) income for all periods presented. The Company ceased recording depreciation and amortization of long-lived assets of the Lighting Products business upon classification as discontinued operations in March 2019. Additionally, the related assets and liabilities associated with the discontinued operations are classified as held for sale in the consolidated balance sheets. The assets and liabilities held for sale as of March 31, 2019 are classified as current in the consolidated balance sheet as the Company expects the transaction to close and proceeds to be collected within one year.

The following table presents the financial results of the Lighting Products business unit as loss from discontinued operations, net of income taxes in the Company's consolidated statements of (loss) income (in thousands):

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	Three Months Ended		Nine Months Ended	
	March 31, 2019	March 25, 2018	March 31, 2019	March 25, 2018
Revenue, net	$109,386	$130,759	$376,008	$425,100
Cost of revenue, net	82,490	106,564	287,553	347,037
Gross profit	26,896	24,195	88,455	78,063
Total operating expenses	231,937	286,717	306,350	366,375
Non-operating income	197	348	497	1,068
Loss from discontinued operations before income taxes	(204,844)	(262,174)	(217,398)	(287,244)
Income tax expense (benefit)	576	(31,804)	687	(28,177)
Loss from discontinued operations, net of income taxes	($205,420)	($230,370)	($218,085)	($259,067)

Additionally, the Company recorded a $197.6 million impairment charge on assets held for sale, which includes goodwill of $90 million, for the three and nine months ended March 31, 2019 and a $247.5 million goodwill impairment charge for the three and nine months ended March 25, 2018.

The following table presents the assets and liabilities related to the Lighting Products business unit held for sale (in thousands):

	March 31, 2019	June 24, 2018
Assets Held for Sale		
Accounts receivable, net	$59,929	$67,477
Prepaid and other current assets	7,264	11,059
Income tax receivable	494	449
Inventories	143,104	144,379
Property and equipment, net	71,226	72,246
Deferred tax assets	538	685
Intangible assets, net	133,358	174,239
Goodwill	—	90,326
Other long term assets	203	196
Valuation allowance on disposal group	(75,334)	—
Total Assets Held for Sale*	$340,782	$561,056
Liabilities Held for Sale		
Accounts payable	$34,201	$45,953
Accrued salaries and wages	18,661	11,581
Other accrued liabilities	21,122	24,248
Income tax payable	—	271
Other long term liabilities	16,371	21,505
Total Liabilities Held for Sale*	$90,355	$103,558

*Amounts in the June 24, 2018 column are classified as current and long-term in the consolidated balance sheet.

The following table presents the cash flow of the Lighting Products business unit (in thousands):

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	Nine Months Ended March 31, 2019	March 25, 2018
Net cash provided by discontinued operating activities	$9,294	$49,047
Net cash used in discontinued investing activities	(15,356)	(12,577)

Note 3 – Revenue Recognition

Effective June 25, 2018, the Company adopted ASC Topic 606: “Revenue from Contracts with Customers," and all related accounting standard updates, using the modified retrospective method applied to contracts not completed as of June 25, 2018. Results for all reporting periods subsequent to adoption are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic revenue recognition policy under ASC Topic 605: “Revenue Recognition."

The Company follows a five-step approach defined by the new standard for recognizing revenue, consisting of (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation.

Master supply or distributor agreements are in place with the majority of the Company's customers and contain terms and conditions including, but not limited to payment, delivery, incentives and warranty. These agreements typically do not require minimum purchase commitments. In the case an agreement is not present, the Company considers a purchase order, which is governed by the Company’s standard terms and conditions, to be a contract.

Substantially all of the Company's revenue is derived from product sales. Revenue is recognized at a point in time based on the Company’s evaluation of when the customer obtains control of the products, and all performance obligations under the terms of the contract are satisfied. If customer acceptance clauses are present and it cannot be objectively determined that control has been transferred based on the contract and shipping terms, revenue is only recorded when customer acceptance is received and all performance obligations have been satisfied. Sales of products typically do not include more than one performance obligation.

Pricing terms are negotiated independently on a stand-alone basis. Revenue is measured based on the amount of net consideration the Company expects to be entitled to in exchange for products or services. Variable consideration is recognized as a reduction of net revenue with a corresponding reserve at the time of revenue recognition, and consists primarily of sales incentives or rebates, price concessions and return allowances. Variable consideration is estimated based on contractual terms, historical analysis of customer purchase volumes, or historical analysis using specific data for the type of consideration being assessed. The Company offers product warranties and establishes liabilities for estimated warranty costs based upon historical experience and specific warranty provisions. Warranty liability estimates are included in cost of revenue in the Company’s Consolidated Statements of (Loss) Income, and further detail is presented in Note 13, "Commitments and Contingencies."

Contract liabilities primarily include deferred revenue, price protection guarantees, customer deposits and various rights of return. Contract liabilities were $74.6 million and $47.1 million for the periods ended March 31, 2019 and June 24, 2018, respectively, and are recorded within accrued contract liabilities and other long-term liabilities on the balance sheet. These items were previously presented as a reduction of accounts receivable on the consolidated balance sheet. The adjustments do not impact net cash used in operating activities; however, they do impact the changes in operating assets and liabilities for the related accounts within the disclosure of operating activities on the statement of cash flows

Practical Expedients and Exemptions

The Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

Incidental contract costs that are not material in context of the delivery of products are expensed as incurred. Sales commissions are expensed when the amortization period is less than one year. Contract assets, such as costs to obtain or fulfill contracts, are an insignificant component of the Company's revenue recognition process. The majority of the Company's fulfillment costs as a manufacturer consist of inventory, fixed assets, and intangible assets, all of which are accounted for under the respective guidance for those asset types.

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The Company’s accounts receivable balance represents the Company’s unconditional right to receive consideration from its customers with contracts. Payments are due within 12 months of completion of the performance obligation and invoicing, and therefore do not contain significant financing components.

Sales tax, value-added tax, and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue, and shipping and handling costs are treated as fulfillment activities and are included in cost of revenue in the Company’s Consolidated Statements of (Loss) Income.

Opening Balance Adjustments

The following table summarizes the impacts of adopting the new revenue standard on the Company's unaudited consolidated balance sheet (in thousands):

	Balance as of June 24, 2018	Adjustments	Opening Balance as of June 25, 2018
Assets:			
Accounts Receivable	$86,398	$43,355	$129,753
Liabilities:			
Accrued Contract Liabilities	—	(42,675)	(42,675)
Stockholders' Equity:			
Accumulated Deficit	(482,710)	10,299	(472,411)

Revenue Disaggregation

The following table presents disaggregated revenue by geography (in thousands):

	Three Months Ended		Nine Months Ended	
	March 31, 2019	March 25, 2018	March 31, 2019	March 25, 2018
United States	$67,643	$53,796	$194,463	$161,446
China	83,448	86,700	289,957	279,017
Europe	63,238	46,788	197,168	112,656
Other	59,721	37,916	147,141	106,009
Total Revenue	$274,050	$225,200	$828,729	$659,128

Note 4 – Acquisition

Infineon Technologies AG Radio Frequency Power Business

On March 6, 2018, the Company acquired certain assets of the Infineon Technologies AG (Infineon) Radio Frequency Power Business (RF Power), pursuant to an asset purchase agreement with Infineon in exchange for a base purchase price of $429 million, subject to certain adjustments. As part of the agreement, the Company paid $427 million of cash on the purchase date and agreed to purchase certain additional non-U.S. property and equipment related to the RF Power business from Infineon for approximately $2 million, which was completed during the fourth quarter of fiscal 2018. The acquisition allows the Company to expand its product portfolio into the wireless market.

The acquisition of the RF Power business from Infineon was accounted for as a business combination. The assets, liabilities and operating results of the RF Power business have been included in the Company's consolidated financial statements from the date of acquisition. Additionally, the RF Power business's results from operations are reported as part of the Company's Wolfspeed segment. The results of the RF Power business are reflected in the Company's Consolidated Statements of (Loss) Income for the three and nine months ended March 31, 2019.

The purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values as follows (in thousands):

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Assets:	
Inventories	$22,500
Property and equipment	11,722
Other assets	433
Intangible assets	149,000
Goodwill	248,957
Total Assets	432,612
Liabilities assumed:	
Accounts payable	(39)
Accrued expenses and liabilities	(3,411)
Total liabilities assumed	(3,450)
Net assets acquired	$429,162

The amortization periods for intangible assets acquired are as follows (in thousands, except for years):

	Asset Amount	Estimated Life in Years
Lease agreement	$1,000	10
Customer relationships	92,000	15
Developed technology	44,000	14
Non-compete agreements	12,000	4
Total identifiable intangible assets	$149,000	

The weighted average amortization periods for intangibles was 13.8 years. Goodwill largely consists of manufacturing and other synergies of the combined companies, and the value of the assembled workforce. For tax purposes, in accordance with Internal Revenue Code Section 197, $245 million of goodwill will be amortized over 15 years.

The Company incurred approximately $3.8 million of total transaction costs related to the acquisition, of which approximately $0.1 million were recognized in the first and second quarters of fiscal 2019 in accordance with U.S. GAAP.

Supplemental Pro Forma Financial Information

The following unaudited pro forma consolidated financial information reflects the results of continuing operations of the Company as if the RF Power transaction had occurred at the beginning of the fiscal year prior to the fiscal year of acquisition, after giving effect to certain purchase accounting adjustments (in thousands, except per share amounts):

	Three Months Ended March 25, 2018	Nine Months Ended March 25, 2018
Revenue	$240,180	$724,547
Net (loss) income	(14,485)	3,802
(Loss) earnings per share, basic	($0.14)	$0.04
(Loss) earnings per share, diluted	($0.14)	$0.04

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of the RF Power business to give effect to events and transactions that are directly attributable to the RF Power business transactions, including the elimination of sales by the Company to the RF Power business prior to acquisition, additional depreciation and amortization that would have been charged assuming the fair value adjustments primarily to property and equipment and intangible assets had been applied at the beginning of fiscal 2017, together with the consequential tax effects. Excluded from the pro forma net income and the earnings per share amounts for the three months and nine months ended March 25, 2018 are one-time acquisition costs and foreign currency gains attributable to the RF Power business of $0.1 million. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made at the beginning of fiscal 2017, nor is it indicative of any future results.

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Arkansas Power Electronics International, Inc.

On July 8, 2015, the Company closed on the acquisition of Arkansas Power Electronics International, Inc. (APEI), a global leader in power modules and power electronics applications, pursuant to a merger agreement with APEI and certain shareholders of APEI, whereby the Company acquired all of the outstanding share capital of APEI in exchange for a base purchase price of $13.8 million, subject to certain adjustments. In addition, if certain goals were achieved over the subsequent two years, additional cash payments totaling up to $4.6 million were to be made to the former APEI shareholders. Payments totaling $2.7 million were made to the former APEI shareholders in July 2016 based on achievement of the first-year goals. The final payment of $1.9 million was made in July 2017 based on achievement of the second-year goals. In connection with this acquisition, APEI became a wholly owned subsidiary of the Company, renamed Cree Fayetteville, Inc. (Cree Fayetteville). Cree Fayetteville is not considered a significant subsidiary of the Company and its results from operations are reported as part of the Company's Wolfspeed segment.

Note 5 – Financial Statement Details

Accounts Receivable, net

The following table summarizes the components of accounts receivable, net (in thousands):

	March 31, 2019	June 24, 2018
Billed trade receivables	$146,883	$128,858
Unbilled contract receivables	4,023	966
	150,906	129,824
Allowance for sales returns, discounts and other incentives	—	(42,675)
Allowance for bad debts	(516)	(751)
Accounts receivable, net	$150,390	$86,398

Inventories

The following table summarizes the components of inventories (in thousands):

	March 31, 2019	June 24, 2018
Raw material	$37,580	$35,092
Work-in-progress	95,882	86,193
Finished goods	39,331	30,351
Inventories	$172,793	$151,636

Other Current Liabilities

The following table summarizes the components of other current liabilities (in thousands):

	March 31, 2019	June 24, 2018
Accrued taxes	$4,943	$6,414
Accrued professional fees	12,419	4,901
Accrued warranty	1,241	1,399
Accrued other	1,869	6,566
Other current liabilities	$20,472	$19,280

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Accumulated Other Comprehensive Income, net of taxes

The following table summarizes the components of accumulated other comprehensive income, net of taxes (in thousands):

	March 31, 2019	June 24, 2018
Currency translation gain	$4,292	$5,075
Net unrealized loss on available-for-sale securities	(1,738)	(4,479)
Accumulated other comprehensive income, net of taxes	$2,554	$596

Non-Operating (Expense) Income, net

The following table summarizes the components of non-operating (expense) income, net (in thousands):

	Three Months Ended		Nine Months Ended	
	March 31, 2019	March 25, 2018	March 31, 2019	March 25, 2018
Foreign currency (loss) gain, net	($613)	$3,530	($1,107)	$4,386
Loss on sale of investments, net	(25)	(133)	(132)	(85)
(Loss) gain on equity investment, net	(3,898)	(13,968)	(12,457)	7,510
Interest (expense) income, net	(3,731)	739	(9,763)	3,354
Other, net	(173)	(168)	(236)	(223)
Non-operating (expense) income, net	($8,440)	($10,000)	($23,695)	$14,942

The change in (loss) gain on equity investment, net is due to the decrease in the Lextar Electronics Corporation (Lextar) stock price.

Reclassifications Out of Accumulated Other Comprehensive Income, net of taxes

The following table summarizes the amounts reclassified out of accumulated other comprehensive income, net of taxes (in thousands):

Accumulated Other Comprehensive Income Component	Amount Reclassified Out of Accumulated Other Comprehensive Loss				Affected Line Item in the Consolidated Statements of (Loss) Income
	Three Months Ended		Nine Months Ended		
	March 31, 2019	March 25, 2018	March 31, 2019	March 25, 2018	
Net unrealized loss on available-for-sale securities, net of taxes	($25)	($133)	($132)	($85)	Non-operating (expense) income, net
Less income tax effect	—	—	—	—	Income tax expense (benefit)
Total reclassifications	($25)	($133)	($132)	($85)	

Note 6 – Investments

Investments consist of municipal bonds, corporate bonds, U.S. agency securities, U.S. treasury securities, variable rate demand notes, commercial paper and certificates of deposit. All short-term investments are classified as available-for-sale. Other long-term investments consist of the Company's ownership interest in Lextar.

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The following tables summarize short-term investments (in thousands):

	March 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value
Municipal bonds	$96,029	$170	($297	)	$95,902
Corporate bonds	151,244	337	(274	)	151,307
U.S. agency securities	4,689	1	(1	)	4,689
U.S. Treasury securities	28,972	7	(18	)	28,961
Non-U.S. certificates of deposit	50,277	782	—		51,059
U.S. certificates of deposit	—	—	—		—
Commercial paper	1,193	—	—		1,193
Total short-term investments	$332,404	$1,297	($590	)	$333,111

	June 24, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value
Municipal bonds	$110,198	$17	($939	)	$109,276
Corporate bonds	77,871	36	(1,150	)	76,757
U.S. agency securities	3,922	—	(38	)	3,884
U.S. Treasury securities	—	—	—		—
Non-U.S. certificates of deposit	77,744	—	—		77,744
U.S. certificates of deposit	500	—	—		500
Commercial paper	—	—	—		—
Total short-term investments	$270,235	$53	($2,127	)	$268,161

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

	March 31, 2019					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Municipal bonds	$2,406	$—	$68,677	($297)	$71,083	($297)
Corporate bonds	31,144	(17)	32,930	(257)	64,074	(274)
U.S. agency securities	5,788	(1)	—	—	5,788	(1)
U.S. Treasury securities	10,110	(2)	3,907	(16)	14,017	(18)
Total	$49,448	($20)	$105,514	($570)	$154,962	($590)
Number of securities with an unrealized loss		54		85		139

	June 24, 2018					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Municipal bonds	$97,470	($861)	$3,642	($78)	$101,112	($939)
Corporate bonds	61,453	(1,088)	1,486	(62)	62,939	(1,150)
U.S. agency securities	3,884	(38)	—	—	3,884	(38)
U.S. Treasury securities	—	—	—	—	—	—
Total	$162,807	($1,987)	$5,128	($140)	$167,935	($2,127)
Number of securities with an unrealized loss		151		6		157

The Company utilizes specific identification in computing realized gains and losses on the sale of investments. Realized gains and losses from the sale of investments are included in non-operating (expense) income, net in the consolidated statements of (loss) income 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 the fair value has been below the 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 full recovery in market value. Accordingly, the Company considered declines in its investments to be temporary in nature, and did not consider its securities to be impaired as of March 31, 2019 or June 24, 2018.

The contractual maturities of short-term investments as of March 31, 2019 were as follows (in thousands):

	Within One Year	After One, Within Five Years	After Five, Within Ten Years	After Ten Years	Total
Municipal bonds	$37,749	$58,153	$—	$—	$95,902
Corporate bonds	61,245	90,062	—	—	151,307
U.S. agency securities	3,988	701	—	—	4,689
U.S. Treasury securities	28,961	—	—	—	28,961
Non-U.S. certificates of deposit	51,059	—	—	—	51,059
Commercial paper	1,193	—	—	—	1,193
Total short-term investments	$184,195	$148,916	$—	$—	$333,111

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Note 7 – 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. 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, short-term investments and long-term investments. As of March 31, 2019, financial assets utilizing Level 1 inputs included money market funds and U.S. treasury securities, and financial assets utilizing Level 2 inputs included municipal bonds, corporate bonds, U.S. agency securities, U.S. treasury securities, certificates of deposit, commercial paper, variable rate demand notes and common stock of non-U.S. corporations. Level 2 assets are valued based on quoted prices in active markets for instruments that are similar or using a third-party pricing service's 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 did not have any financial assets requiring the use of Level 3 inputs as of March 31, 2019.

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

	March 31, 2019				June 24, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents:								
Corporate bonds	$—	$4,452	$—	$4,452	$—	$—	$—	$—
U.S. Treasury securities	2,998	—	—	2,998	—	—	—	—
Non-U.S. certificates of deposit	—	147,771	—	147,771	—	75,499	—	75,499
Commercial paper	—	4,742	—	4,742	—	275	—	275
U.S. agency securities	—	1,800	—	1,800	—	—	—	—
Money market funds	7,414	—	—	7,414	1,992	—	—	1,992
Total cash equivalents	10,412	158,765	—	169,177	1,992	75,774	—	77,766
Short-term investments:								
Municipal bonds	—	95,902	—	95,902	—	109,276	—	109,276
Corporate bonds	—	151,307	—	151,307	—	76,757	—	76,757
U.S. agency securities	—	4,689	—	4,689	3,884	—	—	3,884
U.S. Treasury securities	28,961	—	—	28,961	—	—	—	—
U.S. certificates of deposit	—	—	—	—	—	500	—	500
Variable rate demand note	—	—	—	—	—	—	—	—
Commercial paper	—	1,193	—	1,193	—	—	—	—
Non-U.S. certificates of deposit	—	51,059	—	51,059	—	77,744	—	77,744
Total short-term investments	28,961	304,150	—	333,111	3,884	264,277	—	268,161
Other long-term investments:								
Common stock of non-U.S. corporations	—	44,122	—	44,122	—	57,501	—	57,501
Total other long-term investments	—	44,122	—	44,122	—	57,501	—	57,501
Total assets	$39,373	$507,037	$—	$546,410	$5,876	$397,552	$—	$403,428

Note 8– Goodwill and Intangible Assets

Goodwill

Goodwill by reportable segment as March 31, 2019 was as follows (in thousands):

Reporting Segment	Balance at March 31, 2019
Wolfspeed	$349,726
LED Products	180,278
Consolidated total	$530,004

Intangible Assets, net

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

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	March 31, 2019			June 24, 2018		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Intangible assets with finite lives:						
Customer relationships	$147,820	($62,002)	$85,818	$147,820	($56,558)	$91,262
Developed technology	75,878	(23,116)	52,762	75,878	(19,018)	56,860
Non-compete agreements	12,231	(3,392)	8,839	12,231	(1,142)	11,089
Trade names, finite-lived	450	(450)	—	450	(450)	—
Patent and licensing rights	120,401	(64,804)	55,597	119,158	(62,554)	56,604
Total intangible assets with finite lives	356,780	(153,764)	203,016	355,537	(139,722)	215,815
Trade names, indefinite-lived	—	—	—	—	—	—
Total intangible assets	$356,780	($153,764)	$203,016	$355,537	($139,722)	$215,815

For the three and nine months ended March 31, 2019, total amortization of finite-lived intangible assets was $6.4 million and $19.0 million, respectively. For the three and nine months ended March 25, 2018, total amortization of finite-lived intangible assets was $3.9 million and $10.3 million, respectively.

Total future amortization expense of finite-lived intangible assets is estimated to be as follows (in thousands):

Fiscal Year Ending	
June 30, 2019 (remainder of fiscal 2019)	$5,816
June 28, 2020	21,662
June 27, 2021	21,022
June 26, 2022	19,428
June 25, 2023	16,135
Thereafter	118,953
Total future amortization expense	$203,016

Note 9 – Long-term Debt

Revolving Line of Credit

As of March 31, 2019, the Company had a $500 million secured revolving line of credit under which the Company can borrow, repay and reborrow loans from time to time prior to its scheduled maturity date of January 9, 2022. The Company classifies balances outstanding under its line of credit as long-term debt in the consolidated balance sheets. At March 31, 2019, the Company had $0 outstanding under the line of credit, $500 million in available commitments under the revolving line of credit and $309 million available for borrowing under the revolving line of credit in compliance with applicable financial covenants. For the three and nine months ended March 31, 2019, the average interest rate was 0.00% and 2.64%, respectively. For the three and nine months ended March 31, 2019 the average commitment fee percentage was 0.06% and 0.17%, respectively. The Company was in compliance with all covenants under the revolving line of credit at March 31, 2019.

Convertible Notes

On August 24, 2018, the Company sold $500 million aggregate principal amount of 0.875% convertible senior notes due September 1, 2023 to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended, and an additional $75.0 million aggregate principal amount of such notes pursuant to the exercise in full of the over-allotment options of the underwriters (the Notes). The total net proceeds from the debt offering was approximately $562 million.

The conversion rate will initially be 16.67 shares of common stock per $1.0 thousand principal amount of Notes (equivalent to an initial conversion price of approximately $59.97 per share of common stock). The conversion rate will be subject to adjustment for some events, but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date, or following the Company's issuance of a notice of redemption, the Company will increase the conversion rate for a holder who elects to convert its Notes in connection with such a corporate event, or who elects to convert any Notes called for redemption during the related redemption period in certain circumstances. The Company may not redeem

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the Notes prior to September 1, 2021. The Company may redeem for cash all or any portion of the Notes, at its option, on a redemption date occurring on or after September 1, 2021 and on or before the 40th scheduled trading day immediately before the maturity date, if the last reported sale price of its common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which the Company provides a notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption. The redemption price will be 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. If the Company undergoes certain fundamental changes relating to the Company's common stock, holders may require the Company to repurchase for cash all or any portion of their Notes at a fundamental change repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

Holders may convert their Notes at their option at any time prior to the close of business on the business day immediately preceding March 1, 2023 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on December 31, 2018 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period in which the trading price per $1.0 thousand principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of its common stock and the conversion rate on each such trading day; (3) if the Company calls such Notes for redemption, at any time prior to the close of business on the second business day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On or after March 1, 2023 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their Notes at any time, regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver cash, shares of its common stock or a combination of cash and shares of its common stock, at the Company's election.

In accounting for the issuance of the convertible senior notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was $110.6 million and was determined by deducting the fair value of the liability component from the par value of the Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount (“debt discount”), along with related issuance fees are amortized to interest expense over the term of the 2023 Notes at an effective interest rate of 0.49%.

The net carrying amount of the liability component of the Notes is as follows (in thousands):

	March 31, 2019	June 24, 2018
Principal	$575,000	$—
Unamortized discount and issuance costs	(111,509)	—
Net carrying amount	$463,491	$—

The net carrying amount of the equity component of the Notes is as follows (in thousands):

	March 31, 2019	June 24, 2018
Discount related to value of conversion option	$113,271	$—
Debt issuance costs	(2,680)	—
Net carrying amount	$110,591	$—

The following table sets forth the interest expense recognized related to the Notes (in thousands):

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	Three Months Ended		Nine Months Ended	
	March 31, 2019	March 25, 2018	March 31, 2019	March 25, 2018
Interest expense	$1,258	$—	$2,935	$—
Amortization of discount and issuance costs	5,490	—	12,687	—
Total interest expense	$6,748	$—	$15,622	$—

Note 10 – (Loss) Earnings Per Share

The following table presents the computation of Basic (loss) earnings per share (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	March 31, 2019	March 25, 2018	March 31, 2019	March 25, 2018
Net (loss) income from continuing operations	($22,311)	($10,163)	($23,259)	$12,414
Net income attributable to non-controlling interest	121	44	23	59
Income (loss) before discontinued operations	(22,432)	(10,207)	(23,282)	12,355
Loss from discontinued operations, net of tax	(205,420)	(230,370)	(218,085)	(259,067)
Net loss attributable to controlling interest	($227,852)	($240,577)	($241,367)	($246,712)
Weighted average common shares	103,659	100,140	102,807	99,046
Basic (loss) earnings per share from continuing operations and non-controlling interest	($0.22)	($0.10)	($0.23)	$0.13
Basic (loss) per share from discontinued operations	(1.98)	(2.30)	(2.12)	(2.62)
(Loss) earnings per share - basic	($2.20)	($2.40)	($2.35)	($2.49)

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

	Three Months Ended		Nine Months Ended	
	March 31, 2019	March 25, 2018	March 31, 2019	March 25, 2018
Net (loss) income from continuing operations	($22,311)	($10,163)	($23,259)	$12,414
Net income attributable to non-controlling interest	121	44	23	59
Income (loss) before discontinued operations	(22,432)	(10,207)	(23,282)	12,355
Loss from discontinued operations, net of tax (Note 2)	(205,420)	(230,370)	(218,085)	(259,067)
Net loss attributable to controlling interest	($227,852)	($240,577)	($241,367)	($246,712)
Weighted average common shares - basic	103,659	100,140	102,807	99,046
Dilutive effect of stock options, nonvested shares and Employee Stock Purchase Plan purchase rights	—	—	—	1,626
Weighted average common shares - diluted	103,659	100,140	102,807	100,672
Diluted (loss) earnings per share from continuing operations and non-controlling interest	($0.22)	($0.10)	($0.23)	$0.12
Diluted (loss) per share from discontinued operations	(1.98)	(2.30)	(2.12)	(2.57)
(Loss) earnings per share - diluted	($2.20)	($2.40)	($2.35)	($2.45)

Potential common shares that would have the effect of increasing diluted earnings per share or decreasing diluted loss per share are considered to be anti-dilutive and as such, these shares are not included in calculating diluted earnings per share. For the three and nine months ended March 31, 2019, there were 1.5 million and 2.4 million of potential common shares not included in the calculation of diluted (loss) earnings per share because their effect was anti-dilutive. For the three and nine months ended March 25, 2018, there were 3.8 million and 4.4 million, respectively, of potential common shares not included in the calculation of diluted (loss) earnings per share because their effect was anti-dilutive.

Note 11 – Stock-Based Compensation

Overview of Employee Stock-Based Compensation Plans

The Company currently has one equity-based compensation plan, the 2013 Long-Term Incentive Compensation Plan (2013 LTIP), from which stock-based compensation awards can be granted to employees and directors. The 2013 LTIP provides for awards in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other awards. The Company has other equity-based compensation plans that have been terminated so that no future grants can be made under those plans, but under which stock options, restricted stock and restricted stock units are currently outstanding.

The Company's stock-based awards can be either service-based or performance-based. Performance-based conditions are generally tied to future financial and/or operating performance of the Company. The compensation expense with respect to performance-based grants is recognized if the Company believes it is probable that the performance condition will be achieved. The Company reassesses the probability of the achievement of the performance condition at each reporting period, and adjusts the compensation expense 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 common stock at a discount. The ESPP limits employee contributions to 15% of each employee's compensation (as defined in the plan) and allows employees to purchase shares at a 15% discount to the fair market value of common stock on the purchase date two times per year. The ESPP provides for a twelve-month participation period, divided into two equal six-month purchase periods,

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and also provides for a look-back feature. At the end of each six-month period in April and October, participants purchase the Company's common stock through the ESPP at a 15% discount to 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 also provides for an automatic reset feature to start participants on a new twelve-month participation period if the fair market value of common stock declines during the first six-month purchase period.

Stock Option Awards

The following table summarizes stock option awards outstanding as of March 31, 2019 and changes during the nine months then ended (numbers of shares in thousands):

	Number of Shares	Weighted Average Exercise Price
Outstanding at June 24, 2018	6,287	$39.58
Granted	—	$—
Exercised	(2,104)	$35.69
Forfeited or expired	(249)	$48.34
Outstanding at March 31, 2019	3,934	$40.11

Restricted Stock Awards and Units

A summary of nonvested restricted stock awards (RSAs) and restricted stock unit awards (RSUs) outstanding as of March 31, 2019, and changes during the nine months then ended is as follows (numbers of awards and units in thousands):

	Number of RSAs/RSUs	Weighted Average Grant-Date Fair Value
Nonvested at June 24, 2018	3,689	$27.53
Granted	1,338	$47.81
Vested	(884)	$26.84
Forfeited	(316)	$27.65
Nonvested at March 31, 2019	3,827	$34.87

Stock-Based Compensation Valuation and Expense

The Company accounts for its employee stock-based compensation plans using the fair value method. The fair value method requires the Company to estimate the grant-date fair value of its stock-based awards and amortize this fair value to compensation expense over the requisite service period or vesting term.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of the Company's stock option and ESPP awards. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include the expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, the risk-free interest rate and expected dividends. Due to the inherent limitations of option-valuation models, future events that are unpredictable and the estimation process utilized in determining the valuation of the stock-based awards, the ultimate value realized by award holders may vary significantly from the amounts expensed in the Company's financial statements.

For RSAs and RSUs, the grant-date fair value is based upon the market price of the Company's common stock on the date of the grant. This fair value is then amortized to compensation expense over the requisite service period or vesting term.

Stock-based compensation expense is recognized net of estimated forfeitures such that expense is recognized only for those stock-based awards that are expected to vest. A forfeiture rate is estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates.

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Total stock-based compensation expense was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	March 31, 2019	March 25, 2018	March 31, 2019	March 25, 2018
Income Statement Classification:				
Cost of revenue, net	$2,084	$1,519	$5,559	$4,737
Research and development	1,883	1,959	5,582	5,620
Sales, general and administrative	9,411	6,372	23,319	19,043
Total stock-based compensation expense included in continuing operations	13,378	9,850	34,460	29,400
Total stock-based compensation expense included in discontinued operations	2,057	1,309	6,037	3,919
Total stock-based compensation expense	$15,435	$11,159	$40,497	$33,319

Note 12 – Income Taxes

In general, the variation between the Company's effective income tax rate and the U.S. statutory rate of 21% is primarily due to: (i) changes in the Company’s valuation allowances against deferred tax assets in the U.S. and Luxembourg, (ii) projected income for the full year derived from international locations with lower tax rates than the U.S. and (iii) projected tax credits generated.

In December 2017, the SEC staff issued Staff Accounting Bulletin 118 (SAB 118) to provide guidance on accounting for the tax effects of the Tax Cuts and Jobs Act of 2017 (Tax Legislation) enacted on December 22, 2017. SAB 118 allowed for a measurement period, not to extend beyond one year from the Tax Legislation date of enactment, for companies to complete the accounting under ASC Topic 740-Income Taxes. The SAB 118 measurement period concluded during the six months ended December 30, 2018, and consistent with the guidance provided in SAB 118, the Company has completed the accounting for the income tax effects of the Tax Legislation.

The Company assesses all available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets by jurisdiction. The Company has concluded that it is necessary to recognize a full valuation allowance against its U.S. and Luxembourg deferred tax assets, as of the nine months ended March 31, 2019.

While the Company concludes a full U.S. valuation allowance is appropriate as of March 31, 2019, as a result of improving Company performance and future U.S. projected income, it is reasonably possible that the assessment of the realizability of the U.S. deferred tax assets could change within the next twelve months resulting in a full or partial release of the U.S. valuation allowance. As of June 24, 2018, the U.S. valuation allowance was $122.2 million. During the nine months ended March 31, 2019, the Company increased the U.S. valuation allowance by $8.8 million due to the deferred tax impact of the Lighting Products business impairment and the sale of Cree Canada Corp. and Cree Europe S.r.l., offset by the deferred tax impact of the Notes issuance and the impact of the Internal Revenue Code Section 965(n) election related to the accounting of the Tax Legislation. As of June 24, 2018, the Luxembourg valuation allowance was $5.2 million. During the nine months ended March 31, 2019, the Company increased this valuation allowance by $5.0 million due to year-to-date losses in Luxembourg.

U.S. GAAP requires a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is cumulatively more than 50% likely to be realized upon ultimate settlement.

As of June 24, 2018, the Company's liability for unrecognized tax benefits was $8.7 million. During the nine months ended March 31, 2019, the Company recorded a $0.2 million decrease to the liability for unrecognized tax benefits resulting from a $0.5 million increase related to intercompany transactions recently challenged by the German tax authority, offset by a $0.7 million decrease due to statue expiration. As a result, the total liability for unrecognized tax benefits as of March 31, 2019 was $8.5 million. If any portion of this $8.5 million is recognized, the Company will then include that portion in the computation of its effective tax rate. Although the ultimate timing of the resolution and/or closure of audits is highly uncertain, the Company believes it is reasonably possible that $1.1 million of gross unrecognized tax benefits will change in the next 12 months as a result of statute requirements or settlement with tax authorities.

The Company files U.S. federal, U.S. state and foreign tax returns. For U.S. federal purposes, the Company is generally no longer subject to tax examinations for fiscal years prior to 2016. For U.S. state tax returns, the Company is generally no longer subject

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to tax examinations for fiscal years prior to 2015. For foreign purposes, the Company is generally no longer subject to examination for tax periods prior to 2008. Certain carryforward tax attributes generated in prior years remain subject to examination, adjustment and recapture.

Note 13 – Commitments and Contingencies

Warranties

The following table summarizes the changes in the Company's product warranty liabilities (in thousands):

Balance at June 24, 2018	$1,774
Warranties accrued in current period	581
Expenditures	(355)
Balance at March 31, 2019	$2,000

Product warranties are estimated and recognized at the time the Company recognizes revenue. The warranty periods range from 90 days to 10 years. The Company accrues warranty liabilities at the time of sale, based on historical and projected incident rates and expected future warranty costs. The Company accrues estimated costs related to product recalls based on a formal campaign soliciting repair or return of that product when they are deemed probable and reasonably estimable. The warranty reserves are evaluated quarterly based on various factors including historical warranty claims, assumptions about the frequency of warranty claims, and assumptions about the frequency of product failures derived from quality testing, field monitoring and the Company's reliability estimates.

Litigation

The Company is currently a party to various legal proceedings. While management presently believes that the ultimate outcome of such proceedings, individually and in the aggregate, will not materially harm the Company’s financial position, cash flows, or overall trends in results of operations, legal proceedings are subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include money damages or, in matters for which injunctive relief or other conduct remedies may be sought, an injunction prohibiting the Company from selling one or more products at all or in particular ways. Were unfavorable final outcomes to occur, there exists the possibility of a material adverse impact on the Company’s business, results of operation, financial position and overall trends. The outcomes in these matters are not reasonably estimable.

Note 14 – Reportable Segments

The Company's operating and reportable segments are:

- Wolfspeed
- LED Products

Reportable Segments Description

The Company's Wolfspeed segment includes power devices, RF devices, and SiC materials. The Company's LED Products segment includes LED chips and LED components.

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Financial Results by Reportable Segment

The table below reflects the results of the Company's reportable segments as reviewed by the Chief Operating Decision Maker (CODM) for the three and nine months ended March 31, 2019. The Company's CODM is the Chief Executive Officer. The Company used the same accounting policies to derive the segment results reported below as those used in the Company's consolidated financial statements.

The Company's CODM does not review inter-segment transactions when evaluating segment performance and allocating resources to each segment, and inter-segment transactions are not included in the segment revenue presented in the table below. As such, total segment revenue in the table below is equal to the Company's consolidated revenue.

The Company's CODM reviews gross profit as the lowest and only level of segment profit. As such, all items below gross profit in the consolidated statements of (loss) income must be included to reconcile the consolidated gross profit presented in the table below to the Company's consolidated loss before income taxes.

In order to determine gross profit for each reportable segment, the Company allocates direct costs and indirect costs to each segment's cost of revenue. The Company allocates indirect costs, such as employee benefits for manufacturing employees, shared facilities services, information technology, purchasing and customer service when the costs are identifiable and beneficial to the reportable segment. The Company allocates these indirect costs based on a reasonable measure of utilization that considers the specific facts and circumstances of the costs being allocated.

Unallocated costs in the table below consisted primarily of manufacturing employees’ stock-based compensation, expenses for profit sharing, quarterly or annual incentive plans and matching contributions under the Company’s 401(k) plan. These costs were not allocated to the reportable segments’ gross profit because the Company’s CODM does not review them regularly when evaluating segment performance and allocating resources.

The cost of goods sold (COGS) acquisition related cost adjustment includes RF Power acquisition costs impacting cost of revenue for fiscal 2019. These costs were not allocated to the reportable segments' gross profit for fiscal 2019 because they represent an adjustment, which does not provide comparability to the corresponding prior period and therefore were not reviewed by the Company's CODM when evaluating segment performance and allocating resources.

Revenue, gross profit and gross margin for each of the Company's segments were as follows (in thousands, except percentages):

	Three Months Ended		Nine Months Ended	
	March 31, 2019	March 25, 2018	March 31, 2019	March 25, 2018
Revenue:				
Wolfspeed revenue	$141,253	$81,902	$403,958	$218,628
LED Products revenue	132,797	143,298	424,771	440,500
Total revenue	$274,050	$225,200	$828,729	$659,128
Gross Profit and Gross Margin:				
Wolfspeed gross profit	$68,851	$39,285	$193,947	$105,816
Wolfspeed gross margin	48.7 %	48.0 %	48.0 %	48.4 %
LED Products gross profit	36,982	37,764	121,787	115,180
LED Products gross margin	27.8 %	26.4 %	28.7 %	26.1 %
Total segment gross profit	105,833	77,049	315,734	220,996
Unallocated costs	(3,938)	(2,186)	(10,782)	(7,066)
COGS acquisition related costs	(1,441)	—	(2,667)	—
Consolidated gross profit	$100,454	$74,863	$302,285	$213,930
Consolidated gross margin	36.7 %	33.2 %	36.5 %	32.5 %

Assets by Reportable Segment

Inventories are the only assets reviewed by the Company's CODM when evaluating segment performance and allocating resources to the segments. The CODM reviews all of the Company's assets other than inventories on a consolidated basis.

Unallocated inventories in the table below were not allocated to the reportable segments because the Company’s CODM does not review them when evaluating performance and allocating resources to each segment. Unallocated inventories consisted primarily

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of manufacturing employees' stock-based compensation, profit sharing, quarterly or annual incentive compensation, matching contributions under the Company's 401(k) plan, and acquisition related costs.

Inventories for each of the Company's segments were as follows (in thousands):

	March 31, 2019	June 24, 2018
Wolfspeed	$67,490	$47,190
LED Products	100,384	100,452
Total segment inventories	167,874	147,642
Unallocated inventories	4,919	3,994
Consolidated inventories	$172,793	$151,636

Note 15 - Restructuring

Corporate Restructuring

In April 2018, the Company approved a corporate restructure plan. The purpose was to restructure and realign the Company's cost base with the long-range business strategy that was announced February 26, 2018. In September 2018, the Company revised the plan to include additional cost saving initiatives. The restructuring activity was completed in the second quarter of fiscal 2019.

The following table summarizes the actual charges incurred (in thousands):

Capacity and overhead cost reductions	Total estimated charges	Amounts incurred through June 24, 2018	Amounts incurred through March 31, 2019	Cumulative amounts incurred through March 31, 2019	Affected Line Item in the Consolidated Statements of Loss
Loss on disposal or impairment of long-lived assets	$227	$227	$—	$227	Loss on disposal and impairment of long-lived assets
Severance expense	3,744	3,460	284	3,744	Sales, general and administrative expenses
Lease termination and facility consolidation costs	2,207	156	2,051	2,207	Sales, general and administrative expenses
Total restructuring charges	$6,178	$3,843	$2,335	$6,178	

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Information set forth in this Quarterly Report on Form 10-Q contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the 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," "expe "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 except as required under the U.S. federal securities laws and the rules and regulations of the Securities and Exchange Commission (the SEC), 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 Quarterly 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 Part II, Item 1A of this Quarterly Report.

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Executive Summary

The following discussion is designed to provide a better understanding of our unaudited 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. The following discussion should be read in conjunction with the unaudited consolidated financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q, and the consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended June 24, 2018. Historical results and percentage relationships among any amounts in the financial statements are not necessarily indicative of trends in operating results for any future periods.

Overview

Cree, Inc. (Cree, we, our, or us) is an innovator of wide bandgap semiconductor products for power and radio-frequency (RF) applications and lighting-class light emitting diode (LED) products. Our products are targeted for applications such as transportation, power supplies, inverters, wireless systems, indoor and outdoor lighting, electronic signs and signals, and video displays.

Our Wolfspeed segment's products consist of silicon carbide (SiC) and gallium nitride (GaN) materials, power devices and RF devices based on silicon (Si) and wide bandgap semiconductor materials. Our materials products and power devices are used in solar, electric vehicles, motor drives, power supplies and transportation applications. Our materials products and RF devices are used in military communications, radar, satellite and telecommunication applications.

Our LED Products segment's products consist of LED chips and LED components. Our LED products enable our customers to develop and market LED-based products for lighting, video screens, automotive and specialty lighting applications.

In addition, we design, manufacture and sell LED lighting fixtures and lamps for the commercial, industrial and consumer markets. We refer to these product lines as the Lighting Products business. As discussed more fully in Note 2, "Discontinued Operations," to our consolidated financial statements included in Item 1 of this quarterly report, on March 14, 2019, we executed a definitive agreement to sell our Lighting Products business to IDEAL Industries, Inc. (IDEAL). As a result, we have classified the results of the Lighting Products business as discontinued operations in our consolidated statements of (loss) income for all periods presented. Additionally, the related assets and liabilities associated with the discontinued operations are classified as held for sale in the consolidated balance sheets. Unless otherwise noted, discussion within this Quarterly Report to the consolidated financial statements relates to our continuing operations.

The majority of our products are manufactured at our production facilities located in North Carolina, California, Arkansas, Wisconsin and China. We also use contract manufacturers for certain products and aspects of product fabrication, assembly and packaging. We operate research and development facilities in North Carolina, Arizona, Arkansas, California, and China (including Hong Kong).

Cree, Inc. is a North Carolina corporation established in 1987, and our headquarters are in Durham, North Carolina.

For further information about our consolidated revenue and earnings, please see our consolidated financial statements included in Item 1 of this Quarterly Report.

Reportable Segments

Our two reportable segments are:

- Wolfspeed
- LED Products

For further information about our reportable segments, please refer to Note 14, "Reportable Segments," in our consolidated financial statements included in Item 1 of this Quarterly Report.

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Industry Dynamics and Trends

There are a number of industry factors that affect our business which include, among others:

- Overall Demand for Products and Applications using SiC power devices, GaN and Si RF devices, and LEDs. Our potential for growth depends significantly on the adoption of SiC and GaN materials and device products in the power and RF markets, the continued use of Si devices in the RF telecommunications market, the continued adoption of LEDs and LED lighting, and our ability to win new designs for these applications. Demand also fluctuates based on various market cycles, continuously evolving industry supply chains, and evolving competitive dynamics in each of the respective markets. These uncertainties make demand difficult to forecast for us and our customers.
- Intense and Constantly Evolving Competitive Environment. Competition in the industries we serve is intense. Many companies have made significant investments in product development and production equipment. Product pricing pressures exist as market participants often undertake pricing strategies to gain or protect market share, increase the utilization of their production capacity and open new applications in the power, RF and LED markets we serve. To remain competitive, market participants must continuously increase product performance, reduce costs and develop improved ways to serve their customers. To address these competitive pressures, we have invested in research and development activities to support new product development, lower product costs and deliver higher levels of performance to differentiate our products in the market. In addition, we invest in systems, people and new processes to improve our ability to deliver a better overall experience for our customers.
- Technological Innovation and Advancement. Innovations and advancements in materials, power, RF and LED technologies continue to expand the potential commercial application for our products. However, new technologies or standards could emerge or improvements could be made in existing technologies that could reduce or limit the demand for our products in certain markets.
- 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. Therefore, 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 is common.
- Governmental Trade and Regulatory Conditions. Our potential for growth, as with most multi-national companies, depends on a balanced and stable trade, political, economic and regulatory environment among the countries where we do business. Changes in trade policy such as the imposition of tariffs or export bans to specific customers or countries have reduced demand for our products in certain markets and increased costs.

Overview of the Nine Months Ended March 31, 2019

The following is a summary of our financial results for the nine months ended March 31, 2019:

- Revenue increased to $828.7 million for the nine months ended March 31, 2019 from $659.1 million for the nine months ended March 25, 2018.
- Gross profit increased to $302.3 million for the nine months ended March 31, 2019 from $213.9 million for the nine months ended March 25, 2018. Gross margin was 36.5% for the nine months ended March 31, 2019 and 32.5% for the nine months ended March 25, 2018.
- Operating income was $9.7 million for the nine months ended March 31, 2019 compared to operating loss of $20.2 million for the nine months ended March 25, 2018. Net loss from continuing operations per diluted share was $0.23 for the nine months ended March 31, 2019 compared to net income from continuing operations per diluted share of $0.12 for the nine months ended March 25, 2018.
- Cash, cash equivalents and short-term investments were $789.3 million at March 31, 2019 and $387.1 million at June 24, 2018. Cash provided by operating activities was $187.0 million for the nine months ended March 31, 2019 compared to $125.4 million for the nine months ended March 25, 2018.
- Inventories increased to $172.8 million at March 31, 2019 compared to $151.6 million at June 24, 2018.
- Purchases of property and equipment were $106.5 million for the nine months ended March 31, 2019 compared to $128.4 million for the nine months ended March 25, 2018.

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Business Outlook

We are uniquely positioned as an innovator in both our business segments. The strength of our balance sheet and operating cash flow provides us the ability to invest in our businesses, as we did with the 2018 acquisition of the assets related to the RF Power business of Infineon Technologies AG (Infineon) to grow our Wolfspeed segment as discussed in Note 4, "Acquisition" to our unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report.

The decision to sell the Lighting Products business continues our strategy to create a more focused, powerhouse semiconductor company, providing growth capital for Wolfspeed, our core Materials, Power and RF business lines. We believe this transaction will increase management focus on the core growth business and provide capital to support our mission to build a more valuable semiconductor company.

We are focused on the following priorities to support our goals of delivering higher revenue and profits over time:

- Wolfspeed - invest in the business to expand the scale, further develop the technologies, and accelerate the growth opportunities of SiC materials, SiC power devices and modules, and GaN and Si RF devices.
- LED Products - focus our efforts where our best-in-class technology and application-optimized solutions are differentiated and valued while using Cree Venture LED Company Limited (Cree Venture LED) to access the broader mid-power LED markets.
- Improve the customer experience and service levels in both of our businesses.

Results of Operations

The following table sets forth certain consolidated statements of (loss) income data for the periods indicated (in thousands, except per share amounts and percentages):

	Three Months Ended				Nine Months Ended			
	March 31, 2019		March 25, 2018		March 31, 2019		March 25, 2018	
	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue
Revenue, net	$274,050	100 %	$225,200	100 %	$828,729	100 %	$659,128	100 %
Cost of revenue, net	173,596	63 %	150,337	67 %	526,444	64 %	445,198	68 %
Gross profit	100,454	37 %	74,863	33 %	302,285	36 %	213,930	32 %
Research and development	40,722	15 %	31,144	14 %	117,235	14 %	95,184	14 %
Sales, general and administrative	61,626	22 %	46,631	21 %	157,937	19 %	128,743	20 %
Amortization or impairment of acquisition-related intangibles	3,906	1 %	1,516	1 %	11,717	1 %	3,224	— %
Loss on disposal and impairment of other assets	5,286	2 %	1,112	— %	5,708	1 %	6,940	1 %
Operating (loss) income	(11,086)	(4)%	(5,540)	(2)%	9,688	1 %	(20,161)	(3)%
Non-operating (expense) income, net	(8,440)	(3)%	(10,000)	(4)%	(23,695)	(3)%	14,942	2 %
Loss before income taxes	(19,526)	(7)%	(15,540)	(7)%	(14,007)	(2)%	(5,219)	(1)%
Income tax expense (benefit)	2,785	1 %	(5,377)	(2)%	9,252	1 %	(17,633)	(3)%
Net (loss) income from continuing operations	(22,311)	(8)%	($10,163)	(5)%	($23,259)	(3)%	$12,414	2 %
Loss from discontinued operations, net of tax (Note 2)	(205,420)	(75)%	(230,370)	(102)%	(218,085)	(26)%	(259,067)	(39)%
Net loss	(227,731)	(83)%	(240,533)	(107)%	(241,344)	(29)%	(246,653)	(37)%
Net income attributable to non-controlling interest	121	— %	44	— %	23	— %	59	— %
	($227,852)	(83)%	($240,577)	(107)%	($241,367)	(29)%	($246,712)	(37)%

Net loss attributable to controlling interest				
(Loss) Earnings per share - basic				
Continuing operations	($0.22)	($0.10)	($0.23)	$0.13
Discontinued operations	(1.98)	(2.30)	(2.12)	(2.62)
Loss per share - basic	($2.20)	($2.40)	($2.35)	($2.49)
(Loss) Earnings per share - diluted				
Continuing operations	($0.22)	($0.10)	($0.23)	$0.12
Discontinued operations	(1.98)	(2.30)	(2.12)	(2.57)
Loss per share - diluted	($2.20)	($2.40)	($2.35)	($2.45)

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Revenue

Revenue was comprised of the following (in thousands, except percentages):

	Three Months Ended				Nine Months Ended			
	March 31, 2019	March 25, 2018	Change		March 31, 2019	March 25, 2018	Change	
Wolfspeed revenue	$141,253	$81,902	$59,351	72 %	$403,958	$218,628	$185,330	85 %
Percent of revenue	52 %	36 %			49 %	33 %		
LED Products revenue	132,797	143,298	(10,501)	(7)%	424,771	440,500	(15,729)	(4)%
Percent of revenue	48 %	64 %			51 %	67 %		
Total revenue	$274,050	$225,200	$48,850	22 %	$828,729	$659,128	$169,601	26 %

Our consolidated revenue increased 22% to $274.1 million for the three months ended March 31, 2019 from $225.2 million for the three months ended March 25, 2018. This increase was driven by a 72% increase in Wolfspeed revenue, which was partially offset by a 7% reduction in LED Products revenue.

For the nine months ended March 31, 2019, our consolidated revenue increased 26% to $828.7 million from $659.1 million for the nine months ended March 25, 2018. This increase was driven by an 85% increase in Wolfspeed revenue, which was partially offset by a 4% decrease in LED Products revenue.

Wolfspeed Segment Revenue

Wolfspeed revenue represented approximately 52% and 36% of our total revenue for the three months ended March 31, 2019 and March 25, 2018, respectively.

Wolfspeed revenue increased 72% to $141.3 million for the three months ended March 31, 2019 from $81.9 million for the three months ended March 25, 2018. The increase in revenue for the three months ended March 31, 2019 as compared to the three months ended March 25, 2018 was due to strong organic growth combined with revenue from the RF Power business acquisition and a 97% increase in overall average selling prices (ASP), partially offset by a 7% decrease in the number of units sold. The increase in ASP was due to a greater overall mix of higher priced wafer and device products.

Wolfspeed revenue represented approximately 49% and 33% of our total revenue for the nine months ended March 31, 2019 and March 25, 2018, respectively.

Wolfspeed revenue increased 85% to $404.0 million for the nine months ended March 31, 2019 from $218.6 million for the nine months ended March 25, 2018. The increase in revenue for the nine months ended March 31, 2019 as compared to the nine months ended March 25, 2018 was due to strong organic growth combined with revenue from the RF Power business acquisition, and a 50% increase in ASP, partially offset by a 27% decrease in the number of units sold. The increase in ASP was due to a greater mix of higher priced wafer and device products.

LED Products Segment Revenue

LED Products revenue represented 48% and 64% of our total revenue for the three months ended March 31, 2019 and March 25, 2018, respectively.

LED Products revenue decreased 7% to $132.8 million for the three months ended March 31, 2019 from $143.3 million for the three months ended March 25, 2018. The decrease in revenue for the three months ended March 31, 2019 compared to the three months ended March 25, 2018 was due primarily to a 1% decrease in the number of units sold and a 7% decrease in ASP. The decrease in revenue is a result of global market uncertainty with China in light of the United States and China tariff and trade dispute and current market dynamics, which were partially offset by an increase in license and royalty income.

LED Products revenue represented 51% and 67% of our total revenue for the nine months ended March 31, 2019 and March 25, 2018, respectively.

LED Products revenue decreased 4% to $424.8 million for the nine months ended March 31, 2019 from $440.5 million for the nine months ended March 25, 2018. The decrease in revenue for the nine months ended March 31, 2019 compared to the nine months ended March 25, 2018 was due primarily to a 1% decrease in the number of units sold and a 3% decrease in ASP. The decrease in revenue is a result of global market uncertainty with China in light of the United States and China tariff and trade dispute and current market dynamics, which were partially offset by an increase in license and royalty income.

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Gross Profit and Gross Margin

Gross profit and gross margin were as follows (in thousands, except percentages):

	Three Months Ended				Nine Months Ended			
	March 31, 2019	March 25, 2018	Change		March 31, 2019	March 25, 2018	Change	
Wolfspeed gross profit	$68,851	$39,285	$29,566	75 %	$193,947	$105,816	$88,131	83 %
Wolfspeed gross margin	48.7 %	48.0 %			48.0 %	48.4 %		
LED Products gross profit	36,982	37,764	(782)	(2)%	121,787	115,180	6,607	6 %
LED Products gross margin	27.8 %	26.4 %			28.7 %	26.1 %		
Unallocated costs	(3,938)	(2,186)	(1,752)	(80)%	(10,782)	(7,066)	(3,716)	(53)%
COGS acquisition related costs	(1,441)	—	(1,441)	(100)%	(2,667)	—	(2,667)	(100)%
Consolidated gross profit	$100,454	$74,863	$25,591	34 %	$302,285	$213,930	$88,355	41 %
Consolidated gross margin	36.7 %	33.2 %			36.5 %	32.5 %		

Our consolidated gross profit increased 34% to $100.5 million for the three months ended March 31, 2019 from $74.9 million for the three months ended March 25, 2018. Our consolidated gross margin increased to 36.7% for the three months ended March 31, 2019 from 33.2% for the three months ended March 25, 2018.

Our consolidated gross profit increased 41% to $302.3 million for the nine months ended March 31, 2019 from $213.9 million for the nine months ended March 25, 2018. Our consolidated gross margin increased to 36.5% for the nine months ended March 31, 2019 from 32.5% for the nine months ended March 25, 2018.

Wolfspeed Segment Gross Profit and Gross Margin

Wolfspeed gross profit increased 75% to $68.9 million for the three months ended March 31, 2019 from $39.3 million for the three months ended March 25, 2018. Wolfspeed gross margin increased to 48.7% for the three months ended March 31, 2019 from 48.0% for the three months ended March 25, 2018. The increase in gross profit is primarily due to higher sales and lower factory costs. The increase in gross margin is primarily due to changes in product mix.

Wolfspeed gross profit increased 83% to $193.9 million for the nine months ended March 31, 2019 from $105.8 million for the nine months ended March 25, 2018. Wolfspeed gross margin decreased to 48.0% for the nine months ended March 31, 2019 from 48.4% for the nine months ended March 25, 2018. The increase in gross profit is primarily due to higher sales and lower factory costs. The decrease in gross margin is primarily due to changes in product mix.

LED Products Segment Gross Profit and Gross Margin

LED Products gross profit decreased 2% to $37.0 million for the three months ended March 31, 2019 from $37.8 million for the three months ended March 25, 2018. LED Products gross margin increased to 27.8% for the three months ended March 31, 2019 from 26.4% for the three months ended March 25, 2018. The decrease in gross profit is primarily due to increased tariff costs and lower product revenue. The increase in gross margin is a result of lower factory costs, more favorable product mix and higher license and royalty revenue, partially offset by tariff costs.

LED Products gross profit increased 6% to $121.8 million for the nine months ended March 31, 2019 from $115.2 million for the nine months ended March 25, 2018. LED Products gross margin increased to 28.7% for the nine months ended March 31, 2019 from 26.1% for the nine months ended March 25, 2018. The increases in gross profit and margin are primarily due to lower factory costs, more favorable product mix and higher license and royalty revenue, partially offset by tariff costs.

Unallocated Costs

Unallocated costs were $3.9 million and $2.2 million for the three months ended March 31, 2019 and March 25, 2018, respectively. These costs consisted primarily of manufacturing employees' stock-based compensation, expenses for profit sharing and annual incentive plans and matching contributions under our 401(k) plan. These costs were not allocated to the reportable segments' gross profit because our Chief Operating Decision Maker (CODM) does not review them regularly when evaluating segment performance and allocating resources. The increase for the three months ended March 31, 2019 as compared to the three months ended March 25, 2018 was primarily attributable to higher stock-based and incentive compensation.

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Unallocated costs were $10.8 million and $7.1 million for the nine months ended March 31, 2019 and March 25, 2018, respectively. These costs consisted primarily of manufacturing employees' stock-based compensation, expenses for profit sharing and annual incentive plans and matching contributions under our 401(k) plan. These costs were not allocated to the reportable segments' gross profit because our CODM does not review them regularly when evaluating segment performance and allocating resources. The increase for the nine months ended March 31, 2019 as compared to the nine months ended March 25, 2018 was primarily attributable to higher stock-based and incentive compensation.

COGS Acquisition Related Cost Adjustment

The cost of goods sold (COGS) acquisition related cost adjustment was $1.4 million and $0 for the three months ended March 31, 2019 and March 25, 2018, respectively. The COGS acquisition related cost adjustment was $2.7 million and $0 million for the nine months ended March 31, 2019 and March 25, 2018, respectively. The COGS acquisition related cost adjustment includes inventory fair value amortization of the fair value increase to inventory recognized at the date of acquisition, and other RF Power acquisition costs, impacting cost of revenue for fiscal 2018. These costs were not allocated to the reportable segments’ gross profit for fiscal 2019 because they represent an adjustment which does not provide comparability to the corresponding prior period and therefore were not reviewed by our CODM when evaluating segment performance and allocating resources.

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 consisted primarily of employee salaries and related compensation costs, occupancy costs, consulting costs and the cost of development equipment and supplies.

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

	Three Months Ended				Nine Months Ended			
	March 31, 2019	March 25, 2018	Change		March 31, 2019	March 25, 2018	Change	
Research and development	$40,722	$31,144	$9,578	31%	$117,235	$95,184	$22,051	23%
Percent of revenue	15 %	14 %			14 %	14 %		

Research and development expenses for the three months ended March 31, 2019 increased 31% to $40.7 million from $31.1 million for the three months ended March 25, 2018. This increase was primarily due to the inclusion of the acquired RF Power business research and development spend. Our research and development expenses vary significantly from quarter to quarter based on a number of factors, including the timing of new product introductions and the number and nature of our ongoing research and development activities.

Research and development expenses for the nine months ended March 31, 2019 increased 23% to $117.2 million from $95.2 million for the nine months ended March 25, 2018. This increase was primarily due to the inclusion of the acquired RF Power business research and development spend. Our research and development expenses vary significantly from quarter to quarter based on a number of factors, including the timing of new product introductions and the number and nature of our ongoing research and development activities.

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Sales, General and Administrative

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

	Three Months Ended				Nine Months Ended			
	March 31, 2019	March 25, 2018	Change		March 31, 2019	March 25, 2018	Change	
Sales, general and administrative	$61,626	$46,631	$14,995	32%	$157,937	$128,743	$29,194	23%
Percent of revenue	22 %	21 %			19 %	20 %		

Sales, general and administrative expenses of $61.6 million for the three months ended March 31, 2019 increased 32% from $46.6 million for the three months ended March 25, 2018. The increase for the three months ended March 31, 2019 was primarily due to additional costs assumed in running the business and operations acquired in the RF Power acquisition.

Sales, general and administrative expenses of $157.9 million for the nine months ended March 31, 2019 increased 23% from $128.7 million for the nine months ended March 25, 2018. The increase for the nine months ended March 31, 2019 was primarily due to additional costs assumed in running the business and operations acquired in the RF Power acquisition.

Amortization or Impairment of Acquisition-Related Intangibles

As a result of our acquisitions, we have recognized various amortizable intangible assets, including customer relationships, developed technology, non-compete agreements and trade names. Amortization of intangible assets related to our acquisitions was as follows (in thousands, except percentages):

	Three Months Ended				Nine Months Ended			
	March 31, 2019	March 25, 2018	Change		March 31, 2019	March 25, 2018	Change	
Customer relationships	$1,815	$611	$1,204	197%	$5,444	$1,174	$4,270	364%
Developed technology	1,341	724	617	85 %	4,023	1,831	2,192	120%
Non-compete agreements	750	181	569	314%	2,250	219	2,031	927%
Total amortization	$3,906	$1,516	$2,390	158%	$11,717	$3,224	$8,493	263%

Amortization of acquisition-related intangibles was $3.9 million for the three months ended March 31, 2019 compared to $1.5 million for the three months ended March 25, 2018.

Amortization of acquisition-related intangibles was $11.7 million for the nine months ended March 31, 2019 compared to $3.2 million for the nine months ended March 25, 2018. The increase was primarily due to the inclusion of nine months of the Infineon RF intangible asset amortization of $8.5 million in 2019.

Loss on Disposal and Impairment of Other 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 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 and capitalized patent costs, and other assets for possible impairment. The following table sets forth our loss on disposal and impairment of other assets (in thousands, except percentages):

	Three Months Ended				Nine Months Ended			
	March 31, 2019	March 25, 2018	Change		March 31, 2019	March 25, 2018	Change	
Loss on disposal and impairment of other assets	$5,286	$1,112	$4,174	375%	$5,708	$6,940	($1,232)	(18)%

We recognized a loss on disposal and impairment of other assets of $5.3 million and $1.1 million for the three months ended March 31, 2019 and March 25, 2018, respectively. The increase in net loss for the three months ended March 31, 2019 as compared to the three months ended March 25, 2018 was primarily due to impairment of other assets.

We recognized a loss on disposal and impairment of other assets of $5.7 million and $6.9 million for the nine months ended March 31, 2019 and March 25, 2018, respectively. The decrease in net loss for the nine months ended March 31, 2019 as compared to the nine months ended March 25, 2018 was primarily due to fewer long-lived assets disposals.

Non-Operating (Expense) Income, net

The following table sets forth our non-operating (expense) income, net (in thousands, except percentages):

	Three Months Ended				Nine Months Ended			
	March 31, 2019	March 25, 2018	Change		March 31, 2019	March 25, 2018	Change	
Loss on sale of investments, net	($25)	($133)	$108	(81)%	($132)	($85)	($47)	55%
(Loss) gain on equity investment, net	(3,898)	(13,968)	10,070	(72)%	(12,457)	7,510	(19,967)	(266)%
Foreign currency (loss) gain, net	(613)	3,530	(4,143)	(117)%	(1,107)	4,386	(5,493)	(125)%
Interest (expense) income, net	(3,731)	739	(4,470)	(605)%	(9,763)	3,354	(13,117)	(391)%
Other, net	(173)	(168)	(5)	3%	(236)	(223)	(13)	6%
Non-operating (expense) income, net	($8,440)	($10,000)	$1,560	(16)%	($23,695)	$14,942	($38,637)	(259)%

Loss on sale of investments, net. Loss on sale of investments, net was $25 thousand for the three months ended March 31, 2019 compared to $133 thousand for the three months ended March 25, 2018. Loss on sale of investments, net was $132 thousand for the nine months ended March 31, 2019 compared to $85 thousand for the nine months ended March 25, 2018.

(Loss) gain on equity investment, net. Loss on equity investment in Lextar Electronics Corporation (Lextar), which we account for utilizing the fair value option, was $3.9 million for the three months ended March 31, 2019 compared to $14.0 million for the three months ended March 25, 2018. The loss on equity investment in Lextar was $12.5 million for the nine months ended March 31, 2019 compared to a gain of $7.5 million for the nine months ended March 25, 2018. Lextar's stock is publicly traded on the Taiwan Stock Exchange and its share price decreased from 21.00 New Taiwanese Dollars (TWD) at June 24, 2018 to 17.85 TWD at December 30, 2018 and further decreased to 16.40 TWD at March 31, 2019. Lextar's share price increased from 18.40 TWD at June 25, 2017 to 26.15 TWD at December 24, 2017 and decreased to 21.25 TWD at March 25, 2018. This volatile stock price trend may continue in the future given the risks inherent in Lextar's business and trends affecting the Taiwan and global equity markets. Any future stock price changes will be recorded as further gains or losses on equity investment based on the increase or decrease, respectively, in the fair value of the investment during the applicable fiscal period. Further losses could have a material adverse effect on our results of operations.

Foreign currency (loss) gain, net. Foreign currency (loss) gain, net consisted primarily of remeasurement adjustments resulting from our investment in Lextar and consolidating our international subsidiaries. The foreign currency loss for the three months ended March 31, 2019 was primarily due to an unfavorable fluctuation in the exchange rates between the Chinese Yuan, the Japanese Yen and the TWD against the United States Dollar. The foreign currency gain for the three months ended March 25, 2018 was primarily due to the Euro hedge we entered into related to the Infineon RF Power business purchase and a favorable

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fluctuation in the exchange rates between the Chinese Yuan, Euro, TWD and the United States Dollar offset by an unfavorable fluctuation between the Canadian Dollar and the United States Dollar.
The foreign currency loss for the nine months ended March 31, 2019 was primarily due to an unfavorable fluctuation in the exchange rates between both the Euro, Canadian Dollar, the Indian Rupee, the Chinese Yuan and the TWD against the United States Dollar, partially offset by a favorable fluctuation between the Japanese Yen against the United States Dollar. The foreign currency gain for the nine months ended March 25, 2018 was primarily due to the Euro hedge we entered into related to the Infineon RF Power business purchase and a favorable fluctuation in the exchange rate between the Chinese Yuan, Euro, Canadian Dollar and the United States Dollar.
Interest (expense) income, net. Interest expense, net was $3.7 million for the three months ended March 31, 2019 compared to interest income, net of $0.7 million for the three months ended March 25, 2018. For the nine months ended March 31, 2019, interest expense, net was $9.8 million compared to interest income, net of $3.4 million for the nine months ended March 25, 2018. The interest expense, net for the three and nine months ended March 31, 2019 was primarily due to higher interest expense due to the accretion of the equity portion and interest expense related to the Notes issued during the first quarter of fiscal 2019. For a description of our offering of the Notes, see Note 9, "Long-term Debt," in our consolidated financial statements included in Part I, Item 1 of this Quarterly Report.
Other, net. Other, net expense was $173 thousand for the three months ended March 31, 2019 compared to $168 thousand for the three months ended March 25, 2018. For the nine months ended March 31, 2019, other, net expense was $236 thousand compared to $223 thousand for the nine months ended March 25, 2018.
Income Tax Expense (Benefit)
The following table sets forth our income tax expense (benefit) in dollars and our effective tax rate (in thousands, except percentages):

	Three Months Ended				Nine Months Ended			
	March 31, 2019	March 25, 2018	Change		March 31, 2019	March 25, 2018	Change	
Income tax expense (benefit)	$2,785	($5,377)	$8,162	152%	$9,252	($17,633)	$26,885	152%
Effective tax rate	(14.3)%	34.6%			(66.1)%	337.9%		

In general, the variation between our effective income tax rate and the U.S. statutory rate of 21% is primarily due to: (i) changes in our valuation allowances against deferred tax assets in the U.S. and Luxembourg, (ii) projected income for the full year derived from international locations with lower tax rates than the U.S., and (iii) projected tax credits generated.
We recognized an income tax expense of $2.8 million for an effective tax rate of (14.3)% for the three months ended March 31, 2019 as compared to income tax benefit of ($5.4) million for an effective tax rate of 34.6% for the three months ended March 25, 2018. For the nine months ended March 31, 2019, we recognized an income tax expense of $9.3 million for an effective tax rate of (66.1)% as compared to income tax benefit of $17.6 million for an effective tax rate of 337.9% for the nine months ended March 25, 2018. The change in our effective tax rate for the three and nine months ended March 31, 2019 was primarily due to the increased tax benefit of the Tax Cuts and Jobs Act of 2017 (the Tax Legislation) during the three and nine months ended March 25, 2018.

Discontinued Operations
As discussed above, we have classified the results of the Lighting Products business as discontinued operations in our consolidated statements of (loss) income for all periods presented. We ceased recording depreciation and amortization of long-lived assets of the Lighting Products business upon classification as discontinued operations in March 2019. Loss from discontinued operations, net of tax, was $205.4 million and $218.1 million for the three and nine months ended March 31, 2019, respectively. Loss from discontinued operations, net of tax, was $230.4 million and $259.1 million for the three and nine months ended March 25, 2018.
Additionally, we recorded a $197.6 million impairment charge on assets held for sale for the three and nine months ended March 31, 2019 and a $247.5 million goodwill impairment charge for the three and nine months ended March 25, 2018.

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Liquidity and Capital Resources

Overview

We require cash to fund our operating expenses and working capital requirements, including outlays for research and development, capital expenditures, strategic acquisitions and investments. Our principal sources of liquidity are cash on hand, marketable securities, cash generated from operations, proceeds from issuances of debt and equity securities and availability under our line of credit. Our ability to generate cash from operations has been one of our fundamental strengths and has provided us with substantial flexibility in meeting our operating, financing and investing needs. We have a $500 million line of credit as discussed in Note 9, “Long-term Debt,” in our consolidated financial statements included in Part I, Item 1 of this Quarterly Report. The purpose of this facility is to provide short-term flexibility to optimize returns on our cash and investment portfolio while funding share repurchases, capital expenditures and other general business needs.

Based on past performance and current expectations, we believe our current working capital, availability under our line of credit, proceeds from the Note offering completed in August 2018 and anticipated cash flows from operations will be adequate to meet our cash needs for our daily operations and capital expenditures for at least the next 12 months. With our strong working capital position, we believe that we have the ability to continue to invest in further development of our products and, when necessary or appropriate, make selective acquisitions or other strategic investments to strengthen our product portfolio, secure key intellectual properties or expand our production capacity. From time to time, we evaluate strategic opportunities, including potential acquisitions, joint ventures, divestitures, spin-offs or investments in complementary businesses, and we anticipate continuing to make such evaluations. We may also access capital markets through the issuance of debt or additional shares of common stock in connection with the acquisition of complementary businesses or other significant assets or for other strategic opportunities.

Liquidity

Our liquidity and capital resources are primarily generated by our cash flows from operations and our working capital. The significant components of our working capital are liquid assets such as cash and cash equivalents, short-term investments, accounts receivable and inventories reduced by trade accounts payable.

The following table presents the components of our cash conversion cycle:

	Three Months Ended		
	March 31, 2019	June 24, 2018	Change
Days of sales outstanding[(a)]	34	29	5
Days of supply in inventory[(b)]	90	76	14
Days in accounts payable[(c)]	(58)	(54)	(4)
Cash conversion cycle	66	51	15

a) Days of sales outstanding (DSO) measures the average collection period of our receivables. DSO is based on the ending net trade receivables, accrued contract liabilities (excluding deferred revenue) and the revenue, net for the quarter then ended. DSO is calculated by dividing ending accounts receivable, net of applicable allowances and contract liabilities (excluding deferred revenue), by the average net revenue per day for the respective 90 day period.

b) Days of supply in inventory (DSI) measures the average number of days from procurement to sale of our product. DSI is based on ending inventory and cost of revenue, net for the quarter then ended. DSI is calculated by dividing ending inventory by average cost of revenue, net per day for the respective 90 day period.

c) Days in accounts payable (DPO) measures the average number of days our payables remain outstanding before payment. DPO is based on ending accounts payable and cost of revenue, net for the quarter then ended. DPO is calculated by dividing ending accounts payable by the average cost of revenue, net per day for the respective 90 day period.

The increase in our cash conversion cycle was primarily driven by an increase in days of supply in inventory.

As of March 31, 2019, we had unrealized losses on our investments of $0.6 million. All of our investments had investment grade ratings, and any such investments that were in an unrealized loss position at March 31, 2019 were in such position due to interest

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rate changes, sector credit rating changes or company-specific rating changes. As we intend and believe that we have the ability to hold such investments for a period of time that will be sufficient for anticipated recovery in market value, we currently expect to receive the full principal or recover our cost basis in these securities. The declines in value of the securities in our portfolio are considered to be temporary in nature and, accordingly, we do not believe these securities are impaired as of March 31, 2019.

Cash Flows

In summary, our cash flows were as follows (in thousands, except percentages):

	Nine Months Ended			
	March 31, 2019	March 25, 2018	Change	
Net cash provided by operating activities	$186,969	$125,423	$61,546	49 %
Net cash used in investing activities	(192,507)	(393,799)	201,292	51 %
Net cash provided by financing activities	343,010	236,290	106,720	45 %
Effects of foreign exchange changes on cash and cash equivalents	(239)	715	(954)	(133)%
Net increase (decrease) in cash and cash equivalents	$337,233	($31,371)	$368,604	(1,175)%

The following is a discussion of our primary sources and uses of cash in our operating, investing and financing activities.

Cash Flows from Operating Activities

Net cash provided by operating activities increased to $187.0 million for the nine months ended March 31, 2019 from $125.4 million for the nine months ended March 25, 2018. This increase was primarily due to timing of managed working capital and higher customer deposits.

Cash Flows from Investing Activities

Our investing activities primarily relate to transactions within our short-term investments, purchases of property and equipment, payments for patents and licensing rights and other strategic initiatives. Net cash used in investing activities was $192.5 million and $393.8 million for the nine months ended March 31, 2019 and March 25, 2018, respectively. Cash used in investing activities decreased in the nine months ended March 31, 2019 compared to the nine months ended March 25, 2018 primarily due to the purchase of the Infineon RF Power Business in 2018.

For fiscal 2019, we target approximately $175 million of capital investment, which is primarily related to infrastructure projects to support our longer-term growth and strategic priorities.

Cash Flows from Financing Activities

Net cash provided by financing activities was $343.0 million and $236.3 million for the nine months ended March 31, 2019 and March 25, 2018, respectively. For the nine months ended March 31, 2019, our financing activities primarily consisted of proceeds of $575 million from the issuance of the Notes and proceeds of $73 million from net issuances of common stock pursuant to the exercise of employee stock options, including the excess tax benefit from those exercises, partially offset by the net repayment on our line of credit of $292 million. For the nine months ended March 25, 2018, our financing activities primarily consisted of a net borrowing on our line of credit of $171.0 million, and proceeds of $62.2 million from net issuances of common stock pursuant to the exercise of employee stock options, including the excess tax benefit from those exercises.

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Off-Balance Sheet Arrangements

We do not use off-balance sheet arrangements with unconsolidated entities or related parties, nor do we use any other forms of off-balance sheet arrangements. Accordingly, our liquidity and capital resources are not subject to off-balance sheet risks from unconsolidated entities. As of March 31, 2019, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

We have entered into operating leases primarily for certain of our U.S. and international facilities in the normal course of business. Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended June 24, 2018, in the section entitled “Contractual Obligations” for the future minimum lease payments due under our operating leases as of June 24, 2018. There have been no significant changes to the contractual obligations discussed therein, except for the issuance of the Notes as discussed in Note 9, "Long-term Debt," in our consolidated financial statements included in Part I, Item 1 of this Quarterly Report.

Critical Accounting Policies and Estimates

For information about our revenue recognition policy, see Note 3, "Revenue Recognition", to our unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report. For information about our other critical accounting policies and estimates, see the “Critical Accounting Policies and Estimates” section of “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended June 24, 2018.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, including the expected dates of adoption and the estimated effects, if any, on our consolidated financial statements, see Note 1, “Basis of Presentation and New Accounting Standards,” to our unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about our market risks, see “Part II. Item 7A. Quantitative and Qualitative Disclosures About Market Risk” of our Annual Report on Form 10-K for the fiscal year ended June 24, 2018. There have been no material changes to the amounts presented therein.

Item 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Form 10-Q, our disclosure controls and procedures are effective in that they provide reasonable assurances that the information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods required by the SEC’s rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We routinely review our internal control over financial reporting and from time to time make changes intended to enhance the effectiveness of our internal control over financial reporting. We will continue to evaluate the effectiveness of our disclosure controls and procedures and internal control over financial reporting on an ongoing basis and will take action as appropriate. There have been no changes to our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the third quarter of fiscal 2019 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The information required by this item is set forth under Note 13, “Commitments and Contingencies,” to our unaudited financial statements in Part I, Item 1 of this Quarterly Report and is incorporated herein by reference.

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Item 1A. Risk Factors

Described below are various risks and uncertainties that may affect our business. The descriptions below include any material changes to and supersede the description of the risk factors affecting our business previously disclosed in "Part I, Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended June 24, 2018. If any of the risks described below actually occurs, our business, financial condition or results of operations could be materially and adversely affected.

Our operating results are substantially dependent on the acceptance of new products.

Our future success may depend on our ability to deliver new, higher performing and/or 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 volume purchase orders for those products from our customers. The development of new products is a highly complex process, and we have in some instances experienced delays in completing the development, introduction and qualification of new products which has impacted our results in the past. Our research and development efforts are aimed at solving increasingly complex problems, and we do not expect that all our projects will be successful. The successful development, introduction and acceptance of new products depend on a number of factors, including the following:

- achievement of technology breakthroughs required to make commercially viable products;
- the accuracy of our predictions for market requirements;
- our ability to predict, influence and/or react to evolving standards;
- qualification and acceptance of our new product and systems 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 develop repeatable processes to manufacture new products in sufficient quantities, with the desired specifications and at competitive costs;
- our ability to effectively transfer increasingly complex products and technology from development to manufacturing;
- our customers' ability to develop competitive products incorporating our products; and
- market acceptance of our products and our customers' products.

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

We face significant challenges managing our growth strategy.

Our potential for growth depends significantly on the adoption of our products within the markets we serve and for other applications, and our ability to affect this rate of adoption. In order to manage our growth and business strategy effectively relative to the uncertain pace of adoption, we must continue to:

- maintain, expand, construct and purchase adequate manufacturing facilities and equipment, as well as secure sufficient third-party manufacturing resources, to meet customer demand;
- manage an increasingly complex supply chain that has the ability to supply an increasing number of raw materials, subsystems and finished products with the required specifications and quality, and deliver on time to our manufacturing facilities, our third-party manufacturing facilities, or our logistics operations;
- expand the capability of information systems to support a more complex business;
- expand research and development, sales and marketing, technical support, distribution capabilities, manufacturing planning and administrative functions;
- manage organizational complexity and communication;

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- expand the skills and capabilities of our current management team;
- add experienced senior level managers and executives;
- attract and retain qualified employees; and
- adequately maintain and adjust the operational and financial controls that support our business.

While we intend to continue to focus on managing our costs and expenses, we expect to invest to support our growth and may have additional unexpected costs. Such investments take time to become fully operational, and we may not be able to expand quickly enough to exploit targeted market opportunities. For example, we continue to transition our Wolfspeed power production from 100mm to 150mm substrates. If we are unable to make this transition in a timely or cost-effective manner, our results could be negatively impacted. In connection with our efforts to cost-effectively manage our growth, we have increasingly relied on contractors for production capacity, logistics support and certain administrative functions including hosting of certain information technology software applications. If our contract manufacturers, original design manufacturers (ODMs) or other service providers do not perform effectively, we may not be able to achieve the expected cost savings and may incur additional costs to correct errors or fulfill customer demand. Depending on the function involved, such errors may also lead to business disruption, processing inefficiencies, the loss of or damage to intellectual property through security breach, or an impact on employee morale. Our operations may also be negatively impacted if any of these contract manufacturers, ODMs or other service providers do not have the financial capability to meet our growing needs. There are also inherent execution risks in starting up a new factory or expanding production capacity, whether one of our own factories or that of our contract manufacturers or ODMs, or moving production to different contract manufacturers or ODMs, that could increase costs and reduce our operating results, including design and construction cost overruns, poor production process yields and reduced quality control.

We are also increasingly dependent on information technology to enable us to improve the effectiveness of our operations and to maintain financial accuracy and efficiency. Allocation and effective management of the resources necessary to successfully implement, integrate, train personnel and sustain our IT platforms will remain critical to ensure that we are not subject to transaction errors, processing inefficiencies, loss of customers, business disruptions or loss of or damage to intellectual property through a security breach in the near term. Additionally, we face these same risks if we fail to allocate and effectively manage the resources necessary to build, implement, upgrade, integrate and sustain appropriate technology infrastructure over the longer term.

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

From time to time, we evaluate strategic opportunities available to us for product, technology or business transactions, such as business acquisitions, investments, joint ventures, divestitures, or spin-offs. For example, during the first quarter of fiscal 2018 we formed Cree Venture LED, a joint venture between San'an and us to produce and supply to customers high-performance mid-power LED components, we acquired the Infineon RF Power business in the third quarter of fiscal 2018, and in the third quarter of fiscal 2019, we entered into a definitive agreement to sell our Lighting Products business unit to IDEAL Industries, Inc. (IDEAL). When we enter into such transactions, we face certain risks including:

- the failure of an acquired business, investee or joint venture to meet our performance and financial expectations;
- identification of additional liabilities relating to an acquired business;
- loss of existing customers of our current and acquired businesses due to concerns that new product lines may be in competition with the customers’ existing product lines or due to regulatory actions taken by governmental agencies;
- that we are not able to enter into acceptable contractual arrangements with the significant customers of an acquired business;
- difficulty integrating an acquired business's operations, personnel and financial and operating systems into our current business;
-

that we are not able to develop and expand customer bases and accurately anticipate demand from end customers, which can result in increased inventory and reduced orders as we experience wide fluctuations in supply and demand;

- diversion of management attention;
- difficulty separating the operations, personnel and financial and operating systems of a spin-off or divestiture from our current business;

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- the possibility we are unable to complete a transaction and expend substantial resources without achieving the desired benefit;
- the inability to obtain required regulatory agency approval;
- reliance on a transaction counterparty for transition services for an extended period of time, which may result in additional expenses and delay an integration of the acquired business and realization of the desired benefit of the transaction;
- uncertainty of the financial markets or circumstances that cause conditions that are less favorable and/or different than expected; and
- expenses incurred to complete a transaction may be significantly higher than anticipated.

We may not be able to adequately address these risks or any other problems that arise from our prior or future acquisitions, investments, joint ventures, divestitures or spin-offs. Any failure to successfully evaluate strategic opportunities and address risks or other problems that arise related to any such business transaction could adversely affect our business, results of operations or financial condition.

We are subject to a number of risks associated with the proposed sale of the Lighting Products business unit, and these risks could adversely impact our operations, financial condition and business.

On March 14, 2019, we executed a Purchase Agreement (the Purchase Agreement) with IDEAL to sell the Lighting Products business unit. We are subject to a number of risks associated with this transaction, including risks associated with:

- the failure to satisfy, on a timely basis or at all, the closing conditions set forth in the Purchase Agreement;
- the separation of the Lighting Products business unit, and related information technology, from the businesses we are retaining and the operation of our retained businesses without the Lighting Products business unit;
- issues, delays or complications in completing required carve-out activities to allow the Lighting Products business unit to operate on a stand-alone basis after the closing, including incurring unanticipated costs to complete such activities;
- unfavorable reaction to the sale by customers, competitors, suppliers and employees;
- the disruption to and uncertainty in our business and our relationships with our customers, including attempts by our customers to terminate or renegotiate their relationships with us or decisions by our customers to defer or delay purchases from us;
- difficulties in hiring, retaining and motivating key personnel during this process or as a result of uncertainties generated by this process or any developments or actions relating to it;
- the diversion of our management’s attention away from the operation of the businesses we are retaining;
- our incurrence of significant transaction costs in connection with the transaction, regardless of whether it is completed;
- the restrictions on and obligations with respect to our business set forth in the Purchase Agreement and, following closing, the transition services agreement and the LED supply agreement, in each case between us and IDEAL;
- the need to provide transition services in connection with the transaction, which may result in the diversion of resources and focus;
- issues, delays, complications and/or additional costs associated with the transition of the operations, systems, technology infrastructure and data, third-party contracts, and personnel of the Lighting Products business and provision of transition services, each, as applicable, within the term of the transition services agreement;
- any required payments of indemnification obligations under the Purchase Agreement for retained liabilities and breaches of representations, warranties or covenants;
- fluctuations in our market value, including the depreciation in our market value if the transaction is not completed or the failure of the transaction, even if completed, to increase our market value; and

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- failure to realize the full purchase price anticipated under the Purchase Agreement, including the ability of the Lighting Products business unit to generate adjusted EBITDA in the third year post-closing sufficient to result in payment of the targeted earn-out or any earn-out payment.

As a result of these risks, we may be unable to complete the transaction or realize the anticipated benefits of the transaction, including the total amount of cash we expect to realize. Our failure to complete the transaction or realize the anticipated benefits of the transaction would adversely impact our operations, financial condition and business and could limit our ability to pursue strategic transactions.

Global economic conditions could materially adversely impact demand for our products and services.

Our operations and performance depend significantly on worldwide economic conditions. Uncertainty about global economic conditions could result in customers postponing purchases of our products and services in response to tighter credit, unemployment, negative financial news and/or declines in income or asset values and other macroeconomic factors, which could have a material negative effect on demand for our products and services and, accordingly, on our business, results of operations or financial condition. For example, any economic and political uncertainty caused by the United States tariffs imposed on goods from China, among other potential countries, and any corresponding tariffs from China or such other countries in response, may negatively impact demand and/or increase the cost for our products.

Additionally, our international sales are subject to variability as our selling prices become less competitive in countries with currencies that are declining in value against the U.S. Dollar and more competitive in countries with currencies that are increasing in value against the U.S. Dollar. In addition, our international purchases can become more expensive if the U.S. Dollar weakens against the foreign currencies in which we are billed.

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

As customer demand for our products changes, we must be able to 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 or decrease our production capacity at our targeted rate or if there are unforeseen costs associated with adjusting our capacity levels, we may not be able to achieve our financial targets. For example, parts of our Wolfspeed business are currently experiencing demand in excess of our production capacity, which is resulting in extended manufacturing lead times to customers as we manage our constrained capacity. We have been making significant investments to expand our materials, power and RF device capacity and continue to do so, these investments take time to be delivered, installed and become fully qualified. As a result, we may be unable to build or qualify such new capacity on a timely basis to meet customer demand and customers may fulfill their orders with one of our competitors instead. In addition, as we introduce new products and change product generations, we must balance the production and inventory of prior generation products with the production and inventory of new generation products, whether manufactured by us or our contract manufacturers, to maintain a product mix that will satisfy customer demand and mitigate the risk of incurring cost write-downs on the previous generation products, related raw materials and tooling.

Due to the proportionately high fixed cost nature of our business (such as facility costs), if demand does not materialize at the rate forecasted, we may not be able to scale back our manufacturing expenses or overhead costs to correspond to the demand. This could result in lower margins and adversely impact our business and results of operations. Additionally, if product demand decreases or we fail to forecast demand accurately, our results may be adversely impacted due to higher costs resulting from lower factory utilization, causing higher fixed costs per unit produced. Further, we may be required to recognize impairments on our long-lived assets or recognize excess inventory write-off charges, or excess capacity charges, which would have a negative impact on our results of operations.

In addition, our efforts to improve quoted delivery lead-time performance may result in corresponding reductions in order backlog. A decline in backlog levels could result in more variability and less predictability in our quarter-to-quarter net revenue and operating results.

We are subject to risks related to international sales and purchases.

We expect that revenue from international sales will continue to represent a significant portion of our total revenue. As such, a significant slowdown or instability in relevant foreign economies or lower investments in new infrastructure, could have a negative impact on our sales. We also purchase a portion of the materials included in our products from overseas sources.

Our international sales and purchases are subject to numerous U.S. and foreign laws and regulations, including, without limitation, tariffs, trade sanctions, trade barriers, trade embargoes, 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. For example, the U.S. Government's April 2018 export ban on Chinese technology company ZTE (subsequently lifted in July 2018) reduced our revenue and profit in at least the near term. If the U.S. Government reinstates the ban, it would reduce company revenue and profit related to that customer at least in the short term and could have a potential longer-term impact. Additionally, like many global manufacturers, we are addressing and dealing with the short-term and potential long-term impact of the United States tariffs imposed on Chinese goods and corresponding Chinese tariffs in response. 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 have our export privileges suspended, which could have a material adverse effect on our business.

International sales and purchases are also subject to a variety of other risks, including risks arising from currency fluctuations, collection issues and taxes. We have entered and may in the future enter into foreign currency derivative financial instruments in an effort to manage or hedge some of our foreign exchange rate risk. We may not be able to engage in hedging transactions in the future, and, even if we do, foreign currency fluctuations may still have a material adverse effect on our results of operations.

The markets in which we operate are highly competitive and have evolving technical requirements.

The markets for our products are highly competitive. In the semiconductor market, we compete with companies that have greater market share, name recognition and/or technical resources than we do. Competitors continue to offer new products with aggressive pricing, additional features and improved performance. In the lighting market, we compete with companies that manufacture and sell traditional and LED lighting products, many of which have larger and more established sales channels. Competitive pricing pressures remain a challenge and continue to accelerate the rate of decline in our sales prices, particularly in our LED Products segment. Aggressive pricing actions by our competitors in our businesses could reduce margins if we are not able to reduce costs at an equal or greater rate than the sales price decline.

As competition increases, we need to continue to develop new products that meet or exceed the needs of our customers. Therefore, our ability to continually produce more efficient and lower cost power, RF, and LED products that meet the evolving needs of our customers will be critical to our success. Competitors may also try to align with some of our strategic customers. This could lead to lower prices for our products, reduced demand for our products and a corresponding reduction in our ability to recover development, engineering and manufacturing costs. Any of these developments could have an adverse effect on our business, results of operations or financial condition.

We will continue to face increased competition in the future across our businesses. If the investment in capacity exceeds the growth in demand, for example as exists in the current LED market, that market is likely to become more competitive with additional pricing pressures. Additionally, new technologies could emerge or improvements could be made in existing technologies that may also reduce the demand for LEDs in certain markets. There are also technologies, such as organic LEDs (OLEDs), which could potentially reduce LED demand, thereby impacting the overall LED market.

We operate in industries that are subject to significant fluctuation in supply and demand and ultimately pricing that affects our revenue and profitability.

The industries we serve are in different stages of adoption and are characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life-cycles in the case of the LED industry and fluctuations in product supply and demand. The power, RF, and LED industries have experienced significant fluctuations, often in connection with, or in anticipation of, product cycles and changes in general economic conditions. The semiconductor industry is characterized by rapid technological change, high capital expenditures, short product life cycles and continuous advancements in process technologies and manufacturing facilities. As the markets for our products mature, additional fluctuations may result from variability and consolidations within the industry's customer base. These fluctuations have been characterized by lower product demand, production overcapacity, higher inventory levels and increased pricing pressure. These fluctuations have also been characterized by higher demand for key components and equipment used in, or in the manufacture of, our products resulting in longer lead times, supply delays and production disruptions. We have experienced these conditions in our business and may experience such conditions in the future, which could have a material negative impact on our business, results of operations or financial condition.

In addition, as we diversify our product offerings and as pricing differences in the average selling prices among our product lines widen, a change in the mix of sales among our product lines may increase volatility in our revenue and gross margin from period to period.

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

We have revenue, operations, manufacturing facilities and contract manufacturing arrangements in foreign countries that expose us to certain risks. For example, fluctuations in exchange rates may affect our revenue, expenses and results of operations as well as the value of our assets and liabilities as reflected in our financial statements. We are also subject to other types of risks, including the following:

- protection of intellectual property and trade secrets;
- tariffs, customs, trade sanctions, trade embargoes and other barriers to importing/exporting materials and products in a cost-effective and timely manner, or changes in applicable tariffs or custom rules;
- the burden of complying with and changes in U.S. or international taxation policies;
- timing and availability of export licenses;
- rising labor costs;
- disruptions in or inadequate infrastructure of the countries where we operate;
- difficulties in collecting accounts receivable;
- difficulties in staffing and managing international operations; and
- the burden of complying with foreign and international laws and treaties.

For example, the United States tariffs imposed on Chinese goods, among other potential countries, and any corresponding tariffs from China or such other countries in response may negatively impact demand and/or increase the costs for our products. In some instances, we have received and may continue to receive incentives from foreign governments to encourage our investment in certain countries, regions or areas outside of the United States. In particular, we have received and may continue to receive such incentives in connection with our operations in Asia, as Asian national and local governments seek to encourage the development of the technology industry. 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 or as a result of our inability to maintain minimum operations necessary to earn the incentives. Any reduction or elimination of incentives currently provided for our operations could adversely affect our business and results of operations. These same governments also may provide increased incentives to or require production processes that favor local companies, which could further negatively impact our business and results of operations.

Changes in regulatory, geopolitical, social, economic, or monetary policies and other factors, if any, may have a material adverse effect on our business in the future, or may require us to exit a particular market or significantly modify our current business practices. Abrupt political change, terrorist activity and armed conflict pose a risk of general economic disruption in affected countries, which could also result in an adverse effect on our business and results of operations.

If our products fail to perform or fail to meet customer requirements or expectations, we could incur significant additional costs, including costs associated with the recall of those items.

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 and installation. For example, during the second quarter of fiscal 2018 we determined that the quality of several of our commercial lighting products was possibly impacted by certain quality issues that could lower those products' reliability. Therefore, we increased our product warranty reserves for potential future warranty claims. Even if our products meet standard specifications, our customers may attempt to use our products in applications for which they were not designed or in products that were not designed or manufactured properly, resulting in product failures and creating customer satisfaction issues.

We have experienced product quality, performance or reliability problems from time to time and defects or failures may occur in the future. If failures or defects occur, they could result in significant losses or product recalls due to:

- costs associated with the removal, collection and destruction of the product;

- payments made to replace product;

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- costs associated with repairing the product;
- the write-down or destruction of existing inventory;
- insurance recoveries that fail to cover the full costs associated with product recalls;
- lost sales due to the unavailability of product for a period of time;
- delays, cancellations or rescheduling of orders for our products; or
- increased product returns.

A significant product recall could also result in adverse publicity, damage to our reputation and a loss of customer or consumer confidence in our products. We also may be the target of product liability lawsuits or regulatory proceedings by the Consumer Product Safety Commission (CPSC) and could suffer losses from a significant product liability judgment or adverse CPSC finding against us if the use of our products at issue is determined to have caused injury or contained a substantial product hazard.

We provide warranty periods ranging from 90 days to 10 years on our products. Although we believe our reserves are appropriate, we are making projections about the future reliability of new products and technologies, and we may experience increased variability in warranty claims. Increased warranty claims could result in significant losses due to a rise in warranty expense and costs associated with customer support.

If we are unable to effectively develop, manage and expand our sales channels for our products, our operating results may suffer.

We sell a substantial portion of our products to distributors. We rely on distributors to develop and expand their customer base as well as anticipate demand from their customers. If they are not successful, our growth and profitability may be adversely impacted. Distributors must balance the need to have enough products in stock in order to meet their customers' needs against their internal target inventory levels and the risk of potential inventory obsolescence. The risks of inventory obsolescence are especially relevant to technological products. The distributors' internal target inventory levels vary depending on market cycles and a number of factors within each distributor over which we have very little, if any, control. Distributors also have the ability to shift business to different manufacturers within their product portfolio based on a number of factors, including new product availability and performance. Similarly, we have the ability to add, consolidate, or remove distributors.

We typically recognize revenue on products sold to distributors when the item is shipped and title passes to the distributor (sell-in method). Certain distributors have limited rights to return inventory under stock rotation programs and have limited price protection rights for which we make estimates. We evaluate inventory levels in the distribution channel, current economic trends and other related factors in order to account for these factors in our judgments and estimates. As inventory levels and product return trends change or we make changes to our distributor roster, we may have to revise our estimates and incur additional costs, and our gross margins and operating results could be adversely impacted.

Additionally, our sales agents have in the past and may in the future choose to drop our product lines from their portfolio to avoid losing access to our competitors' products, resulting in a disruption in the project pipeline and lower than targeted sales for our products. Our sales agents have the ability to shift business to different suppliers within their product portfolio based on a number of factors, including customer service and new product availability. We sell a portion of our lighting products through retailers who may alter their promotional pricing or inventory strategies, which could impact our targeted sales of these products. If we are unable to effectively penetrate these channels or develop alternate channels to ensure our products are reaching the intended customer base, our financial results may be adversely impacted. In addition, if we successfully penetrate or develop these channels, we cannot guarantee that customers will accept our products or that we will be able to manufacture and deliver them in the timeline established by our customers.

Variations in our production could 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;
- equipment failure, power outages, fires, flooding, information or other system failures or variations in the manufacturing

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process;
- lack of consistency and adequate quality and quantity of piece parts, other raw materials and other bill of materials items;
- inventory shrinkage or human errors;
- defects in production processes (including system assembly) either within our facilities or at our suppliers; and
- any transitions or changes in our production process, planned or unplanned.

In the past, we have experienced difficulties in achieving acceptable yields on certain 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 or increased cost efficiencies from other production advances. Failure to achieve these planned improvements or advances could have a significant impact on our margins and operating results.

In addition, our ability to convert volume manufacturing to larger diameter substrates can be an important factor in providing a more cost-effective manufacturing process. We continue to transition our Wolfspeed power production from 100mm to 150mm substrates. If we are unable to make this transition in a timely or cost-effective manner, our results could be negatively impacted.

We rely on a number of key sole source and limited source suppliers and are subject to high price volatility on certain commodity inputs, variations in parts quality, and raw material consistency and availability.

We depend on a 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 attempt to identify and qualify 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. Some of our sources can have variations in attributes and availability which can affect our ability to produce products in sufficient volume or quality. 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. Additionally, general shortages in the marketplace of certain raw materials or key components may adversely impact our business. In the past, we have experienced decreases in our production yields when suppliers have varied from previously agreed upon specifications or made other modifications we do not specify, which impacted our cost of revenue.

Additionally, the inability of our suppliers to access capital efficiently could cause disruptions in their businesses, thereby negatively impacting ours. This risk may increase if an economic downturn negatively affects key suppliers or a significant number of our other suppliers. 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, if our key suppliers were unable to support our demand for any reason or if we were unable to identify and qualify alternative suppliers, our manufacturing operations could be interrupted or hampered significantly.

We rely on arrangements with independent shipping companies for the delivery of our products from vendors and to customers both in the United States and abroad. The failure or inability of these shipping companies to deliver products or the unavailability of shipping or port services, even temporarily, could have a material adverse effect on our business. We may also be adversely affected by an increase in freight surcharges due to rising fuel costs and added security.

In our fabrication process, we consume a number of precious metals and other commodities, which are subject to high price volatility. Our operating margins could be significantly affected if we are not able to pass along price increases to our customers. In addition, production could be disrupted by the unavailability of the resources used in production such as water, silicon, electricity and gases. Future environmental regulations could restrict supply or increase the cost of certain of those materials.

We depend on a limited number of customers, including distributors and retailers, for a substantial portion of our revenue, and the loss of, or a significant reduction in purchases by, one or more of these customers could adversely affect our operating results.

We receive a significant amount of our revenue from a limited number of customers, including distributors and retailers, one of which represented 13% of our consolidated revenue in fiscal 2018. Most of our customer orders are made on a purchase order basis, which does not generally require any long-term customer commitments. Therefore, these customers may alter their purchasing behavior with little or no notice to us for various reasons, including developing, or, in the case of our distributors, their customers developing, their own product solutions; choosing to purchase or distribute product from our competitors; incorrectly forecasting end market demand for their products; or experiencing a reduction in their market share in the markets for which they purchase our products. In the case of retailers, these customers may alter their promotional pricing; increase promotion of competitors' products over our products; or reduce their inventory levels; all of which could negatively impact our financial condition and results of operations. If our customers alter their purchasing behavior, if our customers' purchasing behavior does not match our expectations or if we encounter any problems collecting amounts due from them, our financial condition and results of operations could be negatively impacted.

We may be subject to confidential information theft or misuse, which could harm our business and results of operations.

We face attempts by others to gain unauthorized access to our information technology systems on which we maintain proprietary and other confidential information. Our security measures may be breached as the result of industrial or other espionage actions of outside parties, employees, employee error, malfeasance or otherwise, and as a result, an unauthorized party may obtain access to our systems. The risk of a security breach or disruption, particularly through cyber-attacks, or cyber intrusion, including by computer hackers, foreign governments, and cyber terrorists, has generally increased as cyber-attacks have become more prevalent and harder to detect and fight against. Additionally, outside parties may attempt to access our confidential information through other means, for example by fraudulently inducing our employees to disclose confidential information. We actively seek to prevent, detect and investigate any unauthorized access, which sometimes occurs. We might be unaware of any such access or unable to determine its magnitude and effects. The theft and/or unauthorized use or publication of our trade secrets and other confidential business information as a result of such an incident could adversely affect our competitive position and the value of our investment in research and development could be reduced. Our business could be subject to significant disruption and we could suffer monetary or other losses.

Our disclosure controls and procedures address cybersecurity and include elements intended to ensure that there is an analysis of potential disclosure obligations arising from security breaches. In addition, we are subject to data privacy, protection and security laws and regulations, including the European General Data Protection Act (GDPR) that governs personal information of European persons, which became effective on May 25, 2018. We also maintain compliance programs to address the potential applicability of restrictions against trading while in possession of material, nonpublic information generally and in connection with a cyber-security breach. However, a breakdown in existing controls and procedures around our cyber-security environment may prevent us from detecting, reporting or responding to cyber incidents in a timely manner and could have a material adverse effect on our financial position and value of our stock.

Our results may be negatively impacted if customers do not maintain their favorable perception of our brands and products.

Maintaining and continually enhancing the value of our brands is critical to the success of our business. Brand value is based in large part on customer perceptions. Success in promoting and enhancing brand value depends in large part on our ability to provide high-quality products. Brand value could diminish significantly due to a number of factors, including adverse publicity about our products (whether valid or not), a failure to maintain the quality of our products (whether perceived or real), the failure of our products or Cree to deliver consistently positive consumer experiences, the products becoming unavailable to consumers or consumer perception that we have acted in an irresponsible manner. Damage to our brand, reputation or loss of customer confidence in our brand or products could result in decreased demand for our products and have a negative impact on our business, results of operations or financial condition.

Our revenue is highly dependent on our customers' ability to produce, market and sell more integrated products.

Our revenue in our Wolfspeed and LED Products segments depends on getting our products designed into a larger number of our customers’ products and in turn, our customers’ ability to produce, market and sell their products. For example, we have current and prospective customers that create, or plan to create, power, RF and lighting products or systems using our substrates, die, components or modules. Even if our customers are able to develop and produce products or systems that incorporate our substrates, die, components or modules, there can be no assurance that our customers will be successful in marketing and selling these products or systems in the marketplace.

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As a result of our continued expansion into new markets, we may compete with existing customers who may reduce their orders.

Through acquisitions and organic growth, we continue to expand into new markets and new market segments. Many of our existing customers who purchase our Wolfspeed substrate materials or LED products develop and manufacture products using those wafers, die and components that are offered into the same lighting, power and RF markets. As a result, some of our current customers perceive us as a competitor in these market segments. In response, our customers may reduce or discontinue their orders for our Wolfspeed substrate materials or LED products. This reduction in or discontinuation of orders could occur faster than our sales growth in these new markets, which could adversely affect our business, results of operations or financial condition.

Litigation could adversely affect our operating results and financial condition.

We are often involved in litigation, primarily patent litigation. Defending against existing and potential litigation will likely require significant attention and resources and, regardless of the outcome, result in significant legal expenses, which could 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 affect our results of operations and financial condition.

Where necessary, we may initiate litigation to enforce our patent or other intellectual property rights, which could adversely impact our relationship with certain customers. 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 business may be impaired by claims that we, or our customers, infringe the intellectual property rights of others.

Vigorous protection and pursuit of intellectual property rights characterize our 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 legal 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 or processes; or
- obtain a license to use third party technology.

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 these indemnification obligations, 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. If we believe the assertions may have merit or in other appropriate circumstances, we may take steps to seek to obtain a license or to avoid the infringement. We cannot predict, however, whether a license will be available; that we would find the terms of any license offered acceptable; or that we would be able to develop an alternative solution. Failure to obtain a necessary license or develop an alternative solution could cause us to incur substantial liabilities and costs and to suspend the manufacture of affected 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 licensed to us. We intend to continue to file patent applications in the future, where appropriate, and to pursue such applications with U.S. and certain foreign patent authorities.

Our existing patents are subject to expiration and re-examination 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.

We periodically discover products that are counterfeit reproductions of our products or that otherwise infringe on our intellectual property rights. The actions we take to establish and protect trademarks, patents and other intellectual property rights may not be adequate to prevent imitation of our products by others, and therefore, may adversely affect our sales and our brand and result in the shift of customer preference away from our products. Further, the actions we take to establish and protect trademarks, patents and other intellectual property rights could result in significant legal expense and divert the efforts of our technical personnel and management, even if the litigation or other action results in a determination favorable to us.

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.

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

Hiring and retaining qualified executives, scientists, engineers, technical staff, sales personnel and production personnel is critical to our business, and competition for experienced employees in our industry can be intense. As a global company, this issue is not limited to the United States, but includes our other locations such as Europe and China. For example, there is substantial competition for qualified and capable personnel, particularly experienced engineers and technical personnel, which may make it difficult for us to recruit and retain qualified employees. If we are unable to staff sufficient and adequate personnel at our facilities, we may experience lower revenue or increased manufacturing costs, which would adversely affect our results of operations.

To help attract, motivate and retain key employees, we use benefits such as stock-based compensation awards. If the value of such awards does not appreciate, as measured by the performance of the price of our common stock or if our stock-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.

The adoption of or changes in government and/or industry policies, standards or regulations relating to the efficiency, performance, use or other aspects of our products could impact the demand for our products.

The adoption of or changes in government and/or industry policies, standards or regulations relating to the efficiency, performance or other aspects of our products may impact the demand for our products. Demand for our products may also be impacted by changes in government and/or industry policies, standards or regulations that discourage the use of certain traditional lighting technologies. For example, efforts to change, eliminate or reduce Energy Star® or other standards could negatively impact our Wolfspeed power and LED businesses. These constraints may be eliminated or delayed by legislative action, which could have a negative impact on demand for our products. Our ability and the ability of our competitors to meet these new requirements could impact competitive dynamics in the market.

If governments, their agencies or utilities reduce their demand for our products or discontinue or curtail their funding, our business may suffer.

Changes in governmental budget priorities could adversely affect our business and results of operations. U.S. and foreign government agencies have purchased products directly from us and products from our customers, and U.S. government agencies have historically funded a portion of our research and development activities. When the government changes budget priorities, such as in times of war or financial crisis, or reallocates its research and development spending to areas unrelated to our business, our research and development funding and our product sales to government entities and government-funded customers are at risk. For example, demand and payment for our products and our customers' products may be affected by government shutdowns, public sector budgetary cycles, funding authorizations or utility rebates. Funding reductions or delays could negatively impact demand for our products. If government or utility funding is discontinued or significantly reduced, our business and results of operations could be adversely affected.

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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 inherent 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, municipal bonds, certificates of deposit, government securities and other fixed interest rate investments. The primary objective of our cash investment policy is preservation of principal. However, these investments are generally not Federal Deposit Insurance Corporation insured and may lose value and/or become illiquid regardless of their credit rating.

From time to time, we have also made investments in public and private companies that engage in complementary businesses. For example, during fiscal 2015 we made an investment in Lextar Electronics Corporation (Lextar), a publicly traded company based in Taiwan. An investment in another company is subject to the risks inherent in the business of that company and to trends affecting the equity markets as a whole. Investments in publicly held companies are subject to market risks and, like our investment in Lextar, may not be liquidated easily. As a result, we may not be able to reduce the size of our position or liquidate our investments when we deem appropriate to limit our downside risk. Should the value of any such investments we hold decline, the related write-down in value could have a material adverse effect on our financial condition and results of operations. For example, the value of our Lextar investment declined from the date of our investment in December 2014 through the end of the third quarter of fiscal 2019 with variability between quarters, and may continue to decline in the future. As required by Rule 3-09 of Regulation S-X, we filed Lextar’s financial statements, prepared by Lextar and audited by its independent public accounting firm, as of and for the years ended December 31, 2015 and 2014 as an exhibit to our Annual Report on Form 10-K for the fiscal year ended June 24, 2018.

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

Goodwill and purchased intangible assets with indefinite lives are not amortized, but are reviewed for impairment annually and more frequently when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We assess the recoverability of the unamortized balance of our finite-lived intangible assets when indicators of potential impairment are present. Factors that may indicate that the carrying value of our goodwill or other intangible assets may not be recoverable include a decline in our stock price and market capitalization and slower growth rates in our industry. The recognition of a significant charge to earnings in our consolidated financial statements resulting from any impairment of our goodwill or other intangible assets could adversely impact our results of operations.

We closely monitor the performance of our reporting units and perform ongoing assessments of potential impairment indicators related to our finite-lived and indefinite-lived intangible assets. Based on the proposed sale of the Lighting Products business unit, we performed an impairment test in connection with the preparation of our financial statements for the period ended March 31, 2019. From this testing, we concluded that we had an impairment of our Lighting Products business unit assets as of March 31, 2019. As a result, we recorded a $199.2 million impairment charge during the fiscal quarter ending March 31, 2019.

Our business may be adversely affected by uncertainties in the global financial markets and our or our customers’ or suppliers’ ability to access the capital markets.

Global financial markets continue to reflect uncertainty. Given these uncertainties, there could be future disruptions in the global economy, financial markets and consumer confidence. If economic conditions deteriorate unexpectedly, our business and results of operations could be materially and adversely affected. For example, our customers, including our distributors and their customers, may experience difficulty obtaining the working capital and other financing necessary to support historical or projected purchasing patterns, which could negatively affect our results of operations.

Although we believe we have adequate liquidity and capital resources to fund our operations internally and under our existing line of credit, our inability to access the capital markets on favorable terms in the future, or at all, may adversely affect our financial performance. The inability to obtain adequate financing from debt or capital sources in the future could force us to self-fund strategic initiatives or even forego certain opportunities, which in turn could potentially harm our performance.

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Changes in our effective tax rate may affect our results.

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

- the jurisdiction in which profits are determined to be earned and taxed;
- changes in tax laws or interpretation of such tax laws and changes in generally accepted accounting principles, for example interpretations and U.S. regulations issued as a result of the significant changes to the U.S. tax law included within the Tax Legislation;
- 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 impairment of goodwill in connection with acquisitions;
- changes in available tax credits;
- the recognition and measurement of uncertain tax positions;
- variations in realized tax deductions for certain stock-based compensation awards (such as non-qualified stock options and restricted stock) from those originally anticipated; and
- the repatriation of non-U.S. earnings for which we have not previously provided for taxes or any changes in legislation that may result in these earnings being taxed, regardless of our decision regarding repatriation of funds, for example, the Tax Legislation, enacted in the second quarter of fiscal 2018, included a one-time tax on deemed repatriated earnings of non-U.S. subsidiaries.

Any significant increase or decrease in our future effective tax rates could impact net (loss) income for future periods. In addition, the determination of our income tax provision requires complex estimations, significant judgments and significant knowledge and experience concerning the applicable tax laws. To the extent our income tax liability materially differs from our income tax provisions due to factors, including the above, which were not anticipated at the time we estimated our tax provision, our net (loss) income or cash flows could be affected.

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

The manufacturing, 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, legal liabilities and the forfeiture of certain tax benefits;
- suspension of production;
- alteration of our fabrication, 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, such as permit costs, 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 processes.

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Our results could vary as a result of the methods, estimates and judgments that we use in applying our accounting policies, including changes in the accounting standards to be applied.

The methods, estimates and judgments that we use in applying our accounting policies have a significant impact on our results (see “Critical Accounting Policies and Estimates” in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended June 24, 2018). 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 or financial condition.

Likewise, our results may be impacted due to changes in the accounting standards to be applied, such as the increased use of fair value measurement standards and changes in revenue recognition requirements.

Catastrophic events may disrupt our business.

A disruption or failure of our systems or operations in the event of a natural disaster, health pandemic, such as an influenza outbreak within our workforce, or man-made catastrophic event could cause delays in completing sales, continuing production or performing other critical functions of our business, particularly if a catastrophic event occurred at our primary manufacturing locations or our subcontractors' locations. Any of these events could severely affect our ability to conduct normal business operations and, as a result, our operating results could be adversely affected. There may also be secondary impacts that are unforeseeable as well, such as impacts to our customers, which could cause delays in new orders, delays in completing sales or even order cancellations.

Our stock price may be volatile.

Historically, our common stock has experienced substantial price volatility, particularly as a result of significant fluctuations in our revenue, earnings and margins over the past few years, and variations between our actual financial results and the published expectations of analysts. For example, the closing price per share of our common stock on the Nasdaq Global Select Market ranged from a low of $33.72 to a high of $59.44 during the 12 months ended March 31, 2019. If our future operating results or margins are below the expectations of stock market analysts or our investors, our stock price may decline.

Speculation and opinions in the press or investment community about our strategic position, financial condition, results of operations or significant transactions can also cause changes in our stock price. In particular, speculation on our go-forward strategy, competition in some of the markets we address such as electric vehicles and LED lighting, the ramp up of our Wolfspeed business, the sale of our Lighting Products business and the potential or perceived potential impact of tariffs may have a dramatic effect on our stock price.

We have outstanding debt which could materially restrict our business and adversely affect our financial condition, liquidity and results of operations.

Our indebtedness currently consists of the Notes and potential borrowings from our revolving line of credit. Our ability to pay interest and repay the principal for any outstanding indebtedness under our line of credit or the Notes is dependent upon our ability to manage our business operations and generate sufficient cash flows to service such debt. There can be no assurance that we will be able to manage any of these risks successfully.

Our level of our outstanding debt may adversely affect our operating results and financial condition by, among other things:

- increasing our vulnerability to downturns in our business, to competitive pressures and to adverse general economic and industry conditions;
- requiring the dedication of an increased portion of our expected cash flows from operations to service our indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures, research and development and stock repurchases;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- placing us at a competitive disadvantage compared to our peers that may have less indebtedness than we have by limiting our ability to borrow additional funds needed to operate and grow our business; and
- increasing our interest expense if interest rates increase.

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Our line of credit requires us to maintain compliance with certain financial ratios. In addition, our line of credit contains certain restrictions that could limit our ability to, among other things: incur additional indebtedness, dispose of assets, create liens on assets, make acquisitions or engage in mergers or consolidations, and engage in certain transactions with our subsidiaries and affiliates. The Indenture governing the Notes requires us to repurchase the Notes upon certain fundamental changes relating to our common stock, and also prohibits our consolidation, merger, or sale of all or substantially all of our assets except with or to a successor entity assuming our obligations under the Indenture. The restrictions imposed by our line of credit and by the Indenture governing our Notes could limit our ability to plan for or react to changing business conditions, or could otherwise restrict our business activities and plans.

Our ability to comply with our loan covenants and the provisions of the Indenture governing our Notes may also be affected by events beyond our control and if any of these restrictions or terms is breached, it could lead to an event of default under our line of credit or the Notes. A default, if not cured or waived, may permit acceleration of our indebtedness. In addition, our lenders could terminate their commitments to make further extensions of credit under our line of credit. If our indebtedness is accelerated, we cannot be certain that we will have sufficient funds to pay the accelerated indebtedness or that we will have the ability to refinance accelerated indebtedness on terms favorable to us or at all.

Regulations related to conflict-free minerals may force us to incur additional expenses.

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of minerals originating from the conflict zones of the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC established new annual disclosure and reporting requirements for those companies who may use “conflict” minerals mined from the DRC and adjoining countries in their products. Our most recent disclosure regarding our due diligence was filed in May 2018 for calendar year 2017. These requirements could affect the sourcing and availability of certain minerals used in the manufacture of our products. As a result, we may not be able to obtain the relevant minerals at competitive prices and there will likely be additional costs associated with complying with the due diligence procedures as required by the SEC. In addition, because our supply chain is complex, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins of all minerals used in our products through the due diligence procedures, and we may incur additional costs as a result of changes to product, processes or sources of supply as a consequence of these requirements.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

The following exhibits are being filed herewith and are numbered in accordance with Item 601 of Regulation S-K:

Exhibit No.	Description
2.1*	Purchase Agreement, dated March 14, 2019, by and between Cree, Inc. and IDEAL Industries, Inc.
10.1	Credit Agreement Consent, dated as of March 14, 2019, by and between Cree, Inc., Wells Fargo Bank, National Association, as administrative agent and lender, E-conolight LLC, a domestic subsidiary of the Company, as guarantor, and the other lenders party to the Credit Agreement
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from Cree, Inc.’s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2019 formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of (Loss) Income; (iii) Consolidated Statements of Comprehensive (Loss) Income; (iv) Consolidated Statement of Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements

* Portions of this exhibit have been omitted pursuant to Rule 601(b)(2) of Regulation S-K. The omitted information is not material and would likely cause competitive harm to the registrant if publicly disclosed.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CREE, INC.

May 2, 2019

/s/ Neill P. Reynolds
Neill P. Reynolds
Executive Vice President and Chief Financial Officer
(Authorized Officer and Principal Financial and Chief Accounting Officer)