

ANNUAL REPORT 2019



CREE 


Wolfspeed

LETTER TO SHAREHOLDERS 2019

Fellow shareholders,

Since announcing our strategy in February 2018, we have made great progress toward our goal of creating a semiconductor powerhouse in silicon carbide and GaN technologies. We grew Wolfspeed by more than 100 percent, acquired the Infineon RF Power business, more than doubled our manufacturing capacity of silicon carbide materials, jointly announced with Valeo an innovative forward-lighting solution for the automotive industry and signed multiple long-term silicon carbide materials supply agreements.

Over the past year, we continued to make significant advancements in the transformation of Cree, with the announcement of several pivotal milestones.

- Cree made one of the most significant announcements in the company's history: plans to expand our silicon carbide and GaN capacity by 30 times with the development of a state-of-the-art, automated silicon carbide and GaN fabrication facility and materials factory. We believe this represents the largest capital investment in the history of silicon carbide and GaN and will support the growing global demand for our technologies that we have identified in our device opportunity pipeline, which now stands at more than \$9 billion.
- We were selected as the exclusive silicon carbide partner for the Volkswagen Group's "Future Automotive Supply Tracks" Initiative. The goal of the FAST program is to foster even greater collaboration among VW's key partners and accelerate the delivery of new electric vehicles to the marketplace. Volkswagen has committed to launch almost 70 new electric models in the next decade, which by itself presents a great opportunity for Cree.
- We announced a multi-year, \$85 million wafer supply agreement with ON Semiconductor, making this the fourth long-term agreement we have signed in the past year and a half. Totalling close to \$600 million, these agreements demonstrate how our solutions are helping to drive the transition in the power semiconductor industry from silicon to silicon carbide.
- We closed the sale of Cree Lighting to IDEAL INDUSTRIES, INC., which allows us to become a more focused semiconductor company and channel more of our energy and expertise into building the Wolfspeed business.

We also continued to make progress on driving a cultural shift within the company. Simply put, we implemented substantial changes in our people strategy to help foster long-term growth, focus and satisfaction so that we retain the best available talent to drive our competitive edge. We rolled out new values, internal mobility structures and community engagement opportunities, as well as established an experienced executive team with vital expertise and a strong track record of execution to guide our success.

As we look ahead, Cree remains focused on two key measures of success: growing revenue to gain market share and increasing gross margins to improve profitability. Our fiscal 2019 results showed continued progress against these objectives, with the overall company revenue growing by 17 percent and Wolfspeed revenue growing by 64 percent year over year.

While fiscal 2019 represents a banner year for progress toward our goal, we are not relaxing our commitment to advancing our performance as we work through business challenges. We remain confident about the future that lies ahead but recognize the path to success is not a straight line, and there are market challenges that we must navigate.

The LED industry remains under pressure due to continued market softness and tariff concerns. As such, we are taking steps to optimize our LED business, focus on high-value customer opportunities and accelerate the outsourcing of our LED fabrication activities.

While we will continue to navigate events and market forces that will temper our growth trajectory from time to time, we believe there is a significant opportunity to help customers make the shift from silicon to silicon carbide solutions for their next-generation applications.

Recent estimates from Canaccord Genuity are calling for the demand of silicon carbide to grow more than \$20 billion by 2030, mainly driven by a major expansion in electric vehicles and related charging needs. These vehicles, along with a host of other wireless broadband dependent devices, will be connected to ultra-fast 5G networks that will be capable of transferring massive amounts of data and supporting a level of interconnectivity that has previously been impossible. At the core, helping to power these solutions will be silicon carbide and GaN technologies that we have pioneered over the last 30 years and that we continue to refine each and every day.

As the pioneering leader in silicon carbide and GaN technologies, Cree has one of the most advanced portfolios within the industry. Our robust pipeline of opportunities reinforces our confidence in Cree's long-term growth prospects. This year, I have met with some of our top customers and prospects, and they continue to tell me how our silicon carbide and GaN solutions are key to their future growth plans.

We believe the long-term outlook for the company remains very strong and remain confident that we have differentiated technologies that are critical to our customers' success. Cree is on the right path, and we will continue to take steps to position the company for success. We will continue our commitment to creating a semiconductor powerhouse and accelerating the industry's global transition from silicon to silicon carbide and GaN to meet the growing demand for these technologies.

Thank you for your continued support.



A handwritten signature in black ink, appearing to read "G. Lowe". The signature is fluid and cursive, written over a white background.

Gregg A. Lowe
President and CEO

FORM 10-K



CREE 


Wolfspeed

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended **June 30, 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

27703

Durham

North Carolina

(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

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

None

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

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

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 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

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 Exchange Act.

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

The aggregate market value of common stock held by non-affiliates of the registrant as of December 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was \$4,266,297,428 (based on the closing sale price of \$41.39 per share).

The number of shares of the registrant's Common Stock, \$0.00125 par value per share, outstanding as of August 16, 2019 was 106,975,538.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held October 28, 2019 are incorporated by reference into Part III.

CREE, INC.
FORM 10-K
For the Fiscal Year Ended June 30, 2019

TABLE OF CONTENTS

	<u>Page</u>
Part I	
Item 1. Business	4
Item 1A. Risk Factors.....	9
Item 1B. Unresolved Staff Comments	21
Item 2. Properties	22
Item 3. Legal Proceedings	22
Item 4. Mine Safety Disclosures	22
Part II	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	23
Item 6. Selected Financial Data.....	24
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	25
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	40
Item 8. Financial Statements and Supplementary Data.....	41
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	86
Item 9A. Controls and Procedures	86
Item 9B. Other Information	87
Part III	
Item 10. Directors, Executive Officers and Corporate Governance.....	88
Item 11. Executive Compensation.....	88
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	88
Item 13. Certain Relationships and Related Transactions, and Director Independence.....	88
Item 14. Principal Accountant Fees and Services	88
PART IV	
Item 15. Exhibits and Financial Statement Schedules	89

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Forward-Looking Information

Information set forth in this Annual Report on Form 10-K contains various “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (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,” “expect” and “intend” and other similar expressions constitute forward-looking statements. These forward-looking statements are subject to business, economic and other risks and uncertainties, both known and unknown, and actual results may differ materially from those contained in the forward-looking statements. Any forward-looking statements we make are as of the date made, and 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 Annual Report. Examples of risks and uncertainties that could cause actual results to differ materially from historical performance and any forward-looking statements include, but are not limited to, those described in “Risk Factors” in Item 1A of this Annual Report.

PART I

Item 1. *Business*

Overview

Cree, Inc. (Cree, we, our, or us) 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.

We operate in two reportable segments:

- **Wolfspeed**, which consists 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 electric vehicles, motor drives, power supplies, solar and transportation applications. Our materials products and RF devices are used in military communications, radar, satellite and telecommunication applications.
- **LED Products**, which consists 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 previously designed, manufactured and sold LED lighting fixtures and lamps for the commercial, industrial and consumer markets. We referred to these product lines as the Lighting Products business unit. On May 13, 2019, we sold our Lighting Products business unit to IDEAL Industries, Inc. (IDEAL) and have classified this business unit as discontinued operations. The Lighting Products business unit represented the Lighting Products segment disclosed in our historical financial statements.

The majority of our products are manufactured at our production facilities located in North Carolina, California, Arkansas 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 8 of this Annual Report.

Products by Reportable Segment

Wolfspeed

Our Wolfspeed segment includes SiC materials, power devices and RF devices.

SiC Materials

Our SiC materials products consist of crystals, bare and epitaxial wafers. Our SiC materials are targeted for customers who use them to manufacture products for RF, power switching, gemstones and other applications. Corporate, government and university customers also buy SiC materials for research and development directed at RF and power devices.

Power Devices

Our power device products consist of SiC Schottky diodes, metal oxide semiconductor field effect transistors (MOSFETs), power modules and gate driver boards. Our SiC power products provide increased efficiency, faster switching speeds and reduced system size and weight over comparable silicon-based power devices. Power products are sold primarily to customers and distributors for use in applications such as electric vehicles, including charging infrastructure, server power supplies, solar inverters, uninterruptible power supplies, industrial power supplies and other applications.

RF Devices

Our RF devices consist of GaN die, high-electron mobility transistors (HEMTs), monolithic microwave integrated circuits (MMICs), and laterally diffused MOSFET (LDMOS) power transistors that are optimized for next generation telecommunications infrastructure, military and other commercial applications. Our RF devices are made from Si, SiC and GaN and can provide improved efficiency, bandwidths and frequency of operation as compared to silicon or GaAs. We also provide custom die manufacturing for GaN HEMTs and MMICs that allow a customer to design its own custom RF circuits to be fabricated by us, or have us design and fabricate products that meet their specific requirements.

During fiscal 2018, we expanded our RF product offerings through the acquisition of certain assets of Infineon Technologies AG's (Infineon) Radio Frequency Power Business (RF Power) as discussed in Note 6, "Acquisition", in our consolidated financial statements included in Item 8 of this Annual Report.

LED Products

Our LED Products segment includes LED chips and LED components.

LED Chips

Our LED chip products include blue and green LED chips based on GaN and related materials. LED chips or die are solid state electronic components used in a number of applications and are currently available in a variety of brightness levels, wavelengths (colors) and sizes. We use our LED chips in the manufacturing of our LED components. Customers use our blue and green LED chips in a variety of applications including video screens, gaming displays, function indicator lights and automotive backlights, headlamps and directional indicators. Customers may also combine our blue LED chips with phosphors to create white LEDs, which are used in various applications for indoor and outdoor illumination and backlighting, full-color display screens, liquid crystal display (LCD) backlighting, white keypads and the camera flash function.

LED Components

Our LED components include a range of packaged LED products, from our XLamp[®] LED components and LED modules for lighting applications to our high-brightness LED components.

Our XLamp LED components and LED modules are designed to meet a broad range of market needs for lighting applications including general illumination (both indoor and outdoor applications), portable, architectural, signal and transportation lighting. We also sell XLamp LED components externally to customers and distributors for use in a variety of products, primarily for lighting applications.

Our high-brightness LED components consist of surface mount device (SMD) and through-hole packaged LED products. Our SMD LED component products are available in a full range of colors designed to meet a broad range of market needs, including video, signage, general illumination, transportation, gaming and specialty lighting. Our through-hole packaged LED component products are available in a full range of colors primarily designed for the signage market and provide users with color and brightness consistency across a wide viewing area.

In fiscal 2018, Cree formed a joint venture, Cree Venture LED Company Limited (Cree Venture LED), with San'an Optoelectronics Co., Ltd. (San'an) to sell mid-power LED components. These mid-power components are focused on indoor general illumination applications where customers are more price sensitive.

For further information about our reportable segments, please refer to Note 17, "Reportable Segments," in our consolidated financial statements included in Item 8 of this Annual Report.

Research and Development

We invest significant resources in research and development. Our research and development activity includes efforts to:

- convert existing SiC and GaN fabrication technology to a 200mm platform;
- develop higher power diodes/switches and higher power/linearity RF devices;
- increase the quality, performance and diameter of our substrate and epitaxial materials;
- develop brighter, more efficient and lower cost LED chip and component products; and
- continually improve our manufacturing processes.

When our customers participate in funding our research and development programs, we recognize the amount funded as a reduction of research and development expenses to the extent that our customers' funding does not exceed our respective research and development costs. For further information about our research and development, see "Research and Development" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Sales and Marketing

We continue to make investments to expand our sales, marketing, technical applications support, as well as distribution capabilities to further enable new and existing customers to implement our SiC materials, power, RF, and LED technology into their products. We also continue to make investments to promote and build market awareness of the Cree and Wolfspeed brands. Our sales, marketing and technical applications teams include personnel throughout North America, Asia and Europe.

Customers

We have historically had one key customer who represented more than 10% of our consolidated revenue. Arrow Electronics, Inc. (Arrow) has accounted for 19%, 21% and 24% of our total consolidated revenue in fiscal 2019, 2018 and 2017, respectively. Arrow is a customer of our Wolfspeed and LED Products segments. For further discussion regarding customer concentration, please see Note 18, "Concentrations of Risk," in our consolidated financial statements included in Item 8 of this Annual Report. The loss of any large customer could have a material adverse effect on our business and results of operations.

Distribution

A substantial portion of our products are sold to distributors. Distributors stock inventory and sell our products to their own customer base, which may include: value added resellers, manufacturers who incorporate our products into their own manufactured goods and ultimate end users of our products. We also utilize third-party sales representatives who generally do not maintain a product inventory; instead, their customers place orders directly with us or through distributors.

Seasonality

Similar to other global semiconductor component suppliers, both our Wolfspeed and LED Products segments have historically experienced, and in the future may experience, seasonally lower sales during our fiscal third quarter due to the Chinese New Year holiday.

Our sales also vary based on other factors such as customer demand and government regulation.

If anticipated sales or shipments do not occur when expected, our results of operations for that quarter, and potentially for future quarters, may be adversely affected.

Backlog

Our backlog at June 30, 2019 was approximately \$644.6 million, compared with a backlog of approximately \$519.7 million at June 24, 2018. Because of the generally short cycle time between order and shipment and occasional customer changes in delivery schedules or cancellation of orders (which at times may be made without significant penalty), we do not believe that our backlog, as of any particular date, is necessarily indicative of actual net revenue for any future period. Additionally, our June 30, 2019 backlog contained \$10.1 million of research contracts signed with the U.S. Government, for which approximately \$2.8 million had not been appropriated as of the last day of fiscal 2019. Our June 24, 2018 backlog contained \$24.1 million of research contracts signed with the U.S. Government, for which approximately \$14.3 million was not appropriated as of the last day of fiscal 2018. Our backlog could be adversely affected if the U.S. Government exercises its rights to terminate our government contracts or does not appropriate and allocate all of the funding contemplated by the contracts.

Sources of Raw Materials

We depend on a number of suppliers for certain raw materials, components and equipment used in manufacturing our products, including certain key materials and equipment used in critical stages of our manufacturing processes. We generally purchase these limited source items pursuant to purchase orders and have limited guaranteed supply arrangements with our suppliers. Our suppliers are located around the world and can be subject to constraints beyond our control that may limit supply. We believe our current supply of essential materials is sufficient to meet our needs. However, shortages have occurred from time to time and could occur again.

Competition by Reportable Segment

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

Wolfspeed Segment

SiC Materials

We have continued to maintain our well-established leadership position in the sale of SiC bulk material, SiC wafer and SiC and GaN epitaxy products. As market adoption of the technology grows with rapidly expanding power and RF device designs, we are experiencing increased competition from companies such as Dow Corning, II-VI Advanced Materials, SiCrystal and Showa Denko. We believe our leading technology and leveraged production scale position us to reliably supply production volumes to the device manufacturers in the market.

Power Devices

Our SiC-based power devices compete with SiC power semiconductor solutions offered by Infineon, Microsemi Corporation (Microsemi), Mitsubishi Electric Corporation (Mitsubishi), ON Semiconductor, Rohm Co. Ltd., and STMicroelectronics, Inc. (ST). Our SiC products also compete with other Si semiconductor devices offered by a variety of manufacturers. Our power products compete in the power semiconductor market on the basis of performance, reliability and overall system price.

RF Devices

Our RF devices compete with Ampleon, M/A-COM Technology Solutions Inc., Microsemi, Mitsubishi, NXP Semiconductor, Qorvo, Inc., and Sumitomo Electric Device Innovations, Inc., which all offer competing RF products and solutions. Our products also compete with a variety of companies offering silicon and GaAs-based products. Our products compete in the RF semiconductor market on the basis of reliability, performance, design predictability and overall system price.

LED Products Segment

Our LED Products segment's primary competitors are Nichia Corporation (Nichia), OSRAM Opto Semiconductors GmbH (OSRAM), Samsung LED Company (Samsung), Seoul Semiconductor (SSC), Lumileds Holdings B.V. (Lumileds), and Nationstar.

LED Chips

The primary competition for our LED chip products comes from companies that manufacture and/or sell nitride-based LED chips. We consider Nichia to be a competitor because it sells LED chips to a select number of LED packaging companies and it sells packaged LEDs that most often compete directly with packaged LEDs made and sold by our chip customers. We believe, based on industry information, that Nichia currently has the largest market share for nitride-based LEDs. There are many other LED chip producers who sell blue, green and white LED chip products, including OSRAM, Epistar Corporation and San'an. These competitors make products for a variety of applications in a range of performance levels that compete directly with our LED products.

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

LED Components

The market for lighting class LED components is concentrated primarily in indoor and outdoor commercial lighting; specialty lighting, including torch lamps (flashlights); color changing architectural lighting; signs and signals; and transportation. Nichia, OSRAM, Lumileds, MLS, Everlight, SSC and Samsung are the main competitors in these markets. These companies sell LED components that compete indirectly with our target customers for LED chips and compete directly with our XLamp LED components and LED modules. There are a large number of other companies, primarily based in Asia, that offer products designed to compete both directly and indirectly with our LED components in lighting and other applications. We are positioning our XLamp LED components and LED modules to compete in this market based on performance, price and usability.

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

Patents and Other Intellectual Property Rights

We believe it is important to protect our investment in technology by obtaining and enforcing intellectual property rights, including rights under patent, trademark, trade secret and copyright laws. We seek to protect inventions we consider significant by applying for patents in the United States and other countries when appropriate. We have also acquired, through license grants, purchases and assignments, rights to patents on inventions originally developed by others. As of June 30, 2019, we owned or were the exclusive licensee of 1,379 issued U.S. patents and approximately 2,394 foreign patents with various expiration dates extending up to 2039. We do not consider our business to be materially dependent upon any one patent, and we believe our business will not be materially adversely affected by the expiration of any one patent. For proprietary technology that is not patented, we generally seek to protect the technology and related know-how and information as trade secrets by keeping confidential the information that we believe provides us with a competitive advantage. We attempt to create strong brands for our products and promote our products through trademarks that distinguish them in the market. We may license our customers to use our trademarks in connection with the sale of our products, and we monitor for the proper and authorized use of our marks.

Licensing activities and lawsuits to enforce intellectual property rights, particularly patent rights, are a common aspect of the semiconductor and LED industries, and we attempt to ensure respect for our intellectual property rights through appropriate actions. The breadth of our intellectual property rights and the extent to which they can be successfully enforced varies across jurisdictions. We both make and receive inquiries regarding possible patent infringements and possible violations of other intellectual property rights in the normal course of business. Depending on the circumstances, we may seek to negotiate a license or other acceptable resolution. If we are unable to achieve a resolution by agreement, we may seek to enforce our rights or defend our position through litigation. Patent litigation in particular is expensive and the outcome is often uncertain. We believe that the strength of our portfolio of patent rights is important in helping us resolve or avoid such disputes with other companies in our industry.

Environmental Regulation

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

Working Capital

For a discussion of our working capital practices, see “Liquidity and Capital Resources” in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Employees

As of June 30, 2019, we employed 5,319 regular full and part-time employees. We also employ individuals on a temporary full-time basis and use the services of contractors as necessary. Certain employees in various countries outside of the United States are subject to laws providing representation rights.

Available Information

Our website address is www.cree.com and our investor relations website is located at <https://investor.cree.com>. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, statements of changes in beneficial ownership and amendments to those reports are available for free on our investor relations website as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. The contents of our website is not incorporated by reference into this filing or any other report we file with or furnish to the SEC. We have no duty to update or revise any forward-looking statements in this Annual Report or in other reports filed with the SEC, whether as a result of new information, future events or otherwise, unless we are required to do so by law. The SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Item 1A. Risk Factors

Described below are various risks and uncertainties that may affect our business. 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, specifically entering into automotive applications which require even more stringent levels of qualification and standards;
- 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, including specifically the expansion of our SiC capacity with the construction of a state-of-the-art, automated 200mm capable SiC and GaN fabrication facility and a large materials factory;
- 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;
- expand the skills and capabilities of our current management team;
- add experienced senior level managers and executives;
- attract and retain qualified employees; and
- execute, 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 converting the majority of 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 information technology 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, in the third quarter of fiscal 2018, we acquired the Infineon RF Power business and in the fourth quarter of fiscal 2019, we completed the sale of our Lighting Products business unit to IDEAL. If we choose to 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;
- the possibility we are unable to complete the transaction and expend substantial resources without achieving the desired benefit;
- the inability to obtain required regulatory agency approvals;
- reliance on a transaction counterparty for transition services for an extended period of time, which may result in additional expenses and delay the 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.

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.

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, on May 15, 2019, the Bureau of Industry and Security (BIS) of the U.S. Department of Commerce added Huawei Technologies Co., Ltd. and 68 of its affiliates (collectively, “Huawei”) to the “Entity List” maintained by the U.S. Department of Commerce, which imposes limitations on the supply of certain U.S. items and product support to Huawei. To comply with the Entity List restrictions, we suspended shipments of all products to Huawei and cannot predict when we will be able to resume such shipments, which has reduced our revenue and profit in at least the near term and increased our inventories of product intended for Huawei. If the U.S. Government maintains the restrictions on Huawei or imposes restrictions on sales to other foreign customers, it will 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 continue to address 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.

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

On May 13, 2019, we closed the sale of our former Lighting Products business unit to IDEAL. We are subject to a number of risks associated with this transaction, including risks associated with:

- the operation of our retained businesses without the Lighting Products business unit;
- the restrictions on and obligations with respect to our remaining businesses following closing set forth in the transition services agreement and the LED supply agreement, in each case between us and IDEAL, including the need to provide transition services in connection with the transaction, which may result in the diversion of resources and focus from our remaining businesses;
- 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 unit 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; and
- our 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 earnout or any earnout payment.

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

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.

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 as currently experienced in the LED market. 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.

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 when our factories are underutilized. For example, while our utilization in Wolfspeed remains high, our LED capacity is currently underutilized. We may be unable to build or qualify 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.

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 distributors 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 distributors 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. 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 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 converting the majority of 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.

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, distribution and sales channels, and/or technical resources than we do. Competitors continue to offer new products with aggressive pricing, additional features and improved performance. 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, such as exists in the current LED market, the LED 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.

We depend on a limited number of customers, including distributors, 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, one of which represented 19% of our consolidated revenue in fiscal 2019. Many 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. 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.

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, and RF 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.

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.

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 Asia. 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.

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.

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 cybersecurity 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.

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.

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

Goodwill is reviewed for impairment annually and 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.

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 industry or regulatory 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.

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 fiscal 2019 with variability between quarters, and may continue to decline in the future.

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.

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. 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;
- 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 5.5 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.

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 Cuts and Jobs Act of 2017 (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.

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 Item 7 of this Annual Report). Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and factors may arise over time that lead us to change our methods, estimates and judgments. Changes in those methods, estimates and judgments could significantly affect our results of operations 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 \$68.50 during fiscal 2019. If our future operating results or margins are below the expectations of stock market analysts or our investors, our stock price will likely 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, 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 \$575.0 million aggregate principal amount of 0.875% convertible senior notes due September 1, 2023 (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.

The 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.

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 2019 for calendar year 2018. 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 1B. Unresolved Staff Comments

Not applicable.

Item 2. *Properties*

The table below sets forth information with respect to our significant owned and leased facilities as of June 30, 2019. The sizes of the locations represent the approximate gross square footage of each site's buildings.

<u>Location</u>	<u>Segment Utilization¹</u>	<u>Size (approximate gross square footage)</u>				
		<u>Total</u>	<u>Production</u>	<u>Facility Services and Warehousing</u>	<u>Administrative Function</u>	<u>Housing / Other</u>
Owned Facilities						
Durham, NC.....	All	920,096	472,126	14,037	433,933	—
Research Triangle Park, NC .	1	203,995	91,063	62,855	50,077	—
Huizhou, China	2	823,951	332,271	116,568	41,764	333,348
Total owned		<u>1,948,042</u>	<u>895,460</u>	<u>193,460</u>	<u>525,774</u>	<u>333,348</u>
Leased Facilities						
Morgan Hill, CA	1	83,828	54,488	—	29,340	—
Fayetteville, AR.....	1	33,631	18,771	—	14,860	—
Hong Kong.....	All	29,891	—	4,100	24,602	1,189
Total leased		<u>147,350</u>	<u>73,259</u>	<u>4,100</u>	<u>68,802</u>	<u>1,189</u>
Total gross square footage		<u>2,095,392</u>	<u>968,719</u>	<u>197,560</u>	<u>594,576</u>	<u>334,537</u>

⁽¹⁾ Segments are identified as follows: 1) Wolfspeed and 2) LED Products.

Our corporate headquarters, primary research and development operations, and primary manufacturing operations are located within the Durham, North Carolina facilities that we own and sit on 141 acres of owned land.

Our power and RF products are primarily produced at our owned manufacturing facility located in Research Triangle Park, North Carolina, which sits on 55 acres of owned land. Additionally, these products are produced at a leased facility in Morgan Hill, California.

LED products are produced at our owned manufacturing facilities located in Huizhou, Guangdong Province, China. We also own dormitories for housing our Chinese employees that are located near and adjacent to the owned manufacturing facilities. The owned manufacturing facilities, dormitories, and support buildings are located on land that is leased from the Chinese government through two leases. The first land lease is for 12 acres that expires in June 2057 and supports the manufacturing facilities. The second land lease is for five acres that expires in December 2082 and is used for dormitory buildings.

We also maintain manufacturing, sales and support offices in leased office premises in North America, Asia, and Europe.

Item 3. *Legal Proceedings*

The information required by this item is set forth under Note 16, "Commitments and Contingencies," in our consolidated financial statements included in Item 8 of this Annual Report, and is incorporated herein by reference.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

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

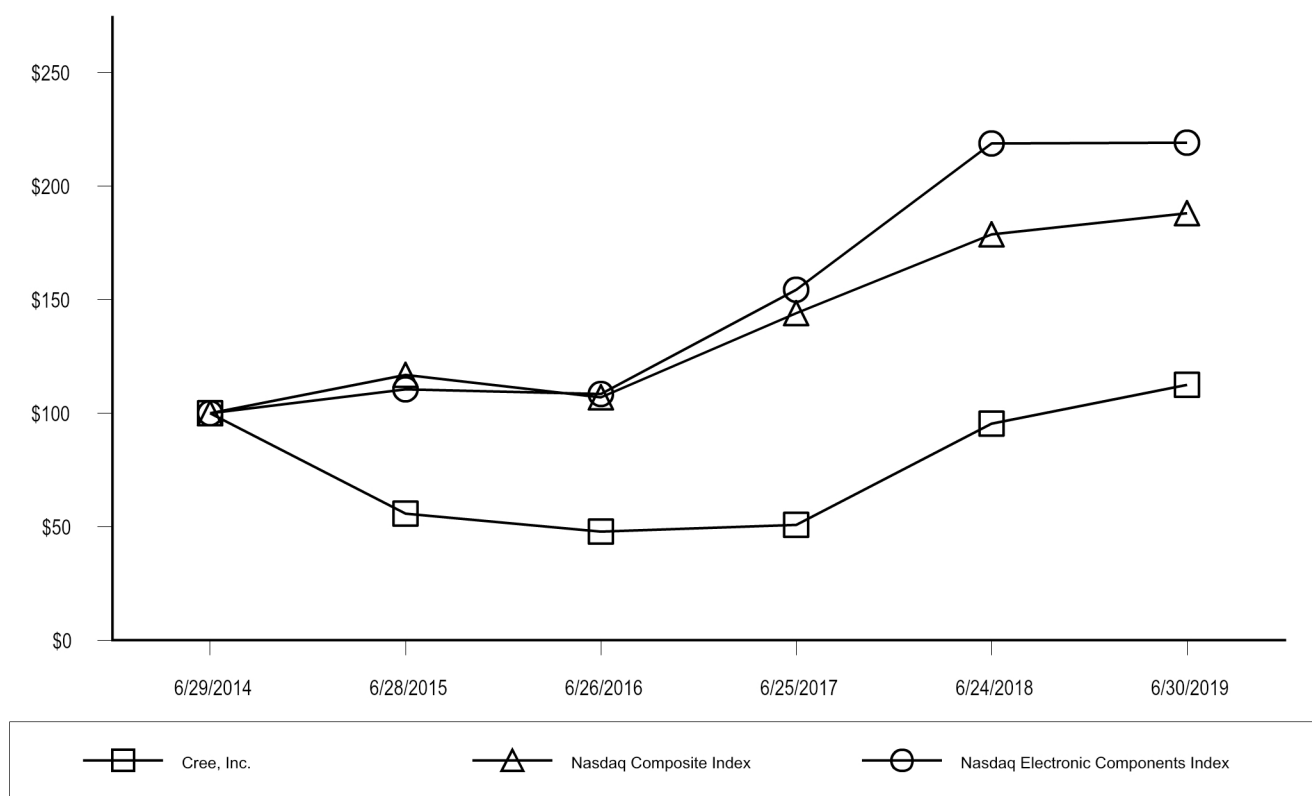
Common Stock Market Information

Our common stock is traded on the Nasdaq Global Select Market and is quoted under the symbol CREE. There were 285 holders of record of our common stock as of August 16, 2019.

Stock Performance Graph

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

The following graph and related table compare the cumulative total return on our common stock with the cumulative total returns of the Nasdaq Composite Index and the Nasdaq Electronic Components Index, assuming an investment of \$100.00 on June 29, 2014 and the reinvestment of dividends.



	<u>6/29/2014</u>	<u>6/28/2015</u>	<u>6/26/2016</u>	<u>6/25/2017</u>	<u>6/24/2018</u>	<u>6/30/2019</u>
Cree, Inc.	\$100.00	\$55.69	\$47.83	\$50.74	\$95.39	\$112.44
Nasdaq Composite Index	100.00	116.85	106.99	144.05	178.76	188.12
Nasdaq Electronic Components Index ..	100.00	110.50	108.52	154.43	218.78	219.17

Sale of Unregistered Securities

Other than as previously reported in our Current Reports on Form 8-K, there were no unregistered securities sold during fiscal 2019.

Item 6. Selected Financial Data

The consolidated statement of operations data set forth below with respect to the fiscal years ended June 30, 2019, June 24, 2018, and June 25, 2017 and the consolidated balance sheet data at June 30, 2019 and June 24, 2018 are derived from, and are qualified by reference to, the audited consolidated financial statements included in Item 8 of this Annual Report and should be read in conjunction with those financial statements, the notes thereto and the information in Item 7, "Management's Discussion of Analysis of Financial Condition and Results of Operations." The consolidated statement of operations data for the fiscal years ended June 26, 2016 and June 28, 2015 and the consolidated balance sheet data at June 25, 2017, June 26, 2016, and June 28, 2015 are derived from audited consolidated financial statements not included herein.

Selected Consolidated Financial Data

<i>(in millions of U.S. Dollars, except share data)</i>	Fiscal Years Ended				
	June 30, 2019	June 24, 2018	June 25, 2017	June 26, 2016	June 28, 2015
Statement of Operations Data ^{(1), (2)}					
Revenue, net	\$1,080.0	\$924.9	\$771.5	\$727.5	\$726.0
Operating loss	(15.9)	(28.0)	(20.1)	(36.3)	(90.4)
Net loss from continuing operations	(57.9)	(16.4)	(88.1)	(39.4)	(75.5)
Net (loss) income from discontinued operations.....	(317.2)	(263.5)	(10.0)	17.9	10.8
Net loss attributable to controlling interest	(375.1)	(280.0)	(98.1)	(21.5)	(64.7)
Basic loss per share					
Continuing operations attributable to controlling interest.....	(\$0.56)	(\$0.17)	(\$0.89)	(\$0.39)	(\$0.67)
Net loss attributable to controlling interest.....	(\$3.62)	(\$2.81)	(\$1.00)	(\$0.21)	(\$0.57)
Diluted loss per share					
Continuing operations attributable to controlling interest.....	(\$0.56)	(\$0.17)	(\$0.89)	(\$0.39)	(\$0.67)
Net loss attributable to controlling interest.....	(\$3.62)	(\$2.81)	(\$1.00)	(\$0.21)	(\$0.57)
Weighted average shares (in thousands)					
Basic	103,576	99,530	98,487	101,783	113,022
Diluted	103,576	99,530	98,487	101,783	113,022
Consolidated Balance Sheet Data ^{(1), (3)}					
Total cash, cash equivalents and short-term investments	\$1,051.4	\$387.1	\$610.9	\$605.3	\$713.2
Working capital.....	1,144.6	641.8	888.6	933.7	1,053.5
Total assets.....	2,816.9	2,637.8	2,649.9	2,766.1	2,948.0
Total long-term liabilities	507.5	317.1	215.0	175.2	231.3
Total equity	2,041.2	2,072.1	2,222.8	2,367.8	2,462.0

⁽¹⁾ Statement of operations data presented for the years ended June 30, 2019 and June 24, 2018 and the consolidated balance sheet data presented as of June 30, 2019 and June 24, 2018 include the financial impacts of the acquisition of the RF Power business from Infineon, which was completed on March 6, 2018.

⁽²⁾ Statement of operations data presented for the years prior to June 30, 2019 have been adjusted to reflect the results of our Lighting Products business unit as a discontinued operation. The business unit was sold on May 13, 2019.

⁽³⁾ Consolidated balance sheet data for years prior to June 30, 2019 includes the historical balance sheet data of our former Lighting Products business unit.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Summary

The following discussion is designed to provide a better understanding of our audited consolidated financial statements and notes thereto, 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 our consolidated financial statements included in Item 8 of this Annual Report. 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. Unless otherwise noted, the following information and discussion relates to the Company's continuing operations.

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, trade and tariff terms, as well as 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.
- *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 could reduce or limit demand for our products in certain markets.
- *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.

Fiscal 2019 Overview

The following is a summary of our financial results for the year ended June 30, 2019:

- Our year-over-year revenue increased by \$155.1 million to \$1.1 billion.
- Gross margin increased to 36.2% from 32.7%. Gross profit increased by \$89.0 million to \$391.0 million.
- Operating loss from continuing operations was \$15.9 million in fiscal 2019 compared to operating loss from continuing operations of \$28.0 million in fiscal 2018.
- Diluted loss per share from continuing operations attributable to controlling interest was \$0.56 in fiscal 2019 compared to \$0.17 in fiscal 2018.
- Combined cash, cash equivalents and short-term investments increased to \$1,051.4 million at June 30, 2019 from \$387.1 million at June 24, 2018. Cash provided by operating activities was \$202.3 million in fiscal 2019 compared to \$173.5 million in fiscal 2018.
- Purchases of property and equipment were \$142.4 million in fiscal 2019 compared to \$185.7 million in fiscal 2018.

Business Outlook

We are uniquely positioned as an innovator in both of our business segments. The strength of our balance sheet and operating cash flow provides us the ability to invest in our businesses, as indicated by our planned construction of a state-of-the-art, automated 200mm capable SiC and GaN fabrication facility and a large materials factory to expand our SiC capacity which was announced in May 2019.

We are focused on the following priorities to support our goals of delivering higher revenue and shareholder returns 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.
- Improve the customer experience and service levels in all of our businesses.

Results of Operations

Selected consolidated statement of operations data for the years ended June 30, 2019, June 24, 2018 and June 25, 2017 is as follows:

	Fiscal Years Ended					
	June 30, 2019		June 24, 2018		June 25, 2017	
<i>(in millions of U.S Dollars, except share data)</i>	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenue, net	\$1,080.0	100.0 %	\$924.9	100.0 %	\$771.5	100.0 %
Cost of revenue, net	689.0	63.8 %	622.9	67.3 %	527.5	68.4 %
Gross profit	391.0	36.2 %	302.0	32.7 %	244.0	31.6 %
Research and development	157.9	14.6 %	127.3	13.8 %	113.8	14.8 %
Sales, general and administrative	200.7	18.6 %	170.3	18.4 %	145.7	18.9 %
Amortization or impairment of acquisition-related intangibles	15.6	1.4 %	7.2	0.8 %	3.4	0.4 %
Loss on disposal or impairment of other assets.....	4.7	0.4 %	8.4	0.9 %	1.8	0.2 %
Other operating expense (income).....	28.0	2.6 %	16.8	1.8 %	(0.6)	(0.1)%
Operating loss	(15.9)	(1.5)%	(28.0)	(3.0)%	(20.1)	(2.6)%
Non-operating expense (income), net...	29.3	2.7 %	(10.4)	(1.1)%	(13.0)	(1.7)%
Loss before income taxes	(45.2)	(4.2)%	(17.6)	(1.9)%	(7.1)	(0.9)%
Income tax expense (benefit).....	12.7	1.2 %	(1.2)	(0.1)%	81.0	10.5 %
Net loss from continuing operations .	(57.9)	(5.4)%	(16.4)	(1.8)%	(88.1)	(11.4)%
Net loss from discontinued operations .	(317.2)	(29.4)%	(263.5)	(28.5)%	(10.0)	(1.3)%
Net loss	(375.1)	(34.7)%	(279.9)	(30.3)%	(98.1)	(12.7)%
Net income attributable to noncontrolling interest.....	—	— %	0.1	0.0 %	—	— %
Net loss attributable to controlling interest	(\$375.1)	(34.7)%	(\$280.0)	(30.3)%	(\$98.1)	(12.7)%
Basic loss per share						
Continuing operations attributable to controlling interest	(\$0.56)		(\$0.17)		(\$0.89)	
Net loss attributable to controlling interest.....	(\$3.62)		(\$2.81)		(\$1.00)	
Diluted loss per share						
Continuing operations attributable to controlling interest	(\$0.56)		(\$0.17)		(\$0.89)	
Net loss attributable to controlling interest.....	(\$3.62)		(\$2.81)		(\$1.00)	

Revenue

Revenue was comprised of the following:

<i>(in millions of U.S. Dollars)</i>	Fiscal Years Ended			Year-Over-Year Change			
	June 30, 2019	June 24, 2018	June 25, 2017	2018 to 2019		2017 to 2018	
Wolfspeed.....	\$538.2	\$328.6	\$221.2	\$209.6	64 %	\$107.4	49%
<i>Percent of revenue</i>	50%	36%	29%				
LED Products	541.8	596.3	550.3	(54.5)	(9)%	46.0	8%
<i>Percent of revenue</i>	50%	64%	71%				
Total revenue	<u>\$1,080.0</u>	<u>\$924.9</u>	<u>\$771.5</u>	<u>\$155.1</u>	17 %	<u>\$153.4</u>	20%

Wolfspeed Segment Revenue

Wolfspeed revenue increased 64% to \$538.2 million in fiscal 2019 from \$328.6 million in fiscal 2018. This increase was primarily due to strong organic growth combined with revenue from the RF Power business acquisition, a 58% increase in overall average selling prices (ASP) and a 4% increase 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 increased 49% to \$328.6 million in fiscal 2018 from \$221.2 million in fiscal 2017. This increase was primarily the result of a 30% increase in units sold and a 21% increase in ASP, which was partially offset by a decrease in contract revenue. The increase in units sold was the result of an increase in power products, substrate materials, and the new RF Power business sales. The increase in ASP was primarily due to a greater mix of higher priced products in all product lines.

LED Products Segment Revenue

LED Products revenue decreased 9% to \$541.8 million in fiscal 2019 from \$596.3 million in fiscal 2018. This decrease was primarily due to a 4% decrease in the number of units sold and a 6% 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 was partially offset by an increase in license and royalty income.

LED Products revenue increased 8% to \$596.3 million in fiscal 2018 from \$550.3 million in fiscal 2017. The number of units sold increased 11% which was partially offset by 2% decrease in ASP. The increase in the units sold was primarily the result of higher demand in component product sales for the following applications: high power general lighting, video screen and specialty lighting applications. The decrease in ASP was due to competitive pricing pressures, which was partially offset by favorable product mix.

Gross Profit and Gross Margin

Gross profit and gross margin were as follows:

<i>(in millions of U.S. Dollars)</i>	Fiscal Years Ended			Year-Over-Year Change			
	June 30, 2019	June 24, 2018	June 25, 2017	2018 to 2019		2017 to 2018	
Wolfspeed gross profit	\$258.7	\$158.5	\$103.5	\$100.2	63 %	\$55.0	53 %
<i>Wolfspeed gross margin</i>	48%	48%	47%				
LED Products gross profit.....	150.0	157.9	151.7	(7.9)	(5)%	6.2	4 %
<i>LED Products gross margin</i> ..	28%	26%	28%				
Unallocated costs	(17.7)	(9.0)	(11.2)	(8.7)	(97)%	2.2	20 %
COGS acquisition related costs.....	—	(5.4)	—	5.4	100 %	(5.4)	(100)%
Consolidated gross profit	\$391.0	\$302.0	\$244.0	\$89.0	29 %	\$58.0	24 %
<i>Consolidated gross margin</i> ...	36%	33%	32%				

Wolfspeed Segment Gross Profit and Gross Margin

Wolfspeed gross profit increased 63% to \$258.7 million in fiscal 2019 from \$158.5 million in fiscal 2018. Wolfspeed gross margin remained flat at 48%. Wolfspeed gross profit increased primarily due to higher revenues and Wolfspeed gross margin remained flat primarily due to changes in product mix.

Wolfspeed gross profit increased 53% to \$158.5 million in fiscal 2018 from \$103.5 million in fiscal 2017. Wolfspeed gross margin increased to 48% in fiscal 2018 from 47% in fiscal 2017. Wolfspeed gross profit increased primarily due to higher revenues, a more favorable product mix, higher factory utilization, and improved production yields. Wolfspeed gross margin increased primarily due to changes in product mix and improved production yields.

LED Products Segment Gross Profit and Gross Margin

LED Products gross profit decreased 5% to \$150.0 million in fiscal 2019 from \$157.9 million in fiscal 2018. LED Products gross margin increased to 28% in fiscal 2019 from 26% in fiscal 2018. LED Products gross profit decreased due to lower revenue and tariff costs. LED Products gross margin increased due to more favorable product mix, higher license and royalty revenue, and better factory costs for the first half of the year, partially offset by tariff costs.

LED Products gross profit increased 4% to \$157.9 million in fiscal 2018 from \$151.7 million in fiscal 2017. LED Products gross margin decreased to 26% in fiscal 2018 from 28% in fiscal 2017. LED Products gross profit increased due to higher component sales while gross margin decreased due to lower pricing resulting from competitive pricing pressures and a less favorable mix of LED products sold.

Unallocated Costs

Unallocated costs were \$17.7 million, \$9.0 million and \$11.2 million for fiscal 2019, 2018 and 2017, respectively. These costs consisted primarily of manufacturing employees' stock-based compensation, expenses relating to 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.

Unallocated costs increased by \$8.7 million in fiscal 2019 compared to fiscal 2018, primarily due to higher profit sharing which resulted from improved company performance and increased stock-based compensation incurred as a result of our higher average share price.

Unallocated costs decreased by \$2.2 million in fiscal 2018 compared to fiscal 2017, primarily due to lower stock-based compensation.

COGS Acquisition Related Costs Adjustment

The cost of goods sold (COGS) acquisition related costs adjustment was \$5.4 million for fiscal 2018. The COGS acquisition related costs adjustment includes inventory fair value amortization of the fair value increase to inventory recognized at the date of the RF Power 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 2018 because they represent an adjustment which does not provide comparability

to the corresponding prior and subsequent 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.

Research and development expenses were as follows:

<i>(in millions of U.S. Dollars)</i>	Fiscal Years Ended			Year-Over-Year Change			
	June 30, 2019	June 24, 2018	June 25, 2017	2018 to 2019		2017 to 2018	
Research and development	\$157.9	\$127.3	\$113.8	\$30.6	24%	\$13.5	12%
<i>Percent of revenue</i>	15%	14%	15%				

The increase in research and development expenses for fiscal 2019 compared to fiscal 2018 was primarily due to the inclusion of the acquired RF Power business research and development spend for a full year.

The increase in research and development expenses for fiscal 2018 compared to fiscal 2017 was primarily due to an increase in Wolfspeed research and development to accelerate 150mm substrate development, next generation power and RF device research and development and the inclusion of the acquired RF Power business research and development spend for the last four months of fiscal 2018.

Our research and development expenses vary significantly from year to year 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.

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.

Sales, general and administrative expenses were as follows:

<i>(in millions of U.S. Dollars)</i>	Fiscal Years Ended			Year-Over-Year Change			
	June 30, 2019	June 24, 2018	June 25, 2017	2018 to 2019		2017 to 2018	
Sales, general and administrative	\$200.7	\$170.3	\$145.7	\$30.4	18%	\$24.6	17%
<i>Percent of revenue</i>	19%	18%	19%				

The increase in sales, general and administrative expenses in fiscal 2019 compared to fiscal 2018 was primarily due to an increase in stock-based compensation and profit sharing.

The increase in sales, general and administrative expenses in fiscal 2018 compared to fiscal 2017 was primarily due to the additional costs assumed in running the business and operations acquired in the RF Power acquisition, which closed in March 2018, and the additional non-recurring costs associated with completing and integrating the RF Power acquisition, partially offset by the decrease in Wolfspeed transaction expenses associated with the terminated sale to Infineon in fiscal 2017.

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:

<i>(in millions of U.S. Dollars)</i>	Fiscal Years Ended			Year-Over-Year Change			
	June 30, 2019	June 24, 2018	June 25, 2017	2018 to 2019		2017 to 2018	
Customer relationships....	\$7.3	\$3.0	\$1.1	\$4.3	143%	\$1.9	173%
Developed technology.....	5.4	3.2	2.2	2.2	69%	1.0	45%
Non-compete agreements	2.9	1.0	0.1	1.9	190%	0.9	900%
Total.....	<u>\$15.6</u>	<u>\$7.2</u>	<u>\$3.4</u>	<u>\$8.4</u>	117%	<u>\$3.8</u>	112%

Amortization of acquisition-related intangibles increased in fiscal 2019 compared to fiscal 2018 due to the inclusion of a full year of the RF Power business intangible asset amortization.

Amortization of acquisition-related intangibles increased in fiscal 2018 compared to fiscal 2017 due to the acquisition of the RF Power business that was purchased during the third quarter of fiscal 2018.

Loss on Disposal or 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 long-lived assets and capitalized patent costs for possible impairment.

Loss on disposal or impairment of other assets were as follows:

<i>(in millions of U.S. Dollars)</i>	Fiscal Years Ended			Year-Over-Year Change			
	June 30, 2019	June 24, 2018	June 25, 2017	2018 to 2019		2017 to 2018	
Loss on disposal or impairment of other assets	\$4.7	\$8.4	\$1.8	(\$3.7)	(44)%	\$6.6	367%

The decrease in loss in fiscal 2019 compared to fiscal 2018 was primarily due to the higher than usual loss recognized in fiscal 2018 as a result of a fair value market write-down for a sold aircraft in fiscal 2018.

The increase in loss in fiscal 2018 compared to fiscal 2017 was primarily due to the closure of certain manufacturing facilities and a fair value market write-down for a sold aircraft.

Other Operating Expense (Income)

Other operating expense (income) was as follows:

<i>(in millions of U.S. Dollars)</i>	Fiscal Years Ended			Year-Over-Year Change			
	June 30, 2019	June 24, 2018	June 25, 2017	2018 to 2019		2017 to 2018	
Factory optimization restructuring.....	\$4.1	\$—	\$—	\$4.1	100 %	\$—	—%
Severance and other restructuring.....	4.2	3.8	—	0.4	11 %	3.8	100%
Total restructuring costs.....	8.3	3.8	—	4.5	118 %	3.8	100%
Project and transaction costs.....	16.9	8.5	—	8.4	99 %	8.5	100%
Executive severance.....	1.3	4.5	2.2	(3.2)	(71)%	2.3	105%
Factory optimization start up costs.....	1.5	—	—	1.5	100 %	—	—%
Gain from termination of Wolfspeed transaction, net.....	—	—	(2.8)	—	— %	2.8	100%
Other operating expense (income).....	<u>\$28.0</u>	<u>\$16.8</u>	<u>(\$0.6)</u>	<u>\$11.2</u>	67 %	<u>\$17.4</u>	*

* Percentage change not meaningful

The increase in other operating expense in fiscal 2019 compared to fiscal 2018 was primarily due to expenses for a new factory optimization plan implemented in May 2019, costs relating to restructuring our geographical sales team to realign our skills and experience needed to execute on our business objectives and transaction costs relating to the sale of our Lighting Products business unit.

Other operating income in fiscal 2017 relates to a termination fee of \$12.5 million in cash in March 2017 as a result the termination of an agreement to sell the Wolfspeed business to Infineon, offset by transaction costs related to the terminated agreement, and various executive severance payments.

Non-Operating Expense (Income), net

Non-operating expense (income), net was comprised of the following:

	Fiscal Years Ended			Year-Over-Year Change			
	June 30, 2019	June 24, 2018	June 25, 2017	2018 to 2019		2017 to 2018	
<i>(in millions of U.S. Dollars)</i>							
Loss (gain) on sale of investments, net	\$0.1	\$0.1	(\$0.1)	\$—	— %	\$0.2	200 %
Loss (gain) on equity investment	16.2	(7.1)	(7.5)	23.3	328 %	0.4	5 %
Interest expense (income), net	12.0	(1.8)	(3.7)	13.8	767 %	1.9	51 %
Foreign currency loss (gain), net	1.3	(1.8)	(2.3)	3.1	172 %	0.5	22 %
Other, net	(0.3)	0.2	0.6	(0.5)	(250)%	(0.4)	(67)%
Non-operating expense (income), net	<u>\$29.3</u>	<u>(\$10.4)</u>	<u>(\$13.0)</u>	<u>\$39.7</u>	<u>382 %</u>	<u>\$2.6</u>	<u>20 %</u>

Loss (gain) on equity investment. We had a loss on equity investment in fiscal 2019 due to the decrease in the fair value of our Lextar investment. We had a gain on equity investment in fiscal 2018 and fiscal 2017 due to the increase in the fair value of our Lextar investment. Lextar's stock is publicly traded on the Taiwan Stock Exchange and its share price increased from 18.40 New Taiwanese Dollars (TWD) per share at June 25, 2017 to 21.00 TWD per share at June 24, 2018 before decreasing to 14.75 TWD per share at June 30, 2019. 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. We have a 16% common stock ownership interest in Lextar and utilize the fair value option in accounting for the ownership interest. 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.

Interest expense (income), net. Interest expense, net in fiscal 2019 was primarily due to the accretion of the equity portion and interest expense related to the Notes issued during the first quarter of fiscal 2019. Interest income, net decreased in fiscal 2018 compared to fiscal 2017 primarily due to lower invested balances and higher interest expense due to overall higher borrowings associated with our line of credit, partially offset by higher investment yields.

Foreign currency loss (gain), net. Foreign currency loss (gain), net primarily consists of remeasurement adjustments resulting from our Lextar investment and from our international subsidiaries.

Income Tax Expense (Benefit)

Income tax expense (benefit) and our effective tax rate was as follows:

	Fiscal Years Ended			Year-Over-Year Change			
	June 30, 2019	June 24, 2018	June 25, 2017	2018 to 2019		2017 to 2018	
<i>(in millions of U.S. Dollars)</i>							
Income tax expense (benefit).	\$12.7	(\$1.2)	\$81.0	13.9	1,158%	(82.2)	(101)%
Effective tax rate	(28)%	7%	(1,141)%				

We recognized income tax expense of \$12.7 million in fiscal 2019 as compared to an income tax benefit of \$1.2 million in fiscal 2018. The decrease in the effective tax rate from 7% in fiscal 2018 to (28)% in fiscal 2019 was primarily due to the tax benefit of remeasuring our U.S. deferred taxes as a result of the Tax Legislation enacted on December 22, 2017. The increase in the effective tax rate from (1,141)% in fiscal 2017 to 7% in fiscal 2018 was primarily attributable to the tax expense on the establishment of a valuation allowance against our U.S. deferred tax assets during the fiscal 2017.

In general, the variation between our effective income tax rate and the current U.S. statutory rate of 21.0% is primarily due to: (i) changes in our valuation allowances against deferred tax assets in the U.S. and Luxembourg, (ii) income derived from international locations with lower tax rates than the U.S., and (iii) tax credits generated.

Net Loss from Discontinued Operations

We recorded a net loss from discontinued operations of \$317.2 million, \$263.5 million and \$10.0 million in fiscal 2019, 2018 and 2017, respectively. The net loss from discontinued operations in each period relates to operational results of the discontinued operations of the Lighting Products business unit, with the addition of a \$66.2 million loss on the sale of the Lighting Products business unit included in the net loss from discontinued operations for fiscal 2019. The net loss from discontinued operations for fiscal 2019 and 2018 includes \$90.3 million and \$247.5 million of goodwill impairment, respectively.

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 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 \$500.0 million line of credit as discussed in Note 11, "Long-term Debt," in our consolidated financial statements included in Item 8 of this Annual 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 our Note offering completed in August 2018 (see Note 11, "Long-term Debt," in our consolidated financial statements included in Item 8 of this Annual Report) 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.

Contractual Obligations

At June 30, 2019, payments to be made pursuant to significant contractual obligations are as follows:

<i>(in millions of U.S. Dollars)</i>	Total	Payments Due by Period			
		Less than One Year	One to Three Years	Three to Five Years	More Than Five Years
Operating lease obligations.....	\$8.3	\$4.1	\$3.5	\$0.7	\$—
Purchase obligations	143.3	129.6	5.7	4.0	4.0
Long-term debt ⁽¹⁾	575.0	—	—	575.0	—
Interest payments on long-term debt ⁽²⁾	27.2	6.0	12.1	9.1	—
Other long-term liabilities ⁽³⁾	—	—	—	—	—
Total contractual obligations.....	\$753.8	\$139.7	\$21.3	\$588.8	\$4.0

⁽¹⁾ Long-term debt represents the principal due on the Notes, but does not include interest expense.

⁽²⁾ Interest payments on long-term debt are based on the interest rate at June 30, 2019.

⁽³⁾ Other long-term liabilities as of June 30, 2019 includes customer deposits of \$27.3 million, long-term tax contingencies and other tax liabilities of \$3.4 million, LED supply agreements of \$7.3 million and other long-term contingent liabilities (for example, extended warranty) of \$0.4 million. These liabilities were not included in the table above as they will either not be settled in cash and/or the timing of payments is uncertain.

Operating lease obligations include rental amounts due on leases of certain office and manufacturing space under the terms of non-cancelable operating leases. These leases expire at various times through May 2024. Most of the lease agreements provide for rental adjustments for increases in base rent, property taxes and general property maintenance that would be recognized as rent expense, if applicable.

Purchase obligations represent purchase commitments, including open purchase orders and contracts, and are generally related to the purchase of goods and services in the ordinary course of business such as raw materials, supplies and capital equipment.

Financial Condition

The following table sets forth our cash, cash equivalents and short-term investments:

<i>(in millions of U.S. Dollars)</i>	June 30, 2019	June 24, 2018	Change
Cash and cash equivalents.....	\$500.5	\$118.9	\$381.6
Short-term investments	550.9	268.2	282.7
Total cash, cash equivalents and short-term investments.....	<u>\$1,051.4</u>	<u>\$387.1</u>	<u>\$664.3</u>

Our liquidity and capital resources primarily depend on 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		
	June 30, 2019	June 24, 2018	Change
Days of sales outstanding (a)	34	29	5
Days of supply in inventory (b)	104	76	28
Days in accounts payable (c)	(72)	(54)	(18)
Cash conversion cycle.....	<u>66</u>	<u>51</u>	<u>15</u>

a) Days of sales outstanding (DSO) measures the average collection period of our receivables. DSO is based on the ending net trade receivables less receivable related accrued contract liabilities and the revenue, net for the quarter then ended. DSO is calculated by dividing ending accounts receivable, less receivable related accrued contract liabilities, 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 and accrued expenses (less accrued salaries and wages) by the average cost of revenue, net per day for the respective 90-day period.

The increase in the cash conversion cycle was primarily driven by an increase in days of supply in inventory, partially offset by an increase in days in accounts payable. The increase in days of supply in inventory was caused by matching timing of supply and demand for Wolfspeed in the short term, increased inventories of product intended for Huawei following their addition to the Entity List and higher ending inventory in LED Products.

As of June 30, 2019, we had unrealized losses on our investments of \$0.1 million. All of our investments had investment grade ratings, and any such investments that were in an unrealized loss position at June 30, 2019 were in such position due to interest rate changes, sector credit rating changes or company-specific rating changes. 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, and 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 June 30, 2019.

Cash Flows

The following cash flow information and discussion includes the cash flows from our former Lighting Business unit through May 13, 2019, the date we completed the sale.

In summary, our cash flows were as follows (in millions of U.S. Dollars):

	Fiscal Years Ended			Year-Over-Year Change	
	June 30, 2019	June 24, 2018	June 25, 2017	2018 to 2019	2017 to 2018
Cash provided by operating activities.....	\$202.3	\$173.5	\$220.5	\$28.8	(\$47.0)
Cash used in investing activities.....	(227.1)	(423.9)	(145.2)	196.8	(278.7)
Cash provided by (used in) financing activities.....	406.5	236.5	(108.7)	170.0	345.2
Effect of foreign exchange changes.....	(0.1)	0.2	(0.1)	(0.3)	0.3
Net increase (decrease) in cash and cash equivalents	<u>\$381.6</u>	<u>(\$13.7)</u>	<u>(\$33.5)</u>	<u>\$395.3</u>	<u>\$19.8</u>

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 \$202.3 million in fiscal 2019 from \$173.5 million in fiscal 2018 primarily due to generating higher cash from earnings and improved working capital. Net cash provided by operating activities decreased to \$173.5 million in fiscal 2018 from \$220.5 million in fiscal 2017, primarily due to a higher net loss in fiscal 2018 and lower cash generated from working capital in fiscal 2018 as compared to fiscal 2017.

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 the acquisition and sales of businesses. Net cash used in investing activities was \$227.1 million in fiscal 2019 compared to \$423.9 million in fiscal 2018. The decrease in net cash used in investing activities in fiscal 2019 compared to fiscal 2018 is primarily due to \$429.2 million of net expenditures to acquire the Infineon RF Power business in fiscal 2018. Fiscal 2019 included \$293.4 million of net purchases of short term investments as compared to a source of cash in fiscal 2018 of \$200.5 million from the sale and maturity from short term investments. Other investing activities during fiscal 2019 compared to fiscal 2018 include a decrease in the purchase of property, equipment and patent rights of \$42.8 million offset by net proceeds from the sale of the Lighting Products business unit of \$219.0 million.

Net cash used in investing activities was \$423.9 million in fiscal 2018 compared to \$145.2 million in fiscal 2017. The increase is primarily due to purchases of property, equipment and patent rights, which increased by \$96.5 million in fiscal 2018 compared to fiscal 2017, and net proceeds from the sale short-term investments, which increased \$247.8 million in fiscal 2018 compared to fiscal 2017 to help contribute to the \$429.2 million in cash used in the Infineon RF Power acquisition.

For fiscal 2020, we target approximately \$198.0 million of capital investment, which is primarily related to capacity and infrastructure projects to support our Wolfspeed segment longer-term growth and strategic priorities.

Cash Flows from Financing Activities

Net cash provided by financing activities was \$406.5 million in fiscal 2019 compared to \$236.5 million in fiscal 2018. Our financing activities for fiscal 2019 primarily consisted of proceeds of \$575.0 million from the issuance of the Notes and net proceeds of \$136.4 million from issuances of common stock pursuant to the exercise of employee stock options, partially offset by the net repayment on our line of credit of \$292.0 million and the payment of debt issuance costs of \$12.9 million from the issuance of the Notes.

In fiscal 2018, net cash provided by financing activities was \$236.5 million compared to net cash used in financing activities of \$108.7 million in fiscal 2017. Our financing activities in 2018 primarily consisted of a net draw on our line of credit of \$147.0 million to help fund the Infineon RF Power acquisition, \$86.4 million in net proceeds from issuance of common stock pursuant to the exercise of employee stock options and proceeds of \$4.9 million from San'an's capital contribution to Cree Venture LED, slightly offset by payment of acquisition-related contingent consideration of \$1.8 million in connection with our acquisition of Arkansas Power Electronics International, Inc., which was completed in fiscal 2016. Our financing activities in fiscal 2017 primarily consisted of repurchases of common stock of \$104.0 million, net payments on long-term borrowings of \$15.0 million on our line of credit and \$13.1 million in net proceeds from issuance of common stock pursuant to the exercise of employee stock options.

Financial and Market Risks

We are exposed to financial and market risks, including changes in interest rates, currency exchange rates and commodities risk. 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 and financial performance. All of the potential changes noted below are based on sensitivity analysis performed on our financial positions at June 30, 2019 and June 24, 2018. Actual results may differ materially.

Interest Rate Risk

We maintain an investment portfolio principally composed of money market funds, municipal bonds, corporate bonds, U.S. agency securities, U.S. treasury securities, commercial paper, certificates of deposit, and variable rate demand notes. In order to minimize risk, our cash management policy permits us to acquire investments rated “A” grade or better. As of June 30, 2019 and June 24, 2018, our cash equivalents and short-term investments had a fair value of \$789.0 million and \$346.0 million, respectively. If interest rates were to hypothetically increase by 100 basis points, the fair value of our short-term investments would decrease by \$7.9 million at June 30, 2019 and \$3.5 million at June 24, 2018.

As of June 30, 2019, we maintain a secured revolving line of credit under which we can borrow, repay and reborrow loans from time to time prior to its scheduled maturity date of January 9, 2022. At June 30, 2019 and June 24, 2018, we had \$0.0 million and \$292.0 million outstanding, respectively, under the line of credit. If interest rates were to increase by 100 basis points, the annual interest incurred under our line of credit would increase by \$0.0 million at June 30, 2019 and \$2.9 million at June 24, 2018.

Currency Rate and Price Risk

We operate internationally and have transactions denominated in foreign currencies and are exposed to currency exchange rate risks. As a result, fluctuations in exchange rates may adversely affect our expenses and results of operations as well as the value of our assets and liabilities. Our primary exposure relates to the exchange rate between the USD and the TWD as our Lextar investment is held in TWD. Additionally, our investment relates to owning shares that are publicly traded on the Taiwan Stock Exchange and subject to price risks from market trading. The value of our Lextar investment was \$39.5 million and \$57.5 million as of June 30, 2019 and June 24, 2018, respectively. A hypothetical 10% increase in the value of the USD compared to the TWD or a hypothetical 10% increase in quoted market values on our investment would each individually result in potential gains of approximately \$4.0 million for the year ended June 30, 2019 and \$5.8 million for the year ended June 24, 2018.

Commodities

We utilize significant amounts of precious metals, gases and other commodities in our manufacturing processes. General economic conditions, market specific changes or other factors outside of our control may affect the pricing of these commodities. We do not use financial instruments to hedge commodity prices.

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 June 30, 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. Future minimum lease payments under our operating leases as of June 30, 2019 are detailed above in “Liquidity and Capital Resources” in the section entitled “Contractual Obligations.”

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP. In the application of U.S. GAAP, we are required to make estimates that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities in our consolidated financial statements. Changes in the accounting estimates from period to period are reasonably likely to occur. Accordingly, actual results could differ significantly from the estimates made by management. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation of our financial condition or results of operations may be affected.

We evaluate our estimates on an ongoing basis, including those related to revenue recognition, valuation of inventories, tax related contingencies, valuation of stock-based compensation, valuation of long-lived and intangible assets, other contingencies and litigation, among others. We base our estimates on historical experience and on various other assumptions, including expected trends that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Our significant accounting policies are discussed in Note 2, "Basis of Presentation and Summary of Significant Accounting Policies," to the consolidated financial statements included in Item 8 of this Annual Report. We believe that the following are our most critical accounting policies and estimates, each of which is critical to the portrayal of our financial condition and results of operations and requires our most difficult, subjective and complex judgments. Our management has reviewed our critical accounting policies and the related disclosures with the Audit Committee of our Board of Directors.

Revenue Recognition

Revenue is recognized when control of a good or service promised in a contract (i.e., performance obligation) is transferred to a customer. Control is obtained when a customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that good or service. The majority of our revenues are recognized at a point-in-time as control is transferred at a distinct point in time per the terms of a contract. We adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606 "Revenue from Contracts with Customers" (ASC 606) on June 25, 2018 using the modified retrospective approach. Refer to Note 2, "Basis of Presentation and Summary of Significant Accounting Policies" and Note 4, "Revenue Recognition" for additional information related to the adoption of ASC 606.

We provide our customers with limited rights of return for non-conforming shipments and product warranty claims. We estimate an allowance for anticipated sales returns based upon an analysis of historical sales returns and other relevant data. We recognize an allowance for non-conforming returns at the time of sale as a reduction of product revenue. We recognize a liability for product warranty claims at the time of sale as an increase to cost of revenue.

For the year ended June 30, 2019, 53% of our revenue was from sales to distributors. Distributors stock inventory and sell our products to their own customer base, which may include: value added resellers; manufacturers who incorporate our products into their own manufactured goods; or ultimate end users of our products. We recognize revenue upon shipment of our products to our distributors. This arrangement is often referred to as a "sell-in" or "point-of-purchase" model as opposed to a "sell-through" or "point-of-sale" model, where revenue is deferred and not recognized until the distributor sells the product through to their customer.

Our distributors may be provided limited rights that allow them to return a portion of inventory (product exchange rights or stock rotation rights) and receive credits for changes in selling prices (price protection rights) or customer pricing arrangements under our "ship and debit" program or other targeted sales incentives. When determining our net revenue, we make significant judgments and estimates corresponding with product shipments. We recognize a reserve for estimated future returns, changes in selling prices, and other targeted sales incentives when product ships. We also recognize an asset for the estimated value of product returns that we believe will be returned to inventory in the future and resold, and these estimates are based upon historical data, current economic trends, distributor inventory levels and other related factors. Our financial condition and operating results are dependent upon our ability to make reliable estimates. Actual results may vary and could have a significant impact on our operating results.

From time to time, we will issue a new price book for our products, and provide a credit to certain distributors for inventory quantities on hand if required by our agreement with the distributor. This practice is known as price protection. These credits are applied against the reserve that we establish upon initial shipment of product to the distributor.

Under the ship and debit program, products are sold to distributors at negotiated prices and the distributors are required to pay for the products purchased within our standard commercial terms. Subsequent to the initial product purchase, a distributor may request a price allowance for a particular part number(s) for certain target customers, prior to the distributor reselling that particular part to the customer. If we approve an allowance and the distributor resells the product to the target customer, we credit the distributor according to the allowance we approved. These credits are applied against a reserve we establish upon initial shipment of product to the distributor.

In addition, we run sales incentive programs with certain distributors, such as product rebates. We recognize these incentives at the time they are offered to customers and record a credit to their account with an offsetting expense as either a reduction to revenue, increase to cost of revenue, or marketing expense depending on the type of sales incentive.

Inventories

Inventories are stated at the lower of cost or net realizable value. We write-down our inventories for estimated obsolescence equal to the difference between the cost of the inventory and its estimated market value based upon an aging analysis of the inventory on hand, specifically known inventory-related risks (such as technological obsolescence), and assumptions about future demand. We also analyze sales levels by product type, including historical and estimated future customer demand for those products to determine if any additional reserves are appropriate. For example, we adjust for items that are considered obsolete based upon changes in customer demand, manufacturing process changes or new product introductions that may eliminate demand for the product. Any adjustment to our inventories as a result of an estimated obsolescence or net realizable condition is reflected as a component of our cost of revenue. At the point of the loss recognition, a new, lower-cost basis for that inventory is established, and any subsequent improvements in facts and circumstances do not result in the restoration or increase in that newly established lower-cost basis.

In order to determine what costs can be included in the valuation of inventories, we determine normal capacity for our manufacturing facilities based on historical patterns. If our estimates regarding customer demand are inaccurate, or market conditions or technology change in ways that are less favorable than those projected by management, we may be required to take excess capacity charges in accordance with U.S. GAAP, which could have an adverse effect on our operating results.

Deferred Tax Asset Valuation Allowances

In accordance with FASB ASC 740, "Income Taxes" (ASC 740), we evaluate all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a deferred tax asset is more likely than not to be realized. In assessing the adequacy of a recognized valuation allowance, we consider 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. This consideration includes a variety of factors such as historical and projected future taxable income and prudent and feasible tax planning strategies. When we establish or increase a valuation allowance, our income tax expense increases in the period such determination is made. If we decrease a valuation allowance, our income tax expense decreases in the period such a determination is made.

Tax Contingencies

We are subject to periodic audits of our income tax returns by federal, state, local and foreign agencies. These audits typically include questions regarding our tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. In accordance with ASC 740, we regularly evaluate the exposures associated with our various tax filing positions. ASC 740 states that a tax benefit should not be recognized for financial statement purposes for an uncertain tax filing position where it is not more likely than not (likelihood of greater than 50%) of being sustained by the taxing authorities based on the technical merits of the position.

In accordance with the provisions of ASC 740, we establish unrecognized tax benefits (as a reduction to the deferred tax asset or as an increase to other liabilities) to reduce some or all of the tax benefit of any of our tax positions at such time that we determine the position has become uncertain based upon one of the following: the tax position is not "more likely than not" to be sustained; the tax position is "more likely than not" to be sustained, but for a lesser amount; or the tax position is "more likely than not" to be sustained, but not in the financial period in which the tax position was originally taken. For purposes of evaluating whether or not a tax position is uncertain, we presume the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information; the technical merits of a tax position are derived from authorities such as legislation and statutes, legislative intent, regulations, rulings and case law and their applicability to the facts and circumstances of the tax position; and each tax position is evaluated without consideration of the possibility of offset or aggregation with other tax positions taken. We adjust these unrecognized tax benefits, including any impact on the related interest and penalties, in light of changing facts and circumstances, such as the progress of a tax audit.

A number of years may elapse before a particular matter for which we have established an unrecognized tax benefit is audited and fully resolved. To the extent we prevail in matters for which we have established an unrecognized benefit or are required to pay amounts in excess of what we have recognized, our effective tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement might require use of our cash and/or result in an increase in our effective tax rate in the year of resolution. A favorable tax settlement would be recognized as a reduction in our effective tax rate in the year of resolution.

Stock-Based Compensation

We account for awards of stock-based compensation under our employee stock-based compensation plans using the fair value method. Accordingly, we estimate the grant date fair value of our stock-based awards and amortize this fair value to compensation expense over the requisite service period or vesting term. We currently use the Black-Scholes option-pricing model to estimate the fair value of our stock option and Employee Stock Purchase Plan (ESPP) awards. The grant date fair value of performance stock units that vest upon meeting certain market conditions is estimated using the Monte Carlo valuation model. The determination of the fair value of stock-based awards on the date of grant using an option-pricing model is affected by our then current 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 our financial statements. For restricted stock and stock unit awards, grant date fair value is based upon the market price of our 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.

We estimate expected forfeitures at the time of grant and revise this estimate, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Our determination of an estimated forfeiture rate is primarily based upon a review of historical experience but may also include consideration of other facts and circumstances we believe are indicative of future activity. The assessment of an estimated forfeiture rate will not alter the total compensation expense to be recognized, only the timing of this recognition as compensation expense is adjusted to reflect instruments that actually vest.

If actual results are not consistent with our assumptions and judgments used in estimating key assumptions, we may be required to adjust compensation expense, which could be material to our results of operations.

Long-Lived Assets

We evaluate long-lived assets such as property, equipment and finite-lived intangible assets, such as patents, for impairment whenever events or circumstances indicate that the carrying value of the assets recognized in our financial statements may not be recoverable. Factors that we consider include whether there has been a significant decrease in the market value of an asset, a significant change in the way an asset is being used, or a significant change, delay or departure in our strategy for that asset. Our assessment of the recoverability of long-lived assets involves significant judgment and estimation. These assessments reflect our assumptions, which, we believe, are consistent with the assumptions hypothetical marketplace participants use. Factors that we must estimate when performing recoverability and impairment tests include, among others, the economic life of the asset, sales volumes, prices, cost of capital, tax rates, and capital spending. These factors are often interdependent and therefore do not change in isolation. If impairment is indicated, we first determine if the total estimated future cash flows on an undiscounted basis are less than the carrying amounts of the asset or assets. If so, an impairment loss is measured and recognized.

After an impairment loss is recognized, a new, lower cost basis for that long-lived asset is established. Subsequent changes in facts and circumstances do not result in the reversal of a previously recognized impairment loss.

Our impairment loss calculations require that we apply judgment in estimating future cash flows and asset fair values, including estimating useful lives of the assets. To make these judgments, we may use internal discounted cash flow estimates, quoted market prices when available and independent appraisals as appropriate to determine fair value.

If actual results are not consistent with our assumptions and judgments used in estimating future cash flows and asset fair values, we may be required to recognize additional impairment losses which could be material to our results of operations.

Goodwill

We test goodwill for impairment at least annually as of the first day of the fiscal fourth quarter, or when indications of potential impairment exist. We monitor for the existence of potential impairment indicators throughout the fiscal year. We conduct impairment testing for goodwill at the reporting unit level. Reporting units, as defined by FASB ASC 350, "Intangibles - Goodwill and Other", may be operating segments as a whole or an operation one level below an operating segment, referred to as a component. We have determined that our reporting units are our two operating and reportable segments.

We may initiate goodwill impairment testing by considering qualitative factors to determine whether it is more likely than not that a reporting unit's carrying value is greater than its fair value. Such factors may include the following, among others: a significant decline in the reporting unit's expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate, unanticipated competition; and slower growth rates; as well as changes in management, key personnel, strategy, and customers. If our qualitative assessment indicates that goodwill impairment is more likely than not, we determine the amount by which the reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill.

We compare the fair value of the reporting unit to its carrying value, including goodwill. We derive a reporting unit's fair value through a combination of the market approach (a guideline transaction method) and the income approach (a discounted cash flow analysis). The income approach utilizes a discount rate from the capital asset pricing model. If all reporting units are analyzed during the goodwill impairment test, their respective fair values are reconciled back to our consolidated market capitalization.

If the fair value of a reporting unit exceeds its carrying value, then we conclude that no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds the fair value, we recognize an impairment loss in an amount equal to the excess, not to exceed the carrying value of the reporting unit's goodwill. Once an impairment loss is recognized, the adjusted carrying value of the goodwill becomes the new accounting basis of the goodwill for the reporting unit.

Contingent Liabilities

We provide for contingent liabilities in accordance with U.S. GAAP, under which a loss contingency is charged to income when (1) it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements, and (2) the amount of the loss can be reasonably estimated.

Periodically, we review the status of each significant matter to assess the potential financial exposure. If a potential loss is considered probable and the amount can be reasonably estimated, we reflect the estimated loss in our results of operations. Significant judgment is required to determine the probability that a liability has been incurred or an asset impaired and whether such loss is reasonably estimable. Because of uncertainties related to these matters, accruals are based on the best information available at the time. Further, estimates of this nature are highly subjective, and the final outcome of these matters could vary significantly from the amounts that may have been included in the accompanying consolidated financial statements. In determining the probability of an unfavorable outcome of a particular contingent liability and whether such liability is reasonably estimable, we consider the individual facts and circumstances related to the liability, opinions of legal counsel and recent legal rulings by the appropriate regulatory bodies, among other factors. As additional information becomes available, we reassess the potential liability related to our pending and threatened claims and litigation and may revise our estimates accordingly. Such revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position. See also a discussion of specific contingencies in Note 16, "Commitments and Contingencies," to our consolidated financial statements in Item 8 of this Annual Report.

Recent Accounting Pronouncements

See Note 2, "Basis of Presentation and Summary of Significant Accounting Policies," to our consolidated financial statements in Item 8 of this Annual Report for a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

See the section entitled "Financial and Market Risks" included in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Annual Report.

Item 8. *Financial Statements and Supplementary Data*

Index to Consolidated Financial Statements

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	42
Consolidated Balance Sheets as of June 30, 2019 and June 24, 2018	44
Consolidated Statements of Operations for the years ended June 30, 2019, June 24, 2018 and June 25, 2017	45
Consolidated Statements of Comprehensive Loss for the years ended June 30, 2019, June 24, 2018 and June 25, 2017	46
Consolidated Statements of Cash Flows for the years ended June 30, 2019, June 24, 2018 and June 25, 2017	47
Consolidated Statements of Shareholders' Equity for the years ended June 30, 2019, June 24, 2018 and June 25, 2017	48
Notes to Consolidated Financial Statements	49

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Cree, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Cree, Inc. and its subsidiaries (the “Company”) as of June 30, 2019 and June 24, 2018, and the related consolidated statements of operations, comprehensive loss, shareholders’ equity, and cash flows for each of the three years in the period ended June 30, 2019, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of June 30, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2019 and June 24, 2018, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for revenues from contracts with customers on June 25, 2018.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the

company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Reserves for distributor programs - Ship and debit and price protection rights

As described in Note 2 to the consolidated financial statements, products are sold to distributors at negotiated prices and the distributors are required to pay for the products purchased within the Company's standard commercial terms. Certain distributors may be provided limited rights that allow them to return a portion of inventory and receive credits for changes in selling price (price protection rights) or customer pricing arrangements under the Company's "ship and debit" program. Distributor sales account for approximately 53% of total net revenue of \$1.1 billion for the year ended June 30, 2019 and the associated reserves for ship and debit and price protection rights programs to distributors make up a portion of the accrued contract liabilities account balance of \$45.8 million. Under the Company's ship and debit program, subsequent to the initial product purchase, a distributor may request a price allowance for a particular part number(s) for certain target customers, prior to the distributor reselling the particular part to that customer. If the Company approves an allowance and the distributor resells the product to the target customer, the Company credits the distributor according to the allowance the Company approved. Under the price protection rights program, if the Company issues a new price book for its products, the Company will provide a credit to certain distributors for inventory quantities on hand. The credits associated with these programs are applied against the reserve the Company establishes upon initial shipment of product to the distributor. Upon shipment, management uses significant judgment in establishing reserves for the ship and debit and price protection rights programs, which includes developing assumptions related to changes in selling prices.

The principal considerations for our determination that performing procedures relating to reserves for distributor programs - ship and debit and price protection rights is a critical audit matter are there was significant judgment by management in estimating the reserves for ship and debit and price protection rights programs. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to management's assumption related to changes in selling prices.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the valuation of ship and debit and price protection rights reserves. These procedures also included, among others, (1) testing management's process for determining the estimate for ship and debit and price protection rights reserves, (2) evaluating the appropriateness of management's methodology to calculate the ship and debit and price protection rights reserves, (3) evaluating the reasonableness of management's significant assumption related to changes in selling prices, which included the evaluation of management's ability to estimate the changes in selling prices in comparison to historical selling prices, (4) testing the completeness and accuracy of data inputs to the ship and debit and price protection rights reserves calculation, and (5) evaluating the reasonableness of management's prior period estimates for ship and debit and price protection rights reserves to actual credits granted during the current period by performing a retrospective comparison subsequent to year-end.

/s/PricewaterhouseCoopers LLP

Raleigh, North Carolina

August 21, 2019

We have served as the Company's auditor since 2013.

CREE, INC.
CONSOLIDATED BALANCE SHEETS

	June 30, 2019	June 24, 2018
<i>in millions of U.S. Dollars, except share data</i>		
Assets		
Current assets:		
Cash and cash equivalents	\$500.5	\$118.9
Short-term investments	550.9	268.2
Total cash, cash equivalents and short-term investments	1,051.4	387.1
Accounts receivable, net	128.9	86.4
Income taxes receivable	0.2	2.3
Inventories	187.4	151.6
Prepaid expenses	23.3	24.5
Other current assets	19.7	12.9
Current assets held for sale	1.9	2.2
Current assets related to discontinued operations	—	223.4
Total current assets	1,412.8	890.4
Property and equipment, net	625.2	589.1
Goodwill	530.0	530.0
Intangible assets, net	197.9	215.8
Other long-term investments	39.5	57.5
Deferred tax assets	5.6	5.8
Other assets	5.9	11.5
Long-term assets related to discontinued operations	—	337.7
Total assets	\$2,816.9	\$2,637.8
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$200.9	\$148.5
Income taxes payable	3.0	—
Accrued contract liabilities	45.8	—
Other current liabilities	18.5	19.3
Current liabilities related to discontinued operations	—	80.8
Total current liabilities	268.2	248.6
Long-term liabilities:		
Long-term debt	—	292.0
Convertible notes, net	469.1	—
Deferred tax liabilities	2.0	3.1
Other long-term liabilities	36.4	0.5
Long-term liabilities related to discontinued operations	—	21.5
Total long-term liabilities	507.5	317.1
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Preferred stock, par value \$0.01; 3,000 shares authorized at June 30, 2019 and June 24, 2018; none issued and outstanding	—	—
Common stock, par value \$0.00125; 200,000 shares authorized at June 30, 2019 and June 24, 2018; 106,570 and 101,488 shares issued and outstanding at June 30, 2019 and June 24, 2018, respectively	0.1	0.1
Additional paid-in-capital	2,874.1	2,549.1
Accumulated other comprehensive income	9.5	0.6
Accumulated deficit	(847.5)	(482.7)
Total shareholders' equity	2,036.2	2,067.1
Non-controlling interest	5.0	5.0
Total equity	2,041.2	2,072.1
Total liabilities and shareholders' equity	\$2,816.9	\$2,637.8

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

CREE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Years Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
<i>in millions of U.S. Dollars, except share data</i>			
Revenue, net.....	\$1,080.0	\$924.9	\$771.5
Cost of revenue, net	689.0	622.9	527.5
Gross profit	391.0	302.0	244.0
Operating expenses:			
Research and development.....	157.9	127.3	113.8
Sales, general and administrative	200.7	170.3	145.7
Amortization or impairment of acquisition-related intangibles	15.6	7.2	3.4
Loss on disposal or impairment of other assets.....	4.7	8.4	1.8
Other operating expense (income)	28.0	16.8	(0.6)
Operating loss	(15.9)	(28.0)	(20.1)
Non-operating expense (income), net	29.3	(10.4)	(13.0)
Loss before income taxes	(45.2)	(17.6)	(7.1)
Income tax expense (benefit)	12.7	(1.2)	81.0
Net loss from continuing operations	(57.9)	(16.4)	(88.1)
Net loss from discontinued operations	(317.2)	(263.5)	(10.0)
Net loss	(375.1)	(279.9)	(98.1)
Net income attributable to noncontrolling interest	—	0.1	—
Net loss attributable to controlling interest	(\$375.1)	(\$280.0)	(\$98.1)
Basic loss per share			
Continuing operations attributable to controlling interest.....	(\$0.56)	(\$0.17)	(\$0.89)
Net loss attributable to controlling interest	(\$3.62)	(\$2.81)	(\$1.00)
Diluted loss per share			
Continuing operations attributable to controlling interest.....	(\$0.56)	(\$0.17)	(\$0.89)
Net loss attributable to controlling interest	(\$3.62)	(\$2.81)	(\$1.00)
Weighted average shares (in thousands)			
Basic	103,576	99,530	98,487
Diluted.....	103,576	99,530	98,487

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

CREE, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Fiscal Years Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
<i>in millions of U.S. Dollars</i>			
Net loss	(\$375.1)	(\$279.9)	(\$98.1)
Other comprehensive income (loss):			
Currency translation gain (loss)	4.4	0.6	(0.2)
Net unrealized gain (loss) on available-for-sale securities	4.5	(5.9)	(2.6)
Comprehensive loss.....	(366.2)	(285.2)	(100.9)
Net income attributable to non-controlling interest	—	0.1	—
Comprehensive loss attributable to controlling interest.....	(366.2)	(285.3)	(100.9)

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

CREE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Years Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
<i>in millions of U.S. Dollars</i>			
Cash flows from operating activities:			
Net loss	(\$375.1)	(\$279.9)	(\$98.1)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	143.6	153.9	150.5
Amortization of debt issuance costs and discount.....	18.3	—	—
Stock-based compensation	78.0	43.2	47.7
Loss on sale of business	66.2	—	—
Goodwill impairment charges	90.3	247.5	—
Impairment of acquisition-related intangibles.....	107.3	—	—
Impairment of inventory.....	12.2	—	7.4
Loss on disposal or impairment of long-lived assets	3.2	10.7	2.5
Amortization of premium/discount on investments	2.4	4.8	5.4
Loss/(gain) on equity investment	16.2	(7.1)	(7.5)
Foreign exchange loss/(gain) on equity investment	1.3	(0.6)	(2.6)
Deferred income taxes.....	(0.4)	(40.0)	74.9
Changes in operating assets and liabilities, net of effect of acquisition:			
Accounts receivable, net.....	22.3	(4.8)	17.0
Inventories	(43.3)	11.0	10.5
Prepaid expenses and other assets	3.8	(5.4)	17.4
Accounts payable, trade	6.4	14.3	(4.8)
Accrued salaries and wages and other liabilities.....	28.0	25.9	0.2
Accrued contract liabilities.....	21.6	—	—
Net cash provided by operating activities	202.3	173.5	220.5
Cash flows from investing activities:			
Purchases of property and equipment	(142.4)	(185.7)	(86.9)
Purchases of patent and licensing rights.....	(10.6)	(10.1)	(12.4)
Proceeds from sale of property and equipment	0.3	0.6	1.4
Purchases of short-term investments.....	(517.2)	(200.7)	(200.4)
Proceeds from maturities of short-term investments.....	177.4	224.2	125.9
Proceeds from sale of short term investments.....	46.4	177.0	27.2
Purchase of acquired business, net of cash acquired.....	—	(429.2)	—
Proceeds from sale of business, net.....	219.0	—	—
Net cash used in investing activities	(227.1)	(423.9)	(145.2)
Cash flows from financing activities:			
Proceeds from issuing Cree Venture LED stock to noncontrolling interest.....	—	4.9	—
Payment of acquisition-related contingent consideration	—	(1.8)	(2.8)
Proceeds from long-term debt borrowings.....	95.0	670.0	468.0
Payments on long-term debt borrowings.....	(387.0)	(523.0)	(483.0)
Proceeds from issuance of common stock	158.0	92.6	17.7
Tax withholding on stock option exercises	(21.6)	(6.2)	(4.6)
Proceeds from convertible notes	575.0	—	—
Payments of debt issuance costs.....	(12.9)	—	—
Repurchases of common stock	—	—	(104.0)
Net cash provided by (used in) financing activities	406.5	236.5	(108.7)
Effects of foreign exchange changes on cash and cash equivalents.....	(0.1)	0.2	(0.1)
Net change in cash and cash equivalents	381.6	(13.7)	(33.5)
Cash and cash equivalents, beginning of period	118.9	132.6	166.1
Cash and cash equivalents, end of period	\$500.5	\$118.9	\$132.6
Supplemental cash flow information			
Cash paid for interest.....	\$4.0	\$6.1	\$3.6
Cash paid for income taxes	\$6.1	\$1.2	\$8.5

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

CREE, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Accumulated deficit	Accumulated Other Comprehensive Income	Total Equity - Controlled Interest	Non controlling Interest	Total Equity
	Number of Shares	Par Value						
<i>share data in thousands, U.S. Dollar information in millions</i>								
Balance at June 26, 2016	100,829	\$0.1	\$2,359.6	(\$0.6)	\$8.7	\$2,367.8	\$—	\$2,367.8
Net loss.....	—	—	—	(98.1)	—	(98.1)	—	(98.1)
Currency translation loss.....	—	—	—	—	(0.2)	(0.2)	—	(0.2)
Unrealized loss on available-for-sale securities	—	—	—	—	(2.6)	(2.6)	—	(2.6)
Comprehensive loss						(100.9)	—	(100.9)
Income tax expense from stock option exercises	—	—	(4.6)	—	—	(4.6)	—	(4.6)
Repurchased shares.....	(4,460)	—	—	(104.0)	—	(104.0)	—	(104.0)
Stock-based compensation.....	—	—	46.8	—	—	46.8	—	46.8
Exercise of stock options and issuance of shares.....	1,305	—	17.7	—	—	17.7	—	17.7
Balance at June 25, 2017	97,674	\$0.1	\$2,419.5	(\$202.7)	\$5.9	\$2,222.8	\$—	\$2,222.8
Net loss.....	—	—	—	(280.0)	—	(280.0)	0.1	(279.9)
Currency translation gain....	—	—	—	—	0.6	0.6	—	0.6
Unrealized loss on available-for-sale securities	—	—	—	—	(5.9)	(5.9)	—	(5.9)
Comprehensive loss						(285.3)	0.1	(285.2)
Income tax expense from stock option exercises	—	—	(6.2)	—	—	(6.2)	—	(6.2)
Stock-based compensation.....	—	—	43.2	—	—	43.2	—	43.2
Exercise of stock options and issuance of shares.....	3,814	—	92.6	—	—	92.6	—	92.6
Contributions from noncontrolling interests.....	—	—	—	—	—	—	4.9	4.9
Balance at June 24, 2018	101,488	\$0.1	\$2,549.1	(\$482.7)	\$0.6	\$2,067.1	\$5.0	\$2,072.1
Net loss.....	—	—	—	(375.1)	—	(375.1)	—	(375.1)
Currency translation gain....	—	—	—	—	4.4	4.4	—	4.4
Unrealized gain on available-for-sale securities	—	—	—	—	4.5	4.5	—	4.5
Comprehensive loss						(366.2)	—	(366.2)
Income tax expense from stock option exercises	—	—	(21.6)	—	—	(21.6)	—	(21.6)
Stock-based compensation.....	—	—	78.0	—	—	78.0	—	78.0
Exercise of stock options and issuance of shares.....	5,082	—	158.0	—	—	158.0	—	158.0
Adoption of ASC 606	—	—	—	10.3	—	10.3	—	10.3
Convertible note issuance	—	—	110.6	—	—	110.6	—	110.6
Balance at June 30, 2019	106,570	\$0.1	\$2,874.1	(\$847.5)	\$9.5	\$2,036.2	\$5.0	\$2,041.2

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

CREE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Note 1	Business 50
Note 2	Basis of Presentation and Summary of Significant Accounting Policies 50
Note 3	Discontinued Operations 57
Note 4	Revenue Recognition 58
Note 5	Joint Venture 59
Note 6	Acquisition 60
Note 7	Financial Statement Details 61
Note 8	Investments 64
Note 9	Fair Value of Financial Instruments 66
Note 10	Goodwill and Intangible Assets 67
Note 11	Long-term Debt 68
Note 12	Shareholders' Equity 70
Note 13	Loss Per Share 71
Note 14	Stock-Based Compensation 71
Note 15	Income Taxes 75
Note 16	Commitments and Contingencies 79
Note 17	Reportable Segments 80
Note 18	Concentrations of Credit Risk 82
Note 19	Retirement Savings Plan 83
Note 20	Related Party Transactions 83
Note 21	Restructuring 83
Note 22	Quarterly Results of Operations - Unaudited 85

Note 1 – Business

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 operates in two reportable segments:

- **Wolfspeed**, which consists 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 electric vehicles, motor drives, power supplies, solar and transportation applications. The Company's materials products and RF devices are used in military communications, radar, satellite and telecommunication applications.
- **LED Products**, which consists 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.

Previously, the Company designed, manufactured and sold LED lighting fixtures and lamps for the commercial, industrial and consumer markets. The Company referred to these product lines as the Lighting Products business unit. As discussed in Note 3, "Discontinued Operations," on May 13, 2019, the Company sold its Lighting Products business unit to IDEAL Industries, Inc. (IDEAL). 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 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 its headquarters are in Durham, North Carolina.

Note 2 – Basis of Presentation and Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, and the joint venture. All material intercompany accounts and transactions have been eliminated.

Fiscal Year

The Company's fiscal year is a 52 or 53-week period ending on the last Sunday in the month of June. The Company's 2019 fiscal year was a 53-week fiscal year. The Company's 2018 and 2017 fiscal years were 52-week fiscal years. The Company's 2020 fiscal year will be a 52-week fiscal year.

Reclassifications

Certain prior period amounts in the accompanying consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported net loss or shareholders' equity.

Revisions

The Company revised net cash provided by operating activities and net cash provided by (used in) financing activities for the years ended June 24, 2018 and June 25, 2017 to correct the presentation of tax withholding for stock option exercises. The Company increased net cash provided by operating activities by \$6.2 million and \$4.6 million and decreased net cash provided by (used in) financing activities by the same amounts for the years ended June 24, 2018 and June 25, 2017, respectively. The Company concluded these errors were not material individually or in the aggregate to any of the periods impacted.

Additionally, the Company corrected the classification of certain money market funds which were previously disclosed as non-U.S. certificates of deposits within cash equivalents in Note 9, "Fair Value of Financial Instruments." As a result, non-U.S. certificates of deposit decreased by \$40.9 million and money market funds increased by the same amount as of June 24, 2018. Total cash equivalents was not affected.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (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. The Company evaluates its estimates on an ongoing basis, including those related to revenue recognition, product warranty obligations, valuation of inventories, tax related contingencies, valuation of stock-based compensation, valuation of long-lived and intangible assets, other contingencies and litigation, among others. The Company generally bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ materially from those estimates.

Segment Information

U.S. GAAP requires segmentation based on an entity's internal organization and reporting of revenue and operating income based upon internal accounting methods commonly referred to as the "management approach." Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker (CODM), or decision making group, in deciding how to allocate resources and in assessing performance. The Company's CODM is its Chief Executive Officer. The Company has determined that it currently has two operating and reportable segments.

Cash and Cash Equivalents

Cash and cash equivalents consist of unrestricted cash accounts and highly liquid investments with an original maturity of three months or less when purchased. Cash and cash equivalents are stated at cost, which approximates fair value. The Company holds cash and cash equivalents at several major financial institutions, which often exceed insurance limits set by the Federal Deposit Insurance Corporation (FDIC). The Company has not historically experienced any losses due to such concentration of credit risk.

Investments

Investments in certain securities may be classified into three categories:

- Held-to-Maturity – Debt securities that the entity has the positive intent and ability to hold to maturity, which are reported at amortized cost.
- Trading – Debt and equity securities that are bought and held principally for the purpose of selling in the near term, which are reported at fair value, with unrealized gains and losses included in earnings.
- Available-for-Sale – Debt and equity securities not classified as either held-to-maturity or trading securities, which are reported at fair value with unrealized gains or losses excluded from earnings and reported as a separate component of shareholders' equity.

The Company reassesses the appropriateness of the classification (i.e. held-to-maturity, trading or available-for-sale) of its investments at the end of each reporting period.

When the fair value of an investment declines below its original cost, the Company considers all available evidence to evaluate whether the decline is other-than-temporary. Among other things, the Company considers the duration and extent of the decline and economic factors influencing the capital markets. For the fiscal years ended June 30, 2019, June 24, 2018, and June 25, 2017, the Company had no other-than-temporary declines below the cost basis of its investments. The Company utilizes specific identification in computing realized gains and losses on the sale of investments. Realized gains and losses on the sale of investments are reported in non-operating expense (income).

Investments in marketable securities with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations.

Other long-term investments consist of the Company's approximately 16% common stock ownership interest in Lextar Electronics Corporation (Lextar), which the Company acquired in December 2014. The Company currently utilizes the fair value option in accounting for its investment in Lextar.

Inventories

Inventories are stated at the lower of cost or net realizable value, with cost determined on a first-in, first-out (FIFO) method or an average cost method. The Company writes down its inventory balances for estimates of excess and obsolete amounts. These write-downs are recognized as a component of cost of revenue. At the point of the write-down, a new lower cost basis for that inventory is established, and any subsequent improvements in facts and circumstances do not result in the restoration or increase in that newly established lower cost basis. If that inventory is subsequently sold, the sale is recorded at the actual selling price and the related cost of revenue is recorded at the new lower cost basis.

Property and Equipment

Property and equipment are stated at cost and depreciated on a straight-line basis over the assets' estimated useful lives. Leasehold improvements are amortized over the lesser of the asset life or the term of the related lease. In general, the Company's policy for useful lives is as follows:

Machinery and equipment	3 to 15 years
Buildings and building improvements.....	5 to 40 years
Furniture and fixtures	3 to 5 years
Aircraft and vehicles.....	5 to 20 years
Leasehold improvements.....	Shorter of estimated useful life or lease term

Expenditures for repairs and maintenance are charged to expense as incurred. The costs for major renewals and improvements are capitalized and depreciated over their estimated useful lives. The cost and related accumulated depreciation of the assets are removed from the accounts upon disposition and any resulting gain or loss is reflected in operating income.

Shipping and Handling Costs

Shipping and handling costs are included in cost of revenue, net in the consolidated statements of operations and are recognized as a period expense during the period in which they are incurred.

Goodwill and Intangible Assets

The Company recognizes the assets acquired and liabilities assumed in business combinations at their respective fair values at the date of acquisition, with any excess purchase price recognized as goodwill. Valuation of intangible assets entails significant estimates and assumptions including, but not limited to, estimating future cash flows from product revenue, developing appropriate discount rates, continuation of customer relationships and renewal of customer contracts, and approximating the useful lives of the intangible assets acquired.

Goodwill

The Company recognizes goodwill as an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The Company tests goodwill for impairment at least annually as of the first day of the fiscal fourth quarter, or when indications of potential impairment exist. The Company monitors for the existence of potential impairment indicators throughout the fiscal year.

The Company conducts impairment testing for goodwill at the reporting unit level. Reporting units may be operating segments as a whole, or an operation one level below an operating segment, referred to as a component. The Company has determined that its reporting units are its two operating and reportable segments.

The Company may initiate goodwill impairment testing by considering qualitative factors to determine whether it is more likely than not that a reportable segment's carrying value is greater than its fair value. Such factors may include the following, among others: a significant decline in the reporting unit's expected future cash flows; a sustained, significant decline in the Company's stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; and slower growth rates; as well as changes in management, key personnel, strategy and customers. If the Company's qualitative assessment indicates it is more likely than not that the estimated fair value of a reporting unit exceeds its carrying value, no further analysis is required and goodwill is not impaired. Otherwise, the Company performs a quantitative goodwill impairment test to determine if goodwill is impaired. The quantitative test compares the fair value of a reporting unit with its carrying amount, including goodwill.

If the fair value of the reportable segment exceeds the carrying value of the net assets associated with the segment, goodwill is not considered impaired. If the carrying value of the net assets associated with the reportable segment exceeds the fair value of the segment, the Company recognizes an impairment loss in an amount equal to the excess, not to exceed the carrying value of the reportable segment's goodwill. Once an impairment loss is recognized, the adjusted carrying value of the goodwill becomes the new accounting basis of the goodwill for the reporting unit. The Company derives a reportable segment's fair value through a combination of the market approach (guideline transaction method and guideline public company method) and the income approach (a discounted cash flow analysis). The income approach utilizes a discount rate from the capital asset pricing model. If all reportable segments are analyzed, their respective fair values are reconciled back to the Company's consolidated market capitalization.

Finite-Lived Intangible Assets

U.S. GAAP requires that intangible assets, other than goodwill and indefinite-lived intangibles, must be amortized over their useful lives. The Company is currently amortizing its acquired intangible assets with finite lives over periods ranging from one to 20 years.

Patent rights reflect costs incurred by the Company in applying for and maintaining patents owned by the Company and costs incurred in purchasing patents and related rights from third parties. Licensing rights reflect costs incurred by the Company in acquiring licenses under patents owned by others. The Company amortizes both on a straight-line basis over the expected useful life of the associated patent rights, which is generally the lesser of 20 years from the date of the patent application or the license period. Royalties payable under licenses for patents owned by others are generally expensed as incurred. The Company reviews its capitalized patent portfolio and recognizes impairment charges when circumstances warrant, such as when patents have been abandoned or are no longer being pursued.

Long-Lived Assets

The Company reviews long-lived assets such as property and equipment for impairment based on changes in circumstances that indicate their carrying amounts may not be recoverable. In making these determinations, the Company uses certain assumptions, including but not limited to: (1) estimations of the fair market value of the assets and (2) estimations of future cash flows expected to be generated by these assets, which are based on additional assumptions such as asset utilization, length of service the asset will be used in the Company's operations and estimated salvage values.

Contingent Liabilities

The Company recognizes contingent liabilities when it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Disclosure in the notes to the financial statements is required for loss contingencies that do not meet both these conditions if there is a reasonable possibility that a loss may have been incurred. See Note 16, "Commitments and Contingencies," for a discussion of loss contingencies in connection with pending and threatened litigation. The Company expenses as incurred the costs of defending legal claims against the Company.

Revenue Recognition

Revenue is recognized when control of a good or service promised in a contract (i.e., performance obligation) is transferred to a customer. Control is obtained when a customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that good or service. 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.

A substantial portion of the Company's products are sold through distributors. Distributors stock inventory and sell the Company's products to their own customer base, which may include: value added resellers; manufacturers who incorporate the Company's products into their own manufactured goods; or ultimate end users of the Company's products. The Company recognizes revenue upon shipment of its products to its distributors. This arrangement is often referred to as a "sell-in" or "point-of-purchase" model as opposed to a "sell-through" or "point-of-sale" model, where revenue is deferred and not recognized until the distributor sells the product through to their customer.

Master supply or distributor agreements are in place with many 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. If a master supply, distributor or other similar agreement is not in place with a customer, the Company considers a purchase order, which is governed by the Company's standard terms and conditions, to be the contract governing the relationship with that customer.

Pricing terms are negotiated independently on a stand-alone basis. Revenue is measured based on the amount of net consideration to which the Company expects to be entitled to receive 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 operations, and further detail is presented in Note 16, "Commitments and Contingencies."

Certain of the Company's distributors are provided limited rights that allow them to return a portion of inventory (product exchange rights or stock rotation rights) and receive credits for changes in selling prices (price protection rights) or customer pricing arrangements under the Company's "ship and debit" program or other targeted sales incentives. These estimates are calculated based upon historical experience, product shipment analysis, current economic conditions, on-hand inventory at the distributor, and customer contractual arrangements. The Company believes that it can reasonably and reliably estimate the allowance for distributor credits at the time of sale. Accordingly, estimates for these rights are recognized at the time of sale as a reduction of product revenue and as a contract liability.

From time to time, the Company will issue a new price book for its products, and provide a credit to certain distributors for inventory quantities on hand if required by the Company's agreement with the distributor. This practice is known as price protection. These credits are applied against the reserve that the Company establishes upon initial shipment of product to the distributor.

Under the ship and debit program, products are sold to distributors at negotiated prices and the distributors are required to pay for the products purchased within the Company's standard commercial terms. Subsequent to the initial product purchase, a distributor may request a price allowance for a particular part number(s) for certain target customers, prior to the distributor reselling the particular part to that customer. If the Company approves an allowance and the distributor resells the product to the target customer, the Company credits the distributor according to the allowance the Company approved. These credits are applied against the reserve that the Company establishes upon initial shipment of product to the distributor.

In addition, the Company runs sales incentive programs with certain distributors, such as product rebates. The Company recognizes these incentives at the time they are offered to customers and records a credit to their account with an offsetting expense as either a reduction to revenue, increase to cost of revenue, or marketing expense depending on the type of sales incentive.

From time to time, the Company may enter into licensing arrangements related to its intellectual property. Revenue from licensing arrangements is recognized when earned and estimable. The timing of revenue recognition is dependent on the terms of each license agreement. Generally, the Company will recognize non-refundable upfront licensing fees related to patent licenses immediately upon receipt of the funds if the Company has no significant future obligations to perform under the arrangement. However, the Company will defer recognition for licensing fees where the Company has significant future performance requirements, the fee is not fixed (such as royalties earned as a percentage of future revenue), or the fees are otherwise contingent.

Accounts Receivable

For product revenue, the Company typically invoices its customers at the time of shipment for the sales order value of products shipped. Accounts receivable are recognized at the invoiced amount and are not subject to any interest or finance charges. The Company does not have any off-balance sheet credit exposure related to any of its customers.

Allowance for Doubtful Accounts

The Company evaluates the collectability of accounts receivable based on a combination of factors. In cases where the Company becomes aware of circumstances that may impair a specific customer's ability to meet its financial obligations subsequent to the original sale, the Company will recognize an allowance against amounts due, and thereby reduce the net recognized receivable to the amount the Company reasonably believes will be collected. For all other customers, the Company recognizes an allowance for doubtful accounts based on the length of time the receivables are past due and consideration of other factors such as industry conditions, the current business environment and the Company's historical experience.

Advertising

The Company expenses the costs of producing advertisements at the time production occurs and expenses the cost of communicating the advertising in the period in which the advertising is used. Advertising costs are included in sales, general and administrative expenses in the consolidated statements of operations and amounted to approximately \$4.2 million, \$3.9 million, and \$5.3 million for the years ended June 30, 2019, June 24, 2018 and June 25, 2017, respectively.

Research and Development

Research and development activities are expensed when incurred.

Loss Per Share

Basic loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the applicable period. Diluted loss per share is determined in the same manner as basic loss per share except that the number of shares is increased to assume exercise of potentially dilutive stock options, nonvested restricted stock and contingently issuable shares using the treasury stock method, unless the effect of such increases would be anti-dilutive. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recognized in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

Stock-Based Compensation

The Company recognizes compensation expense for all share-based payments granted based on the fair value of the shares on the date of grant. Compensation expense is then recognized over the award's vesting period.

Fair Value of Financial Instruments

Cash and cash equivalents, short-term investments, accounts and interest receivable, accounts payable and other liabilities approximate their fair values at June 30, 2019 and June 24, 2018 due to the short-term nature of these instruments.

Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are recognized for deductible temporary differences, along with net operating loss carryforwards and credit carryforwards, if it is more likely than not that the tax benefits will be realized. To the extent a deferred tax asset cannot be recognized under the preceding criteria, valuation allowances are established. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

Taxes payable which are not based on income are accrued ratably over the period to which they apply. For example, payroll taxes are accrued each period end based upon the amount of payroll taxes that are owed as of that date; whereas taxes such as property taxes and franchise taxes are accrued over the fiscal year to which they apply if paid at the end of a period, or they are amortized ratably over the fiscal year if they are paid in advance.

Sales Taxes

The Company presents sales taxes collected from customers and remitted to governmental authorities on a net basis (i.e. excluded from revenue and expenses).

Foreign Currency Translation

Foreign currency translation adjustments are recognized in other comprehensive (loss) income in the consolidated statements of comprehensive loss for changes between the foreign subsidiaries' functional currency and the United States (U.S.) dollar. Foreign currency translation gains and losses are included in the Company's equity account balance of accumulated other comprehensive income, net of taxes in the consolidated balance sheets until such time that the subsidiaries are either sold or substantially liquidated.

Due to the sale of the Lighting Products business unit, \$5.2 million of currency translation loss was reclassified out of other comprehensive (loss) income and recognized in the consolidated statements of operations as part of the loss on transaction.

The Company and its subsidiaries transact business in currencies other than the U.S. Dollar and as such, the Company will continue to experience varying amounts of foreign currency exchange gains and losses.

Recently Adopted Accounting Pronouncements

Nonemployee Stock Compensation

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 (Topic 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 FASB issued ASU No. 2014-09: Revenue from Contracts with Customers (Topic 606) (ASC 606). The FASB has subsequently issued multiple ASUs that amend and clarify the guidance in ASC 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 the adoption recorded to beginning accumulated deficit as of June 25, 2018 was \$10.3 million. The Company did not recognize a discrete tax impact related to the opening deferred tax balance as of June 25, 2018 due to a full U.S. valuation allowance. The Company recorded \$1.6 million less revenue for the fiscal year ended June 30, 2019 as a result of the adoption and expects the ongoing effect to be immaterial to the consolidated financial statements. See Note 4, "Revenue Recognition," for discussion of the impacted financial statement line items.

Recently Issued Accounting Pronouncements

Leases

In February 2016, the FASB issued ASU No. 2016-02: Leases (Topic 842) (ASC 842), and ASU 2018-10: Codification Improvements to ASC 842, Leases. These ASU's 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 and will require enhanced disclosures about an entity's leasing arrangements. The Company will adopt this standard on July 1, 2019, under the modified retrospective transition approach with the cumulative effect of application recognized at the effective date, without reclassification of previous financial statements. Upon adoption, the Company plans to elect the transition package of practical expedients that allows it to not reassess (1) whether any expired or existing contracts are leases, or contain leases, (2) the lease classification for any expired or existing leases, and (3) initial direct costs for any existing leases. Further, upon implementation of the new guidance, the Company intends to elect the practical expedient to not separate lease and non-lease components for all leases and account for the combined lease and non-lease components as a single lease component. The Company also plans to make an accounting policy election to exclude leases with an initial term of 12 months or less from the consolidated balance sheets.

The Company expects the adoption of this standard will result in the inclusion of a significant component of the Company's future minimum lease obligations, as disclosed in Note 16, "Commitments and Contingencies" on its consolidated balance sheets, as right-of-use assets and lease liabilities with no material impact to its consolidated statements of operations and consolidated statements of comprehensive loss. Any new lease arrangements or material modifications entered into subsequent to the adoption date will be accounted for in accordance with the new standard. The Company is continuing to assess the potential impacts of the ASC 842. The Company anticipates disclosing additional information, as necessary, to comply with the new leasing standard.

Note 3 – Discontinued Operations

On May 13, 2019, the Company completed the sale of (a) certain manufacturing facilities and equipment, inventory, intellectual property rights, contracts, and real estate of the Company used by the Company's Lighting Products business unit, which includes LED lighting fixtures, lamps and corporate lighting solutions for commercial, industrial and consumer applications, and (b) all of the issued and outstanding equity interests of E-conolight LLC (E-conolight), Cree Canada Corp. and Cree Europe S.r.l., each a wholly owned subsidiary of the Company (collectively, the Lighting Products business unit) to IDEAL, pursuant to the Purchase Agreement, dated March 14, 2019, as amended between Cree and IDEAL (the Purchase Agreement). The Company retained certain liabilities associated with the Lighting Products business unit arising prior to the closing of the sale. The Lighting Products business unit represented the Lighting Products segment disclosed in the Company's historical financial statements.

The aggregate net proceeds from the sale of the Lighting Products business unit was \$219.0 million in cash, which is subject to certain adjustments. Additionally, the Company is entitled to an earnout payment subject to the future performance of the Lighting Products business unit. In connection with the transaction, the Company and IDEAL entered into certain ancillary and related agreements, including (i) an Intellectual Property Assignment and License Agreement, which assigned to IDEAL certain intellectual property owned by the Company and licensed to IDEAL certain additional intellectual property owned by the Company; (ii) a Transition Services Agreement (the TSA), which is designed to ensure a smooth transition of the Lighting Products business unit to IDEAL; (iii) an LED Supply Agreement (the 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 unit after closing. The Company recognized a loss on the sale of \$66.2 million.

The Company has classified the results of the Lighting Products business unit as discontinued operations, the results of which for the fiscal years ended June 30, 2019, June 24, 2018, and June 25, 2017 are as follows:

	Fiscal Years Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
<i>(in millions of U.S. Dollars)</i>			
Revenue, net.....	\$419.8	\$568.8	\$701.5
Cost of revenue, net	324.3	463.2	510.9
Gross profit	95.5	105.6	190.6
Research and development.....	37.1	35.9	44.7
Sales, general and administrative.....	100.6	97.6	119.6
Amortization or impairment of acquisition-related intangibles	116.4	23.6	24.1
Goodwill impairment charges	90.3	247.5	—
Loss on disposal or impairment of long-lived assets	2.0	2.1	0.8
Operating (loss) income	(250.9)	(301.1)	1.4
Non-operating income.....	—	(1.3)	(1.0)
(Loss) income before income taxes and loss on sale	(250.9)	(299.8)	2.4
Loss on sale	66.2	—	—
(Loss) income before income taxes	(317.1)	(299.8)	2.4
Income tax expense (benefit)	0.1	(36.3)	12.4
Net loss	(\$317.2)	(\$263.5)	(\$10.0)

Assets and liabilities held for sale relating to the sale of the Lighting Products business unit as of June 24, 2018 are as follows:

<i>(in millions of U.S. Dollars)</i>	June 24, 2018
Assets	
Accounts receivable, net	\$ 67.5
Income tax receivable.....	0.4
Inventories	144.4
Prepaid expenses	3.8
Other current assets	7.3
Total current assets	<u>223.4</u>
Property and equipment, net.....	72.2
Goodwill.....	90.3
Intangible assets, net	174.3
Deferred income taxes.....	0.7
Other assets	0.2
Total assets	<u>\$ 561.1</u>
 Liabilities	
Accounts payable, trade	\$ 44.7
Accrued salaries and wages.....	11.6
Income tax payable.....	0.3
Other current liabilities.....	24.2
Total current liabilities	<u>80.8</u>
Other long term liabilities	21.5
Total liabilities	<u>\$ 102.3</u>

The cash flow impacts of the Lighting Products business unit are as follows:

	Fiscal Years Ended		
	<u>June 30, 2019</u>	<u>June 24, 2018</u>	<u>June 25, 2017</u>
<i>(in millions of U.S. Dollars)</i>			
Cash (used in) provided by operating activities of discontinued operations	\$ (17.9)	\$ 61.0	\$ 85.2
Cash used in investing activities of discontinued operations	(15.4)	(17.9)	(16.9)

The Company recognized \$1.6 million in administrative fees in fiscal 2019 relating to the TSA, all of which are accrued in accounts receivable, net in the consolidated balance sheets as of June 30, 2019. These fees were recorded as a reduction of sales, general and administrative expense in the consolidated statements of operations.

The Company recognized \$2.1 million in revenue in fiscal 2019 related to the LED Supply Agreement. No amounts were accrued in accounts receivable, net in the consolidated balance sheets as of June 30, 2019 relating to the LED Supply Agreement. Additionally, the Company recorded a contract liability of \$13.4 million relating to the LED Supply Agreement as of June 30, 2019. The contract liability is recognized in contract liabilities and other long term liabilities on the consolidated balance sheets.

Note 4 – Revenue Recognition

In accordance with ASC 606, the Company follows a five-step approach defined by the new standard for recognizing revenue, consisting of the following: (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.

Contract liabilities primarily include various rights of return and customer deposits, as well as deferred revenue, price protection guarantees and the Company's liability under the LED Supply Agreement. Contract liabilities were \$80.4 million as of June 30, 2019 and \$47.1 million as of June 25, 2018, the date the Company adopted ASC 606. The increase was primarily due to increased customer deposits and the related contract liability from the LED Supply Agreement. Contract liabilities are recorded within accrued contract liabilities and other long-term liabilities on the balance sheet. Before the adoption of ASC 606, liabilities relating

to various rights of return were recorded as a deduction to accounts receivable. The adjustments do not impact net cash provided by 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.

The Company's accounts receivable balance represents the Company's unconditional right to receive consideration from its customers with contracts. Payments are typically due within 30 days of the 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 operations.

Disaggregated revenue by geography is presented in Note 17, "Reportable Segments". For the fiscal year ended June 30, 2019, the Company recognized revenue of \$5.0 million that was included in contract liabilities as of June 25, 2018. The amount recognized primarily related to deferred revenue and the recognition of contingent liabilities related to the LED Supply Agreement. Revenue recognized related to performance obligations that were satisfied or partially satisfied in previous periods was not material for the fiscal year ended June 30, 2019.

Opening Balance Adjustments

The impacts of adopting the new revenue standard on the Company's unaudited consolidated balance sheet are as follows:

<i>(in millions of U.S. Dollars)</i>	Previous Balance at June 24, 2018	Adjustments	Opening Balance at June 25, 2018
Assets:⁽¹⁾			
Accounts receivable, net	\$86.4	\$42.7	\$129.1
Other current assets	12.9	0.7	13.6
Current assets related to discontinued operations ⁽²⁾	223.4	12.9	236.3
Liabilities:⁽¹⁾			
Other current liabilities ⁽³⁾	19.3	(4.4)	14.9
Accrued contract liabilities	—	47.1	47.1
Current liabilities related to discontinued operations ⁽²⁾	80.8	5.8	86.6
Long-term liabilities related to discontinued operations ⁽²⁾	21.5	(2.5)	19.0
Shareholders' Equity:⁽¹⁾			
Accumulated deficit	(482.7)	10.3	(472.4)

⁽¹⁾ Adjustments are shown in debit/(credit) format for assets and (debit)/credit format for liabilities and shareholders' equity to match consolidated balance sheet presentation.

⁽²⁾ Adjusted amounts related to current assets were previously adjusted in accounts receivable, net, amounts related to current liabilities were previously adjusted in accrued contract liabilities and short-term deferred revenue, and amounts related to long-term liabilities were previously adjusted in long-term deferred revenue. Amounts have been classified as discontinued operations due to the sale of the Lighting Products business unit subsequent to the adoption of ASC 606.

⁽³⁾ As a result of ASC 606 adoption, deferred revenue was reclassified from other current liabilities to accrued contract liabilities in the consolidated balance sheets.

Note 5 – Joint Venture

Effective July 17, 2017, the Company entered into a Shareholders Agreement with San'an Optoelectronics Co., Ltd. (San'an) and Cree Venture LED Company Limited (Cree Venture LED) pursuant to which the Company and San'an funded their contributions

to Cree Venture LED and agreed upon the management and operation of Cree Venture LED. The Company contributed \$5.1 million of cash for a 51% ownership interest and San'an contributed \$4.9 million of cash for a 49% ownership interest. Cree Venture LED has a five-member board of directors, three of which were designated by the Company and two of which were designated by San'an. As a result of the Company's majority voting interest, the Company consolidates the operations of Cree Venture LED and reports its revenue and gross profit within the Company's LED Products segment. The Company classifies the 49% ownership interest held by San'an as noncontrolling interest on the consolidated balance sheet. The noncontrolling interest increased by \$0.0 million and \$0.1 million for its share of net income from Cree Venture LED, for the fiscal years ending June 30, 2019 and June 24, 2018, respectively.

In connection with forming Cree Venture LED and entering into the Shareholders Agreement, Cree Venture LED and San'an also entered into a manufacturing agreement pursuant to which San'an supplies Cree Venture LED with mid-power LED products, and the Company and Cree Venture LED entered into a sales agency agreement pursuant to which the Company is the independent sales representative of Cree Venture LED in the exclusive markets, among certain other ancillary agreements related to the transaction. Cree Venture LED produces and delivers to market high performing, mid-power lighting class LEDs in an exclusive arrangement serving the expanding markets of North and South America, Europe and Japan, and serves China and the rest of the world on a non-exclusive basis. Cree Venture LED recorded its first sales to customers during the first quarter of fiscal 2018.

Note 6 – Acquisition

Infineon Radio Frequency Power Business

On March 6, 2018, the Company acquired certain assets of the Infineon Radio Frequency Power Business (RF Power), pursuant to an asset purchase agreement with Infineon in exchange for a base purchase price of \$429.2 million, subject to certain adjustments. As part of the agreement, the Company paid \$427.0 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 \$2.2 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 final purchase price allocation is as follows:

(in millions of U.S. Dollars)

Inventories.....	\$22.5
Property and equipment.....	11.7
Other receivables.....	0.4
Intangible assets.....	149.0
Goodwill.....	249.0
Accrued expenses and liabilities.....	(3.4)
Net assets acquired.....	<u><u>\$429.2</u></u>

The weighted average life of the acquired intangible assets is approximately 13.8 years. The components of the acquired intangible assets are as follows:

(in millions of U.S. Dollars, except year data)

	<u>Asset Amount</u>	<u>Estimated Life (in years)</u>
Lease agreement.....	\$1.0	10
Customer relationships.....	92.0	15
Developed technology.....	44.0	14
Non-compete agreements.....	12.0	4
Total identifiable intangible assets.....	<u><u>\$149.0</u></u>	

Goodwill acquired largely consists of the manufacturing and other synergies of the combined companies, and the value of the assembled workforce. For tax purposes, in accordance with Section 197 of the Internal Revenue Code of 1986, as amended (the IRC), \$245.0 million of the acquired goodwill will be amortized over 15 years.

The results of the RF Power business reflected in the Company's consolidated statements of operations for the fiscal year ended June 24, 2018 from the date of acquisition (March 6, 2018) are as follows:

<i>(in millions of U.S. Dollars)</i>	Amount
Revenue	\$29.0
Net loss from continuing operations	(11.7)

The Company incurred total transaction costs related to the acquisition of approximately \$3.8 million. These costs were primarily included in operating expenses in the consolidated statements of operations in fiscal 2018.

Supplemental Pro Forma Financial Information

The following supplemental pro forma information presents the consolidated financial results as if the RF Power transaction had occurred at the beginning of fiscal 2017:

	Fiscal Years Ended	
	June 24, 2018	June 25, 2017
<i>(in millions of U.S. Dollars, except share data)</i>		
Revenue	\$990.3	\$879.1
Net loss from continuing operations.....	(20.8)	(97.3)
Basic loss per share from continuing operations.....	(\$0.21)	(\$0.99)
Diluted loss per share from continuing operations.....	(\$0.21)	(\$0.99)

Note 7 – Financial Statement Details

Accounts Receivable, net

Accounts receivable, net consisted of the following:

<i>(in millions of U.S. Dollars)</i>	June 30, 2019	June 24, 2018
Billed trade receivables.....	\$125.8	\$128.9
Unbilled contract receivables	0.7	1.0
Royalties	2.8	—
	<u>129.3</u>	<u>129.9</u>
Allowance for sales returns, discounts and other incentives	—	(42.7)
Allowance for bad debts	(0.4)	(0.8)
Accounts receivable, net.....	<u>\$128.9</u>	<u>\$86.4</u>

Changes in the Company's allowance for sales returns, discounts and other incentives were as follows:

	Fiscal Years Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
<i>(in millions of U.S. Dollars)</i>			
Balance at beginning of period	\$42.7	\$36.7	\$36.2
Current period claims.....	—	(145.0)	(153.6)
Provision for sales returns, discounts and other incentives	—	151.0	154.1
Reclassification to contract liabilities	(42.7)	—	—
Balance at end of period.....	<u>\$—</u>	<u>\$42.7</u>	<u>\$36.7</u>

Changes in the Company's allowance for bad debts were as follows:

<i>(in millions of U.S. Dollars)</i>	Fiscal Years Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
Balance at beginning of period	\$0.8	\$1.6	\$1.5
Current period provision change.....	(0.3)	0.4	0.1
Write-offs, net of recoveries.....	(0.1)	(1.2)	—
Balance at end of period.....	<u>\$0.4</u>	<u>\$0.8</u>	<u>\$1.6</u>

Inventories

Inventories consisted of the following:

<i>(in millions of U.S. Dollars)</i>	June 30, 2019	June 24, 2018
Raw material	\$42.4	\$35.1
Work-in-progress	101.1	86.2
Finished goods	43.9	30.3
Inventories	<u>\$187.4</u>	<u>\$151.6</u>

Property and Equipment, net

Property and equipment, net consisted of the following:

<i>(in millions of U.S. Dollars)</i>	June 30, 2019	June 24, 2018
Furniture and fixtures	\$9.7	\$11.9
Land and buildings	416.5	389.5
Machinery and equipment	1,110.3	1,140.6
Vehicles.....	0.9	0.9
Computer hardware/software.....	48.6	42.5
Leasehold improvements and other	4.2	5.5
Construction in progress	231.7	207.2
Property and equipment, gross	<u>1,821.9</u>	<u>1,798.1</u>
Accumulated depreciation	(1,196.7)	(1,209.0)
Property and equipment, net.....	<u>\$625.2</u>	<u>\$589.1</u>

Depreciation of property and equipment totaled \$97.0 million, \$94.8 million and \$89.7 million for the years ended June 30, 2019, June 24, 2018 and June 25, 2017, respectively.

During the years ended June 30, 2019, June 24, 2018 and June 25, 2017, the Company recognized approximately \$1.5 million, \$6.3 million and \$0.9 million, respectively, as losses on disposals or impairments of property and equipment. These charges are reflected in loss on disposal or impairment of other assets in the consolidated statements of operations.

Accrued property and equipment as of June 30, 2019, June 24, 2018 and June 25, 2017 was \$21.3 million, \$15.0 million and \$10.2 million, respectively.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

<i>(in millions of U.S. Dollars)</i>	June 30, 2019	June 24, 2018
Accounts payable, trade	\$90.7	\$68.4
Accrued salaries and wages	70.9	41.9
Accrued expenses	34.0	32.8
Other	5.3	5.4
Accounts payable and accrued expenses	<u>\$200.9</u>	<u>\$148.5</u>

Accumulated Other Comprehensive Income, net of taxes

Accumulated other comprehensive income, net of taxes consisted of the following:

<i>(in millions of U.S. Dollars)</i>	June 30, 2019	June 24, 2018
Currency translation gain	\$9.5	\$5.1
Net unrealized loss on available-for-sale securities	—	(4.5)
Accumulated other comprehensive income, net of taxes	<u>\$9.5</u>	<u>\$0.6</u>

Other Operating Expense (Income)

The following table summarizes the components of other operating expense (income):

<i>(in millions of U.S. Dollars)</i>	Fiscal Years Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
Factory optimization restructuring	\$4.1	\$—	\$—
Severance and other restructuring	4.2	3.8	—
Total restructuring costs	8.3	3.8	—
Project and transaction costs	16.9	8.5	—
Executive severance	1.3	4.5	2.2
Factory optimization start up costs	1.5	—	—
Gain from termination of Wolfspeed transaction, net	—	—	(2.8)
Other operating expense (income)	<u>\$28.0</u>	<u>\$16.8</u>	<u>(\$0.6)</u>

In February 2017, the Company announced that an Asset Purchase Agreement (the APA) from July 2016 with Infineon Technologies AG (Infineon), in which Infineon agreed to purchase the assets comprising the Company's power and RF product lines and certain other assets and liabilities, would be terminated due to the inability to address the national safety concerns of, and obtain approval from, the Committee on Foreign Investment in the United States, one of the closing conditions under the APA. The Company received a termination fee of \$12.5 million in cash from Infineon in March 2017. The Company recognized \$9.7 million of expenses relating to the APA before the termination.

See Note 21, "Restructuring" for more details on the Company's restructuring costs.

Non-Operating Expense (Income), net

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

<i>(in millions of U.S. Dollars)</i>	Fiscal Years Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
Loss (gain) on sale of investments, net	\$0.1	\$0.1	(\$0.1)
Loss (gain) on equity investment	16.2	(7.1)	(7.5)
Interest expense (income), net	12.0	(1.8)	(3.7)
Foreign currency loss (gain), net.....	1.3	(1.8)	(2.3)
Other, net.....	(0.3)	0.2	0.6
Non-operating expense (income), net	<u>\$29.3</u>	<u>(\$10.4)</u>	<u>(\$13.0)</u>

Reclassifications Out of Accumulated Other Comprehensive (Loss) Income

The Company reclassified a net loss of \$0.1 million and \$0.1 million, and a net gain of \$0.1 million, on available for sale securities out of accumulated other comprehensive (loss) income for the fiscal years ended June 30, 2019, June 24, 2018, and June 25, 2017, respectively. There was no tax impact for the fiscal years ended June 30, 2019, June 24, 2018, June 25, 2017, respectively, due to a full valuation allowance on U.S. operations. Amounts were reclassified to non-operating expense (income), net on the consolidated statements of operations.

Additionally, the Company reclassified \$5.2 million of currency translation loss out of accumulated other comprehensive (loss) income for the fiscal year ended June 30, 2019 as a result of the sale of the Lighting Products business unit. Amounts were reclassified to net loss from discontinued operations on the consolidated statement of operations.

Note 8 – Investments

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

Short-term investments as of June 30, 2019 consist of the following:

<i>(in millions of U.S. Dollars)</i>	June 30, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal bonds	\$78.2	\$0.4	(\$0.1)	\$78.5
Corporate bonds.....	256.0	1.0	—	257.0
U.S. agency securities.....	25.6	—	—	25.6
U.S. treasury securities	92.4	0.1	—	92.5
U.S. certificates of deposit.....	22.4	—	—	22.4
Non-U.S. certificates of deposit	49.1	1.1	—	50.2
Commercial paper	7.8	—	—	7.8
Variable rate demand note	16.9	—	—	16.9
Total short-term investments	<u>\$548.4</u>	<u>\$2.6</u>	<u>(\$0.1)</u>	<u>\$550.9</u>

The following table presents 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:

	June 30, 2019					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<i>(in millions of U.S. Dollars)</i>						
Municipal bonds	\$4.3	\$—	\$29.8	(\$0.1)	\$34.1	(\$0.1)
Corporate bonds	41.8	—	14.7	—	56.5	—
U.S. agency securities	7.7	—	—	—	7.7	—
U.S. treasury securities	2.0	—	3.9	—	5.9	—
Total	<u>\$55.8</u>	<u>\$—</u>	<u>\$48.4</u>	<u>(\$0.1)</u>	<u>\$104.2</u>	<u>(\$0.1)</u>
Number of securities with an unrealized loss		<u>46</u>		<u>47</u>		<u>93</u>

Short-term investments as of June 24, 2018 consist of the following:

	June 24, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>(in millions of U.S. Dollars)</i>				
Municipal bonds	\$110.2	—	(\$0.9)	\$109.3
Corporate bonds	77.9	—	(1.1)	76.8
U.S. agency securities	3.9	—	—	3.9
U.S. certificates of deposit	0.5	—	—	0.5
Non-U.S. certificates of deposit	77.7	—	—	77.7
Total short-term investments	<u>\$270.2</u>	<u>—</u>	<u>(\$2.0)</u>	<u>\$268.2</u>

The following table presents 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:

	June 24, 2018					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<i>(in millions of U.S. Dollars)</i>						
Municipal bonds	\$97.5	(\$0.9)	\$3.6	\$—	\$101.1	(\$0.9)
Corporate bonds	61.5	(1.1)	1.5	—	63.0	(1.1)
U.S. agency securities	3.9	—	—	—	3.9	—
Total	<u>\$162.9</u>	<u>(\$2.0)</u>	<u>\$5.1</u>	<u>\$—</u>	<u>\$168.0</u>	<u>(\$2.0)</u>
Number of securities with an unrealized loss		<u>151</u>		<u>6</u>		<u>157</u>

The Company utilizes specific identification in computing realized gains and losses on the sale of investments. Realized losses on the sale of investments for the fiscal year ended June 30, 2019 of \$0.1 million were included in non-operating expense (income), net in the consolidated statements of operations 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 investments to be impaired as of June 30, 2019 and June 24, 2018.

The contractual maturities of short-term investments at June 30, 2019 were as follows:

<i>(in millions of U.S. Dollars)</i>	Within One Year	After One, Within Five Years	After Five, Within Ten Years	After Ten Years	Total
Municipal bonds.....	\$22.0	\$56.5	\$—	\$—	\$78.5
Corporate bonds.....	149.6	107.4	—	—	257.0
U.S. agency securities.....	17.1	8.5	—	—	25.6
U.S. treasury securities.....	92.5	—	—	—	92.5
U.S. certificates of deposit.....	22.4	—	—	—	22.4
Non-U.S. certificates of deposit.....	50.2	—	—	—	50.2
Commercial paper.....	7.8	—	—	—	7.8
Variable rate demand note.....	—	5.0	—	11.9	16.9
Total short-term investments.....	<u>\$361.6</u>	<u>\$177.4</u>	<u>\$—</u>	<u>\$11.9</u>	<u>\$550.9</u>

Note 9 – 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 June 30, 2019, financial assets utilizing Level 1 inputs included money market funds, U.S. treasury securities and U.S. agency securities, and financial assets utilizing Level 2 inputs included municipal bonds, corporate bonds, 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 June 30, 2019. There were no transfers between Level 1 and Level 2 during the year ended June 30, 2019.

Financial instruments carried at fair value were as follows:

	June 30, 2019				June 24, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents:								
Money market funds	\$ 95.0	\$ —	\$ —	\$ 95.0	\$ 42.9	\$ —	\$ —	\$ 42.9
Corporate bonds	—	15.0	—	15.0	—	—	—	—
U.S. agency securities	—	18.8	—	18.8	—	—	—	—
U.S. treasury securities	2.5	—	—	2.5	—	—	—	—
Non-U.S. certificates of deposit	—	105.8	—	105.8	—	34.6	—	34.6
Commercial paper	—	1.0	—	1.0	—	0.3	—	0.3
Total cash equivalents	97.5	140.6	—	238.1	42.9	34.9	—	77.8
Short-term investments:								
Municipal bonds	—	78.5	—	78.5	—	109.3	—	109.3
Corporate bonds	—	257.0	—	257.0	—	76.8	—	76.8
U.S. agency securities	—	25.6	—	25.6	3.9	—	—	3.9
U.S. treasury securities	92.5	—	—	92.5	—	—	—	—
U.S. certificates of deposit	—	22.4	—	22.4	—	0.5	—	0.5
Non-U.S. certificates of deposit	—	50.2	—	50.2	—	77.7	—	77.7
Commercial paper	—	7.8	—	7.8	—	—	—	—
Variable rate demand note	—	16.9	—	16.9	—	—	—	—
Total short-term investments	92.5	458.4	—	550.9	3.9	264.3	—	268.2
Other long-term investments:								
Common stock of non-U.S. corporations	—	39.5	—	39.5	—	57.5	—	57.5
Total assets	\$190.0	\$638.5	\$—	\$828.5	\$46.8	\$356.7	\$—	\$403.5

Note 10 – Goodwill and Intangible Assets

Goodwill

The Company's reporting units for goodwill impairment testing are:

- Wolfspeed
- LED Products

As of the first day of the fourth quarter of fiscal 2019, the Company performed a qualitative impairment test for the Wolfspeed segment and concluded that it is more likely than not that the fair value of Wolfspeed exceeds its carrying amount and a quantitative impairment test was not required. The Company performed a quantitative impairment test for the LED Products segment and concluded that there was no impairment.

The Company derived each reporting unit's fair value through a combination of the market approach (guideline transaction method and guideline public company method) and the income approach (a discounted cash flow analysis). The Company utilized a discount rate from the capital asset pricing model for the discounted cash flow analysis. Once the reporting unit fair values were calculated, the Company reconciled the reporting units' relative fair values to the Company's market capitalization as of the testing date.

Goodwill by reporting unit as of June 30, 2019 and June 24, 2018 was as follows:

<i>(in millions of U.S. Dollars)</i>	June 30, 2019	June 24, 2018
Wolfspeed	\$349.7	\$349.7
LED Products	180.3	\$180.3
Consolidated total	<u>\$530.0</u>	<u>\$530.0</u>

Intangible Assets

Intangible assets, net included the following:

<i>(in millions of U.S. Dollars)</i>	June 30, 2019			June 24, 2018		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Intangible assets:						
Customer relationships	\$147.8	(\$63.8)	\$84.0	\$147.8	(\$56.6)	\$91.2
Developed technology	75.9	(24.5)	51.4	75.9	(19.0)	56.9
Non-compete agreements	12.2	(4.1)	8.1	12.2	(1.1)	11.1
Trade names	0.5	(0.5)	—	0.5	(0.5)	—
Patent and licensing rights	120.4	(66.0)	54.4	119.2	(62.6)	56.6
Total intangible assets	<u>\$356.8</u>	<u>(\$158.9)</u>	<u>\$197.9</u>	<u>\$355.6</u>	<u>(\$139.8)</u>	<u>\$215.8</u>

Total amortization of intangible assets was \$25.4 million, \$16.8 million and \$13.6 million for the years ended June 30, 2019, June 24, 2018 and June 25, 2017, respectively.

The Company invested \$8.0 million, \$5.6 million and \$7.7 million for the years ended June 30, 2019, June 24, 2018 and June 25, 2017, respectively, for patent and licensing rights. For the fiscal years ended June 30, 2019, June 24, 2018 and June 25, 2017, the Company recognized \$1.0 million, \$0.6 million and \$0.8 million, respectively, in impairment charges related to its patent portfolio.

Total future amortization expense of intangible assets is estimated to be as follows:

Fiscal Year Ending	<i>(in millions of U.S. Dollars)</i>
June 28, 2020	\$20.7
June 27, 2021	20.4
June 26, 2022	19.0
June 25, 2023	16.1
June 30, 2024	15.2
Thereafter	106.5
Total future amortization expense	<u>\$197.9</u>

Note 11 – Long-term Debt

Revolving Line of Credit

As of June 30, 2019, the Company had a \$500.0 million secured revolving line of credit under which the Company can borrow, repay and reborrow funds 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. As of June 30, 2019, the Company had \$0.0 million outstanding under the Credit Agreement, \$500.0 million in available commitments under the Credit Agreement and \$324.2 million available for borrowing. For the year ended June 30, 2019, the average interest rate under the Credit Agreement was 2.26%. The average commitment fee percentage for the Credit Agreement was 0.19% for the year ended June 30, 2019.

For the year ended June 24, 2018, the average interest rate under the Credit Agreement was 2.47%. The average commitment fee percentage for the Credit Agreement was 0.11% for the year ended June 24, 2018.

The Company was in compliance with all covenants in the Credit Agreement at June 30, 2019.

Convertible Notes

On August 24, 2018, the Company sold \$500.0 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 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 offerings was approximately \$562.1 million.

The conversion rate will initially be 16.6745 shares of common stock per one thousand dollars in 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 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 sales 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 related to the Company's common stock, holders may require the Company to repurchase for cash all or any portions of their Notes at a fundamental 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 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 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 (the debt discount), along with related issuance fees are amortized to interest expense over the term of the Notes at an effective interest rate of 0.49%.

The net carrying amount of the liability component of the Notes is as follows:

<i>(in millions of U.S. Dollars)</i>	June 30, 2019
Principal	\$575.0
Unamortized discount and issuance costs	(105.9)
Net carrying amount	<u>\$469.1</u>

The net carrying amount of the equity component of the Notes is as follows:

<i>(in millions of U.S. Dollars)</i>	June 30, 2019
Discount related to value of conversion options	\$113.3
Debt issuance costs.....	(2.7)
Net carrying amount.....	<u>\$110.6</u>

The interest expense recognized related to the Notes is as follows:

<i>(in millions of U.S. Dollars)</i>	June 30, 2019
Interest expense	\$4.3
Amortization of discount and issuance costs	18.3
Total interest expense	<u>\$22.6</u>

There was no liability or equity carrying amounts relating to the Notes as of June 24, 2018 and no interest expense relating to the Notes was recognized for the fiscal years ended June 24, 2018 and June 25, 2017.

The estimated fair value of the convertible notes is \$664.4 million, as determined by a Level 2 valuation as of June 30, 2019.

Note 12 – Shareholders’ Equity

On June 14, 2017, the Board of Directors approved the Company's fiscal 2018 stock repurchase program, authorizing the Company to repurchase shares of its common stock having an aggregate purchase price not exceeding \$200.0 million for all purchases from June 26, 2017 through the expiration of the program on June 24, 2018. There were no shares repurchased under the stock repurchase program in fiscal 2018, and the Board of Directors did not approve a stock repurchase program for fiscal 2019.

On August 24, 2016, the Board of Directors approved the Company's fiscal 2017 stock repurchase program, authorizing the Company to repurchase shares of its common stock having an aggregate purchase price not exceeding \$300.0 million for all purchases from August 24, 2016 through the expiration of the program on June 25, 2017.

The repurchase program could be implemented through open market or privately negotiated transactions at the discretion of the Company's management. From the inception of the predecessor stock repurchase program in January 2001 through June 30, 2019, the Company has repurchased 38.7 million shares of its common stock at an average price of \$28.66 per share with an aggregate value of \$1.1 billion.

On May 29, 2002, the Board adopted a shareholder rights plan, pursuant to which stock purchase rights were distributed to shareholders at a rate of one right with respect to each share of common stock held of record as of June 10, 2002. Subsequently issued shares of common stock also carried stock purchase rights under the plan. The rights plan was designed to enhance the Board's ability to prevent an acquirer from depriving shareholders of the long-term value of their investment and to protect shareholders against attempts to acquire the Company by means of unfair or abusive takeover tactics. On January 29, 2013, the shareholder rights plan was amended solely to change the expiration date from September 30, 2018 to April 24, 2017. On April 24, 2017, the shareholder rights plan expired pursuant to its terms and is no longer in effect.

At June 30, 2019, the Company had reserved a total of approximately 12.9 million shares of its common stock for future issuance as follows (in thousands):

	Number of Shares
For exercise of outstanding common stock options	2,418
For vesting of outstanding stock units.....	3,081
For future equity awards under 2013 Long-Term Incentive Compensation Plan	6,014
For future issuance under the Non-Employee Director Stock Compensation and Deferral Program.....	52
For future issuance to employees under the 2005 Employee Stock Purchase Plan	1,384
Total common shares reserved	<u>12,949</u>

Note 13 – Loss Per Share

The details of the computation of basic and diluted loss per share are as follows:

<i>(in millions of U.S. Dollars, except share data)</i>	Fiscal Years Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
Net loss from continuing operations	\$ (57.9)	\$ (16.4)	\$ (88.1)
Net income attributable to noncontrolling interest	—	0.1	—
Loss from continuing operations attributable to controlling interest	(57.9)	(16.5)	(88.1)
Net loss from discontinued operations	(317.2)	(263.5)	(10.0)
Net loss attributable to controlling interest	(375.1)	(280.0)	(98.1)
Weighted average number of common shares - basic and diluted (in thousands)	103,576	99,530	98,487
Loss per share - basic:			
Continuing operations attributable to controlling interest	\$ (0.56)	\$ (0.17)	\$ (0.89)
Discontinued operations	\$ (3.06)	\$ (2.65)	\$ (0.10)
Loss per share - diluted:			
Continuing operations attributable to controlling interest	\$ (0.56)	\$ (0.17)	\$ (0.89)
Discontinued operations	\$ (3.06)	\$ (2.65)	\$ (0.10)

For the fiscal years ended June 30, 2019, June 24, 2018 and June 25, 2017, 1.4 million, 4.1 million and 11.4 million of dilutive shares were excluded from the calculation of diluted loss per share because their effect would be anti-dilutive.

Note 14 – 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. At June 30, 2019, there were 15.8 million shares authorized for issuance under the plan and 6.0 million shares remaining for future grants. 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 and/or external based market metrics. 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. For performance awards with market conditions, the Company estimates the grant date fair using the Monte Carlo valuation model and expenses the awards over the vesting period regardless of whether the market condition is ultimately satisfied.

The Company also has an Employee Stock Purchase Plan (ESPP) that provides employees with the opportunity to purchase common stock at a discount. At June 30, 2019, there were 7.0 million shares authorized for issuance under the ESPP, as amended, with 1.4 million shares remaining for future issuance. 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, 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 option activity as of June 30, 2019 and changes during the fiscal year then ended (shares in thousands):

	Number of Shares	Weighted Average Exercise price	Weighted Average Remaining Contractual Term	Total Intrinsic Value (in millions of U.S. Dollars)
Outstanding at June 24, 2018.....	6,287	\$39.58		
Granted	—	—		
Exercised.....	(3,605)	38.85		
Forfeited or expired	(264)	47.44		
Outstanding at June 30, 2019.....	<u>2,418</u>	39.81	2.2	\$40.1
Vested and expected to vest at June 30, 2019.	2,416	39.82	2.2	\$40.0
Exercisable at June 30, 2019	2,129	41.89	1.9	\$30.9

The total intrinsic value in the table above represents the total pretax intrinsic value, which is the total difference between the closing price of the Company's common stock on June 28, 2019 (the last trading day of fiscal 2019) of \$56.18 and the exercise price for in-the-money options that would have been received by the holders if all instruments had been exercised on June 30, 2019. As of June 30, 2019, there was \$0.5 million of unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted average period of 0.21 years.

The following table summarizes information about stock options outstanding and exercisable at June 30, 2019 (shares in thousands):

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$0.01 to \$30.92.....	1,015	3.1	\$25.23	726	\$25.54
\$30.93 to \$43.94.....	34	1.6	36.45	34	36.45
\$43.95 to \$45.13.....	618	2.0	45.13	618	45.13
\$45.14 to \$54.26.....	21	1.2	48.50	21	48.50
\$54.27 to \$75.55.....	730	1.0	55.49	730	55.49
Total	<u>2,418</u>			<u>2,129</u>	

Other information pertaining to the Company's stock option awards is as follows:

	Fiscal Years Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
Weighted average grant date fair value per share of options	\$—	\$8.02	\$8.20
Total intrinsic value of options exercised (in millions of U.S. Dollars)	\$63.3	\$24.3	\$0.3

Restricted Stock Awards and Units

A summary of nonvested restricted stock awards (RSAs) and restricted stock unit awards (RSUs) outstanding as of June 30, 2019 and changes during the year then ended is as follows (shares in thousands):

	Number of RSAs/RSUs	Weighted Average Grant-Date Fair Value
Nonvested at June 24, 2018	3,689	\$27.53
Granted.....	1,374	47.51
Vested.....	(1,297)	28.89
Forfeited.....	(685)	31.98
Nonvested at June 30, 2019	<u>3,081</u>	<u>\$34.99</u>

As of June 30, 2019, there was \$66.8 million of unrecognized compensation cost related to nonvested awards, which is expected to be recognized over a weighted average period of 2.14 years.

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.

Total stock-based compensation expense was classified in the consolidated statements of operations as follows:

	Fiscal Years Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
<i>(in millions of U.S. Dollars)</i>			
Cost of revenue, net	\$8.8	\$6.5	\$7.8
Research and development.....	7.7	6.8	7.5
Sales, general and administrative.....	33.1	24.6	20.0
Total stock-based compensation expense.....	<u>\$49.6</u>	<u>\$37.9</u>	<u>\$35.3</u>

The Black-Scholes and Monte Carlo option pricing models require the input of highly subjective assumptions. The assumptions listed below represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, recorded share-based compensation expense could have been materially different from that depicted above.

The range of assumptions used to value stock issued under the ESPP were as follows:

	Fiscal Years Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
Risk-free interest rate	2.39 - 2.67%	0.89 - 2.26%	.41 - 1.02%
Expected life, in years	0.5 - 1.0	0.5 - 1.0	0.5 - 1.0
Volatility.....	34.5 - 39.6%	34.5 - 40.2%	37.9 - 42.4%
Dividend yield.....	—	—	—

The weighted average assumptions used to value stock option grants were as follows:

	Fiscal Years Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
Risk-free interest rate	N/A	1.75%	1.06%
Expected life, in years	N/A	4.00	3.80
Volatility.....	N/A	38.6%	42.4%
Dividend yield.....	N/A	—	—

The range of assumptions used for issued performance units were as follows:

	Fiscal Years Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
Risk-free interest rate	2.68%	1.44 - 1.59%	N/A
Expected life, in years	3.0	2.8 - 3.0	N/A
Average volatility of peer companies.....	46.82%	46.37%	N/A
Average correlation coefficient of peer companies.....	0.34	0.34	N/A
Dividend yield.....	—	—	N/A

The following describes each of these assumptions and the Company's methodology for determining each assumption:

Risk-Free Interest Rate

The Company estimates the risk-free interest rate using the U.S. Treasury bill rate with a remaining term equal to the expected life of the award.

Expected Life

The expected life represents the period the awards are expected to be outstanding. In determining the appropriate expected life of its stock options, the Company segregates its grantees into categories based upon employee levels that are expected to be indicative of similar option-related behavior. The expected useful lives for each of these categories are then estimated giving consideration to (1) the weighted average vesting periods, (2) the contractual lives of the stock options, (3) the relationship between the exercise price and the fair market value of the Company's common stock, (4) expected employee turnover, (5) the expected future volatility of the Company's common stock, and (6) past and expected exercise behavior, among other factors.

Expected Volatility

The Company estimates expected volatility for the options and ESPP awards giving consideration to the expected life of the respective award, the Company's current expected growth rate, implied volatility in traded options for its common stock, and the historical volatility of its common stock. For purposes of estimating volatility for use in the Monte Carlo model for the market-based awards, the Company utilizes historical volatilities of Cree and the members of the defined peer group.

Expected Dividend Yield

The Company estimates the expected dividend yield by giving consideration to its current dividend policies as well as those anticipated in the future considering the Company's current plans and projections.

Correlation Coefficient

The correlation coefficients are calculated based upon the price data used to calculate the historical volatilities and are used to model the way in which each entity tends to move in relation to its peers.

Note 15 – Income Taxes

In December 2017, the Securities and Exchange Commission 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 (the 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 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 following were the components of loss before income taxes:

<i>(in millions of U.S. Dollars)</i>	Fiscal Years Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
Domestic	(\$69.4)	(\$50.4)	(\$42.5)
Foreign	24.2	32.8	35.4
Loss before income taxes	(\$45.2)	(\$17.6)	(\$7.1)

The following were the components of income tax expense (benefit):

<i>(in millions of U.S. Dollars)</i>	Fiscal Years Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
Current:			
Federal	\$2.4	\$36.0	\$9.0
Foreign	10.1	4.5	6.0
State	0.3	1.1	0.5
Total current	12.8	41.6	15.5
Deferred:			
Federal	(1.9)	(45.8)	59.4
Foreign	2.0	6.1	0.4
State	(0.2)	(3.1)	5.7
Total deferred	(0.1)	(42.8)	65.5
Income tax expense (benefit)	\$12.7	(\$1.2)	\$81.0

Actual income tax expense (benefit) differed from the amount computed by applying each period's U.S. federal statutory tax rate to pre-tax earnings as a result of the following:

	Fiscal Years Ended					
	June 30, 2019	% of Loss	June 24, 2018	% of Loss	June 25, 2017	% of Loss
<i>(in millions of U.S. Dollars)</i>						
Federal income tax provision at statutory rate	(\$9.5)	21 %	(\$5.0)	28 %	(\$2.5)	35 %
(Decrease) increase in income tax expense resulting from:						
State tax provision, net of federal benefit.....	(1.4)	3 %	(3.4)	19 %	0.5	(7)%
Tax exempt interest.....	(0.4)	1 %	(1.2)	7 %	(1.2)	17 %
48C investment tax credit	—	— %	(1.6)	9 %	(3.8)	54 %
Increase (decrease) in tax reserve	0.5	(1)%	0.1	(1)%	(3.3)	46 %
Research and development credits.....	(3.9)	9 %	(1.7)	10 %	(1.3)	18 %
Foreign tax credit.....	(0.5)	1 %	(39.4)	224 %	(0.2)	3 %
Increase in valuation allowance.....	8.2	(18)%	(24.5)	139 %	93.3	(1,314)%
Stock-based compensation.....	—	— %	9.0	(51)%	1.2	(17)%
Statutory rate differences	1.9	(4)%	(2.0)	11 %	(5.0)	70 %
Foreign earnings taxed in U.S.	0.9	(2)%	52.1	(296)%	0.6	(8)%
Foreign currency fluctuations.....	0.7	(2)%	(1.3)	7 %	0.8	(11)%
Other foreign adjustments.....	(0.1)	0 %	(0.4)	2 %	1.3	(18)%
Net operating loss carryback	—	— %	(0.1)	1 %	0.5	(7)%
Provision to return adjustments	11.8	(26)%	—	— %	0.2	(3)%
Tax on distributable foreign earnings	1.0	(2)%	5.4	(31)%	—	— %
Impact of rate changes	2.7	(6)%	11.2	(64)%	—	— %
Expiration of state credits	1.2	(3)%	1.3	(7)%	—	— %
Other	(0.4)	1 %	0.3	(2)%	(0.1)	1 %
Income tax expense (benefit).....	\$12.7	(28)%	(\$1.2)	7 %	\$81.0	(1,141)%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities were as follows:

<i>(in millions of U.S. Dollars)</i>	June 30, 2019	June 24, 2018
Deferred tax assets:		
Compensation	\$9.6	\$3.3
Inventories.....	14.6	16.7
Sales return reserve and allowance for bad debts	3.2	6.6
Warranty reserve	0.3	8.2
Federal and state net operating loss carryforwards.....	137.1	10.1
Federal credits	20.0	49.1
State credits	2.9	3.5
48C investment tax credits.....	25.9	28.0
Investments	—	0.7
Stock-based compensation.....	11.3	21.3
Deferred revenue.....	22.6	2.6
Other	4.3	1.6
Total gross deferred assets	251.8	151.7
Less valuation allowance	(185.2)	(127.4)
Deferred tax assets, net	66.6	24.3
Deferred tax liabilities:		
Property and equipment	(20.1)	(15.1)
Intangible assets.....	(16.9)	(2.3)
Investments	(0.9)	(0.9)
Foreign earnings recapture.....	(2.0)	(1.9)
Taxes on unremitted foreign earnings.....	(2.4)	(1.4)
Convertible notes	(20.7)	—
Total gross deferred liability	(63.0)	(21.6)
Deferred tax asset, net	\$3.6	\$2.7

The components giving rise to the net deferred tax assets (liabilities) have been included in the consolidated balance sheets as follows:

<i>(in millions of U.S. Dollars)</i>	Balance at June 30, 2019	
	Assets	Liabilities
U.S. federal income taxes	\$—	\$—
Foreign income taxes	5.6	(2.0)
Total.....	\$5.6	(\$2.0)

<i>(in millions of U.S. Dollars)</i>	Balance at June 24, 2018	
	Assets	Liabilities
U.S. federal income taxes	\$—	(\$2.1)
Foreign income taxes	5.8	(1.0)
Total.....	\$5.8	(\$3.1)

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 June 30, 2019. While the Company has concluded

that a full U.S. valuation allowance is appropriate as of June 30, 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. For the fiscal year ended June 30, 2019, the Company increased the U.S. valuation allowance by \$55.4 million due to the deferred tax impact of the sale of the Lighting Products business unit including 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 IRC 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. For the fiscal year ended June 30, 2019, the Company increased this valuation allowance by \$2.4 million due to year-to-date income in Luxembourg.

As of June 30, 2019, the Company had approximately \$34.6 million of foreign net operating loss carryovers, of which \$30.3 million are offset by a valuation allowance. Of the Company's foreign net operating loss carryovers, \$24.0 million have no carry forward limitation and the remaining \$10.6 million will begin to expire in fiscal 2035. As of June 30, 2019, the Company had approximately \$567.3 million of federal net operating loss carryovers and \$216.6 million of state net operating loss carryovers which are fully offset by a valuation allowance. Additionally, the Company had \$46.4 million of federal and \$3.7 million of state income tax credit carryforwards which are fully offset by a valuation allowance. The state net operating loss carryovers will begin to expire in fiscal 2020. The federal and state income tax credit carryforwards will begin to expire in fiscal 2033 and fiscal 2020, respectively.

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 weight of 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 \$8.6 million. During the fiscal year ended June 30, 2019, the Company recognized a \$0.4 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 \$0.9 million decrease due to statute expiration. As a result, the total liability for unrecognized tax benefits as of June 30, 2019 was \$8.2 million. If any portion of this \$8.2 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 \$1.0 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 following is a tabular reconciliation of the Company's change in uncertain tax positions:

<i>(in millions of U.S. Dollars)</i>	Fiscal Years Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
Balance at beginning of period	\$8.6	\$13.3	\$17.7
Decrease related to current year change in law.....	—	(4.7)	—
Increases related to prior year tax positions.....	0.5	0.6	—
Decreases related to prior year tax positions.....	—	(0.1)	(0.1)
Settlements with tax authorities	—	(0.1)	(0.6)
Expiration of statute of limitations for assessment of taxes.....	(0.9)	(0.4)	(3.7)
Balance at end of period.....	<u>\$8.2</u>	<u>\$8.6</u>	<u>\$13.3</u>

The Company's policy is to include interest and penalties related to unrecognized tax benefits within the income tax expense (benefit) line item in the consolidated statements of operations. Interest and penalties relating to unrecognized tax benefits recognized in the consolidated statements of operations totaled less than \$0.1 million for the fiscal years ending June 30, 2019, June 24, 2018, and June 25, 2017. The Company accrued less than \$0.1 million for interest and penalties relating to unrecognized tax benefits in the consolidated balance sheets as of June 30, 2019 and June 24, 2018.

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 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 2009. Certain carryforward tax attributes generated in prior years remain subject to examination, adjustment and recapture.

The Company provides for income taxes on the earnings of foreign subsidiaries unless the subsidiaries' earnings are considered indefinitely reinvested outside the United States. As of June 30, 2019, the Company has approximately \$129.9 million of undistributed earnings for certain non-U.S. subsidiaries. The Company has determined that \$125.5 million of the \$129.9 million of undistributed foreign earnings are expected to be repatriated in the foreseeable future. The Company accrued a deferred tax liability of \$2.4 million for foreign income taxes expected to be withheld upon repatriation of the \$125.5 million foreign earnings. As of June 30, 2019, the Company has not provided income taxes on the remaining undistributed foreign earnings of \$4.4 million as the Company continues to maintain its intention to reinvest these earnings in foreign operations indefinitely. If, at a later date, these earnings were repatriated to the United States, the Company would be required to pay approximately \$0.2 million in taxes on these amounts.

Note 16 – Commitments and Contingencies

Warranties

Changes in the Company's product warranty liabilities are as follows:

	Fiscal Years Ended		
	June 30, 2019	June 24, 2018	June 25, 2017
<i>(in millions of U.S. Dollars)</i>			
Balance at beginning of period	\$1.8	\$1.6	\$0.1
Warranties accrued in current period	0.5	0.3	1.6
Expenditures.....	(1.0)	(0.1)	(0.1)
Balance at end of period.....	<u>\$1.3</u>	<u>\$1.8</u>	<u>\$1.6</u>

Product warranties are estimated and recognized at the time the Company recognizes revenue. The warranty periods range from 90 days to 5.5 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. As of June 30, 2019, \$0.4 million of the Company's product warranty liabilities were classified as long-term.

Lease Commitments

The Company primarily leases manufacturing, office, housing and warehousing space under the terms of non-cancelable operating leases. These leases expire at various times through May 2024. The Company recognizes net rent expense on a straight-line basis over the life of the lease. Rent expense associated with these operating leases totaled approximately \$4.6 million, \$3.9 million and \$2.9 million for each of the fiscal years ended June 30, 2019, June 24, 2018 and June 25, 2017, respectively. Certain agreements require that the Company pay property taxes and general property maintenance in addition to the minimum rental payments.

Future minimum rental payments for leases as of June 30, 2019 are estimated as follows (in millions of U.S. Dollars):

Fiscal Years Ending	Minimum Rental Amount
June 28, 2020	\$4.1
June 27, 2021	2.3
June 26, 2022	1.2
June 25, 2023	0.7
June 30, 2024	—
Thereafter.....	—
Total future minimum rental payments.....	<u>\$8.3</u>

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 17 - Reportable Segments

Reportable segments are components of the Company that the Chief Operating Decision Maker (CODM) regularly reviews when allocating resources and assessing performance. The Company's CODM reviews segment performance and allocates resources based upon segment revenue and segment gross profit. The Company's identified CODM is the Chief Executive Officer.

The Company's operating and reportable segments are:

- Wolfspeed
- LED Products

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

Financial Results by Reportable Segment

The table below reflects the results of the Company's reportable segments as reviewed by the CODM for fiscal 2019, 2018 and 2017. 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 operations 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 and 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 costs 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 2018 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:

	Revenue			Gross Profit and Gross Margin		
	Year Ended			Year Ended		
	June 30, 2019	June 24, 2018	June 25, 2017	June 30, 2019	June 24, 2018	June 25, 2017
<i>(in millions of U.S. Dollars)</i>						
Wolfspeed.....	\$538.2	\$328.6	\$221.2	\$258.7	\$158.5	\$103.5
<i>Wolfspeed gross margin</i>				48%	48%	47%
LED Products	541.8	596.3	550.3	150.0	157.9	151.7
<i>LED Products gross margin</i>				28%	26%	28%
Total segment reporting.....	<u>\$1,080.0</u>	<u>\$924.9</u>	<u>\$771.5</u>	408.7	316.4	255.2
Unallocated costs.....				(17.7)	(9.0)	(11.2)
COGS acquisition related costs.....				—	(5.4)	—
Consolidated gross profit				<u>\$391.0</u>	<u>\$302.0</u>	<u>\$244.0</u>
Consolidated gross margin.....				36%	33%	32%

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. The following table sets forth the Company's inventories by reportable segment for the fiscal years ended June 30, 2019 and June 24, 2018.

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 of manufacturing employees' stock-based compensation, profit sharing and 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:

<i>(in millions of U.S. Dollars)</i>	June 30, 2019	June 24, 2018
Wolfspeed	\$81.6	\$47.2
LED Products.....	99.2	100.5
Total segment inventories.....	180.8	147.7
Unallocated inventories	6.6	3.9
Consolidated inventories	<u>\$187.4</u>	<u>\$151.6</u>

Geographic Information

The Company conducts business in several geographic areas. Revenue is attributed to a particular geographic region based on the shipping address for the products. Disaggregated revenue from external customers by geographic area is as follows:

<i>(in millions of U.S. Dollars)</i>	For the Years Ended					
	June 30, 2019		June 24, 2018		June 25, 2017	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
United States	\$ 261.4	24%	\$ 220.2	24%	\$ 200.8	26%
China	367.2	34%	390.5	42%	327.1	42%
Europe	255.0	24%	167.4	18%	119.6	16%
Other.....	196.4	18%	146.8	16%	124.0	16%
Total.....	<u>\$ 1,080.0</u>		<u>\$ 924.9</u>		<u>\$ 771.5</u>	

The Company's tangible long-lived assets by country is as follows:

<i>(in millions of U.S. Dollars)</i>	June 30, 2019	June 24, 2018
United States.....	\$558.6	\$508.3
China.....	61.8	76.1
Other	4.8	4.7
Total	<u>\$625.2</u>	<u>\$589.1</u>

Note 18 – Concentrations of Risk

Financial instruments, which may subject the Company to a concentration of risk, consist principally of short-term investments, cash equivalents, and accounts receivable. Short-term investments consist primarily of municipal bonds, corporate bonds, U.S. agency securities, U.S. treasury securities, commercial paper, certificates of deposit, and variable rate demand notes at interest rates that vary by security. The Company's cash equivalents consist primarily of money market funds. Certain bank deposits may at times be in excess of the FDIC insurance limits.

The Company sells its products on account to manufacturers, distributors and others worldwide and generally requires no collateral.

Revenue from Arrow Electronics, Inc. represented 19%, 21% and 24% of revenue for the fiscal years ended June 30, 2019, June 24, 2018 and June 25, 2017, respectively. Arrow Electronics, Inc. is a customer of the LED Products and Wolfspeed segments.

No customers individually accounted for more than 10% of the consolidated accounts receivable balance as of June 30, 2019. As of June 24, 2018, Arrow Electronics, Inc. and Allied Group Limited accounted for 14% and 14% of the accounts receivable balance, respectively. No other customers individually accounted for more than 10% of the consolidated accounts receivable balance as of June 24, 2018.

Note 19 – Retirement Savings Plan

The Company sponsors one employee benefit plan (the 401(k) Plan) pursuant to Section 401(k) of the IRC. All U.S. employees are eligible to participate under the 401(k) Plan on the first day of a new fiscal month after the date of hire. Under the 401(k) Plan, there is no fixed dollar amount of retirement benefits; rather, the Company matches a defined percentage of employee deferrals, and employees vest in these matching funds over time. Employees choose their investment elections from a list of available investment options. During the fiscal years ended June 30, 2019, June 24, 2018 and June 25, 2017, the Company contributed approximately \$7.9 million, \$5.8 million and \$4.9 million to the 401(k) Plan, respectively. The Pension Benefit Guaranty Corporation does not insure the 401(k) Plan.

Note 20 – Related Party Transactions

In July 2010, Mark Swoboda was appointed Chief Executive Officer of Intematix Corporation (Intematix) and subsequently resigned as Chief Executive Officer in 2017 when the company was sold. Mark Swoboda is the brother of the Company's former Chairman, Chief Executive Officer and President, Charles M. Swoboda. For a number of years, the Company has purchased raw materials from Intematix pursuant to standard purchase orders in the ordinary course of business.

During fiscal 2018 and 2017, the Company purchased \$3.3 million and \$2.3 million of raw materials from Intematix, respectively. Due to the resignation of Mark Swoboda during fiscal 2018, Intematix is no longer considered a related party as of June 24, 2018 and as such, the Company does not have any liabilities associated with a related party on its consolidated balance sheets.

Note 21 - Restructuring

The Company has approved various operational plans that include restructuring costs. All restructuring costs are recorded in other operating expense on the consolidated statement of operations.

Corporate Restructuring

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

The following table summarizes the charges incurred (in millions of U.S. Dollars):

	Total estimated charges	Amounts incurred in fiscal 2018	Amounts incurred in fiscal 2019	Cumulative amounts incurred through fiscal year 2019
Capacity and overhead cost reductions				
Loss on disposal or impairment of long-lived assets.....	\$0.2	\$0.2	\$—	\$0.2
Severance expense.....	4.2	3.5	0.7	4.2
Lease termination and facility consolidation costs.....	2.0	0.1	1.9	2.0
Total restructuring charges	<u>\$6.4</u>	<u>\$3.8</u>	<u>\$2.6</u>	<u>\$6.4</u>

An additional \$3.6 million in previously reported estimated and incurred restructuring charges related to this plan were classified as discontinued operations due to the sale of the Lighting Products business unit.

Factory Optimization Restructuring

In May 2019, the Company started a significant, multi-year factory optimization plan anchored by a state-of-the-art, automated 200mm capable SiC and GaN fabrication facility and a large materials factory at its U.S. campus headquarters in Durham, North Carolina. As part of the plan, the Company will incur restructuring charges associated with the movement of equipment as well as disposals and impairments on certain long-lived assets.

The following table summarizes the charges incurred (in millions of U.S. Dollars):

Factory optimization costs	Amounts incurred in fiscal 2019	Cumulative amounts incurred through fiscal year 2019
Loss on disposal or impairment of long-lived assets.....	\$2.3	\$2.3
Facility consolidation costs.....	1.8	1.8
Total restructuring charges.....	<u>\$4.1</u>	<u>\$4.1</u>

The Company expects \$70.0 million in restructuring charges related to the factory optimization plan to be incurred through 2024.

Sales Restructuring

In June 2019, the Company approved and implemented a sales restructuring plan to restructure and realign the Company's geographical sales team with the skills and experience needed to execute on the Company's business objectives. The Company recorded \$1.6 million in restructuring expense relating to this plan in the fourth quarter of fiscal 2019. No additional restructuring expense relating to this plan is expected.

Note 22 – Quarterly Results of Operations - Unaudited

The following is a summary of the Company's consolidated quarterly results of operations for each of the fiscal years ended June 30, 2019 and June 24, 2018:

<i>(in millions of U.S. Dollars, except share data)</i>	September 23, 2018	December 30, 2018	March 31, 2019	June 30, 2019	Fiscal Year 2019
Revenue, net.....	\$274.2	\$280.5	\$274.1	\$251.2	\$1,080.0
Cost of revenue, net	175.9	177.0	173.6	162.5	689.0
Gross profit	98.3	103.5	100.5	88.7	391.0
Net loss from continuing operations.....	(0.8)	(0.2)	(22.3)	(34.6)	(57.9)
Net loss from discontinued operations.....	(10.3)	(2.3)	(205.4)	(99.2)	(317.2)
Net loss.....	(11.1)	(2.5)	(227.7)	(133.8)	(375.1)
Net income (loss) attributable to noncontrolling interest.....	—	—	0.1	(0.1)	—
Net loss attributable to controlling interest.....	(11.1)	(2.5)	(227.8)	(133.7)	(375.1)
Basic loss per share:					
Continuing operations attributable to controlling interest.....	(\$0.01)	\$—	(\$0.22)	(\$0.33)	(\$0.56)
Net loss attributable to controlling interest.....	(\$0.11)	(\$0.02)	(\$2.20)	(\$1.26)	(\$3.62)
Diluted loss per share:					
Continuing operations attributable to controlling interest.....	(\$0.01)	\$—	(\$0.22)	(\$0.33)	(\$0.56)
Net loss attributable to controlling interest.....	(\$0.11)	(\$0.02)	(\$2.20)	(\$1.26)	(\$3.62)
<i>(in millions of U.S. Dollars, except share data)</i>	September 24, 2017	December 24, 2017	March 25, 2018	June 24, 2018	Fiscal Year 2018
Revenue, net.....	\$210.7	\$223.2	\$225.2	\$265.8	\$924.9
Cost of revenue, net	141.7	152.9	150.1	178.2	622.9
Gross profit	69.0	70.3	75.1	87.6	302.0
Net (loss) income from continuing operations.....	(9.6)	32.0	(9.9)	(28.9)	(16.4)
Net loss from discontinued operations.....	(10.4)	(18.3)	(230.4)	(4.4)	(263.5)
Net (loss) income	(20.0)	13.7	(240.3)	(33.3)	(279.9)
Net income attributable to noncontrolling interest	—	—	0.1	—	0.1
Net (loss) income attributable to controlling interest.....	(20.0)	13.7	(240.4)	(33.3)	(280.0)
Basic (loss) earnings per share:					
Continuing operations attributable to controlling interest.....	(\$0.10)	\$0.32	(\$0.10)	(\$0.29)	(\$0.17)
Net (loss) income attributable to controlling interest	(\$0.20)	\$0.14	(\$2.40)	(\$0.33)	(\$2.81)
Diluted (loss) earnings per share:					
Continuing operations attributable to controlling interest.....	(\$0.10)	\$0.32	(\$0.10)	(\$0.29)	(\$0.17)
Net (loss) income attributable to controlling interest	(\$0.20)	\$0.14	(\$2.40)	(\$0.33)	(\$2.81)

The Company will revise the Unaudited Consolidated Statements of Cash Flows for the year to date periods ended September 23, 2018, December 30, 2018 and March 31, 2019 to correct the presentation of tax withholding for stock option exercises within the Company's future fiscal 2020 unaudited interim consolidated financial statements on Form 10-Q. The revisions will result in an increase to net cash provided by operating activities of \$10.8 million, \$11.9 million, and \$12.4 million, and a decrease to net cash provided by (used in) financing activities by the same amounts for the year to date periods ended September 23, 2018, December

30, 2018 and March 31, 2019, respectively. The Company concluded these errors were not material individually or in the aggregate to any of the periods impacted.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure 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 Annual Report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Annual Report, 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.

Changes to Internal Control Over Financial Reporting

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 fourth quarter of fiscal 2019 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In the course of our ongoing preparations for making management's report on internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002, from time to time we have identified areas in need of improvement and have taken remedial actions to strengthen the affected controls as appropriate. We make these and other changes to enhance the effectiveness of our internal controls over financial reporting, which do not have a material effect on our overall internal control.

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.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Our internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

In making the assessment of internal control over financial reporting, our management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework* (2013 framework). Based on that assessment and those criteria, management has concluded that our internal control over financial reporting was effective as of June 30, 2019.

The effectiveness of our internal control over financial reporting as of June 30, 2019 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report in Item 8 of this Annual Report.

Item 9B. *Other Information*

Not applicable.

PART III

Certain information called for in Items 10, 11, 12, 13 and 14 is incorporated by reference from our definitive proxy statement relating to our annual meeting of shareholders, which will be filed with the SEC within 120 days after the end of fiscal 2019.

Item 10. *Directors, Executive Officers and Corporate Governance*

Item 11. *Executive Compensation*

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

Item 14. *Principal Accountant Fees and Services*

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) and (2) The financial statements and reports of independent registered public accounting firm are filed as part of this Annual Report (see “Index to Consolidated Financial Statements” at Item 8). The financial statement schedules are not included in this item as they are either not applicable or are included as part of the consolidated financial statements.

(a)(3) The following exhibits have been or are being filed herewith and are numbered in accordance with Item 601 of Regulation S-K:

Exhibit No.	Description	Filed Herewith	Incorporated by Reference		
			Form	Exhibit	Filing Date
2.1 [^]	Purchase Agreement, dated March 14, 2019, by and between Cree, Inc. and IDEAL Industries, Inc., as amended		8-K	2.1	5/16/2019
3.1	Articles of Incorporation, as amended		10-K	3.1	8/19/2002
3.2	Bylaws, as amended and restated		8-K	3.1	1/28/2015
4.1	Specimen Common Stock Certificate		10-Q	4.1	1/24/2018
4.2	Indenture, dated as of August 24, 2018, between Cree, Inc. and U.S. Bank National Association		8-K	4.1	8/24/2018
4.3	Form of Global 0.875% Convertible Senior Note due 2023 (included in Exhibit 4.2)		8-K	4.2	8/24/2018
4.4	Description of the Registered Securities	X			
10.1*	2004 Long-Term Incentive Compensation Plan, as amended ("2004 LTIP")		8-K	10.1	10/25/2012
10.2*	Form of Nonqualified Stock Option Award Agreement for Non-Employee Directors under the 2004 LTIP		10-Q	10.3	10/17/2012
10.3*	Form of Nonqualified Stock Option Agreement under the 2004 LTIP		10-Q	10.4	10/17/2012
10.4*	2013 Long-Term Incentive Compensation Plan, as amended ("2013 LTIP")		8-K	10.1	10/28/2016
10.5*	Form of Nonqualified Stock Option Award Agreement under the 2013 LTIP		10-Q	10.4	1/22/2014
10.6*	Form of Restricted Stock Unit Award Agreement under the 2013 LTIP		10-Q	10.5	1/22/2014
10.7*	Form of Master Performance Unit Award Agreement under the 2013 LTIP		8-K	10.4	8/29/2014
10.8*	Form of Performance Share Award Agreement - Section 16 Officer under the 2013 LTIP		10-Q	10.6	10/21/2015
10.9*	Form of Stock Unit Award Agreement (Performance-Based) for Gregg A. Lowe, dated September 27, 2017, under the 2013 LTIP		8-K	10.3	9/28/2017
10.10*	Form of Stock Unit Award Agreement (Performance-Based) under the 2013 LTIP		10-K	10.41	8/20/2018
10.11*	Form of Stock Unit Award Agreement (Time-Based) under the 2013 LTIP		10-K	10.42	8/20/2018
10.12*	Notice of Grant to Gregg A. Lowe, dated September 1, 2018, under the 2013 LTIP		8-K	10.1	8/24/2018
10.13*	Notice of Grant to Neill P. Reynolds, dated September 1, 2018, under the 2013 LTIP		8-K	10.2	8/24/2018
10.14*	Notice of Grant to David T. Emerson, dated September 1, 2018, under the 2013 LTIP		8-K	10.3	8/24/2018
10.15*	2005 Employee Stock Purchase Plan, as amended		8-K	10.1	10/24/2017
10.16*	Change of Control Agreement for Chief Executive Officer between Cree, Inc. and Gregg A. Lowe, dated September 22, 2017		8-K	10.1	9/28/2017

10.17*	First Amendment to Change in Control Agreement (for Chief Executive Officer), dated May 4, 2018	8-K	10.3	5/4/2018
10.18*	Cree Severance Plan - Senior Leadership Team, Plan Document and Summary Plan Description, effective as of April 30, 2018	8-K	10.1	5/4/2018
10.19*	Form of Participation Agreement Under Cree Severance Plan - Senior Leadership Team	8-K	10.2	5/4/2018
10.20*	Separation, General Release and Consulting Agreement, dated June 7, 2018, between Cree, Inc. and Michael E. McDevitt	8-K	10.1	6/7/2018
10.21*	Schedule of Compensation of Non-Employee Directors	10-K/A	10.29	8/21/2018
10.22*	Non-Employee Director Stock Compensation and Deferral Program	10-Q	10.3	10/21/2009
10.23*	Amendment One to Non-Employee Director Stock Compensation and Deferral Program	10-Q	10.3	1/19/2011
10.24*	Form of Cree, Inc. Indemnification Agreement for Directors and Officers	8-K	10.1	10/29/2010
10.25	Credit Agreement, dated January 9, 2015, by and among Cree, Inc., Wells Fargo Bank, National Association, as administrative agent and lender, E-conolight LLC, a domestic subsidiary of Cree, Inc., as guarantor, and the other lenders party thereto	8-K	10.1	1/12/2015
10.26	First Amendment to the Credit Agreement, dated September 10, 2015, by and among Cree, Inc., Wells Fargo Bank, National Association, as administrative agent, E-conolight LLC, a domestic subsidiary of Cree, Inc., as guarantor, and the other lenders party thereto	10-Q	10.4	1/24/2018
10.27	Credit Agreement Consent, dated as of July 13, 2016, by and among Cree, Inc., Wells Fargo Bank, National Association, as administrative agent and lender, E-conolight LLC, a domestic subsidiary of Cree, Inc., as guarantor, and the other lenders party to the Credit Agreement	10-Q	10.2	10/19/2016
10.28	Second Amendment to Credit Agreement, dated November 13, 2017, by and among Cree, Inc., Wells Fargo Bank, National Association, as administrative agent, E-conolight LLC, a domestic subsidiary of Cree, Inc., as guarantor, and the other lenders party thereto	8-K	10.1	11/16/2017
10.29	Third Amendment to the Credit Agreement, dated as of August 21, 2018, by and among Cree, Inc., Wells Fargo Bank, National Association, as administrative agent, E-conolight LLC, as guarantor, and the other lenders party thereto	10-Q	10.1	10/17/2018
10.30	Credit Agreement Consent, dated as of March 14, 2019, by and among Cree, Inc., Wells Fargo Bank, National Association, as administrative agent and lender, E-conolight LLC, a domestic subsidiary of Cree, Inc., as guarantor, and the other lenders party to the Credit Agreement	10-Q	10.1	5/3/2019
21.1	Subsidiaries of the Company	X		
23.1	Consent of PricewaterhouseCoopers LLP	X		
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	X		
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	X		
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	X		
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	X		
101	The following materials from Cree, Inc.'s Annual Report on Form 10-K for the fiscal year ended June 30, 2019 formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Loss; (iv) Consolidated Statements of Cash Flows; (v) Consolidated Statements of Shareholders' Equity; and (vi) Notes to Consolidated Financial Statements	X		

104 The cover page from Cree Inc.'s Annual Report on Form 10-K for the fiscal year ended June 30, 2019 formatted in Inline XBRL (included in Exhibit 101)

* Management contract or compensatory plan or arrangement

^ 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.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: August 21, 2019

By: /s/ Gregg A. Lowe
Gregg A. Lowe
Chief Executive Officer and President
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u> /s/ GREGG A. LOWE </u> Gregg A. Lowe	Chief Executive Officer and President (Principal Executive Officer)	August 21, 2019
<u> /s/ NEILL P. REYNOLDS </u> Neill P. Reynolds	Executive Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)	August 21, 2019
<u> /s/ DARREN R. JACKSON </u> Darren R. Jackson	Chairman and Director	August 21, 2019
<u> /s/ JOHN C. HODGE </u> John C. Hodge	Director	August 21, 2019
<u> /s/ CLYDE R. HOSEIN </u> Clyde R. Hosein	Director	August 21, 2019
<u> /s/ DUY-LOAN T. LE </u> Duy-Loan T. Le	Director	August 21, 2019
<u> /s/ JOHN B. REPLOGLE </u> John B. Replogle	Director	August 21, 2019
<u> /s/ THOMAS H. WERNER </u> Thomas H. Werner	Director	August 21, 2019
<u> /s/ ANNE C. WHITAKER </u> Anne C. Whitaker	Director	August 21, 2019

2019 CORPORATE INFORMATION

Corporate Headquarters

Cree, Inc.
4600 Silicon Drive
Durham, NC 27703-8475
Phone: 919.407.5300
Fax: 919.407.5615
www.cree.com

Independent Auditor

PricewaterhouseCoopers LLP
Raleigh, NC

Transfer Agent and Registrar

American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn, NY 11219
Phone: 800.937.5449
www.astfinancial.com

Investor Relations

Tyler Gronbach
919.407.4820
Additional investor materials may be obtained without charge by contacting Investor Relations

Annual Meeting of Shareholders

The annual meeting of shareholders will be held on Oct. 28th, 2019 at 12 p.m. in Customer Center 6, located at 4408 Silicon Drive, Durham, North Carolina 27703

Additional Information

The company's stock is traded on the NASDAQ Global Select Market and is quoted under the symbol "CREE".

Executive Officers

Gregg A. Lowe
President and Chief Executive Officer

Neill P. Reynolds
Executive Vice President and Chief Financial Officer

Board of Directors

John C. Hodge
Founding Partner
Rubicon Technology Partners

Clyde R. Hosein
CFO
Automation Anywhere, Inc.

Darren R. Jackson
Retired CEO
Advance Auto Parts, Inc.

Duy-Loan T. Le
President
DLE Management Consulting LLC

Gregg A. Lowe
President and CEO
Cree, Inc.

John B. Replogle
Founding Partner
One Better Ventures, LLC

Thomas H. Werner
Chairman and CEO
SunPower Corporation

Anne C. Whitaker
CEO
Dance Biopharm Holdings, Inc.

CREE 


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