CREE INC
Form 10-Q
May 03, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 0-21154
CREE, INC.
(Exact name of registrant as specified in its charter)

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

(919) 407-5300
(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes [X] No [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

Non-accelerated filer [ ]
Emerging growth company [ ]

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No[X]
The number of shares outstanding of the registrant’s common stock, par value $0.00125 per share, as of April 26, 2019, was 105,248,244.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

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CREE, INC.
UNAUDITED CONSOLIDATED BALANCE SHEETS

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

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

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

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

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

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

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

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

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

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CREE, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

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

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

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CREE, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

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

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

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CREE, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

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CREE, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation and New Accounting Standards

Overview

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

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

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

In addition, the Company designs, manufactures and sells LED lighting fixtures and lamps for the commercial, industrial and consumer markets. The Company refers to these product lines as the Lighting Products business unit. As discussed in Note 2, “Discontinued Operations,” on March 14, 2019, the Company executed a definitive agreement to sell its Lighting Products business unit to IDEAL Industries, Inc (IDEAL). As a result, the Company has classified the results of the Lighting Products business unit, which previously was identified as the Lighting Products segment, as discontinued operations in its consolidated statements of (loss) income for all periods presented. Additionally, the related assets and liabilities associated with the discontinued operations are classified as held for sale in the consolidated balance sheets. Unless otherwise noted, discussion within these notes to the consolidated financial statements relates to the Company's continuing operations.

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

Cree, Inc. is a North Carolina corporation established in 1987 and is headquartered in Durham, North Carolina.

The Company's two reportable segments are:

- Wolfspeed
- LED Products

For financial results by reportable segment, please refer to Note 14, "Reportable Segments."

Basis of Presentation

The consolidated financial statements presented herein have been prepared by the Company and have not been audited. In the opinion of management, all normal and recurring adjustments necessary to fairly state the consolidated financial position, results of operations, comprehensive (loss) income, shareholders' equity and cash flows at March 31, 2019, and for all periods presented, have been made. All material intercompany accounts and transactions have been eliminated. The consolidated balance sheet at June 24, 2018 has been derived from the audited financial statements as of that date.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 24, 2018 (fiscal 2018). The results of operations for the three and nine months ended March 31, 2019 are not necessarily indicative of the operating results that may be attained for the entire fiscal year ending June 30, 2019 (fiscal 2019). Historical periods presented include reclassifications to reflect discontinued operations (see Note 2).

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

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

Recently Issued Accounting Pronouncements Adopted

Nonemployee Stock Compensation

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

Fair Value Measurement Disclosure

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

Cloud Computing Arrangements

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

Revenue from Contracts with Customers

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

Goodwill Impairment Testing

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

Recently Issued Accounting Pronouncements Pending Adoption

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

Note 2 – Discontinued Operations

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 – Revenue Recognition

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

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

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

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

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

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

Practical Expedients and Exemptions

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

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

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

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

Opening Balance Adjustments

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

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

Revenue Disaggregation

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

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

Note 4 – Acquisition

Infineon Technologies AG Radio Frequency Power Business

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

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

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

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

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

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

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

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

Supplemental Pro Forma Financial Information

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

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

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

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Arkansas Power Electronics International, Inc.

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

Note 5 – Financial Statement Details

Accounts Receivable, net

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

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

Inventories

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

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

Other Current Liabilities

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

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

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Accumulated Other Comprehensive Income, net of taxes

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

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

Non-Operating (Expense) Income, net

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

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

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

Reclassifications Out of Accumulated Other Comprehensive Income, net of taxes

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

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

Note 6 – Investments

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

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

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

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

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

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

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

The Company utilizes specific identification in computing realized gains and losses on the sale of investments. Realized gains and losses from the sale of investments are included in non-operating (expense) income, net in the consolidated statements of (loss) income and unrealized gains and losses are included as a separate component of equity, net of tax, unless the loss is determined to be other-than-temporary.

The Company evaluates its investments for possible impairment or a decline in fair value below cost basis that is deemed to be other-than-temporary on a periodic basis. It considers such factors as the length of time and extent to which the fair value has been below the cost basis, the financial condition of the investee, and its ability and intent to hold the investment for a period of time that may be sufficient for an anticipated full recovery in market value. Accordingly, the Company considered declines in its investments to be temporary in nature, and did not consider its securities to be impaired as of March 31, 2019 or June 24, 2018.

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

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

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Note 7 – Fair Value of Financial Instruments

Under U.S. GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation approaches, including quoted market prices and discounted cash flows. U.S. GAAP also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are obtained from independent sources and can be validated by a third party, whereas unobservable inputs reflect assumptions regarding what a third party would use in pricing an asset or liability. The fair value hierarchy is categorized into three levels based on the reliability of inputs as follows:

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

The financial assets for which the Company performs recurring fair value remeasurements are cash equivalents, short-term investments and long-term investments. As of March 31, 2019, financial assets utilizing Level 1 inputs included money market funds and U.S. treasury securities, and financial assets utilizing Level 2 inputs included municipal bonds, corporate bonds, U.S. agency securities, U.S. treasury securities, certificates of deposit, commercial paper, variable rate demand notes and common stock of non-U.S. corporations. Level 2 assets are valued based on quoted prices in active markets for instruments that are similar or using a third-party pricing service's consensus price, which is a weighted average price based on multiple sources. These sources determine prices utilizing market income models which factor in, where applicable, transactions of similar assets in active markets, transactions of identical assets in infrequent markets, interest rates, bond or credit default swap spreads and volatility. The Company did not have any financial assets requiring the use of Level 3 inputs as of March 31, 2019.

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

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

Note 8– Goodwill and Intangible Assets

Goodwill

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

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

Intangible Assets, net

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

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

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

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

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

Note 9 – Long-term Debt

Revolving Line of Credit

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

Convertible Notes

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

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

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

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

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

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

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

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

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

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

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

Note 10 – (Loss) Earnings Per Share

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

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

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

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

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

Note 11 – Stock-Based Compensation

Overview of Employee Stock-Based Compensation Plans

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

The Company's stock-based awards can be either service-based or performance-based. Performance-based conditions are generally tied to future financial and/or operating performance of the Company. The compensation expense with respect to performance-based grants is recognized if the Company believes it is probable that the performance condition will be achieved. The Company reassesses the probability of the achievement of the performance condition at each reporting period, and adjusts the compensation expense for subsequent changes in the estimate or actual outcome. As with non-performance based awards, compensation expense is recognized over the vesting period. The vesting period runs from the date of grant to the expected date that the performance objective is likely to be achieved.

The Company also has an Employee Stock Purchase Plan (ESPP) that provides employees with the opportunity to purchase common stock at a discount. The ESPP limits employee contributions to 15% of each employee's compensation (as defined in the plan) and allows employees to purchase shares at a 15% discount to the fair market value of common stock on the purchase date two times per year. The ESPP provides for a twelve-month participation period, divided into two equal six-month purchase periods,

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

Stock Option Awards

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

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

Restricted Stock Awards and Units

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

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

Stock-Based Compensation Valuation and Expense

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

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

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

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

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

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

Note 12 – Income Taxes

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

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

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

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

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

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

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

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

Note 13 – Commitments and Contingencies

Warranties

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

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

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

Litigation

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

Note 14 – Reportable Segments

The Company's operating and reportable segments are:

- Wolfspeed
- LED Products

Reportable Segments Description

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

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Financial Results by Reportable Segment

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

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

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

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

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

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

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

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

Assets by Reportable Segment

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

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

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of manufacturing employees' stock-based compensation, profit sharing, quarterly or annual incentive compensation, matching contributions under the Company's 401(k) plan, and acquisition related costs.
Inventories for each of the Company's segments were as follows (in thousands):

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

Note 15 - Restructuring
Corporate Restructuring
In April 2018, the Company approved a corporate restructure plan. The purpose was to restructure and realign the Company's cost base with the long-range business strategy that was announced February 26, 2018. In September 2018, the Company revised the plan to include additional cost saving initiatives. The restructuring activity was completed in the second quarter of fiscal 2019.
The following table summarizes the actual charges incurred (in thousands):

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Information set forth in this Quarterly Report on Form 10-Q contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All information contained in this report relative to future markets for our products and trends in and anticipated levels of revenue, gross margins and expenses, as well as other statements containing words such as "believe," "project," "may," "will," "anticipate," "target," "plan," "estimate," "expe "intend" and other similar expressions constitute forward-looking statements. These forward-looking statements are subject to business, economic and other risks and uncertainties, both known and unknown, and actual results may differ materially from those contained in the forward-looking statements. Any forward-looking statements we make are as of the date made, and except as required under the U.S. federal securities laws and the rules and regulations of the Securities and Exchange Commission (the SEC), we have no duty to update them if our views later change. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date of this Quarterly Report. Examples of risks and uncertainties that could cause actual results to differ materially from historical performance and any forward-looking statements include, but are not limited to, those described in "Risk Factors" in Part II, Item 1A of this Quarterly Report.

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Executive Summary

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

Overview

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

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

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

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

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

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

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

Reportable Segments

Our two reportable segments are:

- Wolfspeed
- LED Products

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

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Industry Dynamics and Trends

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

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

Overview of the Nine Months Ended March 31, 2019

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

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

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Business Outlook

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

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

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

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

Results of Operations

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

	Three Months Ended						Nine Months Ended					
	March 31, 2019			March 25, 2018			March 31, 2019			March 25, 2018		
	Dollars	% of Revenue		Dollars	% of Revenue		Dollars	% of Revenue		Dollars	% of Revenue	
Revenue, net	$274,050	100	%	$225,200	100	%	$828,729	100	%	$659,128	100	%
Cost of revenue, net	173,596	63	%	150,337	67	%	526,444	64	%	445,198	68	%
Gross profit	100,454	37	%	74,863	33	%	302,285	36	%	213,930	32	%
Research and development	40,722	15	%	31,144	14	%	117,235	14	%	95,184	14	%
Sales, general and administrative	61,626	22	%	46,631	21	%	157,937	19	%	128,743	20	%
Amortization or impairment of acquisition-related intangibles	3,906											