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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 29, 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 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

The number of shares outstanding of the registrant's common stock, par value $0.00125 per share, as of January 24, 2020, was 108,071,430.

CREE, INC.
FORM 10-Q

For the Quarterly Period Ended December 29, 2019

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

CREE, INC.
UNAUDITED CONSOLIDATED BALANCE SHEETS

(in millions of U.S. Dollars, except share data)	December 29, 2019	June 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	$382.6	$500.5
Short-term investments	568.9	550.9
Total cash, cash equivalents and short-term investments	951.5	1,051.4
Accounts receivable, net	137.2	128.9
Inventories	165.3	187.4
Income taxes receivable	1.1	0.2
Prepaid expenses	24.5	23.3
Other current assets	12.8	19.7
Current assets held for sale	0.2	1.9
Total current assets	1,292.6	1,412.8
Property and equipment, net	692.4	625.2
Goodwill	530.0	530.0
Intangible assets, net	187.7	197.9
Other long-term investments	50.7	39.5
Deferred tax assets	6.0	5.6
Other assets	23.4	5.9
Total assets	$2,782.8	$2,816.9
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$176.7	$200.9
Income taxes payable	2.4	3.0
Accrued contract liabilities	44.4	45.8
Other current liabilities	25.0	18.5
Total current liabilities	248.5	268.2
Long-term liabilities:		
Convertible notes, net	480.5	469.1
Deferred tax liabilities	—	2.0
Other long-term liabilities	57.3	36.4
Total long-term liabilities	537.8	507.5
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value $ 0.01; 3,000 shares authorized at December 29, 2019 and June 30, 2019; none issued and outstanding	—	—
Common stock, par value $ 0.00125; 200,000 shares authorized at December 29, 2019 and June 30, 2019; 108,031 and 106,570 shares issued and outstanding at December 29, 2019 and June 30, 2019, respectively	0.1	0.1
Additional paid-in-capital	2,919.5	2,874.1
Accumulated other comprehensive income	9.7	9.5
Accumulated deficit	(938.1)	(847.5)
Total shareholders' equity	1,991.2	2,036.2
Non-controlling interest	5.3	5.0
Total equity	1,996.5	2,041.2
Total liabilities and shareholders' equity	$2,782.8	$2,816.9

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

CREE, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended		Six months ended	
	December 29, 2019	December 30, 2018	December 29, 2019	December 30, 2018
(in millions of U.S. Dollars, except share data)				
Revenue, net	$239.9	$280.5	$482.7	$554.7
Cost of revenue, net	178.0	177.0	346.6	352.9
Gross profit	61.9	103.5	136.1	201.8
Operating expenses:				
Research and development	47.3	40.2	91.0	76.5
Sales, general and administrative	52.8	49.2	110.4	93.1
Amortization or impairment of acquisition-related intangibles	3.6	3.9	7.2	7.8
Loss on disposal or impairment of other assets	0.8	—	1.8	0.4
Other operating expense	13.8	0.2	21.0	3.2
Operating (loss) income	(56.4)	10.0	(95.3)	20.8
Non-operating (income) expense, net	(5.1)	5.6	(6.7)	15.3
(Loss) income before income taxes	(51.3)	4.4	(88.6)	5.5
Income tax expense	1.2	4.6	1.7	6.5
Net loss from continuing operations	(52.5)	(0.2)	(90.3)	(1.0)
Net loss from discontinued operations	—	(2.3)	—	(12.6)
Net loss	(52.5)	(2.5)	(90.3)	(13.6)
Net income attributable to noncontrolling interest	0.3	—	0.3	—
Net loss attributable to controlling interest	($52.8)	($2.5)	($90.6)	($13.6)
Basic and diluted loss per share				
Continuing operations attributable to controlling interest	($0.49)	$—	($0.84)	($0.01)
Net loss attributable to controlling interest	($0.49)	($0.02)	($0.84)	($0.13)
Weighted average shares - basic and diluted (in thousands)	107,925	102,871	107,519	102,396

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

CREE, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three months ended		Six months ended	
(in millions of U.S. Dollars)	**December 29, 2019**	**December 30, 2018**	**December 29, 2019**	**December 30, 2018**
Net loss	($52.5)	($2.5)	($90.3)	($13.6)
Other comprehensive loss:				
Currency translation loss	—	(0.9)	—	(0.5)
Net unrealized (loss) gain on available-for-sale securities	(0.3)	1.1	0.2	0.8
Comprehensive loss	(52.8)	(2.3)	(90.1)	(13.3)
Net income attributable to non-controlling interest	0.3	—	0.3	—
Comprehensive loss attributable to controlling interest	($53.1)	($2.3)	($90.4)	($13.3)

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

CREE, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in millions of U.S Dollars, except share data)	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Equity - Controlled Interest	Non-controlling Interest	Total Equity
Balance at June 30, 2019	**106,570**	**$0.1**	**$2,874.1**	**($847.5)**	**$9.5**	**$2,036.2**	**$5.0**	**$2,041.2**
Net loss	—	—	—	(37.8)	—	(37.8)	—	(37.8)
Unrealized gain on available-for-sale securities	—	—	—	—	0.5	0.5	—	0.5
Comprehensive loss						(37.3)	—	(37.3)
Tax withholding on vested equity awards	—	—	(14.3)	—	—	(14.3)	—	(14.3)
Stock-based compensation	—	—	17.4	—	—	17.4	—	17.4
Exercise of stock options and issuance of shares	1,127	—	18.6	—	—	18.6	—	18.6
Balance at September 29, 2019	**107,697**	**$0.1**	**$2,895.8**	**($885.3)**	**$10.0**	**$2,020.6**	**$5.0**	**$2,025.6**
Net (loss) income	—	—	—	(52.8)	—	(52.8)	0.3	(52.5)
Unrealized loss on available-for-sale securities	—	—	—	—	(0.3)	(0.3)	—	(0.3)
Comprehensive (loss) income						(53.1)	0.3	(52.8)
Tax withholding on vested equity awards	—	—	(0.4)	—	—	(0.4)	—	(0.4)
Stock-based compensation	—	—	13.4	—	—	13.4	—	13.4
Exercise of stock options and issuance of shares	334	—	10.7	—	—	10.7	—	10.7
Balance at December 29, 2019	**108,031**	**$0.1**	**$2,919.5**	**($938.1)**	**$9.7**	**$1,991.2**	**$5.3**	**$1,996.5**

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

CREE, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in millions of U.S. Dollars, except share data)	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Equity - Controlled Interest	Non-controlling Interest	Total Equity
Balance at June 24, 2018	**101,488**	**$0.1**	**$2,549.1**	**($482.7)**	**$0.6**	**$2,067.1**	**$5.0**	**$2,072.1**
Net loss	—	—	—	(11.1)	—	(11.1)	—	(11.1)
Currency translation gain	—	—	—	—	0.3	0.3	—	0.3
Unrealized loss on available-for-sale securities	—	—	—	—	(0.3)	(0.3)	—	(0.3)
Comprehensive loss						(11.1)	—	(11.1)
Tax withholding on vested equity awards	—	—	(10.8)	—	—	(10.8)	—	(10.8)
Stock-based compensation	—	—	12.1	—	—	12.1	—	12.1
Exercise of stock options and issuance of shares	1,032	—	15.5	—	—	15.5	—	15.5
Convertible note issuance	—	—	110.6	—	—	110.6	—	110.6
Adoption of ASC 606	—	—	—	10.3	—	10.3	—	10.3
Balance at September 23, 2018	**102,520**	**$0.1**	**$2,676.5**	**($483.5)**	**$0.6**	**$2,193.7**	**$5.0**	**$2,198.7**
Net loss	—	—	—	(2.5)	—	(2.5)	—	(2.5)
Currency translation loss	—	—	—	—	(0.9)	(0.9)	—	(0.9)
Unrealized gain on available-for-sale securities	—	—	—	—	1.1	1.1	—	1.1
Comprehensive loss						(2.3)	—	(2.3)
Tax withholding on vested equity awards	—	—	(1.1)	—	—	(1.1)	—	(1.1)
Repurchased shares	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	13.6	—	—	13.6	—	13.6
Exercise of stock options and issuance of shares	553	—	14.6	—	—	14.6	—	14.6
Balance at December 30, 2018	**103,073**	**$0.1**	**$2,703.6**	**($486.0)**	**$0.8**	**$2,218.5**	**$5.0**	**$2,223.5**

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

CREE, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended	
(in millions of U.S. Dollars)	**December 29, 2019**	**December 30, 2018**
Operating activities:		
Net loss from continuing operations	($90.3)	($1.0)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	59.3	60.9
Amortization of debt issuance costs and discount	11.4	7.2
Stock-based compensation	29.9	21.0
Loss on disposal or impairment of long-lived assets	1.8	0.7
Amortization of premium/discount on investments	0.1	1.6
(Gain)/loss on equity investment	(9.9)	8.6
Foreign exchange (gain) loss on equity investment	(1.3)	0.5
Deferred income taxes	(2.4)	(4.6)
Changes in operating assets and liabilities:		
Accounts receivable, net	(8.2)	(0.3)
Inventories	23.0	(18.7)
Prepaid expenses and other assets	7.8	2.3
Accounts payable, trade	(14.5)	0.5
Accrued salaries and wages and other liabilities	(26.9)	11.9
Accrued contract liabilities	8.4	19.2
Net cash (used in) provided by operating activities of continuing operations	(11.8)	109.8
Net cash provided by operating activities of discontinued operations	—	17.9
Cash (used in) provided by operating activities	(11.8)	127.7
Investing activities:		
Purchases of property and equipment	(101.0)	(63.2)
Purchases of patent and licensing rights	(3.3)	(3.8)
Proceeds from sale of property and equipment	1.7	0.2
Purchases of short-term investments	(295.3)	(210.7)
Proceeds from maturities of short-term investments	212.6	83.8
Proceeds from sale of short-term investments	64.8	26.7
Net cash used in investing activities of continuing operations	(120.5)	(167.0)
Net cash used in investing activities of discontinued operations	—	(11.8)
Cash used in investing activities	(120.5)	(178.8)
Financing activities:		
Proceeds from long-term debt borrowings	—	95.0
Payments on long-term debt borrowings, including finance lease obligations	(0.1)	(387.0)
Proceeds from convertible notes	—	575.0
Payments of debt issuance costs	—	(12.9)
Proceeds from issuance of common stock	29.3	30.1
Tax withholding on vested equity awards	(14.7)	(11.9)
Net cash provided by financing activities of continuing operations	14.5	288.3
Net cash provided by financing activities of discontinued operations	—	—
Cash provided by financing activities	14.5	288.3
Effects of foreign exchange changes on cash and cash equivalents	(0.1)	(0.1)
Net change in cash and cash equivalents	(117.9)	237.1
Cash and cash equivalents, beginning of period	500.5	118.9
Cash and cash equivalents, end of period	$382.6	$356.0

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

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 semiconductors, focused on silicon carbide and gallium nitride materials, products for power and radio-frequency (RF) applications and specialty lighting-class light emitting diode (LED) products. The Company's silicon carbide and gallium nitride (GaN) materials and products are targeted for applications such as transportation, power supplies, inverters, wireless systems, and the Company's LEDs are targeted for indoor and outdoor lighting, electronic signs and signals and video displays.

The Company operates in two reportable segments:

- **Wolfspeed**, which consists of silicon carbide and GaN materials, power devices and RF devices based on wide bandgap semiconductor materials and silicon. The Company's materials products and power devices are used in electric vehicles, motor drives, power supplies, solar and transportation applications. The Company's materials products and RF devices are used in military communications, radar, satellite and telecommunication applications.
- **LED Products**, which consists of LED chips and LED components. The Company's LED products enable its customers to develop and market LED-based products for lighting, video screens, automotive and specialty lighting applications.

Previously, the Company designed, manufactured and sold LED lighting fixtures and lamps for the commercial, industrial and consumer markets. The Company referred to these product lines as the Lighting Products business unit. As discussed in Note 2, "Discontinued Operations," on May 13, 2019, the Company sold its Lighting Products business unit to IDEAL Industries, Inc. (IDEAL). Unless otherwise noted, discussion within these notes to the consolidated financial statements relates to the Company's continuing operations.

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

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

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, shareholders' equity and cash flows at December 29, 2019, and for all periods presented, have been made. All material intercompany accounts and transactions have been eliminated. The consolidated balance sheet at June 30, 2019 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 30, 2019 (fiscal 2019). The results of operations for the three and six months ended December 29, 2019 are not necessarily indicative of the operating results that may be attained for the entire fiscal year ending June 28, 2020 (fiscal 2020). Historical periods presented include reclassifications to reflect discontinued operations (see Note 2, "Discontinued Operations").

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 revised net cash provided by operating activities and net cash provided by financing activities for the six months ended December 30, 2018 to correct the presentation of tax withholding for stock option exercises. The Company increased net cash provided by operating activities by $11.9 million and decreased net cash provided by financing activities by the same amount. The Company will also revise the unaudited consolidated statements of cash flows for the year to date period ended March 31, 2019 in the unaudited interim consolidated financial statements to be filed in the Quarterly Report on Form 10-Q for the corresponding period in fiscal 2020 to correct the presentation of tax withholding for stock option exercises. The revisions will result in an increase to net cash provided by operating activities of $12.4 million and a decrease to net cash provided by financing activities by the same amount. The Company concluded these errors were not material individually or in the aggregate to any of the periods impacted.

Certain prior period amounts related to the Lighting Products business unit in the accompanying statements of cash flows have been reclassified to conform to the current year presentation. These reclassifications pertain to the presentation of discontinued operations within operating, investing and financing activities. This reclassification did not impact cash provided by (used in) operating, investing, or financing activities.

Recently Adopted Accounting Pronouncements

Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02: Leases (Topic 842) (ASC 842), and ASU 2018-10: Codification Improvements to ASC 842, Leases. 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 and requires enhanced disclosures about an entity's leasing arrangements. The Company adopted this standard on July 1, 2019, under the modified retrospective transition approach with the cumulative effect of application recognized at the effective date, without adjustment to prior comparative periods. The Company elected to utilize the transition package of practical expedients that allows the Company to not reassess (1) whether any expired or existing contracts are leases, or contain leases, (2) the lease classification for any expired or existing leases, and (3) initial direct costs for any existing leases. Further, the Company elected the practical expedient to not separate lease and non-lease components for all leases and account for the combined lease and non-lease components as a single lease component. The Company also made an accounting policy election to exclude leases with an initial term of 12 months or less from the consolidated balance sheets.

The adoption of the new standard resulted in the recognition of $12.2 million of lease liabilities with corresponding right-of-use assets of $12.3 million as of July 1, 2019. As required, the right-of-use assets include the effect of reclassifying certain balances including deferred and prepaid rent, a portion of facilities-related restructuring accrual reserves, and a favorable lease intangible asset previously recognized in connection with an acquisition. The Company did not have a cumulative-effect adjustment to retained earnings as a result of the adoption of the new standard. The standard did not materially impact the Company's results from operations and had no impact on cash flows. See Note 4, "Leases," for additional disclosures, as required by the new standard.

The reported results as of and for the three and six months ended December 29, 2019 reflect the application of the new accounting guidance, while the reported results for prior periods have not been adjusted and continue to be reported in accordance with the Company's historical accounting under ASC 840, Leases.

Accounting Pronouncements Pending Adoption

Credit Losses

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU introduces a new accounting model known as Credit Expected Credit Losses ("CECL"). CECL requires earlier recognition of credit losses, while also providing additional transparency about credit risk. The CECL model utilizes a lifetime expected credit loss measurement objective for the recognition of credit losses for receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. This model replaces the multiple existing impairment models in current GAAP, which generally require that a loss be incurred before it is recognized. The new standard will also apply to receivables arising from revenue transactions such as contract assets and accounts receivables. There are other provisions within the standard affecting how impairments of other financial assets may be recorded and presented, as well as expanded disclosures. The Company will adopt this standard on June 29, 2020 and is currently evaluating the impact on its consolidated financial statements.

Income Taxes

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. This ASU simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The ASU also improves consistent application and simplifies other areas of Topic 740 by clarifying and amending existing guidance. Early adoption is permitted, provided that the Company reflects any adjustments as of the beginning of the annual period that includes the interim period for which such early adoption occurs. Additionally, the Company must adopt all the amendments in the same period if early adoption is elected. The Company will adopt this standard on or before June 28, 2021 and does not expect this standard to have a material impact on its consolidated financial statements.

Note 2 – Discontinued Operations

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

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

The Company has classified the results of the Lighting Products business unit as discontinued operations, the results of which for the three and six months ended December 30, 2018 are as follows:

(in millions of U.S. Dollars)	**Three months ended December 30, 2018**	**Six months ended December 30, 2018**
Revenue, net	$132.5	$266.6
Cost of revenue, net	100.8	205.0
Gross profit	31.7	61.6
Operating expenses:		
Research and development	8.9	18.6
Sales, general and administrative	23.2	47.0
Amortization or impairment of acquisition-related intangibles	2.5	7.1
Loss on disposal or impairment of long-lived assets	0.2	0.3
Other operating expense	(0.5)	1.4
Operating loss	(2.6)	(12.8)
Non-operating income	(0.1)	(0.3)
Loss before income taxes	(2.5)	(12.5)
Income tax expense	(0.2)	0.1
Net loss	($2.3)	($12.6)

The Company did not have any discontinued operations activity for the three and six months ended December 29, 2019.

The Company recognized $2.6 million and $5.6 million in administrative fees for the three and six months ended December 29, 2019 relating to the TSA, of which $0.8 million are included in accounts receivable, net in the consolidated balance sheets as of December 29, 2019. These fees were recorded as a reduction of sales, general and administrative expense in the consolidated statements of operations.

The Company recognized $3.6 million and $6.5 million in revenue for the three and six months ended December 29, 2019 related to the LED Supply Agreement, of which $1.8 million was included in accounts receivable, net in the consolidated balance sheets as of December 29, 2019. Additionally, the Company recorded a contract liability of $11.6 million relating to the

LED Supply Agreement as of December 29, 2019. The contract liability is recognized in contract liabilities and other long-term liabilities on the consolidated balance sheets.

Note 3 – Revenue Recognition

In accordance with ASC 606, the Company follows a five-step approach defined by the new standard for recognizing revenue, consisting of the following: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation.

Contract liabilities primarily include various rights of return and customer deposits, as well as deferred revenue, price protection guarantees and the Company's liability under the LED Supply Agreement. Contract liabilities were $88.8 million as of December 29, 2019 and $80.4 million as of June 30, 2019. The increase was primarily due to increased customer deposits. Contract liabilities are recorded within accrued contract liabilities and other long-term liabilities on the balance sheet. Before the adoption of ASC 606, liabilities relating to various rights of return were recorded as a deduction to accounts receivable.

Disaggregated revenue by geography is presented in Note 14, "Reportable Segments". For the three and six months ended December 29, 2019, the Company recognized revenue of $1.2 million and $2.2 million that was included in contract liabilities as of June 30, 2019. The amount recognized primarily related to the recognition of contingent liabilities related to the LED Supply Agreement and deferred revenue. Revenue recognized related to performance obligations that were satisfied or partially satisfied in previous periods was not material for the three and six months ended December 29, 2019.

Note 4 – Leases

The Company primarily leases manufacturing, office and warehousing space. Lease agreements frequently include renewal provisions and require the Company to pay real estate taxes, insurance and maintenance costs. Variable costs include lease payments that were volume or usage-driven in accordance with the use of the underlying asset, as well as non-lease components incurred with respect to actual terms rather than contractually fixed amounts.

The Company's finance lease obligations primarily relate to Wolfspeed manufacturing space in Malaysia.

Accounting Policy

At lease inception, the Company determines an arrangement is a lease if the contract involves the use of a distinct identified asset, the lessor does not have substantive substitution rights and the Company obtains control of the asset throughout the period by obtaining substantially all of the economic benefit of the asset and the right to direct the use of the asset.

Right-of-use assets represent the Company's right to use an underlying asset during the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Assets and liabilities are recognized based on the present value of lease payments over the lease term. Most leases include one or more options to renew, with renewal terms that can extend the lease term fromone to five years or more. The exercise of the renewal option is at the Company's sole discretion and the Company considers these options in determining the lease term used to establish its right-of-use assets and lease liabilities. The Company will remeasure its lease liability and adjust the related right-of-use asset upon the occurrence of the following: lease modifications not accounted for as a separate contract; a triggering event that changes the certainty of the lessee exercising an option to renew or terminate the lease, or purchase the underlying asset; a change to the amount probable of being owed by the Company under a residual value guarantee; or the resolution of a contingency upon which the variable lease payments are based such that those payments become fixed.

Because most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. The Company would use the implicit rate when readily determinable. Operating lease expense is generally recognized on a straight-line basis over the lease term. Finance lease assets are amortized on a straight-line basis over the shorter of the useful life of the asset or the lease term. Interest expense on the finance lease liability is recognized using the effective interest rate method and is presented within interest expense on the Company’s consolidated statements of operations.

The Company has agreements with lease and non-lease components, which are accounted for as a single lease component. Leases with a lease term of 12 months or less are not recorded on the balance sheet. The Company recognizes lease expense for these leases on a straight-line basis over the lease term. Variable lease payment amounts that cannot be determined at the commencement of the lease, such as increases in lease payments based on changes in index rates, are not included in the right-of-use assets or liabilities. These variable lease payments are expensed as incurred.

Balance Sheet

Lease assets and liabilities as of December 29, 2019, and the corresponding balance sheet classifications, are as follows (in millions of U.S. Dollars):

Operating Leases:	
Right-of-use asset [1]	$14.2
Current lease liability [2]	5.2
Non-current lease liability [3]	8.8
Total operating lease liabilities	14.0
Finance Leases:	
Finance lease assets [1]	3.7
Current portion of finance lease obligations [2]	0.9
Finance lease obligations, less current portion [3]	2.3
Total finance lease obligations	3.2

[1] Within other assets on the consolidated balance sheets.
[2] Within other current liabilities on the consolidated balance sheets.
[3] Within other long-term liabilities on the consolidated balance sheets.

Statement of Operations

Operating lease expense was $1.6 million and $3.0 million for three and six months ended December 29, 2019. Short-term lease expense, variable lease expense and lease income were immaterial for the three and six months ended December 29, 2019.

Finance lease amortization and interest expense were less than $0.1 million for the three and six months ended December 29, 2019.

Cash Flows

Cash flow information consisted of the following:

(in millions of U.S. Dollars)	**Six months ended December 29, 2019**
Cash used in operating activities:	
Cash paid for operating leases	$1.6
Cash paid for interest portion of financing leases [1]	—
Cash used in financing activities:	
Cash paid for principal portion of finance leases	0.1
Non-cash operating activities:	
Operating lease additions due to adoption of ASC 842	12.2
Operating lease modifications, net	4.6
Finance lease additions	3.3

[1] Less than $0.1 million for the six months ended December 29, 2019.

Lease Liability Maturities

Maturities of operating and finance lease liabilities as of December 29, 2019 were as follows (in millions of U.S. Dollars):

Fiscal Year Ending	Operating Leases	Finance Leases	Total
June 28, 2020 (remainder of fiscal 2020)	$3.5	$0.7	$4.2
June 27, 2021	4.3	0.4	4.7
June 26, 2022	3.4	0.4	3.8
June 25, 2023	1.8	0.4	2.2
June 30, 2024	0.9	0.4	1.3
Thereafter	1.0	1.2	2.2
Total lease payments	14.9	3.5	18.4
Imputed lease interest	(0.9)	(0.3)	(1.2)
Total lease liabilities	$14.0	$3.2	$17.2

Supplemental Disclosures

	Operating Leases	Finance Leases
Weighted average remaining lease term (in months)	42	83
Weighted average discount rate	3.72 %	3.40 %

As previously disclosed in the Company's Annual Report on Form 10-K for the year ended June 30, 2019 and under the previous lease accounting standard ASC 840, the aggregate future non-cancelable minimum rental payments on its operating leases as of June 30, 2019, were as follows:

Fiscal Years Ending	*(in millions of U.S. Dollars)*
June 28, 2020	$4.1
June 27, 2021	2.3
June 26, 2022	1.2
June 25, 2023	0.7
June 30, 2024	—
Thereafter	—
Total future minimum rental payments	$8.3

Note 5 – Financial Statement Details

Accounts Receivable, net

Accounts receivable, net consisted of the following:

(in millions of U.S. Dollars)	December 29, 2019	June 30, 2019
Billed trade receivables	$133.0	$125.8
Unbilled contract receivables	0.7	0.7
Royalties	3.9	2.8
	137.6	129.3
Allowance for bad debts	(0.4)	(0.4)
Accounts receivable, net	$137.2	$128.9

Inventories

Inventories consisted of the following:

(in millions of U.S. Dollars)	December 29, 2019	June 30, 2019
Raw material	$42.8	$42.4
Work-in-progress	81.4	101.1
Finished goods	41.1	43.9
Inventories	$165.3	$187.4

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

(in millions of U.S. Dollars)	December 29, 2019	June 30, 2019
Accounts payable, trade	$91.3	$90.7
Accrued salaries and wages	46.1	70.9
Accrued expenses	33.7	34.0
Other	5.6	5.3
Accounts payable and accrued expenses	$176.7	$200.9

Other Operating Expense

Other operating expense consisted of the following:

	Three months ended		Six months ended	
(in millions of U.S. Dollars)	December 29, 2019	December 30, 2018	December 29, 2019	December 30, 2018
Factory optimization restructuring	$1.2	$—	$2.4	$—
Severance and other restructuring	—	—	0.8	2.6
Total restructuring costs	1.2	—	3.2	2.6
Project, transformation and transaction costs	10.8	0.2	13.4	0.6
Factory optimization start-up costs	1.5	—	2.9	—
Non-restructuring related executive severance	0.3	—	1.5	—
Other operating expense	$13.8	$0.2	$21.0	$3.2

Accumulated Other Comprehensive Income, net of taxes

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

(in millions of U.S. Dollars)	December 29, 2019	June 30, 2019
Currency translation gain	$9.5	$9.5
Net unrealized gain on available-for-sale securities	0.2	—
Accumulated other comprehensive income, net of taxes	$9.7	$9.5

Reclassifications Out of Accumulated Other Comprehensive Income

The Company reclassified a net gain of $0.1 million out of accumulated other comprehensive income for the three and six months ended December 29, 2019 and reclassified a net loss of $0.1 million out of accumulated other comprehensive income for the three and six months ended December 30, 2018. Amounts were reclassified to non-operating (income) expense, net on the consolidated statements of operations.

Non-Operating (Income) Expense, net

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

	Three months ended		Six months ended	
(in millions of U.S. Dollars)	**December 29, 2019**	**December 30, 2018**	**December 29, 2019**	**December 30, 2018**
Foreign currency (gain) loss, net	($1.2)	$—	($1.1)	$0.6
(Gain) loss on sale of investments, net	(0.1)	0.1	(0.1)	0.1
(Gain) loss on equity investment, net	(6.4)	1.9	(9.9)	8.6
Interest expense, net	2.8	3.6	4.7	6.0
Other, net	(0.2)	—	(0.3)	—
Non-operating (income) expense, net	($5.1)	$5.6	($6.7)	$15.3

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

Statements of Cash Flows - non-cash activities

	Six months ended	
Non-cash operating activities	**December 29, 2019**	**December 30, 2018**
Increase of right-of-use assets and lease liabilities[1]	$15.5	$—
Lease asset and liability modifications, net	4.6	—

[1] $12.2 million relates to the increase of right-of-use assets and matching lease liabilities as a result of adopting ASC 842. See Note 4, "Leases", for further information.

Accrued property and equipment as of December 29, 2019 and December 30, 2018 was $6.2 million and $16.3 million, respectively.

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.

Short-term investments as of December 29, 2019 and June 30, 2019 consisted of the following:

	December 29, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal bonds	$50.7	$0.4	$—	$51.1
Corporate bonds	326.5	1.2	(0.1)	327.6
U.S. agency securities	21.5	—	—	21.5
U.S. treasury securities	96.3	0.1	—	96.4
Non-U.S. certificates of deposit	45.6	—	—	45.6
U.S. certificates of deposit	20.6	—	—	20.6
Commercial paper	6.1	—	—	6.1
Total short-term investments	$567.3	$1.7	($0.1)	$568.9

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

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:

	December 29, 2019					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Municipal bonds	$8.4	$—	$1.5	$—	$9.9	$—
Corporate bonds	87.2	(0.1)	—	—	87.2	(0.1)
U.S. agency securities	13.6	—	—	—	13.6	—
U.S. treasury securities	35.8	—	—	—	35.8	—
Total	$145.0	($0.1)	$1.5	$—	$146.5	($0.1)
Number of securities with an unrealized loss		111		2		113

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

The Company utilizes specific identification in computing realized gains and losses on the sale of investments. Realized gains of $0.1 million for the three and six month periods ended December 29, 2019 and realized losses of $0.1 million for the three and six month periods ended December 30, 2018 are included in non-operating (income) expense in the consolidated statements of operations. Unrealized gains and losses are included as a separate component of equity, net of tax, unless the loss is determined to be other-than-temporary.

The Company evaluates its investments for possible impairment or a decline in fair value below cost basis that is deemed to be other-than-temporary on a periodic basis. It considers such factors as the length of time and extent to which the fair value has been below the cost basis, the financial condition of the investee, and its ability and intent to hold the investment for a period of time that may be sufficient for an anticipated full recovery in market value. Accordingly, the Company considered declines in its investments to be temporary in nature, and did not consider its investments to be impaired as of December 29, 2019 and June 30, 2019.

The contractual maturities of short-term investments as of December 29, 2019 were as follows:

	Within One Year	After One, Within Five Years	After Five, Within Ten Years	After Ten Years	Total
Municipal bonds	$20.6	$30.5	$—	$—	$51.1
Corporate bonds	180.5	147.1	—	—	327.6
U.S. agency securities	6.0	15.5	—	—	21.5
U.S. treasury securities	80.6	15.8	—	—	96.4
Non-U.S. certificates of deposit	44.6	1.0	—	—	45.6
U.S. certificates of deposit	20.6	—	—	—	20.6
Commercial paper	6.1	—	—	—	6.1
Total short-term investments	$359.0	$209.9	$—	$—	$568.9

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 December 29, 2019 and June 30, 2019, financial assets utilizing Level 1 inputs included money market funds and U.S. treasury securities. Financial assets utilizing Level 2 inputs included municipal bonds, corporate bonds, certificates of deposit, commercial paper, U.S. agency securities, 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 December 29, 2019 and June 30, 2019.

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

	December 29, 2019				June 30, 2019			
(in millions of U.S. Dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:								
Cash equivalents:								
Money market funds	$53.3	$—	$—	$53.3	$95.0	$—	$—	$95.0
Corporate bonds	—	3.6	—	3.6	—	15.0	—	15.0
U.S. agency securities	—	13.0	—	13.0	—	18.8	—	18.8
U.S. treasury securities	—	—	—	—	2.5	—	—	2.5
U.S. certificates of deposit	—	—	—	—	—	—	—	—
Non-U.S. certificates of deposit	—	47.3	—	47.3	—	105.8	—	105.8
Commercial paper	—	—	—	—	—	1.0	—	1.0
Total cash equivalents	53.3	63.9	—	117.2	97.5	140.6	—	238.1
Short-term investments:								
Municipal bonds	—	51.1	—	51.1	—	78.5	—	78.5
Corporate bonds	—	327.6	—	327.6	—	257.0	—	257.0
U.S. agency securities	—	21.5	—	21.5	—	25.6	—	25.6
U.S. treasury securities	96.4	—	—	96.4	92.5	—	—	92.5
U.S. certificates of deposit	—	20.6	—	20.6	—	22.4	—	22.4
Non-U.S. certificates of deposit	—	45.6	—	45.6	—	50.2	—	50.2
Commercial paper	—	6.1	—	6.1	—	7.8	—	7.8
Variable rate demand note	—	—	—	—	—	16.9	—	16.9
Total short-term investments	96.4	472.5	—	568.9	92.5	458.4	—	550.9
Other long-term investments:								
Common stock of non-U.S. corporations	—	50.7	—	50.7	—	39.5	—	39.5
Total assets	$149.7	$587.1	$—	$736.8	$190.0	$638.5	$—	$828.5

Note 8 – Goodwill and Intangible Assets

Goodwill

Goodwill by reporting unit as of December 29, 2019 was as follows:

(in millions of U.S. Dollars)	**December 29, 2019**
Wolfspeed	$349.7
LED Products	180.3
Total	$530.0

There were no changes in goodwill during the six months ended December 29, 2019.

Intangible Assets, net

The following table presents the components of intangible assets, net:

(in millions of U.S. Dollars)	December 29, 2019			June 30, 2019		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Customer relationships	$147.8	($66.9)	$80.9	$147.8	($63.8)	$84.0
Developed technology	74.9	(27.0)	47.9	75.9	(24.5)	51.4
Non-compete agreements	12.2	(5.6)	6.6	12.2	(4.1)	8.1
Trade names, finite-lived	0.5	(0.5)	—	0.5	(0.5)	—
Acquisition related intangible assets	235.4	(100.0)	135.4	236.4	(92.9)	143.5
Patent and licensing rights	112.8	(60.5)	52.3	120.4	(66.0)	54.4
Total intangible assets	$348.2	($160.5)	$187.7	$356.8	($158.9)	$197.9

Total amortization of acquisition-related intangibles assets was $3.6 million and $7.2 million for the three and six months ended December 29, 2019 and $3.9 million and $7.8 million for the three and six months ended December 30, 2018, respectively. Total amortization of patents and licensing rights was $2.3 million and $4.5 million for the three and six months ended December 29, 2019 and $2.5 million and $4.9 million for the three and six months ended December 30, 2018.

In the first quarter of fiscal 2020, $0.9 million of developed technology, net relating to a favorable lease was reclassified as a right-of-use asset in accordance with the Company's adoption of ASC 842, Leases.

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

(in millions of U.S. Dollars)

Fiscal Year Ending	**Acquisition Related Intangibles**	**Patents**	**Total**
June 28, 2020 (remainder of fiscal 2020)	$7.2	$4.4	$11.6
June 27, 2021	14.5	8.1	22.6
June 26, 2022	13.5	7.3	20.8
June 25, 2023	11.0	6.3	17.3
June 30, 2024	10.4	5.4	15.8
Thereafter	78.8	20.8	99.6
Total future amortization expense	$135.4	$52.3	$187.7

Note 9 – Long-term Debt

Revolving Line of Credit

As of December 29, 2019, the Company had a $250.0 million secured revolving line of credit (the Credit Agreement) under which the Company can borrow, repay and reborrow loans from time to time prior to its scheduled maturity date of January 9, 2022. On December 16, 2019, the Company entered into an amendment to the Credit Agreement to reduce the aggregate amount of the revolving line of credit available from $500.0 million to $250.0 million and to revise the Credit Agreement's financial covenants.

The Company classifies balances outstanding under the Credit Agreement as long-term debt in the consolidated balance sheets. As of December 29, 2019, the Company had no outstanding borrowings under the Credit Agreement, $250.0 million in available commitments under the Credit Agreement and $250.0 million available for borrowing. For the three and six months ended December 29, 2019, the average interest rate was 0.00%. As of December 29, 2019, the unused line fee on available borrowings is 25 basis points. The Company was in compliance with all covenants under the Credit Agreement at December 29, 2019.

Convertible Notes

On August 24, 2018, the Company sold $500.0 million aggregate principal amount of 0.875% convertible senior notes due September 1, 2023 to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended, and an additional $75.0 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 $562.1 million.

The conversion rate will initially be16.6745 shares of common stock per one thousand dollars in principal amount of Notes (equivalent to an initial conversion price of approximately $59.97 per share of common stock). The conversion rate will be subject to adjustment for some events, but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date, or following the Company's issuance of a notice of redemption, the Company will increase the conversion rate for a holder who elects to convert its Notes in connection with such a corporate event, or who elects to convert any Notes called for redemption during the related redemption period in certain circumstances. The Company may not redeem the Notes prior to September 1, 2021. The Company may redeem for cash all or any portion of the Notes, at its option, on a redemption date occurring on or after September 1, 2021 and on or before the 40th scheduled trading day immediately before the maturity date, if the last reported sales price of its common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which the Company provides a notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption. The redemption price will be 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. If the Company undergoes certain fundamental changes related to the Company's common stock, holders may require the Company to repurchase for cash all or any 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 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 of30 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 one thousand dollars in principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of its common stock and the conversion rate on each such trading day; (3) if the Company calls such Notes for redemption, at any time prior to the close of business on the second business day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On or after March 1, 2023 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their Notes at any time, regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver cash, shares of its common stock, or a combination of cash and shares of its common stock, at the Company's election.

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

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

(in millions of U.S. Dollars)	**December 29, 2019**	**June 30, 2019**
Principal	$575.0	$575.0
Unamortized discount and issuance costs	(94.5)	(105.9)
Net carrying amount	$480.5	$469.1

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

(in millions of U.S. Dollars)	**December 29, 2019**	**June 30, 2019**
Discount related to value of conversion option	$113.3	$113.3
Debt issuance costs	(2.7)	(2.7)
Net carrying amount	$110.6	$110.6

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

(in millions of U.S. Dollars)	Three months ended December 29, 2019	Three months ended December 30, 2018	Six months ended December 29, 2019	Six months ended December 30, 2018
Interest expense	$1.2	$1.3	$2.5	$1.7
Amortization of discount and issuance costs	5.8	5.4	11.4	7.2
Total interest expense	$7.0	$6.7	$13.9	$8.9

The estimated fair value of the Notes is $619.6 million as of December 29, 2019, as determined by a Level 2 valuation.

Note 10 – Loss Per Share

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

(in millions of U.S. Dollars, except share data)	Three months ended December 29, 2019	Three months ended December 30, 2018	Six months ended December 29, 2019	Six months ended December 30, 2018
Net loss from continuing operations	($52.5)	($0.2)	($90.3)	($1.0)
Net income attributable to noncontrolling interest	0.3	—	0.3	—
Loss from continuing operations attributable to controlling interest	(52.8)	(0.2)	(90.6)	(1.0)
Net loss from discontinued operations	—	(2.3)	—	(12.6)
Net loss attributable to controlling interest	($52.8)	($2.5)	($90.6)	($13.6)
Weighted average shares - basic and diluted (in thousands)	107,925	102,871	107,519	102,396
Loss per share - basic and diluted:				
Continuing operations attributable to controlling interest	($0.49)	$—	($0.84)	($0.01)
Discontinued operations	$—	($0.02)	$—	($0.12)

Diluted net loss per share is the same as basic net loss per share for the periods presented due to potentially dilutive items being anti-dilutive given the Company's net loss.

For the three and six months ended December 29, 2019,5.2 million and 5.5 million of weighted average shares were excluded from the calculation of diluted loss per share because their effect would be anti-dilutive. For the three and six months ended December 30, 2018, 6.4 million and 6.6 million of weighted average shares were excluded from the calculation of diluted loss per share because their effect would be anti-dilutive.

Future earnings per share of the Company are also subject to dilution from conversion of its convertible notes under certain conditions as described in Note 9, "Long-term Debt."

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 and/or external based market metrics. The compensation expense with respect to performance-based grants is recognized if the Company believes it is probable that the performance condition will be achieved. The Company reassesses the probability of the achievement of the performance condition at each reporting period, and adjusts the compensation expense for subsequent changes in the estimate or actual outcome. As with non-performance based awards, compensation expense is recognized over the vesting period. For performance awards with market conditions, the Company estimates the grant date fair value using the Monte Carlo valuation model and expenses the awards over the vesting period regardless of whether the market condition is ultimately satisfied.

The Company also has an Employee Stock Purchase Plan (ESPP) that provides employees with the opportunity to purchase common stock at a discount. The ESPP limits employee contributions to 15% of each employee's compensation (as defined in the plan) and allows employees to purchase shares at a15% discount to the fair market value of common stock on the purchase date two times per year. The ESPP provides for a twelve-month participation period, divided into two equal six-month purchase periods, and also provides for a look-back feature. At the end of each six-month period in April and October, participants purchase the Company's common stock through the ESPP at a 15% discount to the fair market value of the common stock on the first day of the twelve-month participation period or the purchase date, whichever is lower. The plan also provides for an automatic reset feature to start participants on a new twelve-month participation period if the fair market value of common stock declines during the first six-month purchase period.

Stock Option Awards

A summary of stock option awards outstanding as of December 29, 2019 and changes during the six months then ended is as follows:

(shares in thousands)	**Number of Shares**	**Weighted Average Exercise Price**
Outstanding at June 30, 2019	2,418	$39.81
Granted	—	$—
Exercised	(537)	$36.42
Forfeited or expired	(27)	$50.34
Outstanding at December 29, 2019	1,854	$40.65

Restricted Stock Awards and Units

A summary of nonvested restricted stock awards (RSAs) and restricted stock unit awards (RSUs) outstanding as of December 29, 2019 and changes during the six months then ended is as follows:

(awards and units in thousands)	**Number of RSAs/RSUs**	**Weighted Average Grant-Date Fair Value**
Nonvested at June 30, 2019	3,081	$34.99
Granted	988	$57.65
Vested	(988)	$30.39
Forfeited	(144)	$30.78
Nonvested at December 29, 2019	2,937	$44.37

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, projected employee stock option exercise term, the risk-free interest rate and expected dividends. Due to the inherent limitations of option-valuation models, future events that are unpredictable and the estimation process utilized in determining the valuation of the stock-based awards, the ultimate value realized by award holders may vary significantly from the amounts expensed in the Company's financial statements.

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

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

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

	Three months ended		Six months ended	
(in millions of U.S. Dollars)	**December 29, 2019**	**December 30, 2018**	**December 29, 2019**	**December 30, 2018**
Cost of revenue, net	$2.5	$1.8	$4.7	$3.4
Research and development	2.4	2.2	4.8	3.7
Sales, general and administrative	8.1	7.0	20.4	13.9
Total stock-based compensation expense	$13.0	$11.0	$29.9	$21.0

Stock-based compensation expense may differ from the impact of stock-based compensation to additional paid in capital due to manufacturing related stock-based compensation capitalized within inventory.

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 differing tax rates than the U.S. and (iii) projected tax credits generated.

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 six months ended December 29, 2019.

As of June 30, 2019, the U.S. valuation allowance was $177.6 million. During the six months ended December 29, 2019, the Company did not record any material movement in its U.S. valuation allowance. As of June 30, 2019, the Luxembourg valuation allowance was $7.6 million. During the six months ended December 29, 2019, the Company decreased this valuation allowance by $2.8 million due to year-to-date income 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 30, 2019, the Company's liability for unrecognized tax benefits was $8.2 million. During the six months ended December 29, 2019, the Company did not record any material movement in its unrecognized tax benefits. As a result, the total liability for unrecognized tax benefits as of December 29, 2019 was $8.2 million. If any portion of this $8.2 million is recognized, the Company will then include that portion in the computation of its effective tax rate. Although the ultimate timing of the resolution and/or closure of audits is highly uncertain, the Company believes it is reasonably possible that $0.9 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 to tax examinations for fiscal years prior to 2015. For foreign purposes, the Company is generally no longer subject to examination for tax periods prior to 2009. Certain carryforward tax attributes generated in prior years remain subject to examination, adjustment and recapture.

Note 13 – Commitments and Contingencies

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 monetary 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 operations, financial position and overall trends. The outcomes in these matters are not reasonably estimable.

Note 14 – Reportable Segments

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

The Company’s operating and reportable segments are:

- Wolfspeed
- LED Products

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

Financial Results by Reportable Segment

The tables below reflect the results of the Company's reportable segments as reviewed by the CODM for the three and six month periods ended December 29, 2019 and December 30, 2018. The Company used the same accounting policies to derive the segment results reported below as those used in the Company’s consolidated financial statements.

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

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

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

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

The cost of goods sold (COGS) acquisition related cost adjustment includes acquisition costs related to our acquisition of the RF Power (RF Power) business of Infineon Technologies AG (Infineon) 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:

	Three months ended		Six months ended	
	December 29, 2019	December 30, 2018	December 29, 2019	December 30, 2018
Revenue:				
Wolfspeed revenue	$120.7	$135.3	$248.4	$262.7
LED Products revenue	119.2	145.2	234.3	292.0
Total revenue	$239.9	$280.5	$482.7	$554.7
Gross Profit and Gross Margin:				
Wolfspeed gross profit	$41.8	$64.7	$100.8	$125.1
Wolfspeed gross margin	*34.6 %*	*47.8 %*	*40.6 %*	*47.6 %*
LED Products gross profit	26.5	43.5	48.6	84.8
LED Products gross margin	*22.2 %*	*30.0 %*	*20.7 %*	*29.0 %*
Total segment gross profit	68.3	108.2	149.4	209.9
Unallocated costs	(6.4)	(4.7)	(13.3)	(6.9)
COGS acquisition related costs	—	—	—	(1.2)
Consolidated gross profit	$61.9	$103.5	$136.1	$201.8
Consolidated gross margin	*25.8 %*	*36.9 %*	*28.2 %*	*36.4 %*

Geographic Information

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

	Three months ended				Six months ended			
	December 29, 2019		December 30, 2018		December 29, 2019		December 30, 2018	
(in millions of U.S. Dollars)	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
United States	$60.7	25.3 %	$62.8	22.4 %	$116.1	24.1 %	$129.0	23.3 %
China	72.2	30.1 %	105.6	37.6 %	145.4	30.1 %	206.6	37.2 %
Europe	60.5	25.2 %	64.1	22.9 %	123.5	25.6 %	133.9	24.1 %
Other	46.5	19.4 %	48.0	17.1 %	97.7	20.2 %	85.2	15.4 %
Total	$239.9		$280.5		$482.7		$554.7	

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

Inventories for each of the Company's segments were as follows:

	December 29, 2019	June 30, 2019
Wolfspeed	$84.6	$81.6
LED Products	76.2	99.2
Total segment inventories	160.8	180.8
Unallocated inventories	4.5	6.6
Consolidated inventories	$165.3	$187.4

Note 15 - Restructuring

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

Corporate Restructuring

In April 2018, the Company approved a corporate restructuring plan. The purpose was to restructure and realign the Company's cost base with the long-range business strategy that was announced in February 2018. The restructuring activity was completed in the second quarter of fiscal 2019. For the three and six months ended December 30, 2018, $0.0 million and $2.6 million was expensed relating to this corporate restructuring plan.

Factory Optimization Restructuring

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

The Company expects approximately $70.0 million in restructuring charges related to the factory optimization plan to be incurred through 2024. For the three and six months ended December 29, 2019, the Company expensed and paid $1.2 million and $2.4 million of restructuring charges related to the factory optimization plan.

In September 2019, the Company announced its intent to build the new fabrication facility in Marcy, New York to complement the factory expansion underway at its U.S. campus headquarters in Durham, North Carolina. The Company has not started building the facility and is currently evaluating the impact of this decision on future restructuring charges.

Sales Representatives Restructuring

In July 2019, the Company realigned its sales resources as part of the Company's transition to a more focused semiconductor company. As a result, the Company recorded $0.0 million and $0.8 million in contract termination costs during the three and six months ended December 29, 2019, of which $0.4 million is accrued in other current liabilities as of December 29, 2019.

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," "expect" and "intend" and other similar expressions constitute forward-looking statements. These forward-looking statements are subject to business, economic and other risks and uncertainties, both known and unknown, and actual results may differ materially from those contained in the forward-looking statements. Any forward-looking statements we make are as of the date made, and except as required under the U.S. federal securities laws and the rules and regulations of the Securities and Exchange Commission (the SEC), we have no duty to update them if our views later change. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date of this 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.

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 30, 2019. 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 semiconductors, focused on silicon carbide and gallium nitride materials, products for power and radio-frequency (RF) applications and specialty lighting-class light emitting diode (LED) products. Our silicon carbide and gallium nitride (GaN) materials and products are targeted for applications such as transportation, power supplies, inverters, wireless systems, and our LEDs are targeted for indoor and outdoor lighting, electronic signs and signals and video displays.

We operate in two reportable segments:

- **Wolfspeed**, which consists of silicon carbide and GaN materials, power devices and RF devices based on wide bandgap semiconductor materials and silicon. Our materials products and power devices are used in electric vehicles, motor drives, power supplies, solar and transportation applications. Our materials products and RF devices are used in military communications, radar, satellite and telecommunication applications.
- **LED Products**, which consists of LED chips and LED components. Our LED products enable our customers to develop and market LED-based products for lighting, video screens, automotive and specialty lighting applications.

In addition, we previously designed, manufactured and sold LED lighting fixtures and lamps for the commercial, industrial and consumer markets. We referred to these product lines as the Lighting Products business unit. On May 13, 2019, we sold our Lighting Products business unit to IDEAL Industries, Inc. (IDEAL) and have classified this business unit as discontinued operations. The Lighting Products business unit represented the Lighting Products segment disclosed in our historical financial statements.

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

Cree, Inc. is a North Carolina corporation established in 1987, and our headquarters are in Durham, North Carolina. For further information about our consolidated revenue and earnings, please see our consolidated financial statements included in Item 1 of this Quarterly Report.

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 silicon carbide power devices, GaN and silicon RF devices, and LEDs*. Our potential for growth depends significantly on the adoption of silicon carbide and GaN materials and device products in the power and RF markets, the continued use of silicon devices in the RF telecommunications market, the continued adoption of LEDs and LED lighting, and our ability to win new designs for these applications. Demand also fluctuates based on various market cycles, continuously evolving industry supply chains, trade and tariff terms, as well as evolving competitive dynamics in each of the respective markets. These uncertainties make demand difficult to forecast for us and our customers.
- *Governmental Trade and Regulatory Conditions.* Our potential for growth, as with most multi-national companies, depends on a balanced and stable trade, political, economic and regulatory environment among the countries where we do business. Changes in trade policy such as the imposition of tariffs or export bans to specific customers or countries could reduce or limit demand for our products in certain markets.
- *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.

Overview of the six months ended December 29, 2019

The following is a summary of our financial results for the six months ended December 29, 2019:

- Revenue decreased to $482.7 million for the six months ended December 29, 2019 from $554.7 million for the six months ended December 30, 2018.
- Gross profit decreased to $136.1 million for the six months ended December 29, 2019 from $201.8 million for the six months ended December 30, 2018. Gross margin was 28.2% for the six months ended December 29, 2019 and 36.4% for the six months ended December 30, 2018.
- Operating loss was $95.3 million for the six months ended December 29, 2019 compared to operating income of $20.8 million for the six months ended December 30, 2018.
- Diluted loss per share from continuing operations was $0.84 for the six months ended December 29, 2019 compared to $0.01 for the six months ended December 30, 2018.
- Combined cash, cash equivalents and short-term investments was $951.5 million at December 29, 2019 and $1,051.4 million at June 30, 2019.
- Cash used in operating activities from continuing operations was $11.8 million for the six months ended December 29, 2019 compared to cash provided by operating activities from continuing operations of $109.8 million for the six months ended December 30, 2018.
- Purchases of property and equipment were $101.0 million for the six months ended December 29, 2019 compared to $63.2 million for the six months ended December 30, 2018.

Business Outlook

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

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

- *Wolfspeed* - invest in the business to expand the scale, further develop the technologies, and accelerate the growth opportunities of silicon carbide materials, silicon carbide power devices and modules, and GaN and silicon RF devices.
- *LED Products* - focus our efforts where our best-in-class technology and application-optimized solutions are differentiated and valued.

Results of Operations

Selected consolidated statements of operations data for the three and six months ended December 29, 2019 and December 30, 2018 is as follows:

	Three months ended				Six months ended			
	December 29, 2019		December 30, 2018		December 29, 2019		December 30, 2018	
(in millions of U.S. Dollars, except share data)	Dollars	% of Revenue	Dollars	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenue, net	**$239.9**	**100.0 %**	**$280.5**	**100.0 %**	**$482.7**	**100.0 %**	**$554.7**	**100.0 %**
Cost of revenue, net	178.0	74.2	177.0	63.1	346.6	71.8	352.9	63.6
Gross profit	**61.9**	**25.8**	**103.5**	**36.9**	**136.1**	**28.2**	**201.8**	**36.4**
Research and development	47.3	19.7	40.2	14.3	91.0	18.9	76.5	13.8
Sales, general and administrative	52.8	22.0	49.2	17.5	110.4	22.9	93.1	16.8
Amortization or impairment of acquisition-related intangibles	3.6	1.5	3.9	1.4	7.2	1.5	7.8	1.4
Loss on disposal or impairment of other assets	0.8	0.3	—	—	1.8	0.4	0.4	0.1
Other operating expense	13.8	5.8	0.2	0.1	21.0	4.4	3.2	0.6
Operating (loss) income	**(56.4)**	**(23.5)**	**10.0**	**3.6**	**(95.3)**	**(19.7)**	**20.8**	**3.7**
Non-operating (income) expense, net	(5.1)	(2.1)	5.6	2.0	(6.7)	(1.4)	15.3	2.8
(Loss) income before income taxes	**(51.3)**	**(21.4)**	**4.4**	**1.6**	**(88.6)**	**(18.4)**	**5.5**	**1.0**
Income tax expense	1.2	0.5	4.6	1.6	1.7	0.4	6.5	1.2
Net loss from continuing operations	**($52.5)**	**(21.9)**	**($0.2)**	**(0.1)**	**($90.3)**	**(18.7)**	**($1.0)**	**(0.2)**
Net loss from discontinued operations	—	—	(2.3)	(0.8)	—	—	(12.6)	(2.3)
Net loss	**(52.5)**	**(21.9)**	**(2.5)**	**(0.9)**	**(90.3)**	**(18.7)**	**(13.6)**	**(2.5)**
Net income attributable to non-controlling interest	0.3	0.1	—	—	0.3	0.1	—	—
Net loss attributable to controlling interest	**($52.8)**	**(22.0)**	**($2.5)**	**(0.9)**	**($90.6)**	**(18.8)**	**($13.6)**	**(2.5)**
Basic and diluted loss per share								
Continuing operations attributable to controlling interest	($0.49)		$—		($0.84)		($0.01)	
Net loss attributable to controlling interest	($0.49)		($0.02)		($0.84)		($0.13)	

Revenue

Revenue was comprised of the following:

	Three months ended		Change		Six months ended		Change	
(in millions of U.S. Dollars)	**December 29, 2019**	**December 30, 2018**			**December 29, 2019**	**December 30, 2018**		
Wolfspeed revenue	$120.7	$135.3	($14.6)	(11)%	$248.4	$262.7	($14.3)	(5)%
Percent of revenue	50 %	48 %			51 %	47 %		
LED Products revenue	119.2	145.2	(26.0)	(18)%	234.3	292.0	(57.7)	(20)%
Percent of revenue	50 %	52 %			49 %	53 %		
Total revenue	$239.9	$280.5	($40.6)	(14)%	$482.7	$554.7	($72.0)	(13)%

Wolfspeed Segment Revenue

The decrease in Wolfspeed segment revenue for the three and six months ended December 29, 2019 compared to the three and six months ended December 30, 2018 was due to weakening demand in Power and RF product lines and the continued trade dispute between the United States and China.

For the three months ended December 29, 2019, the Wolfspeed segment had a 6% increase in overall average selling prices (ASP) offset by a 16% decrease in the number of units sold. The increase in ASP was due to a greater mix of higher priced products.

For the six months ended December 29, 2019, the Wolfspeed segment had a 27% increase in ASP offset by a 26% decrease in the number of units sold. The increase in ASP was due to a greater mix of higher priced products.

LED Products Segment Revenue

LED Products segment revenue for both the three and six months ended December 29, 2019 decreased due to an overall market pause in global LED demand. The LED Products segment had an 8% decrease in the number of units sold and an 11% decrease in ASP for the three months ended December 29, 2019 and an 8% decrease in the number of units sold and a 12% decrease in ASP for the six months ended December 29, 2019.

Gross Profit and Gross Margin

Gross profit and gross margin were as follows:

	Three months ended		Change		Six months ended		Change	
(in millions of U.S. Dollars)	**December 29, 2019**	**December 30, 2018**			**December 29, 2019**	**December 30, 2018**		
Wolfspeed gross profit	$41.8	$64.7	($22.9)	(35)%	$100.8	$125.1	($24.3)	(19)%
Wolfspeed gross margin	34.6 %	47.8 %			40.6 %	47.6 %		
LED Products gross profit	26.5	43.5	(17.0)	(39)%	48.6	84.8	(36.2)	(43)%
LED Products gross margin	22.2 %	30.0 %			20.7 %	29.0 %		
Unallocated costs	(6.4)	(4.7)	(1.7)	(36)%	(13.3)	(6.9)	(6.4)	(93)%
COGS acquisition related costs	—	—	—	— %	—	(1.2)	1.2	100 %
Consolidated gross profit	$61.9	$103.5	($41.6)	(40)%	$136.1	$201.8	($65.7)	(33)%
Consolidated gross margin	25.8 %	36.9 %			28.2 %	36.4 %		

Wolfspeed Segment Gross Profit and Gross Margin

The decreases in Wolfspeed segment gross profit and gross margin for the three and six months ended December 29, 2019 compared to the three and six months ended December 30, 2018 are primarily due to higher product costs, lower yields and product mix shift, as well as higher inventory reserves related to product manufactured for Huawei Technologies Co., Ltd. and its affiliates.

LED Products Segment Gross Profit and Gross Margin

The decreases in LED Products segment gross profit and gross margin for the three and six months ended December 29, 2019 compared to the three and six months ended December 30, 2018 are primarily due to lower revenue as a result of decreasing demand, as well as underutilization resulting from lower factory volumes.

Unallocated Costs

Unallocated costs primarily consist of manufacturing employees' stock-based compensation, expenses for annual incentive plans, and matching contributions under our 401(k) plan. These costs were not allocated to the reportable segments' gross profit because our CODM does not review them regularly when evaluating segment performance and allocating resources.

The increases in unallocated costs in both periods were primarily attributable to increased accruals for annual incentives, stock-based compensation and matching contributions under our 401(k) plan. Increases in these categories were primarily the result of increased headcount.

COGS Acquisition Related Costs

The COGS acquisition related cost adjustment includes inventory fair value amortization of the fair value increase to inventory recognized at the date of acquisition, and other RF Power acquisition costs, impacting cost of revenue for fiscal 2018. These costs were not allocated to the reportable segments' gross profit for fiscal 2019 because they represent an adjustment which does not provide comparability to the corresponding prior period and therefore were not reviewed by our CODM when evaluating segment performance and allocating resources.

Research and Development

Research and development expenses include costs associated with the development of new products, enhancements of existing products and general technology research. These costs consisted primarily of employee salaries and related compensation costs, occupancy costs, consulting costs and the cost of development equipment and supplies.

Research and development expenses were as follows:

	Three months ended				**Six months ended**			
(in millions of U.S. Dollars)	**December 29, 2019**	**December 30, 2018**	**Change**		**December 29, 2019**	**December 30, 2018**	**Change**	
Research and development	$47.3	$40.2	$7.1	18 %	$91.0	$76.5	$14.5	19 %
Percent of revenue	20 %	14 %			19 %	14 %		

The increase in research and development expenses for both periods was primarily due to our continued investment in our silicon carbide and GaN technologies.

Our research and development expenses vary significantly from year to year based on a number of factors, including the timing of new product introductions and the number and nature of our ongoing research and development activities.

Sales, General and Administrative

Sales, general and administrative expenses were comprised primarily of costs associated with our sales and marketing personnel and our executive and administrative personnel (for example, finance, human resources, information technology and legal) and consisted of salaries and related compensation costs; consulting and other professional services (such as litigation and other outside legal counsel fees, audit and other compliance costs); marketing and advertising expenses; facilities and insurance costs; and travel and other costs.

Sales, general and administrative expenses were as follows:

	Three months ended				**Six months ended**			
(in millions of U.S. Dollars)	**December 29, 2019**	**December 30, 2018**	**Change**		**December 29, 2019**	**December 30, 2018**	**Change**	
Sales, general and administrative	$52.8	$49.2	$3.6	7 %	$110.4	$93.1	$17.3	19 %
Percent of revenue	22 %	18 %			23 %	17 %		

The increase in sales, general and administrative expenses for the three and six months ended December 29, 2019 compared to the three and six months ended December 30, 2018 are primarily due to increases in salaries and benefits, stock-based compensation and professional service fees related to transition services from the sale of the Lighting Products business unit.

Amortization or Impairment of Acquisition-Related Intangibles

As a result of our acquisitions, we have recognized various amortizable intangible assets, including customer relationships, developed technology, non-compete agreements and trade names.

Amortization of intangible assets related to our acquisitions was as follows:

	Three months ended				Six months ended			
(in millions of U.S. Dollars)	**December 29, 2019**	**December 30, 2018**	**Change**		**December 29, 2019**	**December 30, 2018**	**Change**	
Customer relationships	$1.6	$1.8	($0.2)	(11)%	$3.1	$3.6	($0.5)	(14)%
Developed technology	1.2	1.3	(0.1)	(8)%	2.6	2.7	(0.1)	(4)%
Non-compete agreements	0.8	0.8	—	— %	1.5	1.5	—	— %
Total amortization	$3.6	$3.9	($0.3)	(8)%	$7.2	$7.8	($0.6)	(8)%

Amortization of intangible assets stayed fairly consistent due to the absence of significant intangible-related activity between the periods. Amortization of customer relationships decreased slightly in each period due to certain intangible assets relating to customer relationships reaching the end of their amortization period in fiscal 2019.

Loss on Disposal and Impairment of Other Assets

We operate a capital-intensive business. As such, we dispose of a certain level of our equipment in the normal course of business as our production processes change due to production improvement initiatives or product mix changes. Due to the risk of technological obsolescence or changes in our production process, we regularly review our long-lived assets and capitalized patent costs for possible impairment.

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

	Three months ended				Six months ended			
(in millions of U.S. Dollars)	**December 29, 2019**	**December 30, 2018**	**Change**		**December 29, 2019**	**December 30, 2018**	**Change**	
Loss on disposal or impairment of other assets	$0.8	$—	$0.8	100 %	$1.8	$0.4	$1.4	350 %

Loss on disposal or impairment of other assets for the three months ended December 29, 2019 primarily relates to the impairment of certain leasehold improvements.

Loss on disposal or impairment of other assets for the six months ended December 29, 2019 primarily relates to write-offs of impaired or abandoned patents as well as the impairment of certain leasehold improvements.

Other Operating Expense

Other operating expense was as follows:

	Three months ended				Six months ended			
(in millions of U.S. Dollars)	**December 29, 2019**	**December 30, 2018**	**Change**		**December 29, 2019**	**December 30, 2018**	**Change**	
Factory optimization restructuring	$1.2	$—	$1.2	100 %	$2.4	$—	$2.4	100 %
Severance and other restructuring	—	—	—	— %	0.8	2.6	(1.8)	(69)%
Total restructuring costs	1.2	—	1.2	100 %	3.2	2.6	0.6	23 %
Project, transformation and transaction costs	10.8	0.2	10.6	*	13.4	0.6	12.8	*
Factory optimization start-up costs	1.5	—	1.5	100 %	2.9	—	2.9	100 %
Non-restructuring related executive severance	0.3	—	0.3	100 %	1.5	—	1.5	100 %
Other operating expense	$13.8	$0.2	$13.6	*	$21.0	$3.2	$17.8	*

*Percentage change not meaningful.

Factory optimization restructuring costs relate to the movement of equipment as well as disposals on certain long-lived assets. Severance and other restructuring costs relate to corporate restructuring plans. See Note 15, "Restructuring," to our unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report for additional information on our restructuring costs.

Project, transformation and transaction costs primarily relate to professional services fees associated with acquisitions, divestitures and internal transformation programs.

Factory optimization start-up costs are additional start-up costs as part of our factory optimization efforts.

The increase in other operating expense was primarily due to increased project, transformation and transaction costs, start-up costs, and the addition of non-restructuring related executive severance costs in the three and six months ended December 29, 2019.

Non-Operating (Income) Expense, net

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

	Three months ended				Six months ended			
(in millions of U.S. Dollars)	December 29, 2019	December 30, 2018	Change		December 29, 2019	December 30, 2018	Change	
(Gain) loss on sale of investments, net	($0.1)	$0.1	($0.2)	(200)%	($0.1)	$0.1	($0.2)	(200)%
(Gain) loss on equity investment, net	($6.4)	$1.9	($8.3)	(437)%	($9.9)	$8.6	($18.5)	(215)%
Foreign currency (gain) loss, net	(1.2)	—	(1.2)	(100)%	(1.1)	0.6	(1.7)	(283)%
Interest expense, net	2.8	3.6	(0.8)	(22)%	4.7	6.0	(1.3)	(22)%
Other, net	(0.2)	—	(0.2)	(100)%	(0.3)	—	(0.3)	(100)%
Non-operating (income) expense, net	($5.1)	$5.6	($10.7)	(191)%	($6.7)	$15.3	($22.0)	(144)%

(Gain) loss on equity investment, net. The gain on equity investment for the three and six months ended December 29, 2019 was due to the increase in fair value of our Lextar Electronics Corporation (Lextar) investment. Lextar's stock is publicly traded on the Taiwan Stock Exchange and its share price increased from 14.75 New Taiwanese Dollars (TWD) per share at June 30, 2019 to 16.05 TWD at September 29, 2019 and to 18.40 TWD at December 29, 2019.

The loss on equity investment for the three and six months ended December 30, 2018 was due to Lextar's share price decreasing from 21.00 TWD per share at June 24, 2018 to 18.55 TWD at September 23, 2018 and to 17.85 TWD at December 30, 2018.

This volatile stock price trend may continue in the future given the risks inherent in Lextar's business and trends affecting the Taiwan and global equity markets. We have a 16% common stock ownership interest in Lextar and utilize the fair value option in accounting for the ownership interest. Any future stock price changes will be recorded as further gains or losses on equity investment based on the increase or decrease, respectively, in the fair value of the investment during the applicable fiscal period. Further losses could have a material adverse effect on our results of operations.

Foreign currency (gain) loss, net. The gain in foreign currency for the three and six months ended December 29, 2019 was primarily due to the strengthening of the TWD against the United States Dollar, which caused foreign currency remeasurement gains on our investment in Lextar.

Interest expense, net. The decrease in interest expense for the three and six months ended December 29, 2019 compared to the three and six months ended December 30, 2018 was due to increased interest income from higher short term investment balances, which offset the interest expense incurred on our 0.875% convertible senior notes due September 1, 2023 (the Notes).

Income tax expense

Income tax expense and our effective tax rate was as follows:

	Three months ended				Six months ended			
(in millions of U.S. Dollars)	December 29, 2019	December 30, 2018	Change		December 29, 2019	December 30, 2018	Change	
Income tax expense	$1.2	$4.6	($3.4)	74 %	$1.7	$6.5	($4.8)	(74)%
Effective tax rate	(2) %	105 %			(2) %	118 %		

The change in our effective tax rate for the three and six months ended December 29, 2019 was primarily due to the increased impact of tax credits and other deductions as a result of the change from income before taxes during the three and six months ended December 30, 2018 to loss before taxes for the three and six months ended December 29, 2019.

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

Net Loss from Discontinued Operations

We recorded a net loss from discontinued operations of $2.3 million and $12.6 million for the three and six months ended December 30, 2018, which related to operational results of the discontinued operations of the Lighting Products business unit. We did not have any discontinued operations related activity for the three and six months ended December 29, 2019.

Liquidity and Capital Resources

Overview

We require cash to fund our operating expenses and working capital requirements, including outlays for research and development, capital expenditures, strategic acquisitions and investments. Our principal sources of liquidity are cash on hand, marketable securities, cash generated from operations and availability under our line of credit. Our ability to generate cash from operations has been one of our fundamental strengths and has provided us with substantial flexibility in meeting our operating, financing and investing needs. We have a $250 million line of credit as discussed in Note 9, "Long-term Debt," in our consolidated financial statements included in Part I, Item 1 of this Quarterly Report. The purpose of this facility is to provide short term flexibility to optimize returns on our cash and investment portfolio while funding share repurchases, capital expenditures and other general business needs.

Based on past performance and current expectations, we believe our current working capital, availability under our line of credit and anticipated cash flows from operations will be adequate to meet our cash needs for our daily operations and capital expenditures for at least the next 12 months. With our strong working capital position, we believe that we have the ability to continue to invest in further development of our products and, when necessary or appropriate, make selective acquisitions or other strategic investments to strengthen our product portfolio, secure key intellectual properties or expand our production capacity.

From time to time, we evaluate strategic opportunities, including potential acquisitions, joint ventures, divestitures, spin-offs or investments in complementary businesses, and we continue to make such evaluations. We may also access capital markets through the issuance of debt or additional shares of common stock in connection with the acquisition of complementary businesses or other significant assets or for other strategic opportunities.

Liquidity

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

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

	Three months ended		
	December 29, 2019	**June 30, 2019**	**Change**
Days of sales outstanding [(a)]	39	34	5
Days of supply in inventory [(b)]	84	104	(20)
Days in accounts payable [(c)]	(66)	(72)	6
Cash conversion cycle	57	66	(9)

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

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

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

The decrease in our cash conversion cycle was primarily driven by a decrease in days of supply in inventory.

As of December 29, 2019, we had unrealized losses on our investments of $0.1 million. All of our investments had investment grade ratings, and any such investments that were in an unrealized loss position at December 29, 2019 were in such position due to interest rate changes, sector credit rating changes or company-specific rating changes. We intend and believe that we have the ability to hold such investments for a period of time that will be sufficient for anticipated recovery in market value, and we currently expect to receive the full principal or recover our cost basis in these securities. The declines in value of the securities in our portfolio are considered to be temporary in nature and, accordingly, we do not believe these securities are impaired as of December 29, 2019.

Cash Flows

In summary, our cash flows were as follows:

	Six months ended		Change	
	December 29, 2019	December 30, 2018		
Cash (used in) provided by operating activities	($11.8)	$127.7	($139.5)	(109)%
Cash used in investing activities	(120.5)	(178.8)	58.3	33 %
Cash provided by financing activities	14.5	288.3	(273.8)	(95)%
Effect of foreign exchange changes	(0.1)	(0.1)	—	— %
Net change in cash and cash equivalents	($117.9)	$237.1	($355.0)	(150)%

Cash Flows from Operating Activities

Net cash used in operating activities decreased primarily due to lower net earnings and a decrease in overall working capital mainly driven by a higher performance related annual incentive payout in the six months ended December 29, 2019 and decreases in inventory and payables. Total cash provided by operating activities for the six months ended December 30, 2018 includes $17.9 million of cash provided by operating activities of discontinued operations.

Cash Flows from Investing Activities

Our investing activities primarily relate to short-term investment transactions, purchases of property and equipment and payments for patents and licensing rights. Cash used in investing activities decreased in the six months ended December 29, 2019 compared to the six months ended December 30, 2018 primarily due to $82.3 million less net purchases of short-term investments offset by an increase in property and equipment purchases of $37.8 million. Total cash used in investing activities for the six months ended December 30, 2018 includes $11.8 million of cash used in investing activities of discontinued operations.

For fiscal 2020, we target approximately $230.0 million of capital investment, which is primarily related to infrastructure projects to support our longer term growth and strategic priorities.

Cash Flows from Financing Activities

For the six months ended December 29, 2019, our financing activities primarily consisted of net proceeds of $14.6 million from issuances of common stock pursuant to the exercise of employee stock options.

For the six months ended December 30, 2018, our financing activities primarily consisted of proceeds of $575.0 million from the issuance of the Notes and net proceeds of $18.2 million from issuances of common stock pursuant to the exercise of employee stock options, partially offset by the net repayment on our line of credit of $292.0 million and the payment of debt issuance costs of $12.9 million from the issuance of the Notes.

Off-Balance Sheet Arrangements

We do not use off-balance sheet arrangements with unconsolidated entities or related parties, nor do we use any other forms of off-balance sheet arrangements. Accordingly, our liquidity and capital resources are not subject to off-balance sheet risks from unconsolidated entities. As of December 29, 2019, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Critical Accounting Policies and Estimates

Leases (new for fiscal 2020 due to ASC 842 Adoption)

At lease inception, we determine an arrangement is a lease if the contract involves the use of a distinct identified asset, the lessor does not have substantive substitution rights and we obtain control of the asset throughout the period by obtaining substantially all of the economic benefit of the asset and the right to direct the use of the asset.

Right-of-use assets represent our right to use an underlying asset during the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Assets and liabilities are recognized based on the present value of lease payments over the lease term. Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to five years or more. The exercise of the renewal option is at our sole discretion and we consider these options in determining the lease term used to establish our right-of-use assets and lease liabilities. We will remeasure our lease liability and adjust the related right-of-use asset upon the occurrence of the following: lease modifications not accounted for as a separate contract; a triggering event that changes the certainty of the lessee exercising an option to renew or terminate the lease, or purchase the underlying asset; a change to the amount probable of being owed by us under a residual value guarantee; or the resolution of a contingency upon which the variable lease payments are based such that those payments become fixed.

Because most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Operating lease expense is generally recognized on a straight-line basis over the lease term. Finance lease assets are amortized on a straight-line basis over the shorter of the useful life of the asset or the lease term. Interest expense on the finance lease liability is recognized using the effective interest rate method and is presented within interest expense on our consolidated statements of operations.

We have agreements with lease and non-lease components, which are accounted for as a single lease component. Leases with a lease term of 12 months or less are not recorded on the balance sheet. We recognize lease expense for these leases on a straight-line basis over the lease term. Variable lease payment amounts that cannot be determined at the commencement of the lease, such as increases in lease payments based on changes in index rates, are not included in the right-of-use assets or liabilities. These variable lease payments are expensed as incurred.

For information about our other critical accounting policies and estimates, see the “Critical Accounting Policies and Estimates” section of “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended June 30, 2019.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about our market risks, see “Part II. Item 7A. Quantitative and Qualitative Disclosures About Market Risk” of our Annual Report on Form 10-K for the fiscal year ended June 30, 2019. There have been no material changes to the amounts presented therein.

Item 4. Controls and Procedures

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

We routinely review our internal control over financial reporting and from time to time make changes intended to enhance the effectiveness of our internal control over financial reporting. We will continue to evaluate the effectiveness of our disclosure controls and procedures and internal control over financial reporting on an ongoing basis and will take action as appropriate. There have been no changes to our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the second quarter of fiscal 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Described below are various risks and uncertainties that may affect our business. The descriptions below include any material changes to and supersede the description of the risk factors affecting our business previously disclosed in "Part I, Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended June 30, 2019. If any of the risks described below actually occurs, our business, financial condition or results of operations could be materially and adversely affected.

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

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

- our ability to introduce new products in a timely and cost-effective manner;
- our ability to secure volume purchase orders related to new products;
- qualification and acceptance of our new product and systems designs, specifically entering into automotive applications which require even more stringent levels of qualification and standards;
- achievement of technology breakthroughs required to make commercially viable products;
- the accuracy of our predictions for market requirements;
- our ability to predict, influence and/or react to evolving standards;
- acceptance of new technology in certain markets;
- our ability to protect intellectual property developed in new products;
- the availability of qualified research and development personnel;
- our timely completion of product designs and development;
- our ability to develop repeatable processes to manufacture new products in sufficient quantities, with the desired specifications and at competitive costs;
- our ability to effectively transfer increasingly complex products and technology from development to manufacturing;
- our customers’ ability to develop competitive products incorporating our products; and
- market acceptance of our products and our customers’ products.

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

We face significant challenges managing our growth strategy.

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

- maintain, expand, construct and purchase adequate manufacturing facilities and equipment, as well as secure sufficient third-party manufacturing resources, to meet customer demand, including specifically the expansion of our silicon carbide capacity with the construction of a state-of-the-art, automated 200mm capable silicon carbide and GaN fabrication facility and a large materials factory;
- manage an increasingly complex supply chain that has the ability to supply an increasing number of raw materials, subsystems and finished products with the required specifications and quality, and deliver on time to our manufacturing facilities, our third-party manufacturing facilities, or our logistics operations;
- expand the capability of our information systems to support a more complex business;
- expand research and development, sales and marketing, technical support, distribution capabilities, manufacturing planning and administrative functions;
- safeguard confidential information and protect our intellectual property;
- manage organizational complexity and communication;
- expand the skills and capabilities of our current management team;
- add experienced senior level managers and executives;

- attract and retain qualified employees; and
- execute, maintain and adjust the operational and financial controls that support our business.

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

There are also inherent execution risks in starting up a new factory or expanding production capacity, whether one of our own factories or that of our contract manufacturers or ODMs, or moving production to different contract manufacturers or ODMs, that could increase costs and reduce our operating results. In September 2019, we announced the intent to build the new fabrication facility in Marcy, New York to complement the factory expansion underway at our U.S. campus headquarters in Durham, North Carolina. The establishment and operation of a new manufacturing facility or expansion of an existing facility involves significant risks and challenges, including, but not limited to, the following:

- design and construction delays and cost overruns;
- issues in installing and qualifying new equipment and ramping production;
- poor production process yields and reduced quality control; and
- insufficient personnel with requisite expertise and experience to operate a fabrication facility.

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

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

From time to time, including the present, we evaluate strategic opportunities available to us for product, technology or business transactions, such as business acquisitions, investments, joint ventures, divestitures, or spin-offs. For example, in the third quarter of fiscal 2018, we acquired the Infineon RF Power business and in the fourth quarter of fiscal 2019, we completed the sale of our Lighting Products business unit to IDEAL. If we choose to enter into such transactions, we face certain risks including:

- the failure of an acquired business, investee or joint venture to meet our performance and financial expectations;
- identification of additional liabilities relating to an acquired business;
- loss of existing customers of our current and acquired businesses due to concerns that new product lines may be in competition with the customers' existing product lines or due to regulatory actions taken by governmental agencies;
- that we are not able to enter into acceptable contractual arrangements with the significant customers of an acquired business;
- difficulty integrating an acquired business's operations, personnel and financial and operating systems into our current business;
- that we are not able to develop and expand customer bases and accurately anticipate demand from end customers, which can result in increased inventory and reduced orders as we experience wide fluctuations in supply and demand;
- diversion of management attention;
- difficulty separating the operations, personnel and financial and operating systems of a spin-off or divestiture from our current business;

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

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

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

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

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

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

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

Our international sales and purchases are subject to numerous U.S. and foreign laws and regulations, including, without limitation, tariffs, trade sanctions, trade barriers, trade embargoes, regulations relating to import-export control, technology transfer restrictions, the International Traffic in Arms Regulation promulgated under the Arms Export Control Act, the Foreign Corrupt Practices Act and the anti-boycott provisions of the U.S. Export Administration Act. For example, on May 15, 2019, the Bureau of Industry and Security (BIS) of the U.S. Department of Commerce added Huawei Technologies Co., Ltd. and 68 of its affiliates (collectively, "Huawei") to the "Entity List" maintained by the U.S. Department of Commerce, which imposes limitations on the supply of certain U.S. items and product support to Huawei. To comply with the Entity List restrictions, we suspended shipments of all products to Huawei and cannot predict when we will be able to resume such shipments, which has reduced our revenue and profit in at least the near term and increased our inventories of product intended for Huawei. If the U.S. Government maintains the restrictions on Huawei or imposes restrictions on sales to other foreign customers, as it did in October 2019 with the addition of 28 new companies to the Entity List, it will reduce company revenue and profit related to those customers at least in the short term and could have a potential longer-term impact. In the second quarter of fiscal 2020, we recorded an $8.3 million reserve on inventory manufactured for Huawei. Additionally, like many global manufacturers, we continue to address the short-term and potential long-term impact of the United States tariffs imposed on Chinese goods and corresponding Chinese tariffs in response. If we fail to comply with these laws and regulations, we could be liable for administrative, civil or criminal liabilities, and, in the extreme case, we could be suspended or debarred from government contracts or have our export privileges suspended, which could have a material adverse effect on our business.

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

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

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

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

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

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

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

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

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

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

As customer demand for our products changes, we must be able to adjust our production capacity to meet demand. We are continually taking steps to address our manufacturing capacity needs for our products. If we are not able to increase or decrease our production capacity at our targeted rate or if there are unforeseen costs associated with adjusting our capacity levels, we may not be able to achieve our financial targets when our factories are underutilized. We may be unable to build or qualify new capacity on a timely basis to meet customer demand and customers may fulfill their orders with one of our competitors instead. In addition, as we introduce new products and change product generations, we must balance the production and inventory of prior generation products with the production and inventory of new generation products, whether manufactured by us or our contract manufacturers, to maintain a product mix that will satisfy customer demand and mitigate the risk of incurring cost write-downs on the previous generation products, related raw materials and tooling.

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

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

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

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

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

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

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

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

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

There are limitations on our ability to protect our intellectual property.

Our intellectual property position is based in part on patents owned by us and patents licensed to us. We intend to continue to file patent applications in the future, where appropriate, and to pursue such applications with U.S. and certain foreign patent authorities.

Our existing patents are subject to expiration and re-examination and we cannot be sure that additional patents will be issued on any new applications around the covered technology or that our existing or future patents will not be successfully contested by third parties. Also, since issuance of a valid patent does not prevent other companies from using alternative, non-infringing technology, we cannot be sure that any of our patents, or patents issued to others and licensed to us, will provide significant commercial protection, especially as new competitors enter the market.

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

We also rely on trade secrets and other non-patented proprietary information relating to our product development and manufacturing activities. We try to protect this information through appropriate efforts to maintain its secrecy, including requiring employees and third parties to sign confidentiality agreements. We cannot be sure that these efforts will be successful or that the confidentiality agreements will not be breached. We also cannot be sure that we would have adequate remedies for any breach of such agreements or other misappropriation of our trade secrets, or that our trade secrets and proprietary know-how will not otherwise become known or be independently discovered by others.

Variations in our production could impact our ability to reduce costs and could cause our margins to decline and our operating results to suffer.

All of our products are manufactured using technologies that are highly complex. The number of usable items, or yield, from our production processes may fluctuate as a result of many factors, including but not limited to the following:

- variability in our process repeatability and control;
- contamination of the manufacturing environment;
- equipment failure, power outages, fires, flooding, information or other system failures or variations in the manufacturing process;

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

In the past, we have experienced difficulties in achieving acceptable yields on certain products, which has adversely affected our operating results. We may experience similar problems in the future, and we cannot predict when they may occur or their severity.

In some instances, we may offer products for future delivery at prices based on planned yield improvements or increased cost efficiencies from other production advances. Failure to achieve these planned improvements or advances could have a significant impact on our margins and operating results.

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

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

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

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

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

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

We receive a significant amount of our revenue from a limited number of customers, including distributors, one of which represented 19% of our consolidated revenue in fiscal 2019. Many of our customer orders are made on a purchase order basis, which does not generally require any long-term customer commitments. Therefore, these customers may alter their purchasing behavior with little or no notice to us for various reasons, including developing, or, in the case of our distributors, their customers developing, their own product solutions; choosing to purchase or distribute product from our competitors; incorrectly forecasting end market demand for their products; or experiencing a reduction in their market share in the markets for which they purchase our products. If our customers alter their purchasing behavior, if our customers' purchasing behavior does not match our expectations or if we encounter any problems collecting amounts due from them, our financial condition and results of operations could be negatively impacted.

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

We depend on a number of sole source and limited source suppliers for certain raw materials, components, services and equipment used in manufacturing our products, including key materials and equipment used in critical stages of our manufacturing processes. Although alternative sources generally exist for these items, qualification of many of these alternative sources could take up to six months or longer. Where possible, we attempt to identify and qualify alternative sources for our sole and limited source suppliers.

We generally purchase these sole or limited source items with purchase orders, and we have limited guaranteed supply arrangements with such suppliers. Some of our sources can have variations in attributes and availability which can affect our ability to produce products in sufficient volume or quality. We do not control the time and resources that these suppliers devote to our business, and we cannot be sure that these suppliers will perform their obligations to us. Additionally, general shortages in the marketplace of certain raw materials or key components may adversely impact our business. In the past, we have experienced decreases in our production yields when suppliers have varied from previously agreed upon specifications or made other modifications we do not specify, which impacted our cost of revenue.

Additionally, the inability of our suppliers to access capital efficiently could cause disruptions in their businesses, thereby negatively impacting ours. This risk may increase if an economic downturn negatively affects key suppliers or a significant number of our other suppliers. Any delay in product delivery or other interruption or variation in supply from these suppliers could prevent us from meeting commercial demand for our products. If we were to lose key suppliers, if our key suppliers were unable to support our demand for any reason or if we were unable to identify and qualify alternative suppliers, our manufacturing operations could be interrupted or hampered significantly.

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

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

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

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

- the restrictions on and obligations with respect to our remaining businesses following closing set forth in the transition services agreement and the LED supply agreement, in each case between us and IDEAL, including the need to provide transition services in connection with the transaction, which may result in the diversion of resources and focus from our remaining businesses;
- issues, delays, complications and/or additional costs associated with the transition of the operations, systems, technology infrastructure and data, third-party contracts, and personnel of the Lighting Products business unit and provision of transition services, each, as applicable, within the term of the transition services agreement;
- any required payments of indemnification obligations under the Purchase Agreement for retained liabilities and breaches of representations, warranties or covenants; and
- our failure to realize the full purchase price anticipated under the Purchase Agreement, including the ability of the Lighting Products business unit to generate adjusted EBITDA in the third year post-closing sufficient to result in payment of the targeted earnout or any earnout payment.

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

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

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

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

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

To help attract, motivate and retain key employees, we use benefits such as stock-based compensation awards. If the value of such awards does not appreciate, as measured by the performance of the price of our common stock or if our stock-based compensation otherwise ceases to be viewed as a valuable benefit, our ability to attract, retain and motivate employees could be weakened, which could harm our business and results of operations.

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

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

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

The manufacture of our products involves highly complex processes. Our customers specify quality, performance and reliability standards that we must meet. If our products do not meet these standards, we may be required to replace or rework the products. In some cases, our products may contain undetected defects or flaws that only become evident after shipment and installation. Even if our products meet standard specifications, our customers may attempt to use our products in applications for which they were not designed or in products that were not designed or manufactured properly, resulting in product failures and creating customer satisfaction issues.

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

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

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

We provide warranty periods ranging from 90 days to 5.5 years on our products. Although we believe our reserves are appropriate, we are making projections about the future reliability of new products and technologies, and we may experience increased variability in warranty claims. Increased warranty claims could result in significant losses due to a rise in warranty expense and costs associated with customer support.

Litigation could adversely affect our operating results and financial condition.

We are often involved in litigation, primarily patent litigation. Defending against existing and potential litigation will likely require significant attention and resources and, regardless of the outcome, result in significant legal expenses, which could adversely affect our results unless covered by insurance or recovered from third parties. If our defenses are ultimately unsuccessful or if we are unable to achieve a favorable resolution, we could be liable for damage awards that could materially affect our results of operations and financial condition.

Where necessary, we may initiate litigation to enforce our patent or other intellectual property rights, which could adversely impact our relationship with certain customers. Any such litigation may require us to spend a substantial amount of time and money and could distract management from our day-to-day operations. Moreover, there is no assurance that we will be successful in any such litigation.

Our business may be impaired by claims that we, or our customers, infringe the intellectual property rights of others.

Vigorous protection and pursuit of intellectual property rights characterize our industry. These traits have resulted in significant and often protracted and expensive litigation. Litigation to determine the validity of patents or claims by third parties of infringement of patents or other intellectual property rights could result in significant legal expense and divert the efforts of our technical personnel and management, even if the litigation results in a determination favorable to us. In the event of an adverse result in such litigation, we could be required to:

- pay substantial damages;
- indemnify our customers;
- stop the manufacture, use and sale of products found to be infringing;
- incur asset impairment charges;
- discontinue the use of processes found to be infringing;
- expend significant resources to develop non-infringing products or processes; or
- obtain a license to use third party technology.

There can be no assurance that third parties will not attempt to assert infringement claims against us, or our customers, with respect to our products. In addition, our customers may face infringement claims directed to the customer’s products that incorporate our products, and an adverse result could impair the customer’s demand for our products. We have also promised certain of our customers that we will indemnify them in the event they are sued by our competitors for infringement claims directed to the products we supply. Under these indemnification obligations, we may be responsible for future payments to resolve infringement claims against them.

From time to time, we receive correspondence asserting that our products or processes are or may be infringing patents or other intellectual property rights of others. If we believe the assertions may have merit or in other appropriate circumstances, we may take steps to seek to obtain a license or to avoid the infringement. We cannot predict, however, whether a license will be available; that we would find the terms of any license offered acceptable; or that we would be able to develop an alternative solution. Failure to obtain a necessary license or develop an alternative solution could cause us to incur substantial liabilities and costs and to suspend the manufacture of affected products.

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

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

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

The adoption of or changes in government and/or industry policies, standards or regulations relating to the efficiency, performance or other aspects of our products may impact the demand for our products. For example, electric vehicle incentives in China declined in fiscal 2019 and continue to decline. Demand for our products may also be impacted by changes in government and/or industry policies, standards or regulations that discourage the use of certain traditional lighting technologies. For example, efforts to change, eliminate or reduce industry or regulatory standards could negatively impact our Wolfspeed power and LED businesses. These constraints may be eliminated or delayed by legislative action, which could have a negative impact on demand for our products. Our ability and the ability of our competitors to meet these new requirements could impact competitive dynamics in the market.

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

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

We are exposed to fluctuations in the market value of our investment portfolio and in interest rates, and therefore, impairment of our investments or lower investment income could harm our earnings.

We are exposed to market value and inherent interest rate risk related to our investment portfolio. We have historically invested portions of our available cash in fixed interest rate securities such as high-grade corporate debt, commercial paper, municipal bonds, certificates of deposit, government securities and other fixed interest rate investments. The primary objective of our cash investment policy is preservation of principal. However, these investments are generally not Federal Deposit Insurance Corporation insured and may lose value and/or become illiquid regardless of their credit rating.

From time to time, we have also made investments in public and private companies that engage in complementary businesses. For example, during fiscal 2015 we made an investment in Lextar, a publicly traded company based in Taiwan. An investment in another company is subject to the risks inherent in the business of that company and to trends affecting the equity markets as a whole. Investments in publicly held companies are subject to market risks and, like our investment in Lextar, may not be liquidated easily. As a result, we may not be able to reduce the size of our position or liquidate our investments when we deem appropriate to limit our downside risk. Should the value of any such investments we hold decline, the related write-down in value could have a material adverse effect on our financial condition and results of operations. For example, the value of our Lextar investment declined from the date of our investment in December 2014 through the end of the second quarter of fiscal 2020 with variability between quarters, and may continue to decline in the future.

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

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

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

Changes in our effective tax rate may affect our results.

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

- the jurisdiction in which profits are determined to be earned and taxed;
- changes in tax laws or interpretation of such tax laws and changes in generally accepted accounting principles, for example interpretations and U.S. regulations issued as a result of the significant changes to the U.S. tax law included within the Tax Cuts and Jobs Act of 2017 (the Tax Legislation);
- the resolution of issues arising from tax audits with various authorities;
- changes in the valuation of our deferred tax assets and liabilities;
- adjustments to estimated taxes upon finalization of various tax returns;
- increases in expenses not deductible for tax purposes, including impairment of goodwill in connection with acquisitions;
- changes in available tax credits;
- the recognition and measurement of uncertain tax positions;
- variations in realized tax deductions for certain stock-based compensation awards (such as non-qualified stock options and restricted stock) from those originally anticipated; and
- the repatriation of non-U.S. earnings for which we have not previously provided for taxes or any changes in legislation that may result in these earnings being taxed, regardless of our decision regarding repatriation of funds, for example, the Tax Legislation, enacted in the second quarter of fiscal 2018, included a one-time tax on deemed repatriated earnings of non-U.S. subsidiaries.

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

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

The manufacturing, assembling and testing of our products require the use of hazardous materials that are subject to a broad array of environmental, health and safety laws and regulations. Our failure to comply with any of these applicable laws or regulations could result in:

- regulatory penalties, fines, legal liabilities and the forfeiture of certain tax benefits;
- suspension of production;
- alteration of our fabrication, assembly and test processes; and
- curtailment of our operations or sales.

In addition, our failure to manage the use, transportation, emission, discharge, storage, recycling or disposal of hazardous materials could subject us to increased costs or future liabilities. Existing and future environmental laws and regulations could also require us to acquire pollution abatement or remediation equipment, modify our product designs or incur other expenses, such as permit costs, associated with such laws and regulations. Many new materials that we are evaluating for use in our operations may be subject to regulation under existing or future environmental laws and regulations that may restrict our use of one or more of such materials in our manufacturing, assembly and test processes or products. Any of these restrictions could harm our business and results of operations by increasing our expenses or requiring us to alter our manufacturing processes.

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

The methods, estimates and judgments that we use in applying our accounting policies have a significant impact on our results (see “Critical Accounting Policies and Estimates” in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended June 30, 2019). Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and factors may arise over time that lead us to change our methods, estimates and judgments. Changes in those methods, estimates and judgments could significantly affect our results of operations or financial condition.

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

Catastrophic events may disrupt our business.

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

Our stock price may be volatile.

Historically, our common stock has experienced substantial price volatility, particularly as a result of significant fluctuations in our revenue, earnings and margins over the past few years, and variations between our actual financial results and the published expectations of analysts. For example, the closing price per share of our common stock on the Nasdaq Global Select Market ranged from a low of $39.69 to a high of $68.50 during the twelve months ended December 29, 2019. If our future operating results or margins are below the expectations of stock market analysts or our investors, our stock price will likely decline.

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

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

Our indebtedness currently consists of $575.0 million aggregate principal amount of the Notes and potential borrowings from our revolving line of credit. Our ability to pay interest and repay the principal for any outstanding indebtedness under our line of credit or the Notes is dependent upon our ability to manage our business operations and generate sufficient cash flows to service such debt. There can be no assurance that we will be able to manage any of these risks successfully.

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

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

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

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

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of minerals originating from the conflict zones of the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC established new annual disclosure and reporting requirements for those companies who may use “conflict” minerals mined from the DRC and adjoining countries in their products. Our most recent disclosure regarding our due diligence was filed in May 2019 for calendar year 2018. These requirements could affect the sourcing and availability of certain minerals used in the manufacture of our products. As a result, we may not be able to obtain the relevant minerals at competitive prices and there will likely be additional costs associated with complying with the due diligence procedures as required by the SEC. In addition, because our supply chain is complex, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins of all minerals used in our products through the due diligence procedures, and we may incur additional costs as a result of changes to product, processes or sources of supply as a consequence of these requirements.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

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

			Incorporated by Reference		
Exhibit No.	Description	Filed Herewith	Form	Exhibit	Filing Date
10.1	Fourth Amendment to the Credit Agreement, dated as of December 16, 2019, by and among Cree, Inc., Wells Fargo Bank, National Association, as administrative agent, and the other lenders party thereto		8-K	10.1	12/19/2019
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
101	The following materials from Cree, Inc.’s Quarterly Report on Form 10-Q for the fiscal quarter ended December 29, 2019 formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Loss; (iv) Consolidated Statement of Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements	X			
104	The cover page from the Cree Inc.’s Quarterly Report on Form 10-Q for the quarter ended December 29, 2019 formatted in Inline XBRL (included in Exhibit 101)	X			

SIGNATURE

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

CREE, INC.

January 30, 2020

/s/ Neill P. Reynolds

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

Exhibit 31.1

Certification by Chief Executive Officer
pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as
adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Gregg A. Lowe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cree, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 30, 2020

/s/ GREGG A. LOWE

Gregg A. Lowe
Chief Executive Officer and President

Exhibit 31.2

Certification by Chief Financial Officer
pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as
adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Neill P. Reynolds, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cree, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: January 30, 2020

/s/ NEILL P. REYNOLDS

Neill P. Reynolds
Executive Vice President and Chief Financial Officer

Exhibit 32.1

Certification by Chief Executive Officer pursuant to
18 U.S.C. Section 1350,
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Cree, Inc. (the "Company") on Form 10-Q for the quarterly period ended December 29, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregg A. Lowe, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GREGG A. LOWE

Gregg A. Lowe
Chief Executive Officer and President

January 30, 2020

This Certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**Certification by Chief Financial Officer pursuant to
18 U.S.C. Section 1350,
as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Cree, Inc. (the "Company") on Form 10-Q for the quarterly period ended December 29, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Neill P. Reynolds, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ NEILL P. REYNOLDS

Neill P. Reynolds
Executive Vice President and Chief Financial Officer

January 30, 2020

This Certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.