

# 2020 ANNUAL REPORT



# LETTER TO SHAREHOLDERS 2020

Fellow shareholders,

Fiscal 2020 was an instrumental year in our company transformation as we made significant progress in our journey to become a global semiconductor powerhouse. Reflecting on the past year, we continued to execute despite the unprecedented challenges associated with the COVID-19 pandemic and ongoing geopolitical concerns. Looking forward, we remain confident in the tremendous long-term opportunity we have ahead of us.

Our thoughts go out to those affected by COVID-19 and to those working on the front lines to help keep us safe during this pandemic. I'd also like to give a heartfelt thank you to our employees for their exemplary efforts. Their dedication to keeping our business running and safely serving our customers during this difficult time has been nothing short of exceptional.

While macro-economic uncertainty and the pandemic continue to create short-term operational headwinds, our capacity expansion plans, innovative solutions, and strategic partnerships uniquely position us to drive the industry transition from silicon to silicon carbide. Over the past year, we've achieved many key milestones.

- We secured key partnerships that underscore the growth opportunities for our technology across a number of industries, including:
  - » Delphi Technologies – Leveraging silicon carbide to enable faster, smaller, lighter and more powerful systems for EVs, including a landmark customer win for a high-performance vehicle expected to launch in 2022.
  - » ZF Friedrichshafen AG – Creating highly efficient electric drivetrains for EVs with silicon carbide solutions.
  - » ABB – Extending the use of silicon carbide into industrial solutions, including power grid, train and traction and e-mobility sectors.
- We grew our long-term silicon carbide wafer supply agreements to more than \$1 billion, including the expansion of an existing multi-year agreement with STMicroelectronics.
- We announced a partnership with New York State to break ground on the world's largest silicon carbide device manufacturing facility, known as the Mohawk Valley Fab. The partnership enables us to significantly lower our net capital expenditures for this facility. We made solid progress on the construction, with wafer fabrication beginning in early 2022. Additionally, we continued to make strides with the development of our materials factory in Durham, furthering our goals to expand our capacity and establish a silicon carbide corridor on the East Coast.
- We expanded the global availability and distribution of Wolfspeed® products by partnering with Arrow Electronics and leveraging their large sales force and extensive digital footprint to help build our silicon carbide pipeline, which now exceeds \$10 billion.
- We released more than 60 new Wolfspeed products during fiscal 2020, including our new 650V silicon carbide MOSFETs, which will deliver higher efficiency for a wider range of industrial applications and help foster the next generation of onboard EV charging, data centers, and energy storage solutions to reshape our cloud and renewable energy infrastructures.

Looking ahead, many of our customers have indicated their long-term plans remain in place, including our multi-year wafer supply agreements, the delivery of electric vehicles to market, the rollout of 5G, and an ever-expanding list of industrial applications.

The next generation in power semiconductors will be driven by silicon carbide technology with superior performance that powers new sectors and revives established ones. The silicon carbide materials market is expected to expand to more than \$1 billion by 2024.

From a device perspective, we remain encouraged by the tremendous opportunity and recent developments in the EV market, which makes up about half of our pipeline. Stay-at-home orders around the world have significantly reduced pollution in many major urban markets which can serve as another catalyst for EV adoption as countries look to reduce automotive CO2 emissions. In late July, the European Commission reached an agreement regarding the EU's €1.8 trillion COVID -19 recovery fund. The EU has committed 30% of their total expenditures from this fund to address climate concerns with the goal to be climate neutral by 2050. This includes €20 billion designated to transport and €5 billion dedicated to energy which we expect will be a positive catalyst for clean transportation and EV demand in Europe.

Our strong balance sheet and healthy cash position give us the financial flexibility to navigate the current environment, support our business operations and maintain our capital expenditure plans to support our customers and future growth.

As we continue to transform our business, our purpose remains to deliver innovative technology solutions that enable our customers and society to do more with less, including the development of next-generation products in energy efficiency. More than ever, we are prioritizing health and safety in all aspects of our business and continue to invest in our people who make our progress possible. We completed a number of actions over the last year that underscore our commitment to ensuring we operate a sustainable, safe and inclusive workplace that enables our employees to thrive. I am proud to report that some of our key achievements included the launch of our career advancement Technician Certification Program, the appointment of our first Director for Diversity, Equity and Inclusion and the implementation of our "Zero-Defect Mindset" throughout our factories to reduce the overall impacts of our manufacturing processes.

To conclude, we stand before a multi-decade growth opportunity for silicon carbide adoption and remain committed to investing in our business and our team to build Cree into a global semiconductor powerhouse and create long-term sustainable shareholder value.

Thank you for your continued support.



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

Gregg A. Lowe  
President and CEO

**CREE** 

  
*Wolfspeed*

**FORM 10-K**





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

**FORM 10-K**

(Mark One)

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

**For the fiscal year ended June 28, 2020**

**or**

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

**For the transition period from to**

**Commission file number 0-21154**

**CREE, INC.**

(Exact name of registrant as specified in its charter)

North Carolina

56-1572719

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

4600 Silicon Drive

27703

Durham

North Carolina

(Address of principal executive offices)

(Zip Code)

(919) 407-5300

(Registrant's telephone number, including area code)

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

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

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of common stock held by non-affiliates of the registrant as of December 27, 2019, the last business day of the registrant's most recently completed second fiscal quarter, was \$5,050,607,510 (based on the closing sale price of \$46.91 per share).

The number of shares of the registrant's Common Stock, \$0.00125 par value per share, outstanding as of August 13, 2020 was 109,680,497.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held October 26, 2020 are incorporated by reference into Part III.



**CREE, INC.**  
**FORM 10-K**  
**For the Fiscal Year Ended June 28, 2020**

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### **Forward-Looking Information**

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

## PART I

### Item 1. *Business*

#### *Overview*

Cree, Inc. (Cree, we, our, or us) is an innovator of wide bandgap semiconductors, focused on silicon carbide and gallium nitride materials, devices 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 devices are targeted for applications such as transportation, power supplies, inverters and wireless systems. The Company's LEDs are targeted for use in 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 in our consolidated financial statements. 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. Additionally, we are in the process of building a silicon carbide fabrication facility in New York. We operate research and development facilities in North Carolina, Arizona, Arkansas, New York, California and China (including Hong Kong).

Cree, Inc. is a North Carolina corporation established in 1987, and our headquarters are in Durham, North Carolina. For further information about our consolidated revenue and earnings, please see our consolidated financial statements included in Item 8 of this Annual Report.

#### *Products by Reportable Segment*

##### Wolfspeed

Our Wolfspeed segment includes silicon carbide and GaN materials, power devices and RF devices.

##### *Silicon Carbide and GaN Materials*

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

##### *Power Devices*

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

## *RF Devices*

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

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

## LED Products

Our LED Products segment includes LED chips and LED components.

### *LED Chips*

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

### *LED Components*

Our LED components include a range of packaged LED products, from our XLamp<sup>®</sup> and J Series<sup>®</sup> LED components and LED modules for lighting applications to our high-brightness LED components.

Our XLamp LED components and LED modules are designed to meet a broad range of market needs for lighting applications including general illumination (both indoor and outdoor applications), portable, architectural, signal and transportation lighting.

In fiscal 2018, Cree formed a joint venture, Cree Venture LED Company Limited (Cree Venture LED), with San'an Optoelectronics Co., Ltd. (San'an) to sell LED components for indoor and outdoor general illumination applications where customers are more price sensitive. Cree sells the products from Cree Venture LED under the J Series brand.

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

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

## ***Research and Development***

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

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

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

### ***Sales and Marketing***

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

### ***Customers***

We have historically had one key customer who represented more than 10% of our consolidated revenue. Arrow Electronics, Inc. (Arrow) has accounted for 15%, 19% and 21% of our total consolidated revenue in fiscal 2020, 2019 and 2018, respectively. Arrow is a customer of both our Wolfspeed and LED Products segments. For further discussion regarding customer concentration, please see Note 18, "Concentrations of Risk," in our consolidated financial statements included in Item 8 of this Annual Report. The loss of any large customer could have a material adverse effect on our business and results of operations.

### ***Distribution***

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

### ***Seasonality***

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

### ***Backlog***

Our backlog at June 28, 2020 was approximately \$687.4 million, compared with a backlog of approximately \$644.6 million at June 30, 2019. Because of the generally short cycle time between order and shipment and occasional customer changes in delivery schedules or cancellation of orders (which at times may be made without significant penalty), we do not believe that our backlog, as of any particular date, is necessarily indicative of actual net revenue for any future period. Significant amounts of our backlog relate to agreements that extend past one year.

Our June 28, 2020 backlog contained \$18.3 million of research contracts signed with the U.S. Government, all of which were appropriated as of the last day of fiscal 2020. Our June 30, 2019 backlog contained \$10.1 million of research contracts signed with the U.S. Government, for which approximately \$2.8 million was not appropriated as of the last day of fiscal 2019. Our backlog could be adversely affected if the U.S. Government exercises its rights to terminate our government contracts or does not appropriate and allocate all of the funding contemplated by the contracts.

### ***Sources of Raw Materials***

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

We are currently experiencing isolated issues with our suppliers related to the novel strain of coronavirus (COVID-19) outbreak. Most of these issues have related to local government policies that have affected the ability of employees of our suppliers to work. Additionally, the decrease in commercial airline flights has decreased airline freight capacity, which has affected the timeliness of some deliveries and increased our freight cost. We have been successful in managing through these issues and we believe our operations are currently not materially impacted by our ability to source raw materials.

### ***Competition by Reportable Segment***

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

#### Wolfspeed Segment

##### *Silicon Carbide and GaN Materials*

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

##### *Power Devices*

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

##### *RF Devices*

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

#### LED Products Segment

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

##### *LED Chips*

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

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

### *LED Components*

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

Our high-brightness LED components compete against primarily Asia-based companies, including Mulinsen Co. Ltd., Nationstar, and Nichia, in a variety of applications including signage, video, transportation, gaming and specialty lighting. We have positioned our high-brightness LED components to compete in this market based on performance, reliability, availability and binning support.

### ***Patents and Other Intellectual Property Rights***

We believe it is important to protect our investment in technology by obtaining and enforcing intellectual property rights, including rights under patent, trademark, trade secret and copyright laws. We seek to protect inventions we consider significant by applying for patents in the United States and other countries when appropriate. We have also acquired, through license grants, purchases and assignments, rights to patents on inventions originally developed by others. As of June 28, 2020, we owned or were the exclusive licensee of 1,395 issued U.S. patents and approximately 2,425 foreign patents with various expiration dates extending up to 2044. We do not consider our business to be materially dependent upon any one patent, and we believe our business will not be materially adversely affected by the expiration of any one patent. For proprietary technology that is not patented, we generally seek to protect the technology and related know-how and information as trade secrets by keeping confidential the information that we believe provides us with a competitive advantage. We attempt to create strong brands for our products and promote our products through trademarks that distinguish them in the market. We may license our customers to use our trademarks in connection with the sale of our products, and we monitor for the proper and authorized use of our trademarks.

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

### ***Environmental Regulation***

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

### ***Working Capital***

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

### ***Employees***

As of June 28, 2020, we employed 5,130 regular full and part-time employees. We also employ individuals on a temporary full-time basis and use the services of contractors as necessary. Certain employees in various countries outside of the United States are subject to laws providing representation rights.

### ***Available Information***

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

## **Item 1A. Risk Factors**

Described below are various risks and uncertainties that may affect our business. If any of the risks described below actually occurs, our business, financial condition or results of operations could be materially and adversely affected.

### ***Our financial condition and results of operations for fiscal 2021 and future periods may be adversely affected by the recent COVID-19 outbreak or other outbreak of infectious disease or similar public health threat.***

COVID-19 continues to spread globally and has resulted in authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place orders, and shutdowns. These measures have impacted and may continue to impact our workforce and operations, the operations of our customers, and those of our respective vendors and suppliers. We have significant manufacturing operations in the United States and China, and each of these countries has been affected by the outbreak and taken measures to try to contain it. We have experienced some limited disruptions in supply from some of our suppliers, although the disruptions to date have not been significant. Additionally, we have experienced a shift in customer demand. There is considerable uncertainty regarding such measures and potential future measures. Restrictions on access to our manufacturing facilities or on our support operations or workforce, or similar limitations for our vendors and suppliers, and restrictions or disruptions of transportation, such as reduced availability of air transport, port closures, and increased border controls or closures, could limit our capacity to meet customer demand, lead to increased costs and have a material adverse effect on our financial condition and results of operations.

The outbreak has significantly increased economic and demand uncertainty. These uncertainties also make it more difficult for us to assess the quality of our product order backlog and to estimate future financial results. The current outbreak of COVID-19 has caused an economic slowdown, and it is increasingly likely that its continued spread will lead to a global recession, which could have a material adverse effect on demand for our products and on our financial condition and results of operations.

The spread of COVID-19 has caused us to modify our business practices (including employee travel, employee work locations, and cancellation of physical participation in meetings, events, and conferences), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers, partners, and suppliers. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus, and our ability to perform critical functions could be harmed. In addition, in light of concerns about the spread of COVID-19, our workforce has at times been operating at reduced levels at our manufacturing facilities, which may continue to have an adverse impact on our ability to timely meet future customer orders.

The duration of the business disruption and related financial impact cannot be reasonably estimated at this time. However, it may materially affect our ability to obtain raw materials, manage customer credit risk, manufacture products or deliver inventory in a timely manner, and it also may impair our ability to meet customer demand for products, result in lost sales, additional costs, or penalties, or damage our reputation. The extent to which COVID-19 or any other health epidemic will further impact our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions to contain COVID-19 or treat its impact, among others.

### ***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 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, such as our current initiative to upgrade our company-wide enterprise resource planning (ERP) system;
- be successful in the qualification and acceptance of our new product and systems designs, including those entering into automotive applications which require even more stringent levels of qualification and standards;
- 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 complete 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 United States 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.

***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.

***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 or currency devaluations from China or such other countries in response, has, and may in the future, negatively impact demand and/or increase the cost for our products.

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

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

As customer demand for our products changes, we must be able to adjust our production capacity to meet demand. We are continually taking steps to address our manufacturing capacity needs for our products. If we are not able to increase or decrease our production capacity at our targeted rate or if there are unforeseen costs associated with adjusting our capacity levels, we may not be able to achieve our financial targets 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.

***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 United States 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 United States 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 United States 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 COVID-19;
- 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 has, and may in the future, 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.

***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. To date, we do not believe that such unauthorized access has caused us any material damage. We might be unaware of any such access or unable to determine its magnitude and effects. In addition, these threats are constantly evolving, thereby increasing the difficulty of successfully defending against them or implementing adequate preventative measures. 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. 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.

***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 15% of our consolidated revenue in fiscal 2020. 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 face risks relating to our suppliers, including that we rely on a number of key sole source and limited source suppliers, are subject to high price volatility on certain commodity inputs, variations in parts quality, and raw material consistency and availability, and rely on independent shipping companies for delivery of our products.***

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.

The risks mentioned above, including our sole source or limited source suppliers' ability to produce products and adequately access capital, and our ability to arrange effective shipping arrangements, may further increase due to the COVID-19 pandemic.

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.

***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.

***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 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.

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

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

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

From time to time, we have also made investments in public and private companies that engage in complementary businesses. For example, during fiscal 2015 we made an investment in Lextar Electronics Corporation (Lextar), a publicly traded company based in Taiwan. An investment in another company is subject to the risks inherent in the business of that company and to trends affecting the equity markets as a whole. Investments in publicly held companies are subject to market risks and, like our investment in Lextar, may not be liquidated easily. As a result, we may not be able to reduce the size of our position or liquidate our investments when we deem appropriate to limit our downside risk. Should the value of any such investments we hold decline, the related write-down in value could have a material adverse effect on our financial condition and results of operations. For example, the value of our Lextar investment declined from the date of our investment in December 2014 through the end of fiscal 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, which has been heightened by the COVID-19 pandemic. 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 ("TCJA") and the Coronavirus Aid, Relief and Economic Security Act of 2020 ("CARES Act");
- 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 TCJA 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 Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”). 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 \$29.15 to a high of \$63.02 during fiscal 2020. 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 effect of tariffs or COVID-19 on our business, 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.***

As of June 28, 2020, our indebtedness consisted of \$424.8 million aggregate principal amount of our 0.875% convertible senior notes due September 1, 2023 (the 2023 Notes) and \$575.0 million aggregate principal amount of our 1.75% convertible senior notes due May 1, 2026 (the 2026 Notes and collectively with the 2023 Notes, 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 and 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 an asset coverage ratio. 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 Indentures governing the Notes require us to repurchase the Notes upon certain fundamental changes relating to our common stock, and also prohibit 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 Indentures. The restrictions imposed by our line of credit and by the Indentures 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 Indentures 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 2020 for calendar year 2019. These requirements could affect the sourcing and availability of certain minerals used in the manufacture of our products. As a result, we may not be able to obtain the relevant minerals at competitive prices and there will likely be additional costs associated with complying with the due diligence procedures as required by the SEC. In addition, because our supply chain is complex, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins of all minerals used in our products through the due diligence procedures, and we may incur additional costs as a result of changes to product, processes or sources of supply as a consequence of these requirements.

***Item 1B. Unresolved Staff Comments***

Not applicable.

## Item 2. Properties

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

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

We are currently building a new silicon carbide fabrication facility on 55 acres of leased land in Marcy, New York, to expand capacity for our silicon carbide device business. When complete, the facility will be a significant production facility for the Wolfspeed segment.

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

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

Details on our significant owned and leased facilities as of June 28, 2020 are as follows:

<b>Location</b>	<b>Segment(s)</b>	<b>Principal Use</b>	<b>Approximate square footage</b>
<b>Owned Facilities</b>			
Durham, NC	Wolfspeed/LED Products	Administrative, Production and R&D	1,482,000
Research Triangle Park, NC	Wolfspeed	Production	187,000
Huizhou, China	LED Products	Production and Housing	824,000
<b>Leased Facilities</b>			
Morgan Hill, CA	Wolfspeed	Production	84,000
Ipoh, Malaysia	Wolfspeed	Production	26,000
Fayetteville, AR	Wolfspeed	R&D	38,000
Hong Kong	Wolfspeed/LED Products	Administrative	30,000

## Item 3. Legal Proceedings

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

## Item 4. Mine Safety Disclosures

Not applicable.

## PART II

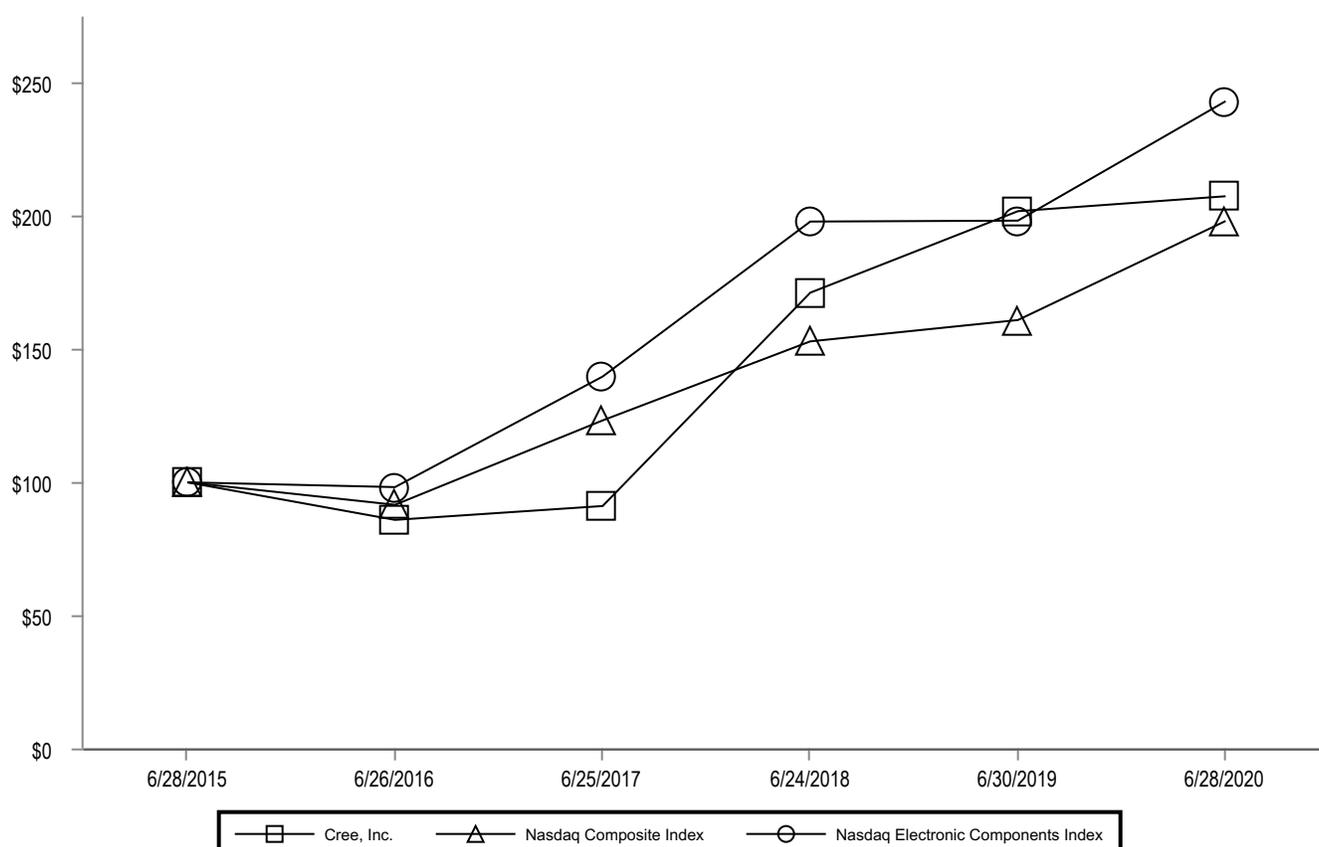
### Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Common Stock Market Information

Our common stock is traded on the Nasdaq Global Select Market and is quoted under the symbol CREE. There were 268 holders of record of our common stock as of August 13, 2020.

#### Stock Performance Graph

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

The following graph and related table compare the cumulative total return on our common stock with the cumulative total returns of the Nasdaq Composite Index and the Nasdaq Electronic Components Index, assuming an investment of \$100.00 on June 28, 2015 and the reinvestment of dividends.



	<u>6/28/2015</u>	<u>6/26/2016</u>	<u>6/25/2017</u>	<u>6/24/2018</u>	<u>6/30/2019</u>	<u>6/28/2020</u>
<b>Cree, Inc.</b> .....	\$100.00	\$85.89	\$91.10	\$171.27	\$201.89	\$207.50
<b>Nasdaq Composite Index</b> .....	100.00	91.56	123.27	152.97	160.99	198.21
<b>Nasdaq Electronic Components Index</b> ...	100.00	98.21	139.75	197.99	198.34	243.20

#### Sale of Unregistered Securities

Other than as previously reported in our Current Reports on Form 8-K, there were no unregistered securities sold during fiscal 2020.

## Item 6. Selected Financial Data

The consolidated statement of operations data set forth below with respect to the fiscal years ended June 28, 2020, June 30, 2019 and June 24, 2018 and the consolidated balance sheet data as of June 28, 2020 and June 30, 2019 are derived from, and are qualified by reference to, the audited consolidated financial statements included in Item 8 of this Annual Report and should be read in conjunction with those financial statements, the notes thereto and the information in Item 7, "Management's Discussion of Analysis of Financial Condition and Results of Operations." The consolidated statement of operations data for the fiscal years ended June 25, 2017 and June 26, 2016 and the consolidated balance sheet data as of June 24, 2018, June 25, 2017 and June 26, 2016 are derived from audited consolidated financial statements not included herein.

### Selected Consolidated Financial Data

<i>(in millions of U.S. Dollars, except share data)</i>	Fiscal Years Ended				
	June 28, 2020	June 30, 2019	June 24, 2018	June 25, 2017	June 26, 2016
<b>Statement of Operations Data</b> <sup>(1), (2)</sup>					
Revenue, net.....	\$903.9	\$1,080.0	\$924.9	\$771.5	\$727.5
Operating loss.....	(209.4)	(15.9)	(28.0)	(20.1)	(36.3)
Net loss from continuing operations.....	(190.6)	(57.9)	(16.4)	(88.1)	(39.4)
Net (loss) income from discontinued operations.....	—	(317.2)	(263.5)	(10.0)	17.9
Net loss attributable to controlling interest.....	(191.7)	(375.1)	(280.0)	(98.1)	(21.5)
<b>Basic and diluted loss per share</b>					
Continuing operations attributable to controlling interest.....	(\$1.78)	(\$0.56)	(\$0.17)	(\$0.89)	(\$0.39)
Net loss attributable to controlling interest.....	(\$1.78)	(\$3.62)	(\$2.81)	(\$1.00)	(\$0.21)
<b>Weighted average shares - basic and diluted (in thousands)</b> .....	107,935	103,576	99,530	98,487	101,783
<b>Consolidated Balance Sheet Data</b> <sup>(1), (3)</sup>					
Total cash, cash equivalents and short-term investments.....	\$1,251.7	\$1,051.4	\$387.1	\$610.9	\$605.3
Working capital.....	1,301.6	1,144.6	641.8	888.6	933.7
Total assets.....	3,231.0	2,816.9	2,637.8	2,649.9	2,766.1
Total long-term liabilities.....	850.6	507.5	317.1	215.0	175.2
Total equity.....	2,089.2	2,041.2	2,072.1	2,222.8	2,367.8

<sup>(1)</sup> Statement of operations data presented for the years ended June 28, 2020, June 30, 2019 and June 24, 2018 and the consolidated balance sheet data presented as of June 28, 2020, June 30, 2019 and June 24, 2018 include the financial impacts of the acquisition of the RF Power business from Infineon, which was completed on March 6, 2018.

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

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

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

### Executive Summary

The following discussion is designed to provide a better understanding of our audited consolidated financial statements and notes thereto, including a brief discussion of our business and products, key factors that impacted our performance and a summary of our operating results. The following discussion should be read in conjunction with our consolidated financial statements included in Item 8 of this Annual Report. Historical results and percentage relationships among any amounts in the financial statements are not necessarily indicative of trends in operating results for any future periods. Unless otherwise noted, the following information and discussion relates to the Company's continuing operations.

### Industry Dynamics and Trends

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

- *COVID-19 Outbreak.* COVID-19 has spread globally, including locations where we do business. While the financial impact of COVID-19 on our results is difficult to measure, we believe it has had an unfavorable impact on our operating income. The full extent of the outbreak, related business and travel restrictions and changes to behavior intended to reduce its spread are uncertain as of the date of this Annual Report as this continues to evolve globally. The potential effects of COVID-19 could impact us in a number of ways including, but not limited to, the impact on employees becoming ill, quarantined, or otherwise unable to work or travel due to illness or governmental restriction, the impact of customers and their related demand and/or purchases, the impact on our suppliers' ability to fulfill our orders, and the overall impact of the aforementioned items that could cause output challenges and increased costs. Additionally, COVID-19 could have a number of additional adverse effects, including additional laws and regulations affecting our business, fluctuations in foreign currency markets and the credit risks of our customers.
- *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 or extension 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.

## ***Fiscal 2020 Overview***

The following is a summary of our financial results for the year ended June 28, 2020:

- Our year-over-year revenue decreased by \$176.1 million to \$903.9 million.
- Gross margin decreased to 27.5% from 36.2%. Gross profit decreased to \$248.3 million from \$391.0 million.
- Operating loss from continuing operations was \$209.4 million in fiscal 2020 compared to \$15.9 million in fiscal 2019.
- Diluted loss per share from continuing operations attributable to controlling interest was \$1.78 in fiscal 2020 compared to \$0.56 in fiscal 2019.
- Combined cash, cash equivalents and short-term investments increased to \$1,251.7 million at June 28, 2020 from \$1,051.4 million at June 30, 2019. Cash used in operating activities of continuing operations was \$29.0 million in fiscal 2020 compared to cash provided by operating activities of continuing operations of \$220.2 million in fiscal 2019.
- Purchases of property and equipment were \$237.1 million in fiscal 2020 compared to \$131.3 million in fiscal 2019.

## ***Business Outlook***

We believe we are uniquely positioned as an innovator in both of our business segments. The strength of our balance sheet and ability to generate cash 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 fabrication facility and a large materials factory to expand our silicon carbide capacity, each of which was announced in May 2019. In September 2019, we announced our intent to build the new fabrication facility in Marcy, New York to complement the factory expansion already underway at our U.S. campus headquarters in Durham, North Carolina. Construction on the new fabrication facility commenced in the fourth quarter of fiscal 2020.

In addition, we are focused on improving the number of usable items in a production cycle (yield) as our manufacturing technologies become more complex. Despite increased complexities in our manufacturing process, we believe we are in a position to improve yield levels to support our future growth.

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.

In regards to COVID-19, our manufacturing facilities in the United States are currently operating as essential businesses. We have instituted strict measures designed to balance employee safety with meeting the needs of business operations. These measures include increased employee sick days, robust health screening, social distancing policies and cleaning protocols to ensure the safety of our employees and the protection of our customers, suppliers, and partners. Our manufacturing facilities in China briefly closed mid-third quarter of fiscal 2020 and have remained open since that time.

We believe the strength of our balance sheet and our ability to continue operations allow us to navigate the current environment while maintaining our capital expenditure plans to support future growth, including the construction of new facilities in New York and additional production capacity in North Carolina. Even so, our short-term impacts from COVID-19 to our financial position, results of operations and cash flows are uncertain.

## Results of Operations

Selected consolidated statement of operations data for the years ended June 28, 2020, June 30, 2019 and June 24, 2018 is as follows:

	Fiscal Years Ended					
	June 28, 2020		June 30, 2019		June 24, 2018	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
<i>(in millions of U.S Dollars, except share data)</i>						
<b>Revenue, net</b>	<b>\$903.9</b>	<b>100.0 %</b>	<b>\$1,080.0</b>	<b>100.0 %</b>	<b>\$924.9</b>	<b>100.0 %</b>
Cost of revenue, net	655.6	72.5 %	689.0	63.8 %	622.9	67.3 %
<b>Gross profit</b>	<b>248.3</b>	<b>27.5 %</b>	<b>391.0</b>	<b>36.2 %</b>	<b>302.0</b>	<b>32.7 %</b>
Research and development	184.2	20.4 %	157.9	14.6 %	127.3	13.8 %
Sales, general and administrative	211.4	23.4 %	200.7	18.6 %	170.3	18.4 %
Amortization or impairment of acquisition-related intangibles	14.5	1.6 %	15.6	1.4 %	7.2	0.8 %
Loss on disposal or impairment of other assets	1.4	0.2 %	4.7	0.4 %	8.4	0.9 %
Other operating expense	46.2	5.1 %	28.0	2.6 %	16.8	1.8 %
<b>Operating loss</b>	<b>(209.4)</b>	<b>(23.2)%</b>	<b>(15.9)</b>	<b>(1.5)%</b>	<b>(28.0)</b>	<b>(3.0)%</b>
Non-operating (income) expense, net	(19.0)	(2.1)%	29.3	2.7 %	(10.4)	(1.1)%
<b>Loss before income taxes</b>	<b>(190.4)</b>	<b>(21.1)%</b>	<b>(45.2)</b>	<b>(4.2)%</b>	<b>(17.6)</b>	<b>(1.9)%</b>
Income tax expense (benefit)	0.2	— %	12.7	1.2 %	(1.2)	(0.1)%
<b>Net loss from continuing operations</b>	<b>(190.6)</b>	<b>(21.1)%</b>	<b>(57.9)</b>	<b>(5.4)%</b>	<b>(16.4)</b>	<b>(1.8)%</b>
Net loss from discontinued operations	—	— %	(317.2)	(29.4)%	(263.5)	(28.5)%
<b>Net loss</b>	<b>(190.6)</b>	<b>(21.1)%</b>	<b>(375.1)</b>	<b>(34.7)%</b>	<b>(279.9)</b>	<b>(30.3)%</b>
Net income attributable to noncontrolling interest	1.1	0.1 %	—	— %	0.1	— %
<b>Net loss attributable to controlling interest</b>	<b>(\$191.7)</b>	<b>(21.2)%</b>	<b>(\$375.1)</b>	<b>(34.7)%</b>	<b>(\$280.0)</b>	<b>(30.3)%</b>
<b>Basic and diluted loss per share</b>						
Continuing operations attributable to controlling interest	(\$1.78)		(\$0.56)		(\$0.17)	
Net loss attributable to controlling interest	(\$1.78)		(\$3.62)		(\$2.81)	

## Revenue

Revenue was comprised of the following:

<i>(in millions of U.S. Dollars)</i>	Fiscal Years Ended			Year-Over-Year Change			
	June 28, 2020	June 30, 2019	June 24, 2018	2019 to 2020		2018 to 2019	
Wolfspeed.....	\$470.7	\$538.2	\$328.6	(\$67.5)	(13)%	\$209.6	64 %
<i>Percent of revenue</i> .....	52 %	50 %	36 %				
LED Products.....	433.2	541.8	596.3	(108.6)	(20)%	(54.5)	(9)%
<i>Percent of revenue</i> .....	48 %	50 %	64 %				
Total revenue.....	<u>\$903.9</u>	<u>\$1,080.0</u>	<u>\$924.9</u>	<u>(\$176.1)</u>	<u>(16)%</u>	<u>\$155.1</u>	<u>17 %</u>

### Wolfspeed Segment Revenue

The decrease in Wolfspeed segment revenue for fiscal 2020 compared to fiscal 2019 was primarily due to the ongoing trade dispute between the United States and China, weakening demand in Asia, and customer demand limitations due to the COVID-19 outbreak.

The increase in Wolfspeed segment revenue for fiscal 2019 compared to fiscal 2018 was primarily due to strong organic growth combined with revenue from the RF Power business acquisition and increased revenues from products with high average selling prices.

### LED Products Segment Revenue

The decrease in LED Products Segment revenue for fiscal 2020 compared to fiscal 2019 was primarily due to overall market softness in global LED demand as well as supply, labor and output challenges due to the COVID-19 outbreak.

The decrease in LED Products Segment revenue for fiscal 2019 compared to fiscal 2018 was primarily due to global market uncertainty with China in light of the United States and China tariff and trade dispute and current market dynamics, which was partially offset by an increase in license and royalty income.

## Gross Profit and Gross Margin

Gross profit and gross margin were as follows:

<i>(in millions of U.S. Dollars)</i>	Fiscal Years Ended			Year-Over-Year Change			
	June 28, 2020	June 30, 2019	June 24, 2018	2019 to 2020		2018 to 2019	
Wolfspeed gross profit.....	\$184.6	\$258.7	\$158.5	(\$74.1)	(29)%	\$100.2	63 %
<i>Wolfspeed gross margin</i> .....	39 %	48 %	48 %				
LED Products gross profit.....	91.1	150.0	157.9	(58.9)	(39)%	(7.9)	(5)%
<i>LED Products gross margin</i> ..	21 %	28 %	26 %				
Unallocated costs <sup>(1)</sup> .....	(27.4)	(17.7)	(9.0)	(9.7)	(55)%	(8.7)	(97)%
COGS acquisition related costs.....	—	—	(5.4)	—	— %	5.4	(100)%
Consolidated gross profit.....	<u>\$248.3</u>	<u>\$391.0</u>	<u>\$302.0</u>	<u>(\$142.7)</u>	<u>(36)%</u>	<u>\$89.0</u>	<u>29 %</u>
<i>Consolidated gross margin</i> ...	<u>27 %</u>	<u>36 %</u>	<u>33 %</u>				

<sup>(1)</sup> Unallocated costs for the fiscal year ended June 28, 2020 include \$8.5 million in incremental manufacturing costs relating to COVID-19.

### Wolfspeed Segment Gross Profit and Gross Margin

Wolfspeed gross profit and gross margin for fiscal 2020 compared to fiscal 2019 decreased primarily due to changes in customer and product mix, higher costs driven by factory and technology transitions, underutilization at some of our facilities and higher inventory reserves related to product manufactured for Huawei in the second quarter of fiscal 2020.

Wolfspeed gross margin for fiscal 2019 compared to fiscal 2018 remained relatively flat primarily due to changes in product mix. Wolfspeed gross profit increased for fiscal 2019 compared to fiscal 2018 primarily due to higher revenues.

### *LED Products Segment Gross Profit and Gross Margin*

LED Products gross profit and gross margin decreased for fiscal 2020 compared to fiscal 2019 primarily due to the impacts of lower revenue and higher chip costs due to lower utilization.

LED Products gross profit decreased in fiscal 2019 compared to fiscal 2018 due to lower revenue and tariff costs. LED Products gross margin increased in fiscal 2019 compared to fiscal 2018 due to more favorable product mix, higher license and royalty revenue, and better factory costs for the first half of the year, partially offset by tariff costs.

### *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.

For fiscal 2020, unallocated costs also include incremental costs relating to operating our manufacturing operations during the COVID-19 pandemic. The majority of these incremental costs comprise additional labor costs paid to our manufacturing employees, increased cleaning costs, cleaning supplies and protective equipment, and the costs of implementing preventative safety measures, including increased wellness checks.

Unallocated costs increased in fiscal 2020 compared to fiscal 2019 primarily due to incremental costs relating to operating our manufacturing operations during the COVID-19 pandemic and increased stock-based compensation, offset by decreased annual incentive expense.

Unallocated costs increased in fiscal 2019 compared to fiscal 2018, primarily due to higher annual incentive expenses which resulted from improved company performance and increased stock-based compensation incurred as a result of our higher average share price.

### *COGS Acquisition Related Costs Adjustment*

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 2018 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:

	<b>Fiscal Years Ended</b>			<b>Year-Over-Year Change</b>			
	<b>June 28, 2020</b>	<b>June 30, 2019</b>	<b>June 24, 2018</b>	<b>2019 to 2020</b>		<b>2018 to 2019</b>	
<i>(in millions of U.S. Dollars)</i>							
Research and development .....	\$184.2	\$157.9	\$127.3	\$26.3	17 %	\$30.6	24 %
<i>Percent of revenue</i> .....	20 %	15 %	14 %				

The increases in research and development expenses for all periods presented are primarily due to our continued investment in our silicon carbide and GaN technologies, including the development of existing silicon carbide materials and fabrication technology for next generation platforms and continuing to expand our Power and RF product portfolio.

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 are 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 consists 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:

	<u>Fiscal Years Ended</u>			<u>Year-Over-Year Change</u>			
	<u>June 28, 2020</u>	<u>June 30, 2019</u>	<u>June 24, 2018</u>	<u>2019 to 2020</u>		<u>2018 to 2019</u>	
<i>(in millions of U.S. Dollars)</i>							
Sales, general and administrative .....	\$211.4	\$200.7	\$170.3	\$10.7	5 %	\$30.4	18 %
Percent of revenue .....	23 %	19 %	18 %				

The increase in sales, general and administrative expenses in fiscal 2020 compared to fiscal 2019 was 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, offset by decreases in legal fees, sales commissions and travel costs.

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

### 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:

	<u>Fiscal Years Ended</u>			<u>Year-Over-Year Change</u>			
	<u>June 28, 2020</u>	<u>June 30, 2019</u>	<u>June 24, 2018</u>	<u>2019 to 2020</u>		<u>2018 to 2019</u>	
<i>(in millions of U.S. Dollars)</i>							
Customer relationships .....	\$6.1	\$7.3	\$3.0	(\$1.2)	(16)%	\$4.3	143 %
Developed technology .....	5.4	5.4	3.2	—	0 %	2.2	69 %
Non-compete agreements .....	3.0	2.9	1.0	0.1	3 %	1.9	190 %
Total .....	<u>\$14.5</u>	<u>\$15.6</u>	<u>\$7.2</u>	<u>(\$1.1)</u>	<u>(7)%</u>	<u>\$8.4</u>	<u>117 %</u>

Amortization of acquisition-related intangibles stayed fairly consistent in fiscal 2020 compared to fiscal 2019 due to the absence of significant intangible-related activity between the periods. The slight decrease was due to certain intangible assets relating to customer relationships reaching the end of their amortization period in fiscal 2019 and the reclassification of \$0.9 million of developed technology, net to a right-of-use asset in accordance with our adoption of ASC 842, Leases, due to the value representing a favorable lease.

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

### Loss on Disposal or Impairment of Other Assets

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

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

	Fiscal Years Ended			Year-Over-Year Change			
	June 28, 2020	June 30, 2019	June 24, 2018	2019 to 2020		2018 to 2019	
<i>(in millions of U.S. Dollars)</i>							
Loss on disposal or impairment of other assets.....	\$1.4	\$4.7	\$8.4	(\$3.3)	(70)%	(\$3.7)	(44)%

The loss in fiscal 2020 primarily relates to write-offs of impaired or abandoned patents as well as the impairment of certain leasehold improvements.

The loss in fiscal 2019 primarily relates to an impairment of other assets in conjunction with our disposal of the Lighting Products business unit.

The loss in fiscal 2018 primarily relates to a fair value market write-down for a sold aircraft.

### Other Operating Expense

Other operating expense was as follows:

	Fiscal Years Ended			Year-Over-Year Change			
	June 28, 2020	June 30, 2019	June 24, 2018	2019 to 2020		2018 to 2019	
<i>(in millions of U.S. Dollars)</i>							
Factory optimization restructuring.....	\$8.5	\$4.1	\$—	\$4.4	107 %	\$4.1	100 %
Severance and other restructuring.....	0.6	4.2	3.8	(3.6)	(86)%	0.4	11 %
Total restructuring costs.....	9.1	8.3	3.8	0.8	10 %	4.5	118 %
Project, transformation and transaction costs.....	25.5	16.9	8.5	8.6	51 %	8.4	99 %
Factory optimization start-up costs.....	9.5	1.5	—	8.0	533 %	1.5	100 %
Non-restructuring related executive severance.....	2.1	1.3	4.5	0.8	62 %	(3.2)	(71)%
Other operating expense.....	\$46.2	\$28.0	\$16.8	\$18.2	65 %	\$11.2	67 %

Factory optimization restructuring costs relate to facility consolidations as well as disposals on certain long-lived assets. Severance and other restructuring costs relate to corporate restructuring plans. See Note 20, "Restructuring," in our consolidated financial statements included in Item 8 of this Annual Report for additional information on our restructuring costs.

Project, transformation and transaction costs primarily relate to professional services fees associated with completed and potential acquisitions and divestitures, as well as internal transformation programs focused on optimizing our administrative processes and upgrading our ERP system to support our expected future growth.

Factory optimization start-up costs are additional start-up costs as part of our factory optimization efforts, which began in the fourth quarter of fiscal 2019. These efforts are focused on expanding our production footprint to support expected growth in the Wolfsped segment.

The increase in other operating expense in fiscal 2020 compared to fiscal 2019 was primarily due to increased project, transformation and transaction costs and a full year of factory optimization restructuring and start-up costs in fiscal 2020, offset by a decrease in severance and other restructuring.

The increase in other operating expense in fiscal 2019 compared to fiscal 2018 was primarily due to the addition of factory optimization restructuring and start-up costs, costs relating to restructuring our geographical sales team to realign our skills and experience needed to execute on our business objectives and transaction costs relating to the sale of our Lighting Products business unit.

## Non-Operating (Income) Expense, net

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

	Fiscal Years Ended			Year-Over-Year Change			
	June 28, 2020	June 30, 2019	June 24, 2018	2019 to 2020		2018 to 2019	
<i>(in millions of U.S. Dollars)</i>							
(Gain) loss on sale of investments, net.....	(\$2.0)	\$0.1	\$0.1	(\$2.1)	(2,100)%	\$—	— %
(Gain) loss on equity investment.....	(14.2)	16.2	(7.1)	(30.4)	(188)%	23.3	328 %
Gain on partial debt extinguishment..	(11.0)	—	—	(11.0)	100 %	—	— %
Gain on arbitration proceedings.....	(7.9)	—	—	(7.9)	100 %	—	— %
Interest income.....	(16.4)	(14.0)	(9.1)	(2.4)	(17)%	(4.9)	(54)%
Interest expense.....	34.9	26.0	7.3	8.9	34 %	18.7	256 %
Foreign currency (gain) loss, net.....	(1.9)	1.3	(1.8)	(3.2)	(246)%	3.1	172 %
Other, net.....	(0.5)	(0.3)	0.2	(0.2)	(67)%	(0.5)	(250)%
Non-operating (income) expense, net	<u>(\$19.0)</u>	<u>\$29.3</u>	<u>(\$10.4)</u>	<u>(\$48.3)</u>	<u>(165)%</u>	<u>\$39.7</u>	<u>382 %</u>

*(Gain) loss on equity investment.* The (gain) loss on equity investment is due to changes in the fair value of our Lextar investment, respectively. Lextar's stock is publicly traded on the Taiwan Stock Exchange and its share price increased from 18.40 New Taiwanese Dollars (TWD) per share at June 25, 2017 to 21.00 TWD per share at June 24, 2018 before decreasing to 14.75 TWD per share at June 30, 2019 and increasing to 19.90 TWD per share at June 28, 2020.

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. In June 2020, Lextar announced a plan to restructure under a holding company with EPSTAR Corporation (EPSTAR) via a share swap. As approved by the shareholders of Lextar and EPSTAR at the meetings held on August 7, 2020, we will receive 0.275 shares of common stock of the holding company, to be named ENNOSTAR Inc. (ENNOSTAR), for each share for Lextar common stock once the share swap is effected (currently scheduled for October 20, 2020), representing in the aggregate an approximately 3.3% common stock ownership interest in ENNOSTAR. The shares of ENNOSTAR will be listed on the Taiwan Stock Exchange. 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.

*Gain on partial debt extinguishment.* The gain on partial debt extinguishment relates to a gain recognized as a result of using \$144.3 million towards repurchasing \$150.2 million of the principal amount held on the 2023 Notes.

*Gain on arbitration proceedings.* The gain on arbitration proceedings primarily relates to an award from an arbitration proceeding in the third quarter of fiscal 2020 with a former vendor in which we were awarded damages for defective inventory. Additionally, a small legal settlement was paid in the fourth quarter of fiscal 2020.

*Interest income.* The increases in interest income in both comparative periods are due to higher balances on our short-term investments.

*Interest expense.* Interest expense in fiscal 2020 and fiscal 2019 reflect increased interest expense related to the Notes. The increase in fiscal 2020 compared to fiscal 2019 is primarily due to the addition of the 2026 Notes at the end of fiscal 2020, which were sold on April 21, 2020.

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

## Income Tax Expense (Benefit)

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

<i>(in millions of U.S. Dollars)</i>	<b>Fiscal Years Ended</b>			<b>Year-Over-Year Change</b>			
	<b>June 28, 2020</b>	<b>June 30, 2019</b>	<b>June 24, 2018</b>	<b>2019 to 2020</b>		<b>2018 to 2019</b>	
Income tax expense (benefit)	\$0.2	\$12.7	(\$1.2)	(12.5)	(98)%	13.9	1,158 %
Effective tax rate.....	— %	(28)%	7 %				

The increase in the effective tax rate from (28)% in fiscal 2019 to 0% in fiscal 2020 was primarily due to the tax benefit related to net operating loss provisions of the CARES Act and a decrease in foreign tax expense due to lower income derived from foreign jurisdictions, where there is not a full valuation allowance, as a result of COVID-19.

The decrease in the effective tax rate from 7% in fiscal 2018 to (28)% in fiscal 2019 was primarily due to the tax benefit of remeasuring our U.S. deferred taxes as a result of the TCJA enacted on December 22, 2017.

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

## Net Loss from Discontinued Operations

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

We did not have any discontinued operations related activity in fiscal 2020.

## ***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. We have a \$125 million line of credit as discussed as discussed in Note 11, “Long-term Debt,” in our consolidated financial statements included in Item 8 of this Annual Report. The purpose of this facility is to provide short term flexibility to optimize returns on our cash and investment portfolio while funding capital expenditures and other general business needs. Additionally, on April 21, 2020, we issued and sold a total of \$575.0 million aggregate principal amount of 2026 Notes, as discussed in Note 11, “Long-term Debt,” in our consolidated financial statements included in Item 8 of this Annual Report. The total net proceeds of the 2026 Notes was \$561.4 million, of which we used \$144.3 million to repurchase \$150.2 million aggregate principal amount of our 2023 Notes. We expect to use the remainder of the net proceeds for general corporate purposes.

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 the strength of our 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 and/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 have continued 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.

We are currently building a new silicon carbide fabrication facility in Marcy, New York, to expand capacity for our silicon carbide device business. We expect to invest approximately \$1.0 billion in construction, equipment and other related costs for the new facility through fiscal 2024, of which approximately \$500 million is expected to be reimbursed by the State of New

York through a grant program administered by Empire State Development. Given our current cash position, we believe we are in a good position to adequately fund the construction of the facility.

The full extent to which COVID-19 may impact our results of operations or liquidity is uncertain. Currently, the local governments in the locations in which we operate have designated our Company as an essential business, but our operations have, and likely will continue, to experience supply, labor, demand and output challenges. We continue to monitor the impact that the COVID-19 pandemic is having on our business, the semiconductor and LED industries, and the economies in which we operate. We anticipate our future results of operations, including the results for fiscal 2021, will be materially impacted by COVID-19, but at this time we do not expect the impact from the COVID-19 outbreak will have a material effect on our liquidity or financial position. However, given the speed and frequency of continuously evolving developments with respect to this pandemic, we cannot reasonably estimate the magnitude of the impact to our results of operations, and, if the outbreak continues on its current trajectory, such impacts could grow and become material to our liquidity or financial position. To the extent our suppliers continue to be materially and adversely impacted by COVID-19, this could reduce the availability, or result in delays, of materials or supplies to or from us, which in turn could materially interrupt our business operations.

### Contractual Obligations

At June 28, 2020, payments to be made pursuant to significant contractual obligations are as follows:

<i>(in millions of U.S. Dollars)</i>	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less than One Year</b>	<b>One to Three Years</b>	<b>Three to Five Years</b>	<b>More Than Five Years</b>
Operating lease obligations.....	13.9	5.5	6.4	1.6	0.4
Finance lease obligations.....	15.0	2.6	1.6	0.9	9.9
Purchase obligations.....	451.6	451.1	0.5	—	—
Long-term debt <sup>(1)</sup> .....	999.8	—	—	424.8	575.0
Interest payments on long-term debt <sup>(2)</sup> .....	70.5	13.8	27.6	20.7	8.4
Other long-term liabilities <sup>(3)</sup> .....	1.9	—	1.9	—	—
<b>Total contractual obligations.....</b>	<b>\$1,552.7</b>	<b>\$473.0</b>	<b>\$38.0</b>	<b>\$448.0</b>	<b>\$593.7</b>

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

<sup>(2)</sup> Interest payments on long-term debt represent semi-annual interest payments on the Notes.

<sup>(3)</sup> Other long-term liabilities as of June 28, 2020 also includes customer deposits of \$33.7 million, long-term tax contingencies and other tax liabilities of \$2.4 million, LED supply agreements of \$8.3 million and extended warranty liability of \$0.4 million. These liabilities were not included in the table above as they will either not be settled in cash and/or the timing of payments is uncertain.

Operating lease obligations include rental amounts due on leases of certain office and manufacturing space under the terms of non-cancelable operating leases. These leases expire at various times through December 2027. Finance lease obligations primarily include Wolfspeed manufacturing space in Malaysia and a 49-year ground lease on a future silicon carbide fabrication facility in New York. The leases for our Wolfspeed manufacturing space in Malaysia expire in February 2027 and the 49-year ground lease in New York expires in March 2069.

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

### Financial Condition

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

<i>(in millions of U.S. Dollars)</i>	<b>June 28, 2020</b>	<b>June 30, 2019</b>	<b>Change</b>
Cash and cash equivalents.....	\$448.8	\$500.5	(\$51.7)
Short-term investments.....	802.9	550.9	252.0
<b>Total cash, cash equivalents and short-term investments.....</b>	<b>\$1,251.7</b>	<b>\$1,051.4</b>	<b>\$200.3</b>

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:

	<b>Three Months Ended</b>		<b>Change</b>
	<b>June 28, 2020</b>	<b>June 30, 2019</b>	
Days of sales outstanding (a).....	37	34	3
Days of supply in inventory (b).....	104	104	—
Days in accounts payable (c).....	(103)	(72)	(31)
Cash conversion cycle.....	<u>38</u>	<u>66</u>	<u>(28)</u>

- a) Days of sales outstanding (DSO) measures the average collection period of our receivables. DSO is based on the ending net trade receivables less receivable related accrued contract liabilities and the revenue, net for the quarter then ended. DSO is calculated by dividing ending accounts receivable, less receivable related accrued contract liabilities, by the average net revenue per day for the respective 90-day period.
- b) Days of supply in inventory (DSI) measures the average number of days from procurement to sale of our product. DSI is based on ending inventory and cost of revenue, net for the quarter then ended. DSI is calculated by dividing ending inventory by average cost of revenue, net per day for the respective 90-day period.
- c) Days in accounts payable (DPO) measures the average number of days our payables remain outstanding before payment. DPO is based on ending accounts payable and cost of revenue, net for the quarter then ended. DPO is calculated by dividing ending accounts payable and accrued expenses (less accrued salaries and wages) by the average cost of revenue, net per day for the respective 90-day period.

The decrease in the cash conversion cycle was primarily driven by increased accounts payable balances relating to investment at our future silicon carbide fabrication facility in New York.

As of June 28, 2020, we had unrealized losses on our investments of less than \$0.1 million. All of our investments had investment grade ratings, and any such investments that were in an unrealized loss position at June 28, 2020 were in such position due to interest rate changes, sector credit rating changes, company-specific rating changes or negative market conditions surrounding the COVID-19 outbreak. We intend and believe that we have the ability to hold such investments for a period of time that will be sufficient for anticipated recovery in market value, and we currently expect to receive the full principal or recover our cost basis in these securities. The declines in value of the securities in our portfolio are considered to be temporary in nature and, accordingly, we do not believe these securities are impaired as of June 28, 2020.

### **Cash Flows**

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

	<b>Fiscal Years Ended</b>			<b>Year-Over-Year Change</b>	
	<b>June 28, 2020</b>	<b>June 30, 2019</b>	<b>June 24, 2018</b>	<b>2019 to 2020</b>	<b>2018 to 2019</b>
Cash (used in) provided by operating activities.....	(\$29.0)	\$202.3	\$173.5	(\$231.3)	\$28.8
Cash used in investing activities.....	(486.9)	(227.1)	(423.9)	(259.8)	196.8
Cash provided by financing activities.....	464.3	406.5	236.5	57.8	170.0
Effect of foreign exchange changes.....	(0.1)	(0.1)	0.2	—	(0.3)
Net increase (decrease) in cash and cash equivalents.....	<u>(\$51.7)</u>	<u>\$381.6</u>	<u>(\$13.7)</u>	<u>(\$433.3)</u>	<u>\$395.3</u>

### **Cash Flows from Operating Activities**

Net cash (used in) provided by operating activities decreased in fiscal 2020 compared to fiscal 2019 primarily due to cash used from our increased operating loss and a larger annual incentive payment in the first quarter of fiscal 2020 compared to the previous year. Annual incentive payments are made in the first quarter of the subsequent fiscal year.

Net cash provided by operating activities increased in fiscal 2019 compared to fiscal 2018 primarily due to generating higher cash from earnings and improved working capital.

Total cash provided by operating activities in fiscal 2019 and 2018 includes (\$17.9) million and \$61.0 million of cash (used in) 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.

The increase in net cash used in investing activities in fiscal 2020 compared to fiscal 2019 was primarily due to the net proceeds from the sale of the Lighting Products business unit of \$219.0 million received in fiscal 2019. Excluding the proceeds from the sale, cash used in investing activities stayed relatively flat with an increase in purchases of property, equipment and patent rights of \$106.7 million offset by a decrease in net purchases of short term investments of \$48.2 million.

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

Total cash used in investing activities in fiscal 2019 and 2018 includes \$15.4 million and \$17.9 million of cash used in investing activities of discontinued operations.

For fiscal 2021, we target approximately \$400.0 million of net capital investment, which is primarily related to capacity and infrastructure projects to support our Wolfspeed segment longer-term growth and strategic priorities. This target is highly dependent on the timing and overall progress on the construction of our new silicon carbide fabrication facility in New York and is net of expected reimbursements from the State of New York Urban Development Corporation under a Grant Disbursement Agreement (GDA). For more details on the GDA, see Note 16, "Commitments and Contingencies," in our consolidated financial statements included in Item 8 of this Annual Report.

### Cash Flows from Financing Activities

Net cash provided by financing activities in fiscal 2020 primarily consisted of proceeds of \$575.0 million from the issuance of the 2026 Notes and net proceeds of \$59.5 million from issuances of common stock pursuant to the exercise of employee stock options, partially offset by payments on long-term debt of \$145.1 million, the payment of \$13.6 million in debt issuance costs from the issuance of the 2026 Notes and incentive-related refundable escrow deposits of \$11.5 million relating to the construction of our future silicon carbide fabrication facility in New York. The escrow deposits will be returned to us upon successful completion of defined objectives relating to New York state funded incentives.

Net cash provided by financing activities in fiscal 2019 primarily consisted of \$575.0 million in proceeds from the issuance of the 2023 Notes and net proceeds of \$136.4 million from issuances of common stock pursuant to the exercise of employee stock options, partially offset by the net repayment on our line of credit of \$292.0 million and the payment of debt issuance costs of \$12.9 million from the issuance of the 2023 Notes.

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

### ***Financial and Market Risks***

We are exposed to financial and market risks, including changes in interest rates, currency exchange rates and commodities risk. We have entered, and may in the future enter, into foreign currency derivative financial instruments in an effort to manage or hedge some of our foreign exchange rate risk. We may not be able to engage in hedging transactions in the future, and even if we do, foreign currency fluctuations may still have a material adverse effect on our results of operations and financial performance. All of the potential changes noted below are based on sensitivity analysis performed on our financial positions at June 28, 2020 and June 30, 2019. Actual results may differ materially.

#### Interest Rate Risk

We maintain an investment portfolio principally composed of money market funds, municipal bonds, corporate bonds, U.S. agency securities, U.S. treasury securities, commercial paper, certificates of deposit, and variable rate demand notes. In order to minimize risk, our cash management policy permits us to acquire investments rated "A" grade or better. As of June 28, 2020 and June 30, 2019, our cash equivalents and short-term investments had a fair value of \$1,106.8 million and \$789.0 million, respectively. If interest rates were to hypothetically increase by 100 basis points, the fair value of our short-term investments would decrease by \$11.1 million at June 28, 2020 and \$7.9 million at June 30, 2019.

As of June 28, 2020, we maintain a secured revolving line of credit under which we can borrow, repay and reborrow loans from time to time prior to its scheduled maturity date of January 9, 2023. As of and during the fiscal years ending June 28, 2020 and June 30, 2019, no balances were outstanding under the line of credit.

### Currency Rate and Price Risk

We operate internationally and have transactions denominated in foreign currencies and are exposed to currency exchange rate risks. As a result, fluctuations in exchange rates may adversely affect our expenses and results of operations as well as the value of our assets and liabilities. Our primary exposure relates to the exchange rate between the United States Dollar (USD) and the TWD as our Lextar investment is held in TWD. Additionally, our investment relates to owning shares that are publicly traded on the Taiwan Stock Exchange and subject to price risks from market trading. The value of our Lextar investment was \$55.9 million and \$39.5 million as of June 28, 2020 and June 30, 2019, respectively. A hypothetical 10% decrease in the value of the USD compared to the TWD or a hypothetical 10% decrease in quoted market values on our investment would each individually result in potential losses of approximately \$5.6 million and \$4.0 million for the years ended June 28, 2020 and June 30, 2019, respectively.

### Commodities

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

### ***Off-Balance Sheet Arrangements***

We do not use off-balance sheet arrangements with unconsolidated entities or related parties, nor do we use any other forms of off-balance sheet arrangements. Accordingly, our liquidity and capital resources are not subject to off-balance sheet risks from unconsolidated entities. As of June 28, 2020, 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***

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

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

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

### Revenue Recognition

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

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

For the year ended June 28, 2020, 44% of our revenue was from sales to distributors. Distributors stock inventory and sell our products to their own customer base, which may include: value added resellers; manufacturers who incorporate our products into their own manufactured goods; or ultimate end users of our products. We recognize revenue upon shipment of our products to our distributors. This arrangement is often referred to as a “sell-in” or “point-of-purchase” model as opposed to a “sell-through” or “point-of-sale” model, where revenue is deferred and not recognized until the distributor sells the product through to their customer.

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

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

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

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

We also have inventory consignment agreements in which revenue is recognized at a point in time, when the customer or distributor pulls product from consignment inventory that we store at designated locations. Delivery and transfer of control occur at that point, when title and risk of loss transfers and the customer or distributor becomes obligated to pay for the products pulled from inventory. Until the products are pulled for use or sale by the customer or distributor, we retain control over the products’ disposition, including the right to pull back or relocate the products.

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

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

At lease inception, we determine that 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 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.

### Inventories

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

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

### Deferred Tax Asset Valuation Allowances

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

### Tax Contingencies

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

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

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

### Stock-Based Compensation

We account for awards of stock-based compensation under our employee stock-based compensation plans using the fair value method. Accordingly, we estimate the grant date fair value of our stock-based awards and amortize this fair value to compensation expense over the requisite service period or vesting term. We currently use the Black-Scholes option-pricing model to estimate the fair value of our stock option and Employee Stock Purchase Plan (ESPP) awards. The grant date fair value of performance stock units that vest upon meeting certain market conditions is estimated using the Monte Carlo valuation model. The determination of the fair value of stock-based awards on the date of grant using an option-pricing model is affected by our then current stock price as well as assumptions regarding a number of complex and subjective variables. These variables include the expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, the risk-free interest rate and expected dividends.

Due to the inherent limitations of option-valuation models, future events that are unpredictable and the estimation process utilized in determining the valuation of the stock-based awards, the ultimate value realized by award holders may vary significantly from the amounts expensed in our financial statements. For restricted stock and stock unit awards, grant date fair value is based upon the market price of our common stock on the date of the grant. This fair value is then amortized to compensation expense over the requisite service period or vesting term.

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

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

### Long-Lived Assets

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

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

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

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

### Goodwill

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

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

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

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

### Contingent Liabilities

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

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

### Recent Accounting Pronouncements

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

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

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

**Item 8. *Financial Statements and Supplementary Data***

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## **Report of Independent Registered Public Accounting Firm**

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

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Cree, Inc. and its subsidiaries (the “Company”) as of June 28, 2020 and June 30, 2019, and the related consolidated statements of operations, comprehensive loss, shareholders’ equity, and cash flows for each of the three years in the period ended June 28, 2020, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of June 28, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 28, 2020 and June 30, 2019, and the results of its operations and its cash flows for each of the three years in the period ended June 28, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 28, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### ***Changes in Accounting Principles***

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases on July 1, 2019, and as discussed in Note 4 to the consolidated financial statements, the Company changed the manner in which it accounts for revenues from contracts with customers on June 25, 2018.

### ***Basis for Opinions***

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

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

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

### ***Definition and Limitations of Internal Control over Financial Reporting***

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

expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

### ***Critical Audit Matters***

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

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

As described in Note 2 to the consolidated financial statements, products are sold to distributors at negotiated prices and the distributors are required to pay for the products purchased within the Company's standard commercial terms. Certain distributors may be provided limited rights that allow them to return a portion of inventory and receive credits for changes in selling price (price protection rights) or customer pricing arrangements under the Company's "ship and debit" program. Distributor sales account for approximately 44% of total net revenue of \$903.9 million for the year ended June 28, 2020 and the associated reserves for ship and debit and price protection rights programs to distributors make up a portion of the accrued contract liabilities account balance of \$38.3 million. Under the Company's ship and debit program, subsequent to the initial product purchase, a distributor may request a price allowance for a particular part number(s) for certain target customers, prior to the distributor reselling the particular part to that customer. If the Company approves an allowance and the distributor resells the product to the target customer, the Company credits the distributor according to the allowance the Company approved. Under the price protection rights program, if the Company issues a new price book for its products, the Company will provide a credit to certain distributors for inventory quantities on hand. The credits associated with these programs are applied against the reserve the Company establishes upon initial shipment of product to the distributor. Upon shipment, management uses significant judgment in establishing reserves for the ship and debit and price protection rights programs, which includes developing assumptions related to changes in selling prices.

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

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

**/s/PricewaterhouseCoopers LLP**

Raleigh, North Carolina

August 19, 2020

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

**CREE, INC.**  
**CONSOLIDATED BALANCE SHEETS**

<i>in millions of U.S. Dollars, except share data in thousands</i>	<b>June 28, 2020</b>	<b>June 30, 2019</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents .....	\$448.8	\$500.5
Short-term investments .....	802.9	550.9
Total cash, cash equivalents and short-term investments .....	1,251.7	1,051.4
Accounts receivable, net .....	114.0	128.9
Inventories .....	179.1	187.4
Income taxes receivable .....	6.6	0.2
Prepaid expenses .....	26.3	23.3
Other current assets .....	13.8	19.7
Current assets held for sale .....	1.3	1.9
<b>Total current assets</b> .....	<b>1,592.8</b>	<b>1,412.8</b>
Property and equipment, net .....	831.1	625.2
Goodwill .....	530.0	530.0
Intangible assets, net .....	179.6	197.9
Other long-term investments .....	55.9	39.5
Deferred tax assets .....	6.3	5.6
Other assets .....	35.3	5.9
<b>Total assets</b> .....	<b>\$3,231.0</b>	<b>\$2,816.9</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses .....	\$220.8	\$200.9
Accrued contract liabilities .....	38.3	45.8
Income taxes payable .....	3.2	3.0
Finance lease liabilities .....	3.6	—
Other current liabilities .....	25.3	18.5
<b>Total current liabilities</b> .....	<b>291.2</b>	<b>268.2</b>
Long-term liabilities:		
Convertible notes, net .....	783.8	469.1
Deferred tax liabilities .....	1.8	2.0
Finance lease liabilities - long-term .....	11.4	—
Other long-term liabilities .....	53.6	36.4
<b>Total long-term liabilities</b> .....	<b>850.6</b>	<b>507.5</b>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value \$0.01; 3,000 shares authorized at June 28, 2020 and June 30, 2019; none issued and outstanding .....	—	—
Common stock, par value \$0.00125; 200,000 shares authorized at June 28, 2020 and June 30, 2019; 109,230 and 106,570 shares issued and outstanding at June 28, 2020 and June 30, 2019, respectively .....	0.1	0.1
Additional paid-in-capital .....	3,106.2	2,874.1
Accumulated other comprehensive income .....	16.0	9.5
Accumulated deficit .....	(1,039.2)	(847.5)
<b>Total shareholders' equity</b> .....	<b>2,083.1</b>	<b>2,036.2</b>
Non-controlling interest .....	6.1	5.0
<b>Total equity</b> .....	<b>2,089.2</b>	<b>2,041.2</b>
<b>Total liabilities and shareholders' equity</b> .....	<b>\$3,231.0</b>	<b>\$2,816.9</b>

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

**CREE, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Fiscal Years Ended</b>		
	<b>June 28, 2020</b>	<b>June 30, 2019</b>	<b>June 24, 2018</b>
<i>in millions of U.S. Dollars, except share data</i>			
Revenue, net .....	\$903.9	\$1,080.0	\$924.9
Cost of revenue, net .....	655.6	689.0	622.9
Gross profit .....	248.3	391.0	302.0
Operating expenses:			
Research and development .....	184.2	157.9	127.3
Sales, general and administrative .....	211.4	200.7	170.3
Amortization or impairment of acquisition-related intangibles .....	14.5	15.6	7.2
Loss on disposal or impairment of other assets .....	1.4	4.7	8.4
Other operating expense .....	46.2	28.0	16.8
Operating loss .....	(209.4)	(15.9)	(28.0)
Non-operating (income) expense, net .....	(19.0)	29.3	(10.4)
<b>Loss before income taxes</b> .....	<b>(190.4)</b>	<b>(45.2)</b>	<b>(17.6)</b>
Income tax expense (benefit) .....	0.2	12.7	(1.2)
<b>Net loss from continuing operations</b> .....	<b>(190.6)</b>	<b>(57.9)</b>	<b>(16.4)</b>
Net loss from discontinued operations .....	—	(317.2)	(263.5)
<b>Net loss</b> .....	<b>(190.6)</b>	<b>(375.1)</b>	<b>(279.9)</b>
Net income attributable to noncontrolling interest .....	1.1	—	0.1
<b>Net loss attributable to controlling interest</b> .....	<b>(\$191.7)</b>	<b>(\$375.1)</b>	<b>(\$280.0)</b>
<b>Basic and diluted loss per share</b>			
Continuing operations attributable to controlling interest .....	(\$1.78)	(\$0.56)	(\$0.17)
Net loss attributable to controlling interest .....	(\$1.78)	(\$3.62)	(\$2.81)
<b>Weighted average shares - basic and diluted (in thousands)</b> .....	107,935	103,576	99,530

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

**CREE, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

	<b>Fiscal Years Ended</b>		
	<b>June 28, 2020</b>	<b>June 30, 2019</b>	<b>June 24, 2018</b>
<i>in millions of U.S. Dollars</i>			
Net loss.....	(\$190.6)	(\$375.1)	(\$279.9)
Other comprehensive income (loss):			
Currency translation gain.....	—	4.4	0.6
Net unrealized gain (loss) on available-for-sale securities.....	6.5	4.5	(5.9)
Comprehensive loss.....	(184.1)	(366.2)	(285.2)
Net income attributable to non-controlling interest.....	1.1	—	0.1
Comprehensive loss attributable to controlling interest.....	(\$185.2)	(\$366.2)	(\$285.3)

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

**CREE, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>in millions of U.S. Dollars</i>	Fiscal Years Ended		
	June 28, 2020	June 30, 2019	June 24, 2018
<b>Operating activities:</b>			
Net loss from continuing operations	(\$190.6)	(\$57.9)	(\$16.4)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	123.9	122.4	111.6
Amortization of debt issuance costs and discount	26.3	18.3	—
Gain on partial extinguishment of debt	(11.0)	—	—
Stock-based compensation	53.3	49.6	37.9
Loss on disposal or impairment of long-lived assets	4.7	4.7	8.4
Amortization of premium/discount on investments	1.7	2.3	4.7
Realized (gain) loss on sale of investments	(2.0)	0.1	0.1
(Gain) loss on equity investment	(14.2)	16.2	(7.1)
Foreign exchange (gain) loss on equity investment	(2.2)	1.3	(0.6)
Deferred income taxes	(0.9)	(0.6)	(39.3)
Changes in operating assets and liabilities:			
Accounts receivable, net	14.9	9.6	(16.4)
Inventories	9.9	(35.8)	9.5
Prepaid expenses and other assets	(1.0)	(3.1)	(10.3)
Accounts payable, trade	(16.3)	29.3	13.7
Accrued salaries and wages and other liabilities	(25.4)	42.2	16.7
Accrued contract liabilities	(0.1)	21.6	—
Net cash (used in) provided by operating activities of continuing operations	(29.0)	220.2	112.5
Net cash (used in) provided by operating activities of discontinued operations	—	(17.9)	61.0
<b>Cash (used in) provided by operating activities</b>	<b>(29.0)</b>	<b>202.3</b>	<b>173.5</b>
<b>Investing activities:</b>			
Purchases of property and equipment	(237.1)	(131.3)	(172.3)
Purchases of patent and licensing rights	(7.2)	(6.3)	(5.6)
Proceeds from sale of property and equipment	2.6	0.3	0.6
Purchases of short-term investments	(833.4)	(517.2)	(200.7)
Proceeds from maturities of short-term investments	460.6	177.4	224.2
Proceeds from sale of short-term investments	127.6	46.4	177.0
Purchase of acquired business, net of cash acquired	—	—	(429.2)
Proceeds from sale of business, net	—	219.0	—
Net cash used in investing activities of continuing operations	(486.9)	(211.7)	(406.0)
Net cash used in investing activities of discontinued operations	—	(15.4)	(17.9)
<b>Cash used in investing activities</b>	<b>(486.9)</b>	<b>(227.1)</b>	<b>(423.9)</b>
<b>Financing activities:</b>			
Proceeds from issuing Cree Venture LED stock to noncontrolling interest	—	—	4.9
Payment of acquisition-related contingent consideration	—	—	(1.8)
Proceeds from long-term debt borrowings	—	95.0	670.0
Payments on long-term debt borrowings, including finance lease obligations	(145.1)	(387.0)	(523.0)
Proceeds from issuance of common stock	76.4	158.0	92.6
Tax withholding on vested equity awards	(16.9)	(21.6)	(6.2)
Proceeds from convertible notes	575.0	575.0	—
Payments of debt issuance costs	(13.6)	(12.9)	—
Incentive-related refundable escrow deposits	(11.5)	—	—
<b>Cash provided by financing activities</b>	<b>464.3</b>	<b>406.5</b>	<b>236.5</b>
Effects of foreign exchange changes on cash and cash equivalents	(0.1)	(0.1)	0.2
<b>Net change in cash and cash equivalents</b>	<b>(51.7)</b>	<b>381.6</b>	<b>(13.7)</b>
Cash and cash equivalents, beginning of period	500.5	118.9	132.6
<b>Cash and cash equivalents, end of period</b>	<b>\$448.8</b>	<b>\$500.5</b>	<b>\$118.9</b>

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

**CREE, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Equity - Controlled Interest	Non- controlling Interest	Total Equity
	Number of Shares	Par Value						
<i>Share data in thousands, U.S. Dollar information in millions</i>								
<b>Balance at June 25, 2017</b>	<b>97,674</b>	<b>\$0.1</b>	<b>\$2,419.5</b>	<b>(\$202.7)</b>	<b>\$5.9</b>	<b>\$2,222.8</b>	<b>\$—</b>	<b>\$2,222.8</b>
Net loss (income).....	—	—	—	(280.0)	—	(280.0)	0.1	(279.9)
Currency translation gain ...	—	—	—	—	0.6	0.6	—	0.6
Unrealized loss on available-for-sale securities	—	—	—	—	(5.9)	(5.9)	—	(5.9)
Comprehensive loss.....						(285.3)	0.1	(285.2)
Income tax expense from stock option exercises.....	—	—	(6.2)	—	—	(6.2)	—	(6.2)
Contributions from non- controlling interests.....	—	—	—	—	—	—	4.9	4.9
Stock-based compensation.....	—	—	43.2	—	—	43.2	—	43.2
Exercise of stock options and issuance of shares.....	3,814	—	92.6	—	—	92.6	—	92.6
<b>Balance at June 24, 2018</b>	<b>101,488</b>	<b>\$0.1</b>	<b>\$2,549.1</b>	<b>(\$482.7)</b>	<b>\$0.6</b>	<b>\$2,067.1</b>	<b>\$5.0</b>	<b>\$2,072.1</b>
Net loss.....	—	—	—	(375.1)	—	(375.1)	—	(375.1)
Currency translation gain....	—	—	—	—	4.4	4.4	—	4.4
Unrealized gain on available-for-sale securities	—	—	—	—	4.5	4.5	—	4.5
Comprehensive loss.....						(366.2)	—	(366.2)
Income tax expense from stock option exercises.....	—	—	(21.6)	—	—	(21.6)	—	(21.6)
Adoption of ASC 606.....	—	—	—	10.3	—	10.3	—	10.3
Stock-based compensation.....	—	—	78.0	—	—	78.0	—	78.0
Exercise of stock options and issuance of shares.....	5,082	—	158.0	—	—	158.0	—	158.0
Issuance of convertible notes due September 1, 2023.....	—	—	110.6	—	—	110.6	—	110.6
<b>Balance at June 30, 2019</b>	<b>106,570</b>	<b>\$0.1</b>	<b>\$2,874.1</b>	<b>(\$847.5)</b>	<b>\$9.5</b>	<b>\$2,036.2</b>	<b>\$5.0</b>	<b>\$2,041.2</b>
Net loss.....	—	—	—	(191.7)	—	(191.7)	1.1	(190.6)
Unrealized gain on available-for-sale securities	—	—	—	—	6.5	6.5	—	6.5
Comprehensive loss.....						(185.2)	1.1	(184.1)
Income tax expense from stock option exercises.....	—	—	(16.9)	—	—	(16.9)	—	(16.9)
Stock-based compensation.....	—	—	54.9	—	—	54.9	—	54.9
Exercise of stock options and issuance of shares.....	2,660	—	76.4	—	—	76.4	—	76.4
Issuance of convertible notes due May 1, 2026.....	—	—	145.4	—	—	145.4	—	145.4
Partial extinguishment of convertible notes due September 1, 2023.....	—	—	(27.7)	—	—	(27.7)	—	(27.7)
<b>Balance at June 28, 2020</b>	<b>109,230</b>	<b>\$0.1</b>	<b>\$3,106.2</b>	<b>(\$1,039.2)</b>	<b>\$16.0</b>	<b>\$2,083.1</b>	<b>\$6.1</b>	<b>\$2,089.2</b>

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

**CREE, INC.**

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## Note 1 – Business

### *Overview*

Cree, Inc. (the Company) is an innovator of wide bandgap semiconductors, focused on silicon carbide and gallium nitride materials, devices 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 devices are targeted for applications such as transportation, power supplies, inverters and wireless systems. The Company's LEDs are targeted for use in 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 3, “Discontinued Operations,” on May 13, 2019, the Company sold its Lighting Products business unit to IDEAL Industries, Inc. (IDEAL). Unless otherwise noted, discussion within these notes to the consolidated financial statements relates to the Company's continuing operations.

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

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

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

### ***Principles of Consolidation***

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

### ***Fiscal Year***

The Company's fiscal year is a 52 or 53-week period ending on the last Sunday in the month of June. The Company's 2020 and 2018 fiscal years were 52-week fiscal years. The Company's 2019 fiscal year was a 53-week fiscal year. The Company's 2021 fiscal year will be a 52-week fiscal year.

### ***Reclassifications***

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

### ***Use of Estimates***

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

Certain accounting matters that generally require consideration of forecasted financial information were assessed regarding impacts from the COVID-19 outbreak as of June 28, 2020 and through the date of this Annual Report using reasonably available information as of those dates. The accounting matters assessed included, but were not limited to, allowance for doubtful accounts, the carrying value of goodwill and other long-lived tangible and intangible assets, the potential impact to earnings of unrealized losses on investments and valuation allowances for tax assets. While the assessments resulted in no material impacts to the consolidated financial statements as of and for the year ended June 28, 2020, the Company believes the full impact of the outbreak remains uncertain and will continue to assess if ongoing developments related to the outbreak may cause future material impacts to its consolidated financial statements.

### ***Segment Information***

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

### ***Cash and Cash Equivalents***

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

### ***Investments***

Investments in certain securities may be classified into three categories:

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

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

When the fair value of an investment declines below its original cost, the Company considers all available evidence to evaluate whether the decline is other-than-temporary. Among other things, the Company considers the duration and extent of the decline and economic factors influencing the capital markets. For the fiscal years ended June 28, 2020, June 30, 2019, and June 24, 2018, the Company had no other-than-temporary declines below the cost basis of its investments. The Company utilizes specific identification in computing realized gains and losses on the sale of investments. Realized gains and losses on the sale of investments are reported in non-operating (income) expense, net.

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

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

### ***Inventories***

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

### ***Property and Equipment***

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

Furniture and fixtures.....	5 years
Buildings and building improvements.....	5 to 40 years
Machinery and equipment.....	3 to 15 years
Vehicles.....	5 years
Computer hardware/software.....	3 years
Leasehold improvements.....	Shorter of estimated useful life or lease term

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

### ***Shipping and Handling Costs***

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

### ***Goodwill and Intangible Assets***

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

#### **Goodwill**

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

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

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

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

#### **Finite-Lived Intangible Assets**

U.S. GAAP requires that intangible assets, other than goodwill and indefinite-lived intangibles, must be amortized over their useful lives. The Company is currently amortizing its acquired intangible assets with finite lives over periods ranging from four to 15 years.

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

### ***Long-Lived Assets***

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

### ***Contingent Liabilities***

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

### ***Revenue Recognition***

Revenue is recognized when control of a good or service promised in a contract (i.e., performance obligation) is transferred to a customer. Control is obtained when a customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that good or service. Substantially all of the Company's revenue is derived from product sales. Revenue is recognized at a point in time based on the Company's evaluation of when the customer obtains control of the products, and all performance obligations under the terms of the contract are satisfied. If customer acceptance clauses are present and it cannot be objectively determined that control has been transferred based on the contract and shipping terms, revenue is only recorded when customer acceptance is received and all performance obligations have been satisfied. Sales of products typically do not include more than one performance obligation.

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

Master supply or distributor agreements are in place with many of the Company's customers and contain terms and conditions including, but not limited to payment, delivery, incentives and warranty. These agreements typically do not require minimum purchase commitments. If a master supply, distributor or other similar agreement is not in place with a customer, the Company considers a purchase order, which is governed by the Company's standard terms and conditions, to be the contract governing the relationship with that customer.

Pricing terms are negotiated independently on a stand-alone basis. Revenue is measured based on the amount of net consideration to which the Company expects to be entitled to receive in exchange for products or services. Variable consideration is recognized as a reduction of net revenue with a corresponding reserve at the time of revenue recognition, and consists primarily of sales incentives or rebates, price concessions and return allowances. Variable consideration is estimated based on contractual terms, historical analysis of customer purchase volumes, or historical analysis using specific data for the type of consideration being assessed. The Company offers product warranties and establishes liabilities for estimated warranty costs based upon historical experience and specific warranty provisions.

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

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

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

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

The Company also has inventory consignment agreements in which revenue is recognized at a point in time, when the customer or distributor pulls product from consignment inventory that the Company stores at designated locations. Delivery and transfer of control occur at that point, when title and risk of loss transfers and the customer or distributor becomes obligated to pay for the products pulled from inventory. Until the products are pulled for use or sale by the customer or distributor, the Company retains control over the products' disposition, including the right to pull back or relocate the products.

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

### ***Leases***

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 from one 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.

### ***Accounts Receivable***

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

### ***Allowance for Doubtful Accounts***

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

### ***Advertising***

The Company expenses the costs of producing advertisements at the time production occurs and expenses the cost of communicating the advertising in the period in which the advertising is used. Advertising costs are included in sales, general and administrative expenses in the consolidated statements of operations and amounted to approximately \$4.1 million, \$4.2 million, and \$3.9 million for the years ended June 28, 2020, June 30, 2019 and June 24, 2018, respectively.

### ***Research and Development***

Research and development activities are expensed when incurred.

### ***Loss Per Share***

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

### ***Stock-Based Compensation***

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

### ***Fair Value of Financial Instruments***

Cash and cash equivalents, short-term investments, accounts and interest receivable, accounts payable and other liabilities approximate their fair values at June 28, 2020 and June 30, 2019 due to the short-term nature of these instruments.

### ***Taxes***

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

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

### ***Foreign Currency Translation***

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

Due to the sale of the Lighting Products business unit in fiscal 2019, \$5.2 million of currency translation loss was reclassified out of other comprehensive income (loss) and recognized in the consolidated statements of operations as part of the loss on transaction.

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

### ***Joint Venture***

Effective July 17, 2017, the Company entered into a Shareholders Agreement with San'an Optoelectronics Co., Ltd. (San'an) and Cree Venture LED Company Limited (Cree Venture LED) pursuant to which the Company and San'an funded their contributions to Cree Venture LED and agreed upon the management and operation of Cree Venture LED. The Company contributed \$5.1 million of cash for a 51% ownership interest and San'an contributed \$4.9 million of cash for a 49% ownership interest. Cree Venture LED has a five-member board of directors, three of which were designated by the Company and two of which were designated by San'an. As a result of the Company's majority voting interest, the Company consolidates the operations of Cree Venture LED and reports its revenue and gross profit within the Company's LED Products segment. The Company classifies the 49% ownership interest held by San'an as noncontrolling interest on the consolidated balance sheet. The noncontrolling interest increased by \$1.1 million, \$0.0 million and \$0.1 million for its share of net income from Cree Venture LED for the fiscal years ending June 28, 2020, June 30, 2019 and June 24, 2018, respectively.

### ***Supplemental Cash Flow Information***

Cash paid for interest was \$5.9 million, \$4.0 million, and \$6.1 million for the fiscal years ending June 28, 2020, June 30, 2019 and June 24, 2018, respectively.

Cash paid for taxes, net of refunds received, was \$7.1 million and \$5.4 million for the fiscal years ending June 28, 2020 and June 30, 2019, respectively. Cash paid for taxes, net of refunds received, was less than \$0.1 million for the fiscal year ended June 24, 2018.

### ***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 5, "Leases," for additional disclosures, as required by the new standard.

The reported results as of and for the year ended June 28, 2020 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.

#### *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 early adopted this standard in the fourth quarter of fiscal 2020 with no material impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The FASB issued ASU 2018-02 to give entities the option to reclassify tax effects stranded in accumulated other comprehensive income as a result of the enactment of the TCJA to retained earnings. The Company adopted this standard in the fourth quarter of fiscal 2020. For the year ended June 28, 2020, the Company did not elect to reclassify tax effects stranded in accumulated other comprehensive income as a result of the enactment of the TCJA to retained earnings. The Company's policy is to account for the release of disproportionate income tax effects stranded in accumulated other comprehensive income under the aggregate portfolio approach.

#### ***Recently Issued Accounting Pronouncements***

##### *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 Current 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 adopted this standard on June 29, 2020, the first day of fiscal 2021, and does not expect this standard to have a material impact on its consolidated financial statements.

#### **Note 3 – Discontinued Operations**

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

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

Products business unit to IDEAL; (iii) an LED Supply Agreement (the LED Supply Agreement), pursuant to which the Company will supply IDEAL with certain LED chip and component products for three years; and (iv) a Real Estate License Agreement, which will allow IDEAL to use certain premises owned by the Company to conduct the Lighting Products business unit after closing. The Company recognized a loss on the sale of \$66.2 million.

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

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

The Company did not have any discontinued operations activity for the year ended June 28, 2020.

The Company recognized \$10.5 million and \$1.6 million in administrative fees for the fiscal years ended June 28, 2020 and June 30, 2019, respectively, relating to the TSA, of which \$1.6 million and \$1.6 million was accrued in accounts receivable, net in the consolidated balance sheets as of June 28, 2020 and June 30, 2019, respectively. These fees were recorded as a reduction of sales, general and administrative expense in the consolidated statements of operations.

The Company recognized \$12.0 million and \$2.1 million in revenue for the fiscal years ended June 28, 2020 and June 30, 2019, respectively, related to the LED Supply Agreement, of which \$0.7 million was accrued in accounts receivable, net in the consolidated balance sheets as of June 28, 2020. No amounts related to the LED Supply Agreement were accrued in accounts receivable, net in the consolidated balance sheets as of June 30, 2019. Additionally, the Company recorded a contract liability of \$9.9 million and \$13.4 million relating to the LED Supply Agreement as of June 28, 2020 and June 30, 2019, respectively. The contract liability is recognized in contract liabilities and other long term liabilities on the consolidated balance sheets.

#### **Note 4 – Revenue Recognition**

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

Contract liabilities primarily include various rights of return and customer deposits, as well as deferred revenue, price protection guarantees and the Company's liability under the LED Supply Agreement. Contract liabilities were \$80.3 million and \$80.4 million as of June 28, 2020 and June 30, 2019, respectively. Contract liabilities stayed relatively flat due to increased customer deposits offset by lower reserve liabilities and continued fulfillment on the LED Supply Agreement. Contract liabilities are recorded within accrued contract liabilities and other long-term liabilities on the balance sheet. Before the adoption of ASC 606, liabilities relating to various rights of return were recorded as a reduction to accounts receivable. The adjustments recorded as a result of adopting ASC 606 did not impact net cash provided by operating activities; however, they did impact the changes in

operating assets and liabilities for the related accounts within the disclosure of operating activities on the statement of cash flows. As of June 25, 2018, the date the Company adopted ASC 606, contract liabilities were \$47.1 million.

### ***Practical Expedients and Exemptions***

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

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

The Company's accounts receivable balance represents the Company's unconditional right to receive consideration from its customers with contracts. Payments are typically due within 30 days of the completion of the performance obligation and invoicing, and therefore do not contain significant financing components.

Sales tax, value-added tax, and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue, and shipping and handling costs are treated as fulfillment activities and are included in cost of revenue in the Company's consolidated statements of operations.

Disaggregated revenue by geography is presented in Note 17, "Reportable Segments". For the fiscal years ended June 28, 2020 and June 30, 2019, the Company recognized revenue of \$3.9 million and \$5.0 million that was included in contract liabilities as of July 1, 2019 and June 25, 2018, respectively. 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 fiscal years ended June 28, 2020 and June 30, 2019.

### **Note 5 – 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. For details on the Company's lease policies, see the significant accounting policy disclosures in Note 2, "Basis of Presentation and Summary of Significant Accounting Policies".

The Company's finance lease obligations primarily relate to Wolfspeed manufacturing space in Malaysia and a 49-year ground lease on a future silicon carbide fabrication facility in New York.

### ***Balance Sheet***

Lease assets and liabilities as of June 28, 2020, and the corresponding balance sheet classifications, are as follows (in millions of U.S. Dollars):

**Operating Leases:**

Right-of-use asset <sup>(1)</sup> .....	\$14.0
Current lease liability <sup>(2)</sup> .....	5.2
Non-current lease liability <sup>(3)</sup> .....	8.7
Total operating lease liabilities .....	<u>13.9</u>

**Finance Leases:**

Finance lease assets <sup>(4)</sup> .....	15.4
Current portion of finance lease liabilities .....	3.6
Finance lease liabilities, less current portion .....	11.4
Total finance lease liabilities .....	<u>15.0</u>

<sup>(1)</sup> Within other assets on the consolidated balance sheets.

<sup>(2)</sup> Within other current liabilities on the consolidated balance sheets.

<sup>(3)</sup> Within other long-term liabilities on the consolidated balance sheets.

<sup>(4)</sup> Within property and equipment, net on the consolidated balance sheets.

**Statement of Operations**

Operating lease expense was \$6.4 million in fiscal 2020. Short-term lease expense was \$0.1 million and variable lease income was \$0.1 million in fiscal 2020. Lease income was immaterial in fiscal 2020.

Finance lease amortization was \$0.7 million and interest expense was \$0.2 million in fiscal 2020.

**Cash Flows**

Cash flow information consisted of the following:

<i>(in millions of U.S. Dollars)</i>	<b>Fiscal year ended June 28, 2020</b>
Cash used in operating activities:	
Cash paid for operating leases .....	\$6.4
Cash paid for interest portion of financing leases .....	0.1
Cash used in financing activities:	
Cash paid for principal portion of finance leases .....	0.8
Non-cash operating activities:	
Operating lease additions due to adoption of ASC 842 .....	12.2
Operating lease additions and modifications, net .....	7.6
Finance lease additions .....	15.7

**Lease Liability Maturities**

Maturities of operating and finance lease liabilities as of June 28, 2020 were as follows (in millions of U.S. Dollars):

<b>Fiscal Year Ending</b>	<b>Operating Leases</b>	<b>Finance Leases</b>	<b>Total</b>
June 27, 2021	\$5.8	\$3.9	\$9.7
June 26, 2022	4.4	1.7	6.1
June 25, 2023	2.4	0.7	3.1
June 30, 2024	0.9	0.7	1.6
June 29, 2025	0.8	0.7	1.5
Thereafter	0.4	15.2	15.6
Total lease payments	14.7	22.9	37.6
Imputed lease interest	(0.8)	(7.9)	(8.7)
Total lease liabilities	\$13.9	\$15.0	\$28.9

### **Supplemental Disclosures**

	<b>Operating Leases</b>	<b>Finance Leases</b>
Weighted average remaining lease term (in months) <sup>(1)</sup>	40	337
Weighted average discount rate <sup>(2)</sup>	3.46 %	3.00 %

<sup>(1)</sup> Weighted average remaining lease term of finance leases without the 49-year ground lease is 31 months.

<sup>(2)</sup> Weighted average discount rate of finance leases without the 49-year ground lease is 3.51%.

The aggregate future non-cancelable minimum rental payments on operating leases as of June 30, 2019, were as follows:

<b>Fiscal Years Ending</b>	<i>(in millions of U.S. Dollars)</i>
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 6 – Acquisition**

#### ***Infinion Radio Frequency Power Business***

On March 6, 2018, the Company acquired certain assets of the Infineon Radio Frequency Power Business (RF Power), pursuant to an asset purchase agreement with Infineon in exchange for a base purchase price of \$429.2 million, subject to certain adjustments. As part of the agreement, the Company paid \$427.0 million of cash on the purchase date and agreed to purchase certain additional non-U.S. property and equipment related to the RF Power business from Infineon for approximately \$2.2 million, which was completed during the fourth quarter of fiscal 2018. The acquisition allows the Company to expand its product portfolio into the wireless market.

The acquisition of the RF Power business from Infineon was accounted for as a business combination. The assets, liabilities and operating results of the RF Power business have been included in the Company's consolidated financial statements from the date of acquisition. Additionally, the RF Power business's results from operations are reported as part of the Company's Wolfspeed segment.

The final purchase price allocation is as follows:

(in millions of U.S. Dollars)

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

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

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

	<u>Asset Amount</u>	<u>Estimated Life (in years)</u>
Lease agreement <sup>(1)</sup> .....	\$1.0	10
Customer relationships .....	92.0	15
Developed technology .....	44.0	14
Non-compete agreements .....	12.0	4
<b>Total identifiable intangible assets</b> .....	<u>\$149.0</u>	

<sup>(1)</sup> In the first quarter of fiscal 2020, the acquired lease agreement was reclassified from an intangible asset to a right-of-use asset in accordance with the Company's adoption of ASC 842, Leases.

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

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

(in millions of U.S. Dollars)

	<u>Amount</u>
Revenue .....	\$29.0
Net loss from continuing operations .....	(11.7)

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

### **Supplemental Pro Forma Financial Information**

The following supplemental pro forma information presents the consolidated financial results as if the RF Power transaction had occurred at the beginning of fiscal 2018:

	<u>Fiscal Year Ended</u> <u>June 24, 2018</u>
(in millions of U.S. Dollars, except share data)	
Revenue .....	\$990.3
Net loss from continuing operations .....	(20.8)
Basic loss per share from continuing operations .....	(\$0.21)
Diluted loss per share from continuing operations .....	(\$0.21)

## Note 7 – Financial Statement Details

### Accounts Receivable, net

Accounts receivable, net consisted of the following:

<i>(in millions of U.S. Dollars)</i>	<b>June 28, 2020</b>	<b>June 30, 2019</b>
Billed trade receivables .....	\$111.3	\$125.8
Unbilled contract receivables .....	1.2	0.7
Royalties .....	2.8	2.8
	<u>115.3</u>	<u>129.3</u>
Allowance for bad debts .....	(1.3)	(0.4)
Accounts receivable, net .....	<u>\$114.0</u>	<u>\$128.9</u>

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

<i>(in millions of U.S. Dollars)</i>	<b>Fiscal Years Ended</b>		
	<b>June 28, 2020</b>	<b>June 30, 2019</b>	<b>June 24, 2018</b>
Balance at beginning of period .....	\$0.4	\$0.8	\$1.6
Current period provision change .....	1.0	(0.3)	0.4
Write-offs, net of recoveries .....	(0.1)	(0.1)	(1.2)
Balance at end of period .....	<u>\$1.3</u>	<u>\$0.4</u>	<u>\$0.8</u>

### Inventories

Inventories consisted of the following:

<i>(in millions of U.S. Dollars)</i>	<b>June 28, 2020</b>	<b>June 30, 2019</b>
Raw material .....	\$47.0	\$42.4
Work-in-progress .....	95.4	101.1
Finished goods .....	36.7	43.9
Inventories .....	<u>\$179.1</u>	<u>\$187.4</u>

### Property and Equipment, net

Property and equipment, net consisted of the following:

<i>(in millions of U.S. Dollars)</i>	<b>June 28, 2020</b>	<b>June 30, 2019</b>
Machinery and equipment .....	\$1,139.2	\$1,110.3
Land and buildings .....	435.4	416.5
Computer hardware/software .....	53.6	48.6
Furniture and fixtures .....	9.2	9.7
Leasehold improvements and other .....	10.2	4.2
Vehicles .....	0.9	0.9
Finance lease assets .....	15.4	—
Construction in progress .....	371.5	231.7
Property and equipment, gross .....	<u>2,035.4</u>	<u>1,821.9</u>
Accumulated depreciation .....	(1,204.3)	(1,196.7)
Property and equipment, net .....	<u>\$831.1</u>	<u>\$625.2</u>

Depreciation of property and equipment totaled \$100.3 million, \$97.0 million and \$94.8 million for the years ended June 28, 2020, June 30, 2019 and June 24, 2018, respectively.

During the years ended June 28, 2020, June 30, 2019 and June 24, 2018, the Company recognized approximately \$3.3 million, \$1.5 million and \$6.3 million, respectively, as losses on disposals or impairments of property and equipment. For the year ended June 28, 2020, these charges are reflected in other operating expense as all amounts related to the Company's factory optimization plan. For the years ended June 30, 2019 and June 24, 2018, these charges are reflected in loss on disposal or impairment of other assets in the consolidated statements of operations.

### ***Accounts Payable and Accrued Expenses***

Accounts payable and accrued expenses consisted of the following:

<i>(in millions of U.S. Dollars)</i>	<b>June 28, 2020</b>	<b>June 30, 2019</b>
Accounts payable, trade .....	\$106.9	\$90.7
Accrued salaries and wages .....	47.4	70.9
Accrued expenses .....	60.5	34.0
Other .....	6.0	5.3
Accounts payable and accrued expenses .....	<u>\$220.8</u>	<u>\$200.9</u>

### ***Accumulated Other Comprehensive Income, net of taxes***

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

<i>(in millions of U.S. Dollars)</i>	<b>June 28, 2020</b>	<b>June 30, 2019</b>
Currency translation gain .....	\$9.5	\$9.5
Net unrealized gain on available-for-sale securities <sup>(1)</sup> .....	6.5	—
Accumulated other comprehensive income, net of taxes .....	<u>\$16.0</u>	<u>\$9.5</u>

<sup>(1)</sup> Amounts as of June 28, 2020 and June 30, 2019 include a \$2.4 million loss related to tax on unrealized gain (loss) on available-for-sale securities.

### ***Other Operating Expense***

The following table summarizes the components of other operating expense:

<i>(in millions of U.S. Dollars)</i>	<b>Fiscal Years Ended</b>		
	<b>June 28, 2020</b>	<b>June 30, 2019</b>	<b>June 24, 2018</b>
Factory optimization restructuring .....	\$8.5	\$4.1	\$—
Severance and other restructuring .....	0.6	4.2	3.8
Total restructuring costs .....	9.1	8.3	3.8
Project, transformation and transaction costs .....	25.5	16.9	8.5
Factory optimization start-up costs .....	9.5	1.5	—
Non-restructuring related executive severance .....	2.1	1.3	4.5
Other operating expense .....	<u>\$46.2</u>	<u>\$28.0</u>	<u>\$16.8</u>

See Note 20, "Restructuring" for more details on the Company's restructuring costs.

### ***Non-Operating (Income) Expense, net***

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

<i>(in millions of U.S. Dollars)</i>	<b>Fiscal Years Ended</b>		
	<b>June 28, 2020</b>	<b>June 30, 2019</b>	<b>June 24, 2018</b>
(Gain) loss on sale of investments, net .....	(\$2.0)	\$0.1	\$0.1
(Gain) loss on equity investment .....	(14.2)	16.2	(7.1)
Gain on partial debt extinguishment .....	(11.0)	—	—
Gain on arbitration proceedings .....	(7.9)	—	—
Interest income .....	(16.4)	(14.0)	(9.1)
Interest expense .....	34.9	26.0	7.3
Foreign currency (gain) loss, net .....	(1.9)	1.3	(1.8)
Other, net .....	(0.5)	(0.3)	0.2
Non-operating (income) expense, net .....	<u>(\$19.0)</u>	<u>\$29.3</u>	<u>(\$10.4)</u>

### ***Reclassifications Out of Accumulated Other Comprehensive Income (Loss)***

The Company reclassified a net gain of \$2.0 million, and a net loss of \$0.1 million and \$0.1 million, on available for sale securities out of accumulated other comprehensive income (loss) for the fiscal years ended June 28, 2020, June 30, 2019, and June 24, 2018, respectively. There was no tax impact on any reclassifications due to a full valuation allowance on U.S. operations. Amounts were reclassified to non-operating (income) expense, net on the consolidated statements of operations.

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

### ***Statements of Cash Flows - non-cash activities***

<i>Non-cash operating activities</i>	<b>Twelve months ended</b>		
	<b>June 28, 2020</b>	<b>June 30, 2019</b>	<b>June 24, 2018</b>
Lease asset and liability additions <sup>(1)</sup> .....	\$31.0	\$—	\$—
Lease asset and liability modifications, net .....	4.4	—	—

<sup>(1)</sup> \$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 5, "Leases", for further information.

Accrued property and equipment as of June 28, 2020, June 30, 2019 and June 24, 2018 was \$80.3 million, \$21.3 million and \$15.0 million, respectively.

### **Note 8 – Investments**

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

Short-term investments as of June 28, 2020 consist of the following:

	<b>June 28, 2020</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses <sup>(1)</sup></b>	<b>Estimated Fair Value</b>
<i>(in millions of U.S. Dollars)</i>				
Municipal bonds.....	\$130.0	\$2.0	\$—	\$132.0
Corporate bonds.....	473.8	6.3	—	480.1
U.S. agency securities.....	29.1	—	—	29.1
U.S. treasury securities.....	52.3	0.6	—	52.9
U.S. certificates of deposit.....	95.3	—	—	95.3
Commercial paper.....	11.0	—	—	11.0
Variable rate demand note.....	2.5	—	—	2.5
Total short-term investments.....	<u>\$794.0</u>	<u>\$8.9</u>	<u>\$—</u>	<u>\$802.9</u>

<sup>(1)</sup> The Company had an unrealized loss of less than \$0.1 million as of June 28, 2020.

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

	<b>June 28, 2020</b>					
	<b>Less than 12 Months</b>		<b>Greater than 12 Months</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Loss <sup>(1)</sup></b>	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>
<i>(in millions of U.S. Dollars)</i>						
Municipal bonds.....	\$14.3	\$—	\$—	\$—	\$14.3	\$—
Corporate bonds.....	29.1	—	—	—	29.1	—
U.S. agency securities.....	8.6	—	—	—	8.6	—
U.S. treasury securities.....	13.8	—	—	—	13.8	—
Total.....	<u>\$65.8</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>	<u>\$65.8</u>	<u>\$—</u>
Number of securities with an unrealized loss.....		<u>46</u>		<u>—</u>		<u>46</u>

<sup>(1)</sup> Securities with an unrealized loss of less than 12 months as of June 28, 2020 have an unrealized loss value of less than \$0.1 million, individually and in the aggregate.

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

	<b>June 30, 2019</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
<i>(in millions of U.S. Dollars)</i>				
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
Certificates of deposit.....	71.5	1.1	—	72.6
Commercial paper.....	7.8	—	—	7.8
Variable rate demand note.....	16.9	—	—	16.9
Total short-term investments.....	<u>\$548.4</u>	<u>2.6</u>	<u>(\$0.1)</u>	<u>\$550.9</u>

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

	<b>June 30, 2019</b>					
	<b>Less than 12 Months</b>		<b>Greater than 12 Months</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Loss <sup>(1)</sup></b>	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>
<i>(in millions of U.S. Dollars)</i>						
Municipal bonds.....	\$4.3	\$—	\$29.8	(\$0.1)	\$34.1	(\$0.1)
Corporate bonds.....	41.8	—	14.7	—	56.5	—
U.S. agency securities.....	7.7	—	—	—	7.7	—
U.S. treasury securities.....	2.0	—	3.9	—	5.9	—
Total.....	<u>\$55.8</u>	<u>\$—</u>	<u>\$48.4</u>	<u>(\$0.1)</u>	<u>\$104.2</u>	<u>(\$0.1)</u>
Number of securities with an unrealized loss.....		<u>46</u>		<u>47</u>		<u>93</u>

<sup>(1)</sup> Securities with an unrealized loss of less than 12 months as of June 30, 2019 have an unrealized loss value of less than \$0.1 million, individually and in the aggregate.

The Company utilizes specific identification in computing realized gains and losses on the sale of investments. Realized gains on the sale of investments for the fiscal year ended June 28, 2020 of \$2.0 million were included in non-operating (income) expense, net in the consolidated statements of operations and unrealized gains and losses are included as a separate component of equity, net of tax, unless the loss is determined to be other-than-temporary.

The Company evaluates its investments for possible impairment or a decline in fair value below cost basis that is deemed to be other-than-temporary on a periodic basis. It considers such factors as the length of time and extent to which the fair value has been below the cost basis, the financial condition of the investee, and its ability and intent to hold the investment for a period of time that may be sufficient for an anticipated full recovery in market value. The Company had insignificant unrealized losses as of June 28, 2020 and considers these declines to be temporary in nature.

The contractual maturities of short-term investments at June 28, 2020 were as follows:

<i>(in millions of U.S. Dollars)</i>	<b>Within One Year</b>	<b>After One, Within Five Years</b>	<b>After Five, Within Ten Years</b>	<b>After Ten Years</b>	<b>Total</b>
Municipal bonds.....	\$29.4	\$102.6	\$—	\$—	\$132.0
Corporate bonds.....	191.0	289.1	—	—	480.1
U.S. agency securities.....	17.3	11.8	—	—	29.1
U.S. treasury securities.....	36.1	16.8	—	—	52.9
Certificates of deposit.....	95.3	—	—	—	95.3
Commercial paper.....	11.0	—	—	—	11.0
Variable rate demand note.....	—	—	—	2.5	2.5
Total short-term investments.....	<u>\$380.1</u>	<u>\$420.3</u>	<u>\$—</u>	<u>\$2.5</u>	<u>\$802.9</u>

### **Note 9 – Fair Value of Financial Instruments**

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

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

The financial assets for which the Company performs recurring fair value remeasurements are cash equivalents, short-term investments and long-term investments. As of June 28, 2020, financial assets utilizing Level 1 inputs included money market funds, U.S. treasury securities and U.S. agency securities, and financial assets utilizing Level 2 inputs included municipal bonds, corporate bonds, certificates of deposit, commercial paper, variable rate demand notes and common stock of non-U.S. corporations. Level 2 assets are valued based on quoted prices in active markets for instruments that are similar or using a third-party pricing service's consensus price, which is a weighted average price based on multiple sources. These sources determine prices utilizing market income models which factor in, where applicable, transactions of similar assets in active markets, transactions of identical assets in infrequent markets, interest rates, bond or credit default swap spreads and volatility. The Company did not have any financial assets requiring the use of Level 3 inputs as of June 28, 2020. There were no transfers between Level 1 and Level 2 during the year ended June 28, 2020.

Financial instruments carried at fair value were as follows:

	June 28, 2020				June 30, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Cash equivalents:								
Money market funds .....	\$ 199.9	\$ —	\$ —	\$ 199.9	\$ 95.0	\$ —	\$ —	\$ 95.0
Corporate bonds .....	—	—	—	—	—	15.0	—	15.0
U.S. agency securities .....	—	19.6	—	19.6	—	18.8	—	18.8
U.S. treasury securities .....	19.0	—	—	19.0	2.5	—	—	2.5
Certificates of deposit .....	—	54.3	—	54.3	—	105.8	—	105.8
Commercial paper .....	—	11.1	—	11.1	—	1.0	—	1.0
<b>Total cash equivalents</b> .....	<b>218.9</b>	<b>85.0</b>	<b>—</b>	<b>303.9</b>	<b>97.5</b>	<b>140.6</b>	<b>—</b>	<b>238.1</b>
Short-term investments:								
Municipal bonds .....	—	132.0	—	132.0	—	78.5	—	78.5
Corporate bonds .....	—	480.1	—	480.1	—	257.0	—	257.0
U.S. agency securities .....	—	29.1	—	29.1	—	25.6	—	25.6
U.S. treasury securities .....	52.9	—	—	52.9	92.5	—	—	92.5
Certificates of deposit .....	—	95.3	—	95.3	—	72.6	—	72.6
Commercial paper .....	—	11.0	—	11.0	—	7.8	—	7.8
Variable rate demand note .....	—	2.5	—	2.5	—	16.9	—	16.9
<b>Total short-term investments</b> .....	<b>52.9</b>	<b>750.0</b>	<b>—</b>	<b>802.9</b>	<b>92.5</b>	<b>458.4</b>	<b>—</b>	<b>550.9</b>
Other long-term investments:								
Common stock of non-U.S. corporations .....	—	55.9	—	55.9	—	39.5	—	39.5
<b>Total assets</b> .....	<b>\$271.8</b>	<b>\$890.9</b>	<b>\$—</b>	<b>\$1,162.7</b>	<b>\$190.0</b>	<b>\$638.5</b>	<b>\$—</b>	<b>\$828.5</b>

## Note 10 – Goodwill and Intangible Assets

### Goodwill

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

- Wolfspeed
- LED Products

As of the first day of the fourth quarter of fiscal 2020, the Company performed a quantitative impairment test for both segments and concluded there was no impairment.

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

Goodwill by reporting unit as of June 28, 2020 and June 30, 2019 was as follows:

(in millions of U.S. Dollars)	June 28, 2020	June 30, 2019
Wolfspeed .....	\$349.7	\$349.7
LED Products .....	180.3	\$180.3
Consolidated total .....	<b>\$530.0</b>	<b>\$530.0</b>

## Intangible Assets

Intangible assets, net included the following:

<i>(in millions of U.S. Dollars)</i>	June 28, 2020			June 30, 2019		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Intangible assets:						
Customer relationships	\$147.8	(\$70.0)	\$77.8	\$147.8	(\$63.8)	\$84.0
Developed technology	74.9	(29.7)	45.2	75.9	(24.5)	51.4
Non-compete agreements	12.2	(7.1)	5.1	12.2	(4.1)	8.1
Trade names	0.5	(0.5)	—	0.5	(0.5)	—
Acquisition related intangible assets	235.4	(107.3)	128.1	236.4	(92.9)	143.5
Patent and licensing rights	114.6	(63.1)	51.5	120.4	(66.0)	54.4
Total intangible assets	350.0	(170.4)	179.6	356.8	(158.9)	197.9

Total amortization of acquisition-related intangibles assets was \$14.5 million, \$15.6 million and \$7.2 million and total amortization of patents and licensing rights was \$9.1 million, \$9.8 million and \$9.6 million for the years ended June 28, 2020, June 30, 2019 and June 24, 2018, respectively.

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.

The Company invested \$7.2 million, \$6.3 million and \$5.6 million for the years ended June 28, 2020, June 30, 2019 and June 24, 2018, respectively, for patent and licensing rights. For the fiscal years ended June 28, 2020, June 30, 2019 and June 24, 2018, the Company recognized \$1.4 million, \$1.0 million and \$0.6 million, respectively, in impairment charges related to its patent portfolio.

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

<i>(in millions of U.S. Dollars)</i>	Acquisition Related Intangibles	Patents	Total
Fiscal Year Ending			
June 27, 2021	\$14.5	\$8.6	\$23.1
June 26, 2022	13.5	7.7	21.2
June 25, 2023	11.0	6.7	17.7
June 30, 2024	10.4	5.7	16.1
June 29, 2025	10.4	4.7	15.1
Thereafter	68.3	18.1	86.4
Total future amortization expense	\$128.1	\$51.5	\$179.6

## Note 11 – Long-term Debt

### Revolving Line of Credit

As of June 28, 2020, the Company had a \$125.0 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, 2023. On March 27, 2020, the Company entered into an amendment to the Credit Agreement to reduce the aggregate amount of the revolving line of credit available from \$250.0 million to \$125.0 million and to replace the Credit Agreement's financial covenants with a single covenant requiring the Company to maintain a ratio of certain cash equivalents and marketable securities to outstanding loans and letter of credit obligations greater than 1.25:1.

The Company classifies balances outstanding under the Credit Agreement as long-term debt in the consolidated balance sheets. As of June 28, 2020, the Company had no outstanding borrowings under the Credit Agreement, \$125.0 million in available commitments under the Credit Agreement and \$125.0 million available for borrowing. For the year ended June 28, 2020, the average interest rate was 0.00%. As of June 28, 2020, the unused line fee on available borrowings is 25 basis points.

### *2023 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 (the Securities Act), and an additional \$75 million aggregate principal amount of such notes pursuant to the exercise in full of the over-allotment options of the underwriters (the 2023 Notes). The total net proceeds from the debt offerings was approximately \$562.1 million.

The conversion rate will initially be 16.6745 shares of common stock per one thousand dollars in principal amount of 2023 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 2023 Notes in connection with such a corporate event, or who elects to convert any 2023 Notes called for redemption during the related redemption period in certain circumstances. The Company may not redeem the 2023 Notes prior to September 1, 2021. The Company may redeem for cash all or any portion of the 2023 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 2023 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. If the Company undergoes certain fundamental changes related to the Company's common stock, holders may require the Company to repurchase for cash all or any portions of their 2023 Notes at a fundamental repurchase price equal to 100% of the principal amount of the 2023 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

Holder may convert their 2023 Notes at their option at any time prior to the close of business on the business day immediately preceding March 1, 2023 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending December 31, 2018 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period in which the trading price per \$1.0 thousand principal amount of 2023 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 2023 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 2023 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.

### *2026 Convertible Notes*

On April 21, 2020, the Company sold \$500.0 million aggregate principal amount of 1.75% convertible senior notes due May 1, 2026 to qualified institutional buyers pursuant to Rule 144A under the Securities Act 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 2026 Notes). The total net proceeds from the debt offerings was approximately \$561.4 million.

The conversion rate will initially be 21.1346 shares of common stock per one thousand dollars in principal amount of 2026 Notes (equivalent to an initial conversion price of approximately \$47.32 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 2026 Notes in connection with such a corporate event, or who elects to convert any 2026 Notes called for redemption during the related redemption period in certain circumstances. The Company may not redeem the 2026 Notes prior to May 1, 2023. The Company may redeem for cash all or any portion of the 2026 Notes, at its option, on a redemption date occurring on or after May 1, 2023 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 2026 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. If the Company undergoes certain fundamental changes related to the Company's common stock, holders may require the Company to repurchase for cash all or any portions of their 2026 Notes at a fundamental repurchase price equal to 100% of the principal amount of the 2026 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

Holders may convert their 2026 Notes at their option at any time prior to the close of business on the business day immediately preceding November 3, 2025 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending June 30, 2020 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period in which the trading price per \$1.0 thousand principal amount of 2026 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 2026 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 November 3, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2026 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.

The Company used approximately \$144.3 million of the net proceeds from the sale of the 2026 Notes to repurchase approximately \$150.2 million aggregate principal amount of the 2023 Notes, including approximately \$0.2 million of accrued interest on such notes, in privately negotiated transactions.

*Accounting for 2023 and 2026 Convertible Notes (collectively, "the Notes")*

In accounting for the issuance of the 2023 and 2026 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 \$145.4 million for the 2023 and 2026 Notes, respectively. The amounts were determined by deducting the fair value of the liability component from the par value of each of the Notes. Due to the partial extinguishment of the 2023 Notes, the equity component of the 2023 Notes was reduced by \$27.7 million.

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 annual interest rate of 5.87% and 7.45% for the 2023 and 2026 Notes, respectively.

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

<i>(in millions of U.S. Dollars)</i>	<b>June 28, 2020</b>	<b>June 30, 2019</b>
Principal .....	\$999.8	\$575.0
Unamortized discount and issuance costs .....	(216.0)	(105.9)
Net carrying amount .....	<u>\$783.8</u>	<u>\$469.1</u>

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

<i>(in millions of U.S. Dollars)</i>	<b>June 28, 2020</b>	<b>June 30, 2019</b>
Discount related to value of conversion options .....	\$262.3	\$113.3
Partial extinguishment of 2023 Notes .....	(27.7)	—
Debt issuance costs .....	(6.3)	(2.7)
Net carrying amount .....	<u>\$228.3</u>	<u>\$110.6</u>

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

<i>(in millions of U.S. Dollars)</i>	<b>June 28, 2020</b>	<b>June 30, 2019</b>
Interest expense .....	\$6.8	\$4.3
Amortization of discount and issuance costs .....	26.2	18.3
Total interest expense .....	<u>\$33.0</u>	<u>\$22.6</u>

No interest expense relating to the Notes was recognized for the fiscal year ended June 24, 2018.

The estimated fair value of the Notes is \$1,280.3 million, as determined by a Level 2 valuation as of June 28, 2020.

## **Note 12 – Shareholders’ Equity**

At June 28, 2020, the Company had reserved a total of approximately 39.0 million shares of its common stock for future issuance as follows (in thousands):

	<b>Number of Shares</b>
For exercise of outstanding common stock options .....	983
For vesting of outstanding stock units .....	2,932
For future equity awards under 2013 Long-Term Incentive Compensation Plan .....	5,478
For future issuance under the Non-Employee Director Stock Compensation and Deferral Program .....	48
For future issuance to employees under the 2005 Employee Stock Purchase Plan .....	849
For future issuance upon conversion of the 2023 Notes .....	12,560
For future issuance upon conversion of the 2026 Notes .....	16,102
Total common shares reserved .....	<u><u>38,952</u></u>

## Note 13 – Loss Per Share

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

<i>(in millions of U.S. Dollars, except share data)</i>	<b>Fiscal Years Ended</b>		
	<b>June 28, 2020</b>	<b>June 30, 2019</b>	<b>June 24, 2018</b>
Net loss from continuing operations .....	\$ (190.6)	\$ (57.9)	\$ (16.4)
Net income attributable to noncontrolling interest .....	1.1	—	0.1
Loss from continuing operations attributable to controlling interest .....	(191.7)	(57.9)	(16.5)
Net loss from discontinued operations .....	—	(317.2)	(263.5)
Net loss attributable to controlling interest .....	(191.7)	(375.1)	(280.0)
Weighted average number of common shares - basic and diluted (in thousands) .....	107,935	103,576	99,530
<b>Loss per share - basic:</b>			
Continuing operations attributable to controlling interest .....	\$ (1.78)	\$ (0.56)	\$ (0.17)
Discontinued operations .....	\$ —	\$ (3.06)	\$ (2.65)
<b>Loss per share - diluted:</b>			
Continuing operations attributable to controlling interest .....	\$ (1.78)	\$ (0.56)	\$ (0.17)
Discontinued operations .....	\$ —	\$ (3.06)	\$ (2.65)

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 fiscal years ended June 28, 2020, June 30, 2019 and June 24, 2018, 5.4 million, 9.0 million and 11.3 million of dilutive 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 11, "Long-term Debt."

## Note 14 – Stock-Based Compensation

### *Overview of Employee Stock-Based Compensation Plans*

The Company currently has one equity-based compensation plan, the 2013 Long-Term Incentive Compensation Plan (2013 LTIP), from which stock-based compensation awards can be granted to employees and directors. At June 28, 2020, there were 15.9 million shares authorized for issuance under the plan and 5.5 million shares remaining for future grants. The 2013 LTIP provides for awards in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other awards. The Company has other equity-based compensation plans that have been terminated so that no future grants can be made under those plans, but under which stock options, restricted stock and restricted stock units are currently outstanding.

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

The Company also has an Employee Stock Purchase Plan (ESPP) that provides employees with the opportunity to purchase common stock at a discount. At June 28, 2020, there were 7.0 million shares authorized for issuance under the ESPP, as amended, with 0.8 million shares remaining for future issuance. The ESPP limits employee contributions to 15% of each employee's compensation (as defined in the plan) and allows employees to purchase shares at a 15% discount to the fair market value of common stock on the purchase date two times per year. The ESPP provides for a twelve-month participation period, divided into two equal six-month purchase periods, and also provides for a look-back feature. At the end of each six-month period in April and October, participants purchase the Company's common stock through the ESPP at a 15% discount to the fair market value of the common stock on the first day of the twelve-month participation period or the purchase date, whichever is lower. The plan also provides for an automatic reset feature to start participants on a new twelve-month participation period if the fair market value of common stock declines during the first six-month purchase period.

### Stock Option Awards

The following table summarizes option activity as of June 28, 2020 and changes during the fiscal year then ended (shares in thousands)

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Total Intrinsic Value (in millions of U.S. Dollars)
Outstanding at June 30, 2019	2,418	\$39.81		
Granted	—	—		
Exercised	(1,371)	40.49		
Forfeited or expired	(64)	55.37		
Outstanding at June 28, 2020	<u>983</u>	37.88	1.77	\$19.7
Vested and expected to vest at June 28, 2020	983	37.88	1.77	\$19.7
Exercisable at June 28, 2020	981	37.91	1.76	\$19.6

The total intrinsic value in the table above represents the total pretax intrinsic value, which is the total difference between the closing price of the Company's common stock on June 26, 2020 (the last trading day of fiscal 2020) of \$57.74 and the exercise price for in-the-money options that would have been received by the holders if all instruments had been exercised on June 28, 2020. As of June 28, 2020, there was less than \$0.1 million of unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted average period of less than one month.

The following table summarizes information about stock options outstanding and exercisable at June 28, 2020 (shares in thousands):

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$0.01 to \$25.00	262	3.2	\$24.34	261	\$24.34
\$25.01 to \$35.00	203	2.3	26.59	202	26.59
\$35.01 to \$45.00	6	1.4	38.50	6	38.50
\$45.01 to \$55.00	468	0.9	48.12	468	48.12
\$55.01 to \$73.00	44	0.5	61.93	44	61.93
Total	<u>983</u>			<u>981</u>	

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

	Fiscal Years Ended		
	June 28, 2020	June 30, 2019	June 24, 2018
Weighted average grant date fair value per share of options	\$—	\$—	\$8.02
Total intrinsic value of options exercised (in millions of U.S. Dollars)	\$22.8	\$63.3	\$24.3

### **Restricted Stock Awards and Units**

A summary of nonvested restricted stock awards (RSAs) and restricted stock unit awards (RSUs) outstanding as of June 28, 2020 and changes during the year then ended is as follows (shares in thousands):

	<b>Number of RSAs/RSUs</b>	<b>Weighted Average Grant-Date Fair Value</b>
Nonvested at June 30, 2019.....	3,081	\$34.99
Granted.....	1,206	53.14
Vested.....	(1,138)	30.77
Forfeited.....	(217)	37.72
Nonvested at June 28, 2020.....	<u>2,932</u>	<u>\$43.89</u>

As of June 28, 2020, there was \$79.5 million of unrecognized compensation cost related to nonvested awards, which is expected to be recognized over a weighted average period of 1.97 years.

### **Stock-Based Compensation Valuation and Expense**

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

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

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

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

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

	<b>Fiscal Years Ended</b>		
	<b>June 28, 2020</b>	<b>June 30, 2019</b>	<b>June 24, 2018</b>
<i>(in millions of U.S. Dollars)</i>			
Cost of revenue, net.....	\$10.6	\$8.8	\$6.5
Research and development.....	9.7	7.7	6.8
Sales, general and administrative.....	34.6	33.1	24.6
Total stock-based compensation expense.....	<u>\$54.9</u>	<u>\$49.6</u>	<u>\$37.9</u>

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

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

	<b>Fiscal Years Ended</b>		
	<b>June 28, 2020</b>	<b>June 30, 2019</b>	<b>June 24, 2018</b>
Risk-free interest rate .....	0.12 - 2.67%	2.39 - 2.67%	0.89 - 2.26%
Expected life, in years .....	0.5 - 1.0	0.5 - 1.0	0.5 - 1.0
Volatility .....	34.5 - 82.6%	34.5 - 39.6%	34.5 - 40.2%
Dividend yield .....	—	—	—

The weighted average assumptions used to value stock option grants in fiscal 2018 were as follows:

Risk-free interest rate .....	1.75 %
Expected life, in years .....	4.0
Volatility .....	38.6 %
Dividend yield .....	—

No stock option grants occurred in fiscal 2020 or fiscal 2019.

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

	<b>Fiscal Years Ended</b>		
	<b>June 28, 2020</b>	<b>June 30, 2019</b>	<b>June 24, 2018</b>
Risk-free interest rate .....	0.28 - 1.66%	2.68%	1.44 - 1.59%
Expected life, in years .....	3.0	3.0	2.8 - 3.0
Average volatility of peer companies .....	48.9 - 55.2%	46.8%	46.4%
Average correlation coefficient of peer companies .....	0.36 - 0.45	0.34	0.34
Dividend yield .....	—	—	—

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

#### Risk-Free Interest Rate

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

#### Expected Life

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

#### Expected Volatility

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

#### Expected Dividend Yield

The Company estimates the expected dividend yield by giving consideration to its current dividend policies as well as those anticipated in the future considering the Company's current plans and projections. The Company has not historically issued dividends.

## Correlation Coefficient

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

## **Note 15 – Income Taxes**

The following were the components of loss before income taxes:

	<b>Fiscal Years Ended</b>		
	<b>June 28, 2020</b>	<b>June 30, 2019</b>	<b>June 24, 2018</b>
<i>(in millions of U.S. Dollars)</i>			
Domestic.....	(\$222.3)	(\$69.4)	(\$50.4)
Foreign.....	31.9	24.2	32.8
<b>Loss before income taxes</b> .....	<b>(\$190.4)</b>	<b>(\$45.2)</b>	<b>(\$17.6)</b>

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

	<b>Fiscal Years Ended</b>		
	<b>June 28, 2020</b>	<b>June 30, 2019</b>	<b>June 24, 2018</b>
<i>(in millions of U.S. Dollars)</i>			
Current:			
Federal.....	(\$6.5)	\$2.4	\$36.0
Foreign.....	7.5	10.1	4.5
State.....	0.1	0.3	1.1
<b>Total current</b> .....	<b>1.1</b>	<b>12.8</b>	<b>41.6</b>
Deferred:			
Federal.....	1.8	(1.9)	(45.8)
Foreign.....	(2.7)	2.0	6.1
State.....	—	(0.2)	(3.1)
<b>Total deferred</b> .....	<b>(0.9)</b>	<b>(0.1)</b>	<b>(42.8)</b>
<b>Income tax expense (benefit)</b> .....	<b>\$0.2</b>	<b>\$12.7</b>	<b>(\$1.2)</b>

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

<i>(in millions of U.S. Dollars)</i>	<b>Fiscal Years Ended</b>					
	<b>June 28, 2020</b>	<b>% of Loss</b>	<b>June 30, 2019</b>	<b>% of Loss</b>	<b>June 24, 2018</b>	<b>% of Loss</b>
Federal income tax provision at statutory rate.....	(\$40.0)	21 %	(\$9.5)	21 %	(\$5.0)	28 %
(Decrease) increase in income tax expense resulting from:						
State tax provision, net of federal benefit.....	(2.0)	1 %	(1.4)	3 %	(3.4)	19 %
Tax exempt interest.....	(0.6)	— %	(0.4)	1 %	(1.2)	7 %
48C investment tax credit.....	—	— %	—	— %	(1.6)	9 %
(Decrease) increase in tax reserve.....	(0.3)	— %	0.5	(1)%	0.1	(1)%
Research and development credits.....	(4.5)	2 %	(3.9)	9 %	(1.7)	10 %
Foreign tax credit.....	(0.5)	— %	(0.5)	1 %	(39.4)	224 %
Increase (decrease) in valuation allowance...	55.3	(29)%	8.2	(18)%	(24.5)	139 %
Partial extinguishment of convertible notes...	(6.0)	3 %	—	— %	—	— %
Stock-based compensation.....	1.7	(1)%	—	— %	9.0	(51)%
Statutory rate differences.....	1.5	(1)%	1.9	(4)%	(2.0)	11 %
Foreign earnings taxed in U.S.....	0.5	— %	0.9	(2)%	52.1	(296)%
Foreign currency fluctuations.....	0.6	— %	0.7	(2)%	(1.3)	7 %
Other foreign adjustments.....	0.5	— %	(0.1)	— %	(0.4)	2 %
Net operating loss carryback.....	(7.2)	4 %	—	— %	(0.1)	1 %
Provision to return adjustments.....	(1.3)	1 %	11.8	(26)%	—	— %
Tax on distributable foreign earnings.....	0.6	— %	1.0	(2)%	5.4	(31)%
Impact of rate changes.....	0.8	— %	2.7	(6)%	11.2	(64)%
Expiration of state credits.....	0.9	(1)%	1.2	(3)%	1.3	(7)%
Other.....	0.2	— %	(0.4)	1 %	0.3	(2)%
<b>Income tax expense (benefit).....</b>	<b>\$0.2</b>	<b>— %</b>	<b>\$12.7</b>	<b>(28)%</b>	<b>(\$1.2)</b>	<b>7 %</b>

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

<i>(in millions of U.S. Dollars)</i>	<b>June 28, 2020</b>	<b>June 30, 2019</b>
<b>Deferred tax assets:</b>		
Compensation.....	\$4.4	\$9.6
Inventories.....	19.8	14.6
Sales return reserve and allowance for bad debts.....	2.6	3.2
Federal and state net operating loss carryforwards.....	180.1	137.1
Federal credits.....	30.3	20.0
State credits.....	1.9	2.9
48C investment tax credits.....	37.5	25.9
Stock-based compensation.....	8.3	11.3
Deferred revenue.....	23.1	22.6
Lease liabilities.....	6.5	—
Other.....	5.1	4.6
<b>Total gross deferred assets.....</b>	<b>319.6</b>	<b>251.8</b>
Less valuation allowance.....	(208.5)	(185.2)
<b>Deferred tax assets, net.....</b>	<b>111.1</b>	<b>66.6</b>
<b>Deferred tax liabilities:</b>		
Property and equipment.....	(34.7)	(20.1)
Intangible assets.....	(19.2)	(16.9)
Investments.....	(1.6)	(0.9)
Prepaid taxes and other.....	(0.7)	—
Foreign earnings recapture.....	(2.0)	(2.0)
Taxes on unremitted foreign earnings.....	—	(2.4)
Lease assets.....	(6.3)	—
Convertible notes.....	(42.1)	(20.7)
<b>Total gross deferred liability.....</b>	<b>(106.6)</b>	<b>(63.0)</b>
<b>Deferred tax asset, net.....</b>	<b>\$4.5</b>	<b>\$3.6</b>

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

<i>(in millions of U.S. Dollars)</i>	<b>Balance at June 28, 2020</b>	
	<b>Assets</b>	<b>Liabilities</b>
U.S. federal income taxes.....	\$—	(\$1.8)
Foreign income taxes.....	6.3	—
<b>Total.....</b>	<b>\$6.3</b>	<b>(\$1.8)</b>

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

The Company assesses all available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets by jurisdiction. The Company has concluded that it is necessary to recognize a full valuation allowance against its U.S. and Luxembourg deferred tax assets as of June 28, 2020. As of June 30, 2019, the U.S. valuation allowance was \$177.6 million. For the fiscal year ended June 28, 2020, the Company increased the U.S. valuation allowance by \$27.6 million due to the Company's current year domestic loss, which was partially offset by the issuance of the 2026 Notes. As of June 30, 2019, the Luxembourg valuation allowance was \$7.6 million. For the fiscal year ended June 28, 2020, the Company decreased this valuation allowance by \$4.3 million due to year-to-date income in Luxembourg.

As of June 28, 2020, the Company had approximately \$16.4 million of foreign net operating loss carryovers, of which \$13.4 million are offset by a valuation allowance. Of the Company's foreign net operating loss carryovers, \$6.3 million have no carry forward limitation and the remaining \$10.1 million will begin to expire in fiscal 2035. As of June 28, 2020, the Company had approximately \$795.9 million of federal net operating loss carryovers and \$235.0 million of state net operating loss carryovers which are fully offset by a valuation allowance. Additionally, the Company had \$67.8 million of federal and \$2.5 million of state income tax credit carryforwards which are fully offset by a valuation allowance. The federal and state net operating loss carryovers will begin to expire in fiscal 2038 and fiscal 2021, respectively. The federal and state income tax credit carryforwards will begin to expire in fiscal 2031 and fiscal 2021, respectively.

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

As of June 30, 2019 the Company's liability for unrecognized tax benefits was \$8.2 million. During the fiscal year ended June 28, 2020, the Company recognized a \$0.8 million decrease to the liability for unrecognized tax benefits due to statute expiration and settlement of tax positions. As a result, the total liability for unrecognized tax benefits as of June 28, 2020 was \$7.4 million. If any portion of this \$7.4 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 \$0.3 million of gross unrecognized tax benefits will change in the next 12 months as a result of statute requirements or settlement with tax authorities.

The following is a tabular reconciliation of the Company's change in uncertain tax positions:

	<b>Fiscal Years Ended</b>		
	<b>June 28, 2020</b>	<b>June 30, 2019</b>	<b>June 24, 2018</b>
<i>(in millions of U.S. Dollars)</i>			
Balance at beginning of period	\$8.2	\$8.6	\$13.3
Decrease related to current year change in law	—	—	(4.7)
Increases related to prior year tax positions	—	0.5	0.6
Decreases related to prior year tax positions	—	—	(0.1)
Settlements with tax authorities	(0.1)	—	(0.1)
Expiration of statute of limitations for assessment of taxes	(0.7)	(0.9)	(0.4)
Balance at end of period	<u>\$7.4</u>	<u>\$8.2</u>	<u>\$8.6</u>

The Company's policy is to include interest and penalties related to unrecognized tax benefits within the income tax expense (benefit) line item in the consolidated statements of operations. Interest and penalties relating to unrecognized tax benefits recognized in the consolidated statements of operations totaled less than \$0.1 million for the fiscal years ending June 28, 2020, June 30, 2019, and June 24, 2018. The Company accrued less than \$0.1 million for interest and penalties relating to unrecognized tax benefits in the consolidated balance sheets as of June 28, 2020 and June 30, 2019.

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 2017. For U.S. state tax returns, the Company is generally no longer subject to tax examinations for fiscal years prior to 2016. For foreign purposes, the Company is generally no longer subject to examination for tax periods prior to 2010. Certain carryforward tax attributes generated in prior years remain subject to examination, adjustment and recapture.

The Company provides for income taxes on the earnings of foreign subsidiaries unless the subsidiaries' earnings are considered indefinitely reinvested outside the United States. As of June 28, 2020, the Company has approximately \$65.6 million of undistributed earnings for certain non-U.S. subsidiaries. The Company has determined that \$56.1 million of the \$65.6 million of undistributed foreign earnings are expected to be repatriated in the foreseeable future. The Company does not expect to incur any foreign income taxes upon repatriation of the \$56.1 million foreign earnings. As of June 28, 2020, the Company has not provided income taxes on the remaining undistributed foreign earnings of \$9.5 million as the Company continues to maintain its intention to reinvest these earnings in foreign operations indefinitely. If, at a later date, these earnings were repatriated to the United States, the Company would be required to pay approximately \$0.4 million in taxes on these amounts.

## **Note 16 – 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 money damages or, in matters for which injunctive relief or other conduct remedies may be sought, an injunction prohibiting the Company from selling one or more products at all or in particular ways. Were unfavorable final outcomes to occur, there exists the possibility of a material adverse impact on the Company's business, results of operation, financial position and overall trends. The outcomes in these matters are not reasonably estimable.

As a result of a Focused Compliance Inspection and a Compliance Evaluation Inspection at the Company's Durham, North Carolina facilities, the United States Environmental Protection Agency ("EPA") raised a potential non-compliance issue with certain requirements of the North Carolina Waste Management Law. The Company negotiated a settlement with the EPA to resolve the issue and agreed to pay a penalty of approximately \$0.3 million.

### ***Grant Disbursement Agreement (GDA) with the State of New York***

The Company currently has a GDA with the State of New York Urban Development Corporation (doing business as Empire State Development). The GDA provides a potential total grant amount of \$500.0 million to partially and fully reimburse the Company for certain property, plant and equipment costs related to the Company's construction of a new silicon carbide fabrication facility in Marcy, New York.

The GDA was signed in the fourth quarter of fiscal 2020 and requires the Company to satisfy a number of objectives for the Company to receive reimbursements through the span of the 13-year agreement. These objectives include maintaining a certain level of local employment, investing a certain amount in locally administered research and development activities and the payment of an annual commitment fee for the first six years. Additionally, the Company has agreed, under a separate agreement (the SUNY Agreement), to sponsor the creation of two endowed faculty chairs and fund a scholarship program at SUNY Polytechnic Institute.

The annual cost of satisfying the objectives of the GDA and the SUNY Agreement, excluding the direct and indirect costs associated with employment, varies from \$1.0 million to \$5.2 million per year through fiscal 2031.

## **Note 17 - Reportable Segments**

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

The Company's operating and reportable segments are:

- Wolfspeed
- LED Products

The Wolfspeed segment includes 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 table below reflects the results of the Company's reportable segments as reviewed by the CODM for fiscal 2020, 2019 and 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 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.

For fiscal 2020, unallocated costs include incremental costs relating to operating our manufacturing operations during the COVID-19 pandemic. The majority of these incremental costs comprise additional labor costs paid to our manufacturing employees, increased cleaning costs, cleaning supplies and protective equipment, and the costs of implementing preventative safety measures, including increased wellness checks.

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

Revenue, gross profit and gross margin for each of the Company's segments were as follows:

	Revenue			Gross Profit and Gross Margin		
	Year Ended			Year Ended		
	June 28, 2020	June 30, 2019	June 24, 2018	June 28, 2020	June 30, 2019	June 24, 2018
<i>(in millions of U.S. Dollars)</i>						
Wolfspeed.....	\$470.7	\$538.2	\$328.6	\$184.6	\$258.7	\$158.5
<i>Wolfspeed gross margin</i> .....				39 %	48 %	48 %
LED Products.....	433.2	541.8	596.3	91.1	150.0	157.9
<i>LED Products gross margin</i> .....				21 %	28 %	26 %
Total segment reporting.....	<u>\$903.9</u>	<u>\$1,080.0</u>	<u>\$924.9</u>	275.7	408.7	316.4
Unallocated costs <sup>(1)</sup> .....				(27.4)	(17.7)	(9.0)
COGS acquisition related costs.....				—	—	(5.4)
Consolidated gross profit.....				<u>\$248.3</u>	<u>\$391.0</u>	<u>\$302.0</u>
Consolidated gross margin.....				27 %	36 %	33 %

<sup>(1)</sup> Unallocated costs for the fiscal year ended June 28, 2020 include \$8.5 million in incremental manufacturing costs relating to COVID-19.

### ***Assets by Reportable Segment***

Inventories are the only assets reviewed by the Company's CODM when evaluating segment performance and allocating resources to the segments. The CODM reviews all of the Company's assets other than inventories on a consolidated basis. The following table sets forth the Company's inventories by reportable segment for the fiscal years ended June 28, 2020 and June 30, 2019.

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, quarterly or annual incentive compensation, and matching contributions under the Company's 401(k) plan.

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

<i>(in millions of U.S. Dollars)</i>	<b>June 28, 2020</b>	<b>June 30, 2019</b>
Wolfspeed .....	\$97.3	\$81.6
LED Products .....	76.2	99.2
Total segment inventories .....	173.5	180.8
Unallocated inventories .....	5.6	6.6
Consolidated inventories .....	<u>\$179.1</u>	<u>\$187.4</u>

### **Geographic Information**

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

<i>(in millions of U.S. Dollars)</i>	<b>For the Years Ended</b>					
	<b>June 28, 2020</b>		<b>June 30, 2019</b>		<b>June 24, 2018</b>	
	<b>Revenue</b>	<b>% of Revenue</b>	<b>Revenue</b>	<b>% of Revenue</b>	<b>Revenue</b>	<b>% of Revenue</b>
United States .....	\$ 212.1	23 %	\$ 261.4	24 %	\$ 220.2	24 %
China .....	260.4	29 %	367.2	34 %	390.5	42 %
Europe .....	243.7	27 %	255.0	24 %	167.4	18 %
Other .....	187.7	21 %	196.4	18 %	146.8	16 %
Total .....	<u>\$ 903.9</u>		<u>\$ 1,080.0</u>		<u>\$ 924.9</u>	

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

<i>(in millions of U.S. Dollars)</i>	<b>June 28, 2020</b>	<b>June 30, 2019</b>
United States .....	\$773.1	\$558.6
China .....	53.3	61.8
Other .....	4.7	4.8
Total .....	<u>\$831.1</u>	<u>\$625.2</u>

### **Note 18 – Concentrations of Risk**

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

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

Revenue from Arrow Electronics, Inc. represented 15%, 19% and 21% of revenue for the fiscal years ended June 28, 2020, June 30, 2019 and June 24, 2018, respectively. Arrow Electronics, Inc. is a customer of the LED Products and Wolfspeed segments.

No customers individually accounted for more than 10% of the consolidated accounts receivable balance as of June 28, 2020 and June 30, 2019.

## **Note 19 – Retirement Savings Plan**

The Company sponsors one employee benefit plan (the 401(k) Plan) pursuant to Section 401(k) of the IRC. All U.S. employees are eligible to participate under the 401(k) Plan on the first day of a new fiscal month after the date of hire. Under the 401(k) Plan, there is no fixed dollar amount of retirement benefits; rather, the Company matches a defined percentage of employee deferrals, and employees vest in these matching funds over time. Employees choose their investment elections from a list of available investment options. During the fiscal years ended June 28, 2020, June 30, 2019 and June 24, 2018, the Company contributed approximately \$8.5 million, \$7.9 million and \$5.8 million to the 401(k) Plan, respectively. The Pension Benefit Guaranty Corporation does not insure the 401(k) Plan.

## **Note 20 - 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 years ended June 30, 2019 and June 24, 2018, \$2.6 million and \$3.8 million was expensed relating to this corporate restructuring plan, respectively.

### 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 years ended June 28, 2020 and June 30, 2019, the Company expensed \$9.0 million and \$4.1 million of restructuring charges related to the factory optimization plan, of which \$0.3 million was accrued for in accounts payable and accrued expenses as of June 28, 2020. No amounts related to factory optimization restructuring were accrued as of June 30, 2019.

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 commenced the building of the New York facility and is currently evaluating the impact of this decision on future restructuring charges.

### Sales Restructuring

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

### 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 \$0.6 million in contract termination costs during year ended June 28, 2020, of which \$0.1 million is accrued in other current liabilities as of June 28, 2020.

## Note 21 – Quarterly Results of Operations - Unaudited

The following is a summary of the Company’s consolidated quarterly results of operations for each of the fiscal years ended June 28, 2020 and June 30, 2019:

<i>(in millions of U.S. Dollars, except share data)</i>	<b>September 29, 2019</b>	<b>December 29, 2019</b>	<b>March 29, 2020</b>	<b>June 28, 2020</b>	<b>Fiscal Year 2020</b>
Revenue, net	\$242.8	\$239.9	\$215.5	\$205.7	\$903.9
Cost of revenue, net	168.6	178.0	154.1	154.9	655.6
Gross profit	74.2	61.9	61.4	50.8	248.3
Net loss	(37.8)	(52.5)	(61.4)	(38.9)	(190.6)
Net income attributable to noncontrolling interest	—	0.3	0.2	0.6	1.1
Net loss attributable to controlling interest	(37.8)	(52.8)	(61.6)	(39.5)	(191.7)
Basic and diluted loss per share:					
Continuing operations attributable to controlling interest	(\$0.35)	(\$0.49)	(\$0.57)	(\$0.36)	(\$1.78)
Net loss attributable to controlling interest	(\$0.35)	(\$0.49)	(\$0.57)	(\$0.36)	(\$1.78)

<i>(in millions of U.S. Dollars, except share data)</i>	<b>September 23, 2018</b>	<b>December 30, 2018</b>	<b>March 31, 2019</b>	<b>June 30, 2019</b>	<b>Fiscal Year 2019</b>
Revenue, net	\$274.2	\$280.5	\$274.1	\$251.2	\$1,080.0
Cost of revenue, net	175.9	177.0	173.6	162.5	689.0
Gross profit	98.3	103.5	100.5	88.7	391.0
Net loss from continuing operations	(0.8)	(0.2)	(22.3)	(34.6)	(57.9)
Net loss from discontinued operations	(10.3)	(2.3)	(205.4)	(99.2)	(317.2)
Net loss	(11.1)	(2.5)	(227.7)	(133.8)	(375.1)
Net income (loss) attributable to noncontrolling interest	—	—	0.1	(0.1)	—
Net loss attributable to controlling interest	(11.1)	(2.5)	(227.8)	(133.7)	(375.1)
Basic and diluted loss per share:					
Continuing operations attributable to controlling interest	(\$0.01)	\$—	(\$0.22)	(\$0.33)	(\$0.56)
Net loss attributable to controlling interest	(\$0.11)	(\$0.02)	(\$2.20)	(\$1.26)	(\$3.62)

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

None.

### Item 9A. Controls and Procedures

#### Disclosure Controls and Procedures

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

### ***Changes to Internal Control Over Financial Reporting***

There have been no changes to our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the fourth quarter of fiscal 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

We will continue to evaluate the effectiveness of our disclosure controls and procedures and internal control over financial reporting on an ongoing basis and will take action as appropriate.

### ***Management's Report on Internal Control Over Financial Reporting***

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

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

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

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

In making the assessment of internal control over financial reporting, our management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework* (2013 framework). Based on that assessment and those criteria, management has concluded that our internal control over financial reporting was effective as of June 28, 2020.

The effectiveness of our internal control over financial reporting as of June 28, 2020 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report in Item 8 of this Annual Report.

### ***Item 9B. Other Information***

Not applicable.

### **PART III**

Certain information called for in Items 10, 11, 12, 13 and 14 is incorporated by reference from our definitive proxy statement relating to our annual meeting of shareholders, which will be filed with the SEC within 120 days after the end of fiscal 2020.

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

**Item 11. *Executive Compensation***

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

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

**Item 14. *Principal Accountant Fees and Services***

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

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

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

Exhibit No.	Description	Filed Herewith	Incorporated by Reference		
			Form	Exhibit	Filing Date
2.1 <sup>^</sup>	Purchase Agreement, dated March 14, 2019, by and between Cree, Inc. and IDEAL Industries, Inc., as amended		8-K	2.1	5/16/2019
3.1	Articles of Incorporation, as amended		10-K	3.1	8/19/2002
3.2	Bylaws, as amended and restated		8-K	3.1	1/28/2015
4.1	Specimen Common Stock Certificate		10-Q	4.1	1/24/2018
4.2	Description of the Registered Securities		10-K	4.4	8/21/2019
4.3	Indenture, dated as of August 24, 2018, between Cree, Inc. and U.S. Bank National Association		8-K	4.1	8/24/2018
4.4	Form of Global 0.875% Convertible Senior Note due 2023 (included in Exhibit 4.3)		8-K	4.2	8/24/2018
4.5	Indenture, dated as of April 21, 2020, between Cree, Inc. and U.S. Bank National Association		8-K	4.1	4/21/2020
4.6	Form of 1.75% Convertible Senior Note due 2026 (included in Exhibit 4.5)		8-K	4.2	4/21/2020
10.1*	2004 Long-Term Incentive Compensation Plan, as amended ("2004 LTIP")		8-K	10.1	10/25/2012
10.2*	Form of Nonqualified Stock Option Award Agreement for Non-Employee Directors under the 2004 LTIP		10-Q	10.3	10/17/2012
10.3*	Form of Nonqualified Stock Option Agreement under the 2004 LTIP		10-Q	10.4	10/17/2012
10.4*	2013 Long-Term Incentive Compensation Plan, as amended ("2013 LTIP")		8-K	10.1	10/28/2016
10.5*	Form of Nonqualified Stock Option Award Agreement under the 2013 LTIP		10-Q	10.4	1/22/2014
10.6*	Form of Restricted Stock Unit Award Agreement under the 2013 LTIP		10-Q	10.5	1/22/2014
10.7*	Form of Master Performance Unit Award Agreement under the 2013 LTIP		8-K	10.4	8/29/2014
10.8*	Form of Performance Share Award Agreement - Section 16 Officer under the 2013 LTIP		10-Q	10.6	10/21/2015
10.9*	Form of Stock Unit Award Agreement (Performance-Based) for Gregg A. Lowe, dated September 27, 2017, under the 2013 LTIP		8-K	10.3	9/28/2017
10.10*	Form of Stock Unit Award Agreement (Performance-Based) under the 2013 LTIP		10-K	10.41	8/20/2018
10.11*	Form of Stock Unit Award Agreement (Time-Based) under the 2013 LTIP		10-K	10.42	8/20/2018
10.12*	Notice of Grant to Gregg A. Lowe, dated August 26, 2019, under the 2013 LTIP		8-K	10.1	8/30/2019
10.13*	Notice of Grant to Neill P. Reynolds, dated August 26, 2019, under the 2013 LTIP		8-K	10.2	8/30/2019
10.14*	2005 Employee Stock Purchase Plan, as amended		8-K	10.1	10/24/2017
10.15*	Change of Control Agreement for Chief Executive Officer between Cree, Inc. and Gregg A. Lowe, dated September 22, 2017		8-K	10.1	9/28/2017

10.16*	First Amendment to Change in Control Agreement (for Chief Executive Officer), dated May 4, 2018	8-K	10.3	5/4/2018
10.17*	Cree Severance Plan - Senior Leadership Team, Plan Document and Summary Plan Description, effective as of April 30, 2018	8-K	10.1	5/4/2018
10.18*	Form of Participation Agreement Under Cree Severance Plan - Senior Leadership Team	8-K	10.2	5/4/2018
10.19*	Schedule of Compensation of Non-Employee Directors	10-Q	10.3	10/31/2019
10.20*	Non-Employee Director Stock Compensation and Deferral Program	10-Q	10.3	10/21/2009
10.21*	Amendment One to Non-Employee Director Stock Compensation and Deferral Program	10-Q	10.3	1/19/2011
10.22*	Form of Cree, Inc. Indemnification Agreement for Directors and Officers	8-K	10.1	10/29/2010
10.23	Credit Agreement, dated January 9, 2015, by and among Cree, Inc., Wells Fargo Bank, National Association, as administrative agent and lender, E-conolight LLC, a domestic subsidiary of Cree, Inc., as guarantor, and the other lenders party thereto	8-K	10.1	1/12/2015
10.24	First Amendment to the Credit Agreement, dated September 10, 2015, by and among Cree, Inc., Wells Fargo Bank, National Association, as administrative agent, E-conolight LLC, a domestic subsidiary of Cree, Inc., as guarantor, and the other lenders party thereto	10-Q	10.4	1/24/2018
10.25	Credit Agreement Consent, dated as of July 13, 2016, by and among Cree, Inc., Wells Fargo Bank, National Association, as administrative agent and lender, E-conolight LLC, a domestic subsidiary of Cree, Inc., as guarantor, and the other lenders party to the Credit Agreement	10-Q	10.2	10/19/2016
10.26	Second Amendment to Credit Agreement, dated November 13, 2017, by and among Cree, Inc., Wells Fargo Bank, National Association, as administrative agent, E-conolight LLC, a domestic subsidiary of Cree, Inc., as guarantor, and the other lenders party thereto	8-K	10.1	11/16/2017
10.27	Third Amendment to the Credit Agreement, dated as of August 21, 2018, by and among Cree, Inc., Wells Fargo Bank, National Association, as administrative agent, E-conolight LLC, as guarantor, and the other lenders party thereto	10-Q	10.1	10/17/2018
10.28	Credit Agreement Consent, dated as of March 14, 2019, by and among Cree, Inc., Wells Fargo Bank, National Association, as administrative agent and lender, E-conolight LLC, a domestic subsidiary of Cree, Inc., as guarantor, and the other lenders party to the Credit Agreement	10-Q	10.1	5/3/2019
10.29	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
10.30	Fifth Amendment to the Credit Agreement, dated as of March 27, 2020, by and among Cree, Inc., Wells Fargo Bank, National Association, as administrative agent, and the other lenders party thereto	10-Q	10.1	4/30/2020
21.1	Subsidiaries of the Company	X		
23.1	Consent of PricewaterhouseCoopers LLP	X		
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X		
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X		
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X		
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X		

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|-----|--|---|
| 101 | The following materials from Cree, Inc.'s Annual Report on Form 10-K for the fiscal year ended June 28, 2020 formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Loss; (iv) Consolidated Statements of Cash Flows; (v) Consolidated Statements of Shareholders' Equity; and (vi) Notes to Consolidated Financial Statements | X |
| 104 | The cover page from the Cree Inc.'s Annual Report on Form 10-K for the fiscal year ended June 28, 2020 formatted in Inline XBRL (included in Exhibit 101)  |   |

\* Management contract or compensatory plan or arrangement

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

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CREE, INC.**

Date: August 19, 2020

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>          /s/ GREGG A. LOWE          </u> <b>Gregg A. Lowe</b>	Chief Executive Officer and President (Principal Executive Officer)	August 19, 2020
<u>          /s/ NEILL P. REYNOLDS          </u> <b>Neill P. Reynolds</b>	Executive Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)	August 19, 2020
<u>          /s/ DARREN R. JACKSON          </u> <b>Darren R. Jackson</b>	Chairman and Director	August 19, 2020
<u>          /s/ GLENDA DORCHAK          </u> <b>Glenda Dorchak</b>	Director	August 19, 2020
<u>          /s/ JOHN C. HODGE          </u> <b>John C. Hodge</b>	Director	August 19, 2020
<u>          /s/ CLYDE R. HOSEIN          </u> <b>Clyde R. Hosein</b>	Director	August 19, 2020
<u>          /s/ DUY-LOAN T. LE          </u> <b>Duy-Loan T. Le</b>	Director	August 19, 2020
<u>          /s/ JOHN B. REPLOGLE          </u> <b>John B. Replogle</b>	Director	August 19, 2020
<u>          /s/ THOMAS H. WERNER          </u> <b>Thomas H. Werner</b>	Director	August 19, 2020
<u>          /s/ ANNE C. WHITAKER          </u> <b>Anne C. Whitaker</b>	Director	August 19, 2020

## NOTES

## NOTES

## 2020 CORPORATE INFORMATION

### Corporate Headquarters

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

### Independent Auditor

PricewaterhouseCoopers LLP  
Raleigh, NC

### Transfer Agent and Registrar

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

### Investor Relations

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

### Annual Meeting of Shareholders

The annual meeting of shareholders will be held on Oct. 26<sup>th</sup>, 2020 at 12 p.m. virtually at [www.virtualshareholdermeeting.com/CREE2020](http://www.virtualshareholdermeeting.com/CREE2020) and in person in the Executive Conference Center, located at 4408 Silicon Drive, Durham, North Carolina 27703

### Additional Information

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

### Executive Officers

Gregg A. Lowe  
*President and Chief Executive Officer*

Neill P. Reynolds  
*Executive Vice President and Chief Financial Officer*

### Board of Directors

Glenda M. Dorchak  
Director  
*Viavi Solutions, Inc., ANSYS, Inc.  
and GlobalFoundries*

John C. Hodge  
Founding Partner  
*Rubicon Technology Partners*

Clyde R. Hosein  
CFO  
*Automation Anywhere, Inc.*

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

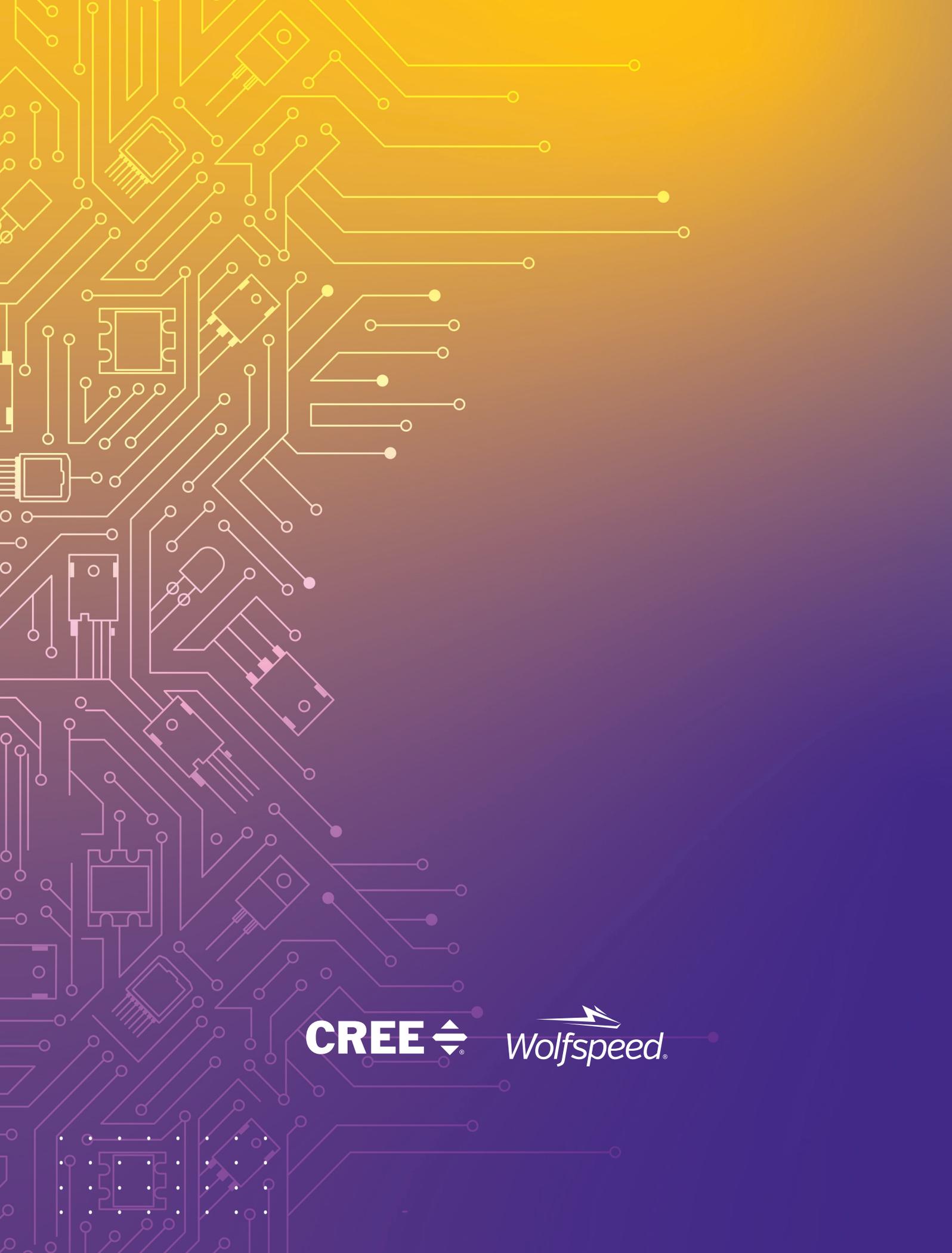
Duy-Loan T. Le  
President  
*DLE Management Consulting LLC*

Gregg A. Lowe  
President and CEO  
*Cree, Inc.*

John B. Replogle  
Founding Partner  
*One Better Ventures, LLC*

Thomas H. Werner  
Chairman and CEO  
*SunPower Corporation*

Anne C. Whitaker  
CEO  
*Aerami Therapeutics, Inc.*



**CREE** 

 **Wolfspeed**