

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 24, 2017  
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**

(State or other jurisdiction of incorporation or organization)

**56-1572719**

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

**4600 Silicon Drive  
Durham, North Carolina**

(Address of principal executive offices)

**27703**

(Zip Code)

**(919) 407-5300**

(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post 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

Non-accelerated filer  (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of the registrant's common stock, par value \$0.00125 per share, as of January 19, 2018, was 99,960,179.

**CREE, INC.**  
**FORM 10-Q**

For the Quarterly Period Ended December 24, 2017

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**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****CREE, INC.  
UNAUDITED CONSOLIDATED BALANCE SHEETS**

	December 24, 2017	June 25, 2017
(In thousands, except par value)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$169,688	\$132,597
Short-term investments	480,221	478,341
Total cash, cash equivalents and short-term investments	649,909	610,938
Accounts receivable, net	153,014	148,392
Income tax receivable	2,809	8,040
Inventories, net	273,211	284,385
Prepaid expenses	22,933	23,305
Other current assets	19,450	23,390
Current assets held for sale	6,913	2,180
Total current assets	1,128,239	1,100,630
Property and equipment, net	612,131	581,263
Goodwill	618,828	618,828
Intangible assets, net	259,607	274,315
Other long-term investments	72,517	50,366
Deferred income taxes	10,399	11,763
Other assets	12,564	12,702
Total assets	\$2,714,285	\$2,649,867
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable, trade	\$158,291	\$133,185
Accrued salaries and wages	46,906	41,860
Other current liabilities	40,525	36,978
Total current liabilities	245,722	212,023
Long-term liabilities:		
Long-term debt	124,000	145,000
Deferred income taxes	37,404	49,860
Other long-term liabilities	24,147	20,179
Total long-term liabilities	185,551	215,039
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred stock, par value \$0.01; 3,000 shares authorized at December 24, 2017 and June 25, 2017; none issued and outstanding	—	—
Common stock, par value \$0.00125; 200,000 shares authorized at December 24, 2017 and June 25, 2017; 99,888 issued and outstanding at December 24, 2017 and 97,674 shares issued and outstanding at June 25, 2017	123	121
Additional paid-in-capital	2,483,424	2,419,517
Accumulated other comprehensive income, net of taxes	3,427	5,909
Accumulated deficit	(208,878)	(202,742)
Total shareholders' equity	2,278,096	2,222,805
Noncontrolling interest	4,916	—
Total liabilities and equity	\$2,714,285	\$2,649,867

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

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

	Three Months Ended		Six Months Ended	
	December 24, 2017	December 25, 2016	December 24, 2017	December 25, 2016
	(In thousands, except per share amounts)			
Revenue, net	\$367,870	\$401,326	\$728,268	\$772,559
Cost of revenue, net	275,267	260,759	535,333	522,061
Gross profit	92,603	140,567	192,935	250,498
Operating expenses:				
Research and development	39,776	37,893	81,635	77,841
Sales, general and administrative	68,076	76,513	131,040	144,971
Amortization or impairment of acquisition-related intangibles	6,792	5,937	13,584	12,345
Loss on disposal or impairment of long-lived assets	4,262	717	7,087	1,041
Total operating expenses	118,906	121,060	233,346	236,198
<b>Operating (loss) income</b>	(26,303)	19,507	(40,411)	14,300
Non-operating income (expense), net	26,729	(4,760)	25,662	(4,919)
Income (loss) before income taxes	426	14,747	(14,749)	9,381
Income tax (benefit) expense	(13,326)	8,531	(8,629)	2,598
<b>Net income (loss)</b>	\$13,752	\$6,216	(\$6,120)	\$6,783
Net income attributable to noncontrolling interest	31	—	16	—
<b>Net income (loss) attributable to controlling interest</b>	\$13,721	\$6,216	(\$6,136)	\$6,783
<b>Earnings (loss) per share:</b>				
Basic	\$0.14	\$0.06	(\$0.06)	\$0.07
Diluted	\$0.14	\$0.06	(\$0.06)	\$0.07
Weighted average shares used in per share calculation:				
Basic	99,184	98,467	98,499	99,513
Diluted	100,763	98,730	98,499	99,994

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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>December 24, 2017</b>	<b>December 25, 2016</b>	<b>December 24, 2017</b>	<b>December 25, 2016</b>
	<b>(In thousands)</b>			
Net income (loss)	\$13,721	\$6,216	(\$6,136)	\$6,783
Other comprehensive loss:				
Currency translation (loss) gain	(424)	(1,343)	1,218	(1,314)
Net unrealized loss on available-for-sale securities, net of tax benefit of \$0 and \$2,357 and \$0 and \$2,556 respectively	(3,660)	(3,795)	(3,700)	(4,115)
Other comprehensive loss:	(4,084)	(5,138)	(2,482)	(5,429)
Comprehensive income (loss)	<u>\$9,637</u>	<u>\$1,078</u>	<u>(\$8,618)</u>	<u>\$1,354</u>

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

CREE, INC.  
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	December 24, 2017	December 25, 2016
(In thousands)		
<b>Cash flows from operating activities:</b>		
Net income (loss)	(\$6,120)	\$6,783
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	74,634	62,574
Stock-based compensation	22,162	26,856
Excess tax benefit from stock-based payment arrangements	—	(1)
Loss on disposal or impairment of long-lived assets	7,087	845
Amortization of premium/discount on investments	2,631	2,749
(Gain) loss on equity investment	(21,479)	6,298
Foreign exchange gain on equity investment	(672)	(434)
Deferred income taxes	(11,801)	44
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable, net	(4,203)	13,647
Inventories	11,339	1,290
Prepaid expenses and other assets	5,014	2,735
Accounts payable, trade	17,925	(13,834)
Accrued salaries and wages and other liabilities	9,295	10,164
Net cash provided by operating activities	<u>105,812</u>	<u>119,716</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(85,222)	(35,211)
Purchases of patent and licensing rights	(4,932)	(5,836)
Proceeds from sale of property and equipment	380	236
Purchases of short-term investments	(158,327)	(125,022)
Proceeds from maturities of short-term investments	138,435	93,312
Proceeds from sale of short-term investments	11,938	7,619
Net cash used in investing activities	<u>(97,728)</u>	<u>(64,902)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuing shares to noncontrolling interest	4,900	—
Payment of acquisition-related contingent consideration	(1,850)	(2,775)
Proceeds from long-term debt borrowings	160,000	245,000
Payments on long-term debt borrowings	(181,000)	(235,000)
Net proceeds from issuance of common stock	46,550	8,021
Excess tax benefit from stock-based payment arrangements	—	1
Repurchases of common stock	—	(98,431)
Net cash provided by (used in) financing activities	<u>28,600</u>	<u>(83,184)</u>
Effects of foreign exchange changes on cash and cash equivalents	407	(691)
Net increase (decrease) in cash and cash equivalents	37,091	(29,061)
<b>Cash and cash equivalents:</b>		
Beginning of period	132,597	166,154
End of period	<u>\$169,688</u>	<u>\$137,093</u>
<b>Supplemental disclosure of cash flow information:</b>		
<b>Significant non-cash transactions:</b>		
Accrued property and equipment	\$19,039	\$8,240

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

**CREE, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 – Basis of Presentation and New Accounting Standards**

**Overview**

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

The Company's lighting products primarily consist of LED lighting systems and lamps. The Company designs, manufactures and sells lighting fixtures and lamps for the commercial, industrial and consumer markets.

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

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

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

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

The Company's three reportable segments are:

- Lighting Products
- LED Products
- Wolfspeed

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

**Basis of Presentation**

The consolidated balance sheet at December 24, 2017, the consolidated statements of income (loss) for the three and six months ended December 24, 2017 and December 25, 2016, the consolidated statements of comprehensive income (loss) for the three and six months ended December 24, 2017 and December 25, 2016, and the consolidated statements of cash flows for the six months ended December 24, 2017 and December 25, 2016 (collectively, the consolidated financial statements) have been prepared by the Company and have not been audited. In the opinion of management, all normal and recurring adjustments necessary to fairly state the consolidated financial position, results of operations, comprehensive income and cash flows at December 24, 2017, and for all periods presented, have been made. All intercompany accounts and transactions have been eliminated. The consolidated balance sheet at June 25, 2017 has been derived from the audited financial statements as of that date.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 25, 2017 (fiscal 2017). The results of operations for the three and six months ended December 24, 2017 are not necessarily indicative of the operating results that may be attained for the entire fiscal year ending June 24, 2018 (fiscal 2018).



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

Certain fiscal 2017 amounts related to the Wolfspeed business in the accompanying consolidated financial statements have been reclassified to continuing operations to conform to the fiscal 2018 presentation. These reclassifications had no effect on previously reported consolidated net income or shareholders' equity.

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

##### *Revenue from Contracts with Customers*

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09: Revenue from Contracts with Customers (Topic 606). The FASB has subsequently issued multiple ASUs which amend and clarify the guidance in Topic 606. The ASU establishes a principles-based approach for accounting for revenue arising from contracts with customers and supersedes existing revenue recognition guidance. The ASU provides that an entity should apply a five-step approach for recognizing revenue, including (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. Also, the entity must provide various disclosures concerning the nature, amount and timing of revenue and cash flows arising from contracts with customers. The Company's evaluation of ASU 2014-09 is ongoing and not complete; however, the Company anticipates the primary changes to revenue recognition to be related to certain patent license arrangements. The FASB has issued and may issue in the future, interpretive guidance, which may cause our evaluation to change. The effective date will be the first quarter of the Company's fiscal year ending June 30, 2019 and the Company currently expects to use the modified retrospective method.

##### *Leases*

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

##### *Stock Compensation*

In March 2016, the FASB issued ASU No. 2016-09: Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU simplifies the current stock compensation guidance for tax consequences. The ASU requires an entity to recognize all excess tax benefits and tax deficiencies as income tax expense or benefit in its income statement. The ASU also eliminates the requirement to defer recognition of an excess tax benefit until the benefit is realized through a reduction to taxes payable. For cash flows statement purposes, excess tax benefits should be classified as an operating activity and cash payments made to taxing authorities on the employee's behalf for withheld shares should be classified as financing activity. The ASU grants an entity the right to withhold up to the employee's maximum statutory tax rate in the applicable jurisdiction without triggering liability accounting. The effective date was the first quarter of the Company's fiscal year ending June 24, 2018.

The Company's adoption of this ASU did not have a material impact on its consolidated financial statements. All excess tax benefits and deficiencies in the current and future periods will be recognized as income tax expense in the Company's income statement in the reporting period in which they occur. This could result in increased volatility in the Company's effective tax rate. For the six months ended December 24, 2017, the Company did not recognize a discrete event related to the excess tax benefits from stock-based compensation due to a full U.S. valuation allowance on the impact. The Company plans to continue its existing practice of estimating expected forfeitures in determining compensation cost.

##### *Goodwill Impairment Testing*

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

the goodwill impairment test. The effective date will be the first quarter of the Company's fiscal year ending June 27, 2021. The Company's adoption of this guidance is not expected to have a significant impact on its consolidated financial statements.

**Note 2 – 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. During the six months ended December 24, 2017, the noncontrolling interest increased by \$16 thousand for its share of net income from Cree Venture LED. There were no other changes in the noncontrolling interest.

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

**Note 3 – Acquisition**

On July 8, 2015, the Company closed on the acquisition of Arkansas Power Electronics International, Inc. (APEI), a global leader in power modules and power electronics applications, pursuant to a merger agreement with APEI and certain shareholders of APEI, whereby the Company acquired all of the outstanding share capital of APEI in exchange for a base purchase price of \$13.8 million, subject to certain adjustments. In addition, if certain goals were achieved over the subsequent two years, additional cash payments totaling up to \$4.6 million were to be made to the former APEI shareholders. Payments totaling \$2.8 million were made to the former APEI shareholders in July 2016 based on achievement of the first year goals. The final payment of \$1.9 million was made in July 2017 based on achievement of the second year goals. In connection with this acquisition, APEI became a wholly owned subsidiary of the Company, renamed Cree Fayetteville, Inc. (Cree Fayetteville). Cree Fayetteville is not considered a significant subsidiary of the Company and its results from operations are reported as part of the Company's Wolfspeed segment.

**Note 4 – Financial Statement Details**

***Accounts Receivable, net***

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

	December 24, 2017	June 25, 2017
Billed trade receivables	\$214,266	\$205,516
Unbilled contract receivables	987	912
	215,253	206,428
Allowance for sales returns, discounts and other incentives	(53,528)	(49,425)
Allowance for bad debts	(8,711)	(8,611)
Accounts receivable, net	\$153,014	\$148,392

#### **Inventories**

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

	December 24, 2017	June 25, 2017
Raw material	\$84,429	\$73,410
Work-in-progress	89,501	100,402
Finished goods	99,281	110,573
Inventories, net	\$273,211	\$284,385

#### **Other Current Liabilities**

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

	December 24, 2017	June 25, 2017
Accrued taxes	\$13,181	\$11,148
Accrued professional fees	4,713	5,545
Accrued warranty	15,151	13,631
Accrued other	7,480	6,654
Other current liabilities	\$40,525	\$36,978

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

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

	December 24, 2017	June 25, 2017
Currency translation gain	\$5,689	\$4,471
Net unrealized (loss) gain on available-for-sale securities	(2,262)	1,438
Accumulated other comprehensive income, net of taxes	\$3,427	\$5,909

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

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

	Three Months Ended		Six Months Ended	
	December 24, 2017	December 25, 2016	December 24, 2017	December 25, 2016
Foreign currency gain (loss), net	\$462	(\$1,856)	\$1,228	(\$495)
Gain on sale of investments, net	1	—	47	12
Gain (loss) on equity investment, net	24,746	(3,796)	21,479	(6,283)
Interest income, net	1,467	900	2,617	1,787
Other, net	53	(8)	291	60
Non-operating income (expense), net	\$26,729	(\$4,760)	\$25,662	(\$4,919)

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

**Reclassifications Out of Accumulated Other Comprehensive Income, net of taxes**

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

Accumulated Other Comprehensive Income Component	Amount Reclassified Out of Accumulated Other Comprehensive Income				Affected Line Item in the Consolidated Statements of Income (Loss)
	Three Months Ended		Six Months Ended		
	December 24, 2017	December 25, 2016	December 24, 2017	December 25, 2016	
Net unrealized gain on available-for-sale securities, net of taxes	\$1	\$—	\$47	\$12	Non-operating income (expense), net
	1	—	47	12	Income (loss) before income taxes
	—	—	—	5	Income tax (benefit) expense
	\$1	\$—	\$47	\$7	

**Note 5 – Investments**

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

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

	December 24, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal bonds	\$178,985	\$815	(\$1,025)	\$178,775
Corporate bonds	172,410	1,161	(761)	172,810
U.S. agency securities	3,921	—	(7)	3,914
Non-U.S. certificates of deposit	122,634	—	—	122,634
Commercial paper	2,088	—	—	2,088
Total short-term investments	\$480,038	\$1,976	(\$1,793)	\$480,221

	June 25, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal bonds	\$177,890	\$2,219	(\$68)	\$180,041
Corporate bonds	175,991	1,925	(195)	177,721
U.S. agency securities	—	—	—	—
Non-U.S. certificates of deposit	120,379	—	—	120,379
Commercial paper	200	—	—	200
Total short-term investments	\$474,460	\$4,144	(\$263)	\$478,341

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

	December 24, 2017					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Municipal bonds	\$115,005	(\$897)	\$7,821	(\$90)	\$122,826	(\$987)
Corporate bonds	100,236	(563)	12,808	(237)	113,044	(800)
U.S. agency securities	3,914	(7)	—	—	3,914	(7)
Total	\$219,155	(\$1,467)	\$20,629	(\$327)	\$239,784	(\$1,794)
Number of securities with an unrealized loss		148		23		171

	June 25, 2017					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Municipal bonds	\$26,816	(\$68)	\$—	\$—	\$26,816	(\$68)
Corporate bonds	57,404	(195)	—	—	57,404	(195)
U.S. agency securities	—	—	—	—	—	—
Total	\$84,220	(\$263)	\$—	\$—	\$84,220	(\$263)
Number of securities with an unrealized loss		67		—		67

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

The Company evaluates its investments for possible impairment or a decline in fair value below cost basis that is deemed to be other-than-temporary on a periodic basis. It considers such factors as the length of time and extent to which the fair value has been below the cost basis, the financial condition of the investee, and its ability and intent to hold the investment for a period of time that may be sufficient for an anticipated full recovery in market value. Accordingly, the Company considered declines in its investments to be temporary in nature, and did not consider its securities to be impaired as of December 24, 2017 and June 25, 2017.

The contractual maturities of short-term investments as of December 24, 2017 were as follows (in thousands):

	Within One Year	After One, Within Five Years	After Five, Within Ten Years	After Ten Years	Total
Municipal bonds	\$1,526	\$130,557	\$35,186	\$11,506	\$178,775
Corporate bonds	4,759	97,126	62,274	8,651	172,810
U.S. agency securities	—	3,914	—	—	3,914
Non-U.S. certificates of deposit	114,911	7,723	—	—	122,634
Commercial paper	2,088	—	—	—	2,088
Total short-term investments	<u>\$123,284</u>	<u>\$239,320</u>	<u>\$97,460</u>	<u>\$20,157</u>	<u>\$480,221</u>

#### Note 6 – Fair Value of Financial Instruments

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

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

The financial assets for which the Company performs recurring fair value remeasurements are cash equivalents, short-term investments and long-term investments. As of December 24, 2017, financial assets utilizing Level 1 inputs included money market funds and certificates of deposit, and financial assets utilizing Level 2 inputs included municipal bonds, corporate bonds, U.S. agency securities, certificates of deposit, commercial paper and common stock of non-U.S. corporations. Level 2 assets are valued based on quoted prices in active markets for instruments that are similar or using a third-party pricing service's consensus price, which is a weighted average price based on multiple sources. These sources determine prices utilizing market income models which factor in, where applicable, transactions of similar assets in active markets, transactions of identical assets in infrequent markets, interest rates, bond or credit default swap spreads and volatility. The Company did not have any financial assets requiring the use of Level 3 inputs as of December 24, 2017. There were no transfers between Level 1 and Level 2 during the six months ended December 24, 2017.

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

	December 24, 2017				June 25, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Cash equivalents:								
Municipal bonds	\$—	\$—	\$—	\$—	\$—	\$1,802	\$—	\$1,802
Non-U.S. certificates of deposit	—	85,259	—	85,259	—	736	—	736
Money market funds	1,191	—	—	1,191	1,184	—	—	1,184
Total cash equivalents	1,191	85,259	—	86,450	1,184	2,538	—	3,722
Short-term investments:								
Municipal bonds	—	178,775	—	178,775	—	180,041	—	180,041
Corporate bonds	—	172,810	—	172,810	—	177,721	—	177,721
U.S. agency securities	3,914	—	—	3,914	—	—	—	—
Commercial paper	—	2,088	—	2,088	—	200	—	200
Non-U.S. certificates of deposit	—	122,634	—	122,634	—	120,379	—	120,379
Total short-term investments	3,914	476,307	—	480,221	—	478,341	—	478,341
Other long-term investments:								
Common stock of non-U.S. corporations	—	72,517	—	72,517	—	50,366	—	50,366
Total other long-term investments	—	72,517	—	72,517	—	50,366	—	50,366
Total assets	\$5,105	\$634,083	\$—	\$639,188	\$1,184	\$531,245	\$—	\$532,429

#### Note 7— Intangible Assets

##### Intangible Assets, net

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

	December 24, 2017			June 25, 2017		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Intangible assets with finite lives:						
Customer relationships	\$141,420	(\$87,790)	\$53,630	\$141,420	(\$84,673)	\$56,747
Developed technology	181,728	(143,179)	38,549	181,728	(132,747)	48,981
Non-compete agreements	10,475	(10,436)	39	10,475	(10,398)	77
Trade names, finite-lived	520	(520)	—	520	(520)	—
Patent and licensing rights	155,523	(67,814)	87,709	151,985	(63,155)	88,830
Total intangible assets with finite lives	489,666	(309,739)	179,927	486,128	(291,493)	194,635
Trade names, indefinite-lived	79,680	—	79,680	79,680	—	79,680
Total intangible assets	\$569,346	(\$309,739)	\$259,607	\$565,808	(\$291,493)	\$274,315

For the three and six months ended December 24, 2017, total amortization of finite-lived intangible assets was \$9.9 million and \$19.8 million, respectively. For the three and six months ended December 25, 2016, total amortization of finite-lived intangible assets was \$9.0 million and \$18.4 million, respectively.

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

<b>Fiscal Year Ending</b>	
June 24, 2018 (remainder of fiscal 2018)	\$13,925
June 30, 2019	25,459
June 28, 2020	20,042
June 27, 2021	18,631
June 26, 2022	16,307
Thereafter	85,563
<b>Total future amortization expense</b>	<b>\$179,927</b>

**Note 8 – Long-term Debt**

As of December 24, 2017, the Company had a \$500 million secured revolving line of credit under which the Company can borrow, repay and reborrow loans from time to time prior to its scheduled maturity date of January 9, 2022.

The Company classifies balances outstanding under its line of credit as long-term debt in the consolidated balance sheets. At December 24, 2017, the Company had \$124 million outstanding under the line of credit and \$376 million available for borrowing. For the three and six months ended December 24, 2017, the average interest rate was 1.75% and 1.76% for each period, respectively. For the three and six months ended December 24, 2017 the average commitment fee percentage was 0.10%. The Company was in compliance with all covenants in the line of credit at December 24, 2017.

**Note 9 – Shareholders’ Equity**

As of December 24, 2017, pursuant to an approval by the Board of Directors, the Company is authorized to repurchase shares of its common stock having an aggregate purchase price not exceeding \$200 million for all purchases from June 26, 2017 through the expiration of the program on June 24, 2018. During the six months ended December 24, 2017, the Company repurchased no shares of common stock under the stock repurchase program.

**Note 10 – Earnings (Loss) Per Share**

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>December 24, 2017</b>	<b>December 25, 2016</b>	<b>December 24, 2017</b>	<b>December 25, 2016</b>
<b>Net income (loss)</b>	\$13,721	\$6,216	(\$6,136)	\$6,783
Weighted average common shares	99,184	98,467	98,499	99,513
<b>Basic earnings (loss) per share</b>	<b>\$0.14</b>	<b>\$0.06</b>	<b>(\$0.06)</b>	<b>\$0.07</b>



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

	Three Months Ended		Six Months Ended	
	December 24, 2017	December 25, 2016	December 24, 2017	December 25, 2016
<b>Net income (loss)</b>	\$13,721	\$6,216	(\$6,136)	\$6,783
Weighted average common shares - basic	99,184	98,467	98,499	99,513
Dilutive effect of stock options, nonvested shares and Employee Stock Purchase Plan purchase rights	1,579	263	—	481
Weighted average common shares - diluted	100,763	98,730	98,499	99,994
Diluted earnings (loss) per share	\$0.14	\$0.06	(\$0.06)	\$0.07

Potential common shares that would have the effect of increasing diluted earnings per share or decreasing diluted loss per share are considered to be anti-dilutive and as such, these shares are not included in calculating diluted earnings per share. For the three and six months ended December 24, 2017, there were 4.1 million and 5.8 million, respectively, of potential common shares not included in the calculation of diluted earnings (loss) per share because their effect was anti-dilutive. For the three and six months ended December 25, 2016, there were 12.1 million and 11.5 million, respectively, of potential common shares not included in the calculation of diluted earnings (loss) per share because their effect was anti-dilutive.

## Note 11 – Stock-Based Compensation

### Overview of Employee Stock-Based Compensation Plans

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

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

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

**Stock Option Awards**

The following table summarizes stock option awards outstanding as of December 24, 2017 and changes during the six months then ended (numbers of shares in thousands):

	Number of Shares	Weighted Average Exercise Price
Outstanding at June 25, 2017	10,604	\$38.27
Granted	53	\$24.66
Exercised	(1,448)	\$27.56
Forfeited or expired	(1,371)	\$49.48
Outstanding at December 24, 2017	7,838	\$38.20

**Restricted Stock Awards and Units**

A summary of nonvested restricted stock awards (RSAs) and restricted stock unit awards (RSUs) outstanding as of December 24, 2017, and changes during the six months then ended is as follows (numbers of awards and units in thousands):

	Number of RSAs/RSUs	Weighted Average Grant-Date Fair Value
Nonvested at June 25, 2017	2,412	\$26.74
Granted	2,211	\$25.91
Vested	(584)	\$29.44
Forfeited	(478)	\$24.52
Nonvested at December 24, 2017	3,561	\$26.08

**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 as follows (in thousands):

	Three Months Ended		Six Months Ended	
	December 24, 2017	December 25, 2016	December 24, 2017	December 25, 2016
<b>Income Statement Classification:</b>				
Cost of revenue, net	\$1,898	\$2,978	\$3,673	\$5,783
Research and development	1,999	2,486	4,456	5,925
Sales, general and administrative	8,129	6,742	14,031	15,148
Total stock-based compensation expense	\$12,026	\$12,206	\$22,160	\$26,856

#### Note 12 – Income Taxes

The variation between the Company's effective income tax rate and the U.S. statutory rate of 28.3% is primarily due to: (i) changes in the Company's valuation allowances against deferred tax assets in the U.S. and Luxembourg, (ii) projected income for the full year derived from international locations with lower tax rates than the U.S. and (iii) projected tax credits generated.

The Tax Cuts and Jobs Act of 2017 (Tax Legislation), enacted on December 22, 2017, contains significant changes to U.S. tax law, including lowering the U.S. corporate income tax rate to 21%, implementing a territorial tax system, and imposing a one-time tax on deemed repatriated earnings of foreign subsidiaries.

The Tax Legislation reduces the U.S. statutory tax rate from 35% to 21%, effective January 1, 2018. U.S. tax law requires that taxpayers with a fiscal year that begins before and ends after the effective date of a rate change calculate a blended tax rate based on the pro rata number of days in the fiscal year before and after the effective date. As a result, for the fiscal year ending June 24, 2018, the Company's statutory income tax rate will be 28.3%. For the fiscal year ending June 30, 2019, the Company's statutory income tax rate will be 21%. During the three months ended December 24, 2017, the Company recorded an \$18.8 million discrete tax benefit representing the benefit of remeasuring its U.S. deferred tax liabilities at the lower 21% statutory tax rate.

The Tax Legislation also implements a territorial tax system. Under the territorial tax system, in general, the Company's foreign earnings will no longer be subject to tax in the U.S. As part of transitioning to the territorial tax system the Tax Legislation includes a mandatory deemed repatriation of all undistributed foreign earnings that are subject to a U.S. income tax. The Company estimates that the deemed repatriation will result in \$15.7 million of additional U.S. income tax which the Company expects to fully offset through the utilization of tax credits. This preliminary estimate may be impacted by a number of additional considerations, including, but not limited to, the issuance of final regulations, the Company's ongoing analysis of the new law and the Company's actual earnings for the fiscal year ending June 24, 2018.

As of December 24, 2017, the Company has approximately \$280.3 million of undistributed earnings for certain non-U.S. subsidiaries. These undistributed earnings are subject to the one-time deemed repatriation tax, but could be subject to additional foreign and state income taxes if they are repatriated. The Company has historically asserted its intent to reinvest these earnings in foreign operations indefinitely. The Company has reevaluated its historical assertion considering the enactment of the Tax Legislation and determined that \$220.8 million of the undistributed foreign earnings are expected to be repatriated in the foreseeable future. During the three months ended December 24, 2017, the Company recorded a \$3.0 million discrete tax expense representing the deferred tax liability for foreign income taxes expected to be withheld upon repatriation of the foreign earnings. As of December 24, 2017, the Company has not provided income taxes on the remaining undistributed foreign earnings 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 U.S., the Company would be required to pay approximately \$3.0 million in taxes on these amounts.

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. The Company reassessed the need for a full valuation allowance against its U.S. deferred tax assets due to the Tax Legislation and concluded that a full valuation allowance is still necessary. As of June 25, 2017, the U.S. valuation allowance was \$101.8 million. During the six months ended December 24, 2017, the Company reduced the U.S. valuation allowance by \$20.0 million as a result of remeasuring its U.S. deferred tax assets at the 21% statutory rate and, as a result, the U.S. valuation allowance is \$81.8 million as of December 24, 2017. As of June 25, 2017, the Luxembourg valuation allowance was \$5.8 million. During the six months ended December 24, 2017, the Company reduced this valuation allowance by \$4.8 million as a result of the \$18.4 million year-to-date income in Luxembourg.

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

As of June 25, 2017, the Company's liability for unrecognized tax benefits was \$13.3 million. During the six months ended December 24, 2017, the Company recorded a \$4.7 million decrease to the liability for unrecognized tax benefits due to the U.S. statutory rate reduction. In addition, there was a \$0.6 million increase in the unrecognized tax benefits due to uncertainty regarding state depreciation deductions. As a result, the total liability for unrecognized tax benefits as of December 24, 2017 was \$9.2 million. If any portion of this \$9.2 million is recognized, the Company will then include that portion in the computation of its effective tax rate. Although the ultimate timing of the resolution and/or closure of audits is highly uncertain, the Company believes it is reasonably possible that \$0.4 million of gross unrecognized tax benefits will change in the next 12 months as a result of statute requirements.

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 2014. For U.S. state tax returns, the Company is generally no longer subject to tax examinations for fiscal years prior to 2013. For foreign purposes, the Company is generally no longer subject to tax examinations for tax periods prior to 2007. Certain carryforward tax attributes generated in prior years remain subject to examination, adjustment and recapture.

### Note 13 – Commitments and Contingencies

#### Warranties

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

Balance at June 25, 2017	\$27,919
Warranties accrued in current period	15,853
Expenditures	(9,171)
Balance at December 24, 2017	<u>\$34,601</u>

Product warranties are estimated and recognized at the time the Company recognizes revenue. The warranty periods range from 90 days to 10 years. The Company accrues warranty liabilities at the time of sale, based on historical and projected incident rates and expected future warranty costs. The Company accrues estimated costs related to product recalls based on a formal campaign soliciting repair or return of that product when they are deemed probable and reasonably estimable. The warranty reserves, which are primarily related to Lighting Products, are evaluated quarterly based on various factors including historical warranty claims, assumptions about the frequency of warranty claims, and assumptions about the frequency of product failures derived from quality testing, field monitoring and the Company's reliability estimates. As of December 24, 2017, \$19.5 million of the Company's product warranty liabilities were classified as long-term.

The Company has voluntarily recalled its linear LED T8 replacement lamps due to the hazard of overheating and melting. The Company expects the majority of the costs of the recall to be recoverable from insurance proceeds resulting in an immaterial impact to the Company's financial results.

#### Litigation

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

### Note 14 – Reportable Segments

The Company's operating and reportable segments are:

- Lighting Products
- LED Products
- Wolfspeed

**Reportable Segments Description**

The Company's Lighting Products segment primarily consists of LED lighting systems and lamps. The Company's LED Products segment includes LED chips and LED components. The Company's Wolfspeed segment includes power devices, RF devices, and SiC materials.

**Financial Results by Reportable Segment**

The table below reflects the results of the Company's reportable segments as reviewed by the Chief Operating Decision Maker (CODM) for the three and six months ended December 24, 2017. The Company's CODM is the Chief Executive Officer. The Company used the same accounting policies to derive the segment results reported below as those used in the Company's consolidated financial statements.

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

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

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

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

For the three and six months ended December 25, 2016, the Wolfspeed segment was presented as discontinued operations. The depreciation and amortization adjustment in the table below represents the depreciation and amortization that would have been recognized had the Wolfspeed assets been continuously classified as held and used. These costs were allocated to the Wolfspeed segment's gross profit for the three and six months ended December 25, 2016 because they represent an adjustment which provides comparability to the current period.

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

	Three Months Ended		Six Months Ended	
	December 24, 2017	December 25, 2016	December 24, 2017	December 25, 2016
<b>Revenue:</b>				
Lighting Products revenue	\$144,616	\$208,924	\$294,340	\$392,760
LED Products revenue	152,682	138,038	297,202	275,531
Wolfspeed revenue	70,572	54,364	136,726	104,268
Total revenue	\$367,870	\$401,326	\$728,268	\$772,559
<b>Gross Profit and Gross Margin:</b>				
Lighting Products gross profit	\$22,964	\$74,770	\$54,847	\$124,060
Lighting Products gross margin	15.9%	35.8%	18.6%	31.6%
LED Products gross profit	38,606	40,314	77,416	82,084
LED Products gross margin	25.3%	29.2%	26.0%	29.8%
Wolfspeed gross profit	34,133	25,911	66,531	49,371
Wolfspeed gross margin	48.4%	47.7%	48.7%	47.4%
Total segment gross profit	95,703	140,995	198,794	255,515
Unallocated costs	(3,100)	(4,859)	(5,859)	(9,618)
Depreciation and amortization adjustment	—	4,431	—	4,601
Consolidated gross profit	\$92,603	\$140,567	\$192,935	\$250,498
Consolidated gross margin	25.2%	35.0%	26.5%	32.4%

#### Assets by Reportable Segment

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

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

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

	December 24, 2017	June 25, 2017
Lighting Products	\$140,657	\$145,710
LED Products	100,411	108,297
Wolfspeed	28,047	26,453
Total segment inventories, net	269,115	280,460
Unallocated inventories	4,096	3,925
Consolidated inventories, net	\$273,211	\$284,385

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

Information set forth in this Quarterly Report on Form 10-Q contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All information contained in this report relative to future markets for our products and trends in and anticipated levels of revenue, gross margins and expenses, as well as other statements containing words such as "believe," "project," "may," "will," "anticipate," "target," "plan," "estimate," "expect" and "intend" and other similar expressions constitute forward-looking statements. These forward-looking statements are subject to business, economic and other risks and uncertainties, both known and unknown, and actual results may differ materially from those contained in the forward-

looking statements. Any forward-looking statements we make are as of the date made, and except as required under the U.S. federal securities laws and the rules and regulations of the Securities and Exchange Commission (the SEC), we have no duty to update them if our views later change. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date of this Quarterly Report. Examples of risks and uncertainties that could cause actual results to differ materially from historical performance and any forward-looking statements include, but are not limited to, those described in "Risk Factors" in Part II, Item 1A of this Quarterly Report.

### **Executive Summary**

The following discussion is designed to provide a better understanding of our unaudited consolidated financial statements, including a brief discussion of our business and products, key factors that impacted our performance and a summary of our operating results. The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q, and the consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended June 25, 2017. Historical results and percentage relationships among any amounts in the financial statements are not necessarily indicative of trends in operating results for any future periods.

### **Overview**

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

Our lighting products primarily consist of LED lighting systems and lamps. We design, manufacture and sell lighting fixtures and lamps for the commercial, industrial and consumer markets.

Our LED products consist of LED chips and LED components. Our LED products enable our customers to develop and market LED-based products for lighting, video screens, automotive and other industrial applications.

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

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

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

### **Reportable Segments**

Our three reportable segments are:

- Lighting Products
- LED Products
- Wolfspeed

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

## **Industry Dynamics and Trends**

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

- *Overall Demand for Products and Applications using LEDs, SiC power devices and GaN RF devices.* Our potential for growth depends significantly on the continued adoption of LEDs, the adoption of SiC and GaN materials and device products in the power and RF markets, and our ability to win new designs for these applications. Demand also fluctuates based on various market cycles, continuously evolving industry supply chains, and evolving competitive dynamics in each of the respective markets. These uncertainties make demand difficult to forecast for us and our customers.
- *Intense and Constantly Evolving Competitive Environment.* Competition in the industries we serve is intense. Many companies have made significant investments in product development and production equipment. Product pricing pressures exist as market participants often undertake pricing strategies to gain or protect market share, increase the utilization of their production capacity and open new applications to the LED, lighting, power and RF 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.
- *Lighting Sales Channel Development.* Commercial lighting is usually sold through lighting agents and distributors in the North American lighting market. The lighting agents typically have exclusive sales rights for a defined territory and are typically aligned with one large lighting company for a large percentage of their product sales. The size, quality and capability of the lighting agent has a significant effect on winning new projects and sales in a given geographic market. While these agents sell other lighting products, the large traditional lighting companies have taken steps to prevent their channel partners from selling competing product lines. We are constantly working to improve the capabilities of our existing channel partners and increase our share of their sales as well as develop new partners to improve our sales effectiveness in each geographic market.
- *Technological Innovation and Advancement.* Innovations and advancements in LEDs, lighting and power and RF technologies continue to expand the potential commercial application for our products. However, new technologies or standards could emerge or improvements could be made in existing technologies that could reduce or limit the demand for our products in certain markets.
- *Intellectual Property Issues.* Market participants rely on patented and non-patented proprietary information relating to product development, manufacturing capabilities and other core competencies of their business. Protection of intellectual property is critical. Therefore, steps such as additional patent applications, confidentiality and non-disclosure agreements, as well as other security measures are generally taken. To enforce or protect intellectual property rights, litigation or threatened litigation is common.

## **Overview of the Six Months Ended December 24, 2017**

The following is a summary of our financial results for the six months ended December 24, 2017:

- Revenue decreased to \$728 million for the six months ended December 24, 2017 from \$773 million for the six months ended December 25, 2016.
- Gross profit decreased to \$193 million for the six months ended December 24, 2017 from \$250 million for the six months ended December 25, 2016. Gross margin was 26% for the six months ended December 24, 2017 and 32% for the six months ended December 25, 2016.
- Operating loss was \$40 million for the six months ended December 24, 2017 compared to operating income of \$14 million for the six months ended December 25, 2016. Net loss per diluted share was \$(0.06) for the six months ended December 24, 2017 compared to net earnings per diluted share of \$0.07 for the six months ended December 25, 2016.
- Cash, cash equivalents and short-term investments were \$650 million at December 24, 2017 and \$611 million at June 25, 2017. Cash provided by operating activities was \$106 million for the six months ended December 24, 2017 compared to \$120 million for the six months ended December 25, 2016.
- Inventories decreased to \$273 million at December 24, 2017 compared to \$284 million at June 25, 2017.
- Purchases of property and equipment were \$85 million for the six months ended December 24, 2017 compared to \$35 million for the six months ended December 25, 2016.



### Business Outlook

We continue to focus on growing the Wolfspeed business, as our customers have further realized the value of our technology. The strength of our balance sheet and operating cash flow provides us the ability to invest in Wolfspeed, while continuing to pursue our LED and Lighting growth plans.

We are uniquely positioned as an innovator in all three business segments and target growth in all three businesses over the next several years. These businesses are in different phases of their growth plans and generally operate on different market cycles. This is targeted to provide better business diversity and less cyclical results over time.

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

- Invest in the Wolfspeed business to increase capacity and further develop the technology to support longer term growth opportunities in SiC materials, SiC power devices and modules, and GaN RF devices.
- Grow Lighting Products revenue and improve margins by investing in our channel relationships, improving execution, and continuing to deliver innovative lighting solutions.
- Grow the LED Products business by expanding our product offering with new products that leverage our market leadership to serve a larger share of existing customers' LED demand, while also opening new applications for our technology.
- Improve the customer experience and service levels in all of our businesses.

### Results of Operations

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

	Three Months Ended				Six Months Ended			
	December 24, 2017		December 25, 2016		December 24, 2017		December 25, 2016	
	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue
<b>Revenue, net</b>	<b>\$367,870</b>	<b>100 %</b>	<b>\$401,326</b>	<b>100 %</b>	<b>\$728,268</b>	<b>100 %</b>	<b>\$772,559</b>	<b>100 %</b>
Cost of revenue, net	275,267	75 %	260,759	65 %	535,333	74 %	522,061	68 %
<b>Gross profit</b>	<b>92,603</b>	<b>25 %</b>	<b>140,567</b>	<b>35 %</b>	<b>192,935</b>	<b>26 %</b>	<b>250,498</b>	<b>32 %</b>
Research and development	39,776	11 %	37,893	9 %	81,635	11 %	77,841	10 %
Sales, general and administrative	68,076	19 %	76,513	19 %	131,040	18 %	144,971	19 %
Amortization or impairment of acquisition-related intangibles	6,792	2 %	5,937	1 %	13,584	2 %	12,345	2 %
Loss on disposal or impairment of long-lived assets	4,262	1 %	717	— %	7,087	1 %	1,041	— %
<b>Operating (loss) income</b>	<b>(26,303)</b>	<b>(7)%</b>	<b>19,507</b>	<b>5 %</b>	<b>(40,411)</b>	<b>(6)%</b>	<b>14,300</b>	<b>2 %</b>
Non-operating income (expense), net	26,729	7 %	(4,760)	(1)%	25,662	4 %	(4,919)	(1)%
<b>Income (loss) before income taxes</b>	<b>426</b>	<b>— %</b>	<b>14,747</b>	<b>4 %</b>	<b>(14,749)</b>	<b>(2)%</b>	<b>9,381</b>	<b>1 %</b>
Income tax (benefit) expense	(13,326)	(4)%	8,531	2 %	(8,629)	(1)%	2,598	— %
<b>Net income (loss)</b>	<b>13,752</b>	<b>4 %</b>	<b>\$6,216</b>	<b>2 %</b>	<b>(\$6,120)</b>	<b>(1)%</b>	<b>\$6,783</b>	<b>1 %</b>
Net income attributable to noncontrolling interest	31	— %	—	— %	16	— %	—	— %
<b>Net income (loss) attributable to controlling interest</b>	<b>\$13,721</b>	<b>4 %</b>	<b>\$6,216</b>	<b>2 %</b>	<b>(\$6,136)</b>	<b>(1)%</b>	<b>\$6,783</b>	<b>1 %</b>
Basic earnings (loss) per share	\$0.14		\$0.06		(\$0.06)		\$0.07	
Diluted earnings (loss) per share	\$0.14		\$0.06		(\$0.06)		\$0.07	

## Revenue

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

	Three Months Ended			Six Months Ended		
	December 24, 2017	December 25, 2016	Change	December 24, 2017	December 25, 2016	Change
Lighting Products revenue	\$144,616	\$208,924	(\$64,308)	\$294,340	\$392,760	(\$98,420)
<i>Percent of revenue</i>	39%	52%	(31)%	40%	51%	(25)%
LED Products revenue	152,682	138,038	14,644	297,202	275,531	21,671
<i>Percent of revenue</i>	42%	34%	11%	41%	36%	8%
Wolfspeed revenue	70,572	54,364	16,208	136,726	104,268	32,458
<i>Percent of revenue</i>	19%	14%	30%	19%	13%	31%
<b>Total revenue</b>	<b>\$367,870</b>	<b>\$401,326</b>	<b>(\$33,456)</b>	<b>\$728,268</b>	<b>\$772,559</b>	<b>(\$44,291)</b>

Our consolidated revenue decreased 8% to \$367.9 million for the three months ended December 24, 2017 from \$401.3 million for the three months ended December 25, 2016. This decrease was driven by the 31% reduction in Lighting Products revenue, which was partially offset by the 30% and 11% increase in Wolfspeed and LED Products revenue, respectively.

For the six months ended December 24, 2017, our consolidated revenue decreased 6% to \$728.3 million from \$772.6 million for the six months ended December 25, 2016. This decrease was driven by the 25% decrease in Lighting Products revenue, which was partially offset by the 31% and 8% increase in Wolfspeed and LED Products revenue, respectively.

### Lighting Products Segment Revenue

Lighting Products revenue represented approximately 39% and 52% of our total revenue for the three months ended December 24, 2017 and December 25, 2016, respectively.

Lighting Products revenue decreased 31% to \$144.6 million for the three months ended December 24, 2017 from \$208.9 million for the three months ended December 25, 2016. The decrease in revenue for the three months ended December 24, 2017 compared to the three months ended December 25, 2016 was due to the absence of the significant patent license issuance fee we received as part of the confidential Feit Electric Company Inc. license agreement in the fiscal quarter ended December 25, 2016, and a 28% decrease in the number of overall units sold, which were partially offset by a 10% increase in average selling prices (ASP). The decrease in units sold for the period was primarily due to the current weakness in the North American commercial lighting market, lingering effects related to quality holds which have lowered project win rates, and reduced consumer sales due to lower demand.

Lighting Products revenue represented approximately 40% and 51% of our total revenue for the six months ended December 24, 2017 and December 25, 2016, respectively.

Lighting Products revenue decreased 25% to \$294.3 million for the six months ended December 24, 2017 from \$392.8 million for the six months ended December 25, 2016. The decrease in revenue for the six months ended December 24, 2017 compared to the six months ended December 25, 2016 was due to the absence of the significant patent license issuance fee we received as part of the confidential Feit Electric Company Inc. license agreement in the fiscal quarter ended December 25, 2016, and a 41% decrease in the number of overall units sold, which was partially offset by a 39% increase in ASP. The decrease in units sold for the period was primarily due to the current weakness in the North American commercial lighting market, lingering effects related to quality holds which have lowered project win rates, and reduced consumer sales due to lower demand.

### LED Products Segment Revenue

LED Products revenue represented 42% and 34% of our total revenue for the three months ended December 24, 2017 and December 25, 2016, respectively.

LED Products revenue increased 11% to \$152.7 million for the three months ended December 24, 2017 from \$138.0 million for the three months ended December 25, 2016. The increase in revenue for the three months ended December 24, 2017 compared to the three months ended December 25, 2016 was due primarily to a 26% increase in the number of units sold, partially offset by a 12% decrease in ASP. The increase in revenue is due to strong demand in general lighting, specialty lighting, after-market automotive, and video screen applications.

LED Products revenue represented 41% and 36% of our total revenue for the six months ended December 24, 2017 and December 25, 2016, respectively.

LED Products revenue increased 8% to \$297.2 million for the six months ended December 24, 2017 from \$275.5 million for the six months ended December 25, 2016. The increase in revenue for the six months ended December 24, 2017 compared to the six months ended December 25, 2016 was due primarily to a 22% increase in the number of units sold, partially offset by a 12% decrease in ASP.

#### Wolfspeed Segment Revenue

Wolfspeed revenue represented approximately 19% and 14% of our total revenue for the three months ended December 24, 2017 and December 25, 2016, respectively.

Wolfspeed revenue increased 30% to \$70.6 million for the three months ended December 24, 2017 from \$54.4 million for the three months ended December 25, 2016. The increase in revenue for the three months ended December 24, 2017 as compared to the three months ended December 25, 2016 was due to a 21% increase in the number of units sold as well as an 8% increase in ASP. The increase in ASP was due to a greater mix of higher priced wafer and device products.

Wolfspeed revenue represented approximately 19% and 13% of our total revenue for the six months ended December 24, 2017 and December 25, 2016, respectively.

Wolfspeed revenue increased 31% to \$136.7 million for the six months ended December 24, 2017 from \$104.3 million for the six months ended December 25, 2016. The increase in revenue for the six months ended December 24, 2017 as compared to the six months ended December 25, 2016 was due to a 19% increase in the number of units sold as well as an 11% increase in ASP. The increase in ASP was due to a greater mix of higher priced wafer and device products.

#### Gross Profit and Gross Margin

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

	Three Months Ended			Six Months Ended				
	December 24, 2017	December 25, 2016	Change	December 24, 2017	December 25, 2016	Change		
Lighting Products gross profit	\$22,964	\$74,770	(\$51,806)	(69)%	\$54,847	\$124,060	(\$69,213)	(56)%
<i>Lighting Products gross margin</i>	15.9%	35.8%			18.6%	31.6%		
LED Products gross profit	38,606	40,314	(1,708)	(4)%	77,416	82,084	(4,668)	(6)%
<i>LED Products gross margin</i>	25.3%	29.2%			26.0%	29.8%		
Wolfspeed gross profit	34,133	25,911	8,222	32 %	66,531	49,371	17,160	35 %
<i>Wolfspeed gross margin</i>	48.4%	47.7%			48.7%	47.4%		
Unallocated costs	(3,100)	(4,859)	1,759	(36)%	(5,859)	(9,618)	3,759	(39)%
Depreciation and amortization adjustment	—	4,431	(4,431)	(100)%	—	4,601	(4,601)	(100)%
<b>Consolidated gross profit</b>	<b>\$92,603</b>	<b>\$140,567</b>	<b>(\$47,964)</b>	<b>(34)%</b>	<b>\$192,935</b>	<b>\$250,498</b>	<b>(\$57,563)</b>	<b>(23)%</b>
<b>Consolidated gross margin</b>	<b>25.2%</b>	<b>35.0%</b>			<b>26.5%</b>	<b>32.4%</b>		

Our consolidated gross profit decreased 34% to \$92.6 million for the three months ended December 24, 2017 from \$140.6 million for the three months ended December 25, 2016. Our consolidated gross margin decreased to 25.2% for the three months ended December 24, 2017 from 35.0% for the three months ended December 25, 2016.

Our consolidated gross profit decreased 23% to \$193 million for the six months ended December 24, 2017 from \$250.5 million for the six months ended December 25, 2016. Our consolidated gross margin decreased to 26.5% for the six months ended December 24, 2017 from 32.4% for the six months ended December 25, 2016.

*Lighting Products Segment Gross Profit and Gross Margin*

Lighting Products gross profit decreased 69% to \$23.0 million for the three months ended December 24, 2017 from \$74.8 million for the three months ended December 25, 2016. Lighting Products gross margin decreased to 15.9% for the three months ended December 24, 2017 from 35.8% for the three months ended December 25, 2016. The decrease in Lighting Products gross profit and gross margin for the three months ended December 24, 2017 was primarily due to the absence of the significant patent license issuance fee associated with the new patent license agreement discussed above, lower commercial lighting fixture sales, lower commercial factory utilization and higher commercial lighting product warranty reserves.

Lighting Products gross profit decreased 56% to \$54.8 million for the six months ended December 24, 2017 from \$124.1 million for the six months ended December 25, 2016. Lighting Products gross margin decreased to 18.6% for the six months ended December 24, 2017 from 31.6% for the six months ended December 25, 2016. The decrease in Lighting Products gross profit and gross margin for the six months ended December 24, 2017 was primarily due to the same factors listed above.

*LED Products Segment Gross Profit and Gross Margin*

LED Products gross profit decreased 4% to \$38.6 million for the three months ended December 24, 2017 from \$40.3 million for the three months ended December 25, 2016. LED Products gross margin decreased to 25.3% for the three months ended December 24, 2017 from 29.2% for the three months ended December 25, 2016. The decreases in gross profit and gross margin are due primarily to costs associated with expanding our wafer factory, a less favorable mix of LED products sold, and lower pricing resulting from the global competition for LED products.

LED Products gross profit decreased 6% to \$77.4 million for the six months ended December 24, 2017 from \$82.1 million for the six months ended December 25, 2016. LED Products gross margin decreased to 26.0% for the six months ended December 24, 2017 from 29.8% for the six months ended December 25, 2016. The decreases in gross profit and gross margin are due primarily to the same factors listed above.

*Wolfspeed Segment Gross Profit and Gross Margin*

Wolfspeed gross profit increased 32% to \$34.1 million for the three months ended December 24, 2017 from \$25.9 million for the three months ended December 25, 2016. Wolfspeed gross margin increased to 48.4% for the three months ended December 24, 2017 from 47.7% for the three months ended December 25, 2016. The increase in gross profit and margin is primarily due to a more favorable product mix, higher factory utilization and improved production yields.

Wolfspeed gross profit increased 35% to \$66.5 million for the six months ended December 24, 2017 from \$49.4 million for the six months ended December 25, 2016. Wolfspeed gross margin increased to 48.7% for the six months ended December 24, 2017 from 47.4% for the six months ended December 25, 2016. The increase in gross profit and margin is primarily due to the factors listed above.

*Unallocated Costs*

Unallocated costs were \$3.1 million and \$4.9 million for the three months ended December 24, 2017 and December 25, 2016, respectively. Unallocated costs were \$5.9 million and \$9.6 million for the six months ended December 24, 2017 and December 25, 2016, respectively. These costs consisted primarily of manufacturing employees' stock-based compensation, expenses for profit sharing and quarterly or annual incentive plans and matching contributions under our 401(k) plan. These costs were not allocated to the reportable segments' gross profit because our Chief Operating Decision Maker does not review them regularly when evaluating segment performance and allocating resources. The decrease for the three months ended December 24, 2017 as compared to the three months ended December 25, 2016 was primarily attributable to lower stock-based and incentive compensation. The decrease for the six months ended December 24, 2017 as compared to the six months ended December 25, 2016 was primarily attributable to lower stock-based and incentive compensation.

*Depreciation and Amortization Adjustment*

The depreciation and amortization adjustment was \$4.4 million and \$4.6 million for the three and six months ended December 25, 2016, respectively. The depreciation and amortization adjustment impacting cost of revenue for the three and six months ended December 25, 2016, represents the depreciation and amortization that would have been recognized had the Wolfspeed assets been continuously classified as held and used from July 16, 2016 through December 25, 2016. These costs were allocated to the Wolfspeed segment's gross profit for the three and six months ended December 25, 2016 because they represent an adjustment which provides comparability to the current period.

### Research and Development

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

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

	Three Months Ended			Six Months Ended				
	December 24, 2017	December 25, 2016	Change	December 24, 2017	December 25, 2016	Change		
Research and development	\$39,776	\$37,893	\$1,883	5%	\$81,635	\$77,841	\$3,794	5%
<i>Percent of revenue</i>	11%	9%			11%	10%		

Research and development expenses for the three months ended December 24, 2017 increased 5% to \$39.8 million from \$37.9 million for the three months ended December 25, 2016. These increases were primarily due to an increase in Wolfspeed research and development to accelerate 150mm development along with next generation power and RF device research and development. Our research and development expenses vary significantly from quarter to quarter based on a number of factors, including the timing of new product introductions and the number and nature of our ongoing research and development activities.

For the six months ended December 24, 2017, research and development expenses increased 5% to \$82 million from \$78 million for the six months ended December 25, 2016. These increases were primarily due to an increase in Wolfspeed research and development to accelerate 150mm development along with next generation power and RF device research and development. Our research and development expenses vary significantly from quarter to quarter based on a number of factors, including the timing of new product introductions and the number and nature of our ongoing research and development activities.

### Sales, General and Administrative

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

	Three Months Ended			Six Months Ended				
	December 24, 2017	December 25, 2016	Change	December 24, 2017	December 25, 2016	Change		
Sales, general and administrative	\$68,076	\$76,513	(\$8,437)	(11)%	\$131,040	\$144,971	(\$13,931)	(10)%
<i>Percent of revenue</i>	19%	19%			18%	19%		

Sales, general and administrative expenses of \$68.1 million for the three months ended December 24, 2017 decreased 11% from \$76.5 million for the three months ended December 25, 2016. The decrease for the three months ended December 24, 2017 was primarily due to lower variable commercial lighting sales expense resulting from the lower lighting revenue and the fiscal 2017 transaction costs associated with the proposed sale of Wolfspeed to Infineon that did not occur.

For the six months ended December 24, 2017, sales, general and administrative expenses decreased 10% to \$131.0 million from \$145.0 million for the six months ended December 25, 2016. The decrease for the six months ended December 24, 2017 was primarily due to lower variable commercial lighting sales expense resulting from the decrease in lighting revenue, lower stock compensation expense and the fiscal 2017 transaction costs associated with the proposed sale of Wolfspeed to Infineon that did not occur.

### Amortization or Impairment of Acquisition-Related Intangibles

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

	Three Months Ended				Six Months Ended			
	December 24, 2017	December 25, 2016	Change		December 24, 2017	December 25, 2016	Change	
Customer relationships	\$1,558	\$1,277	\$281	22%	\$3,116	\$2,602	\$514	20 %
Developed technology	5,214	4,660	554	12%	10,429	9,505	924	10 %
Non-compete agreements	20	—	20	100%	39	(282)	321	(114)%
Trade names, finite-lived	—	—	—	—%	—	520	(520)	— %
Total amortization	\$6,792	\$5,937	\$855	14%	\$13,584	\$12,345	\$1,239	10 %

Amortization of acquisition-related intangibles was \$6.8 million for the three months ended December 24, 2017 compared to \$5.9 million for the three months ended December 25, 2016.

Amortization of acquisition-related intangibles was \$13.6 million for the six months ended December 24, 2017 compared to \$12.3 million for the six months ended December 25, 2016.

### Loss on Disposal or Impairment of Long-Lived Assets

We operate a capital-intensive business. As such, we dispose of a certain level of our equipment in the normal course of business as our production processes change due to production improvement initiatives or product mix changes. Due to the risk of technological obsolescence or changes in our production process, we regularly review our equipment and capitalized patent costs for possible impairment. The following table sets forth our loss on disposal or impairment of long-lived assets (in thousands, except percentages):

	Three Months Ended				Six Months Ended			
	December 24, 2017	December 25, 2016	Change		December 24, 2017	December 25, 2016	Change	
Loss on disposal or impairment of long-lived assets	\$4,262	\$717	\$3,545	494%	\$7,087	\$1,041	\$6,046	581%

We recognized a net loss of \$4.3 million and a net loss of \$0.7 million on the disposal of long-lived assets for the three months ended December 24, 2017 and December 25, 2016, respectively. The increase in net loss for the three months ended December 24, 2017 as compared to the three months ended December 25, 2016 was primarily due to demolition and move costs associated with our current Wolfspeed manufacturing capacity expansion and a fair value market write-down of an aircraft being held for sale.

For the six months ended December 24, 2017, we recognized a net loss of \$7.1 million compared to a net loss of \$1.0 million for the six months ended December 25, 2016. The increase in net loss for the six months ended December 24, 2017 as compared to the six months ended December 25, 2016 was primarily due to demolition and move costs associated with our current Wolfspeed manufacturing capacity expansion and a fair value market write-down of the aircraft being held for sale.

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

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

	Three Months Ended			Six Months Ended				
	December 24, 2017	December 25, 2016	Change	December 24, 2017	December 25, 2016	Change		
Gain on sale of investments, net	\$1	\$—	\$1	100%	\$47	\$12	\$35	292%
Gain (loss) on equity investment, net	24,746	(3,796)	28,542	752%	21,479	(6,283)	27,762	442%
Foreign currency gain (loss), net	462	(1,856)	2,318	125%	1,228	(495)	1,723	348%
Interest income, net	1,467	900	567	63%	2,617	1,787	830	46%
Other, net	53	(8)	61	763%	291	60	231	385%
Non-operating income (expense), net	\$26,729	(\$4,760)	\$31,489	662%	\$25,662	(\$4,919)	\$30,581	622%

*Gain on sale of investments, net.* Gain on sale of investments, net was \$1 thousand for the three months ended December 24, 2017 compared to \$0 for the three months ended December 25, 2016. For the six months ended December 24, 2017 gain on sale of investments, net was \$47 thousand compared to \$12 thousand for the six months ended December 25, 2016.

*Gain (loss) on equity investment, net.* Gain on equity investment in Lextar Electronics Corporation (Lextar), which we account for utilizing the fair value option, was \$24.7 million for the three months ended December 24, 2017 compared to a loss on equity investment of \$3.8 million for the three months ended December 25, 2016. The gain on equity investment was \$21.5 million for the six months ended December 24, 2017 compared to a loss of \$6.3 million for the six months ended December 25, 2016. Lextar's stock is publicly traded on the Taiwan Stock Exchange and its share price declined from 18.40 New Taiwanese Dollars (TWD) at June 25, 2017 to 17.20 TWD at September 24, 2017 and increased to 26.15 TWD at December 24, 2017. This volatile stock price trend may continue in the future given the risks inherent in Lextar's business and trends affecting the Taiwan and global equity markets. Any future stock price changes will be recorded as further gains or losses on equity investment based on the increase or decrease, respectively, in the fair value of the investment during the applicable fiscal period. Further losses could have a material adverse effect on our results of operations.

*Foreign currency gain (loss), net.* Foreign currency gain (loss), net consisted primarily of remeasurement adjustments resulting from our investment in Lextar and consolidating our international subsidiaries. The foreign currency gain for the three months ended December 24, 2017 was primarily due to a favorable fluctuation in the exchange rates between both the Chinese Yuan and the United States Dollar offset by an unfavorable fluctuation between the Euro, the Canadian Dollar, and the United States Dollar. The foreign currency loss for the three months ended December 25, 2016 was primarily due to unfavorable fluctuation in the exchange rate between the TWD and the United States Dollar related to our Lextar investment as well as unfavorable fluctuations in the exchange rates between both the Chinese Yuan and the Euro and the United States Dollar.

The foreign currency gain for the six months ended December 24, 2017 was primarily due to favorable fluctuations in the exchange rates between both the Chinese Yuan, the Euro, the Canadian Dollar and the United States Dollar. The foreign currency loss for the six months ended December 25, 2016 was primarily due to unfavorable fluctuations in the exchange rates between both the Chinese Yuan and the Euro relative to the United States Dollar, partially offset by a favorable fluctuation in the exchange rate between the TWD and the United States Dollar.

*Interest income, net.* Interest income, net was \$1.5 million for the three months ended December 24, 2017 compared to \$0.9 million for the three months ended December 25, 2016. For the six months ended December 24, 2017, interest income, net was \$2.6 million compared to \$1.8 million for the six months ended December 25, 2016. The increases in interest income, net for the three and six months ended December 24, 2017 were primarily due to higher invested balances in China and Hong Kong which was offset with a higher interest expense due to higher borrowing rates associated with our line of credit as compared to the three and six months ended December 25, 2016.

*Other, net.* Other, net income was \$53 thousand for the three months ended December 24, 2017 compared to expense of \$8 thousand for the three months ended December 25, 2016. For the six months ended December 24, 2017, other, net was income of \$291 thousand compared to income of \$60 thousand for the six months ended December 25, 2016.

**Income Tax (Benefit) Expense**

The following table sets forth our income tax (benefit) expense in dollars and our effective tax rate (in thousands, except percentages):

	Three Months Ended			Six Months Ended		
	December 24, 2017	December 25, 2016	Change	December 24, 2017	December 25, 2016	Change
Income tax (benefit) expense	(\$13,326)	\$8,531	(\$21,857)	(\$8,629)	\$2,598	(\$11,227)
<i>Effective tax rate</i>	(3,128.2)%	57.8%	(256)%	58.5%	27.7%	(432)%

In general, the variation between our effective income tax rate and the U.S. statutory rate of 28.3% (calculated as described in the following paragraph) is due to: (i) changes in our valuation allowances against deferred tax assets in the U.S. and Luxembourg, (ii) projected income for the full year derived from international locations with lower tax rates than the U.S., and (iii) projected tax credits generated.

The Tax Cuts and Jobs Act of 2017 (the Tax Legislation), enacted on December 22, 2017, contains significant changes to U.S. tax law, including lowering the U.S. corporate income tax rate to 21%, implementing a territorial tax system, and imposing a one-time tax on deemed repatriated earnings of foreign subsidiaries. U.S. tax law requires that taxpayers with a fiscal year that begins before the effective date of a rate change and ends after the effective date calculate a blended tax rate for the year based on the pro rata number of days in the year before and after the effective date. As a result, for the fiscal year ending June 24, 2018, our statutory income tax rate is expected to be 28.3%. For the fiscal year ending June 30, 2019, our U.S. statutory income tax rate is expected to be 21%. During the three months ended December 24, 2017, we recorded an \$18.8 million discrete tax benefit representing the benefit of remeasuring our U.S. deferred tax liabilities that are expected to reverse in years after the reduction to the statutory tax rate.

We have historically asserted our intent to indefinitely reinvest foreign earnings in foreign operations. As a result of the enactment of the Tax Legislation, we reevaluated our historic assertion and determined that \$220.8 million of the undistributed foreign earnings are expected to be repatriated in the foreseeable future. During the three months ended December 24, 2017, we recorded a \$3.0 million discrete tax expense representing the deferred tax liability for foreign income taxes that would be withheld upon repatriation of the foreign earnings. As of December 24, 2017, we have not provided income taxes on the remaining \$59.4 million of undistributed earnings as we continue to maintain our intention to reinvest these earnings in foreign operations indefinitely. The Tax Legislation is discussed more fully in Note 12, "Income Taxes" to our unaudited financial statements in Part I, Item 1 of this Quarterly Report.

We recognized an income tax benefit of \$13.3 million for an effective tax rate of (3,128.2)% for the three months ended December 24, 2017 as compared to income tax expense of \$8.5 million for an effective tax rate of 57.8% for the three months ended December 25, 2016. For the six months ended December 24, 2017 we recognized income tax benefit of \$8.6 million for an effective tax rate of 58.5% compared to an income tax expense of \$2.6 million for an effective rate of 27.7% for the six months ended December 25, 2016. The change in our effective tax rate for the three and six months ended December 24, 2017 was primarily due to the tax benefit of remeasuring our U.S. deferred tax liabilities at the lower statutory tax rate.

**Liquidity and Capital Resources****Overview**

We require cash to fund our operating expenses and working capital requirements, including outlays for research and development, capital expenditures, strategic acquisitions and investments. Our principal sources of liquidity are cash on hand, marketable securities, cash generated from operations and availability under our line of credit. Our ability to generate cash from operations has been one of our fundamental strengths and has provided us with substantial flexibility in meeting our operating, financing and investing needs. We have a \$500 million line of credit as discussed in Note 8, "Long-term Debt," in our consolidated financial statements included in Part I, Item 1 of this Quarterly Report. The purpose of this facility is to provide short-term flexibility to optimize returns on our cash and investment portfolio while funding share repurchases, capital expenditures and other general business needs.

Based on past performance and current expectations, we believe our current working capital, availability under our line of credit and anticipated cash flows from operations will be adequate to meet our cash needs for our daily operations and capital expenditures for at least the next 12 months. We may use a portion of our available cash and cash equivalents, line of credit or funds underlying our marketable securities to repurchase shares of our common stock pursuant to repurchase programs authorized by our Board of



Directors. With our strong working capital position, we believe that we have the ability to continue to invest in further development of our products and, when necessary or appropriate, make selective acquisitions or other strategic investments to strengthen our product portfolio, secure key intellectual properties or expand our production capacity.

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

#### Liquidity

Our liquidity and capital resources 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>December 24, 2017</b>	<b>June 25, 2017</b>	
Days of sales outstanding <sup>(a)</sup>	37	37	—
Days of supply in inventory <sup>(b)</sup>	89	98	(9)
Days in accounts payable <sup>(c)</sup>	(52)	(46)	(6)
Cash conversion cycle	<u>74</u>	<u>89</u>	<u>(15)</u>

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

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

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

The decrease in our cash conversion cycle was primarily driven by an increase in days in accounts payable.

As of December 24, 2017, we had unrealized losses on our investments of \$1.8 million. All of our investments had investment grade ratings, and any such investments that were in an unrealized loss position at December 24, 2017 were in such position due to interest rate changes, sector credit rating changes or company-specific rating changes. As we intend and believe that we have the ability to hold such investments for a period of time that will be sufficient for anticipated recovery in market value, we currently expect to receive the full principal or recover our cost basis in these securities. The declines in value of the securities in our portfolio are considered to be temporary in nature and, accordingly, we do not believe these securities are impaired as of December 24, 2017.

**Cash Flows**

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

	<b>Six Months Ended</b>		<b>Change</b>	
	<b>December 24, 2017</b>	<b>December 25, 2016</b>		
Net cash provided by operating activities	\$105,812	\$119,716	(\$13,904)	(12)%
Net cash used in investing activities	(97,728)	(64,902)	(32,826)	51 %
Net cash provided by (used in) financing activities	28,600	(83,184)	111,784	134 %
Effects of foreign exchange changes on cash and cash equivalents	407	(691)	1,098	159 %
Net increase (decrease) in cash and cash equivalents	<u>\$37,091</u>	<u>(\$29,061)</u>	<u>\$66,152</u>	<u>228 %</u>

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

**Cash Flows from Operating Activities**

Net cash provided by operating activities decreased to \$105.8 million for the six months ended December 24, 2017 from \$119.7 million for the six months ended December 25, 2016. This decrease was primarily due to the absence of the significant patent license issuance fee previously mentioned, which was partially offset by greater cash generated from working capital.

**Cash Flows from Investing Activities**

Our investing activities primarily relate to transactions within our short-term investments, purchases of property and equipment and payments for patents and licensing rights. Net cash used in investing activities was \$97.7 million for the six months ended December 24, 2017 and net cash used in investing activities was \$64.9 million for the six months ended December 25, 2016. The increase in cash used for investing activities was due to a \$49.1 million increase in our capital spending primarily related to the wafer factory expansion for the six months ended December 24, 2017 compared to the six months ended December 25, 2016, which was partially offset by net purchases of short-term investments decreasing \$16.1 million for the six months ended December 24, 2017 compared to the six months ended December 25, 2016.

For fiscal 2018, we target approximately \$220 million of capital investment, which is primarily related to infrastructure projects to support our longer-term growth and strategic priorities.

**Cash Flows from Financing Activities**

Net cash provided by (used in) financing activities was \$28.6 million for the six months ended December 24, 2017 compared to \$83.2 million used for the six months ended December 25, 2016. For the six months ended December 24, 2017, our financing activities primarily consisted of net repayment on our line of credit of \$21.0 million and payment of acquisition-related contingent consideration of \$1.9 million, offset by proceeds of \$46.6 million from net issuances of common stock pursuant to the exercise of employee stock options, including the excess tax benefit from those exercises and proceeds of \$4.9 million from issuing shares related to Cree Venture LED Company, Ltd. (Cree Venture LED). For the six months ended December 25, 2016, our financing activities primarily consisted of the repurchase of common stock worth approximately \$98.4 million, a payment of acquisition-related contingent consideration of \$2.8 million, partially offset by net borrowing on our line of credit of \$10.0 million, and proceeds of \$8.0 million from net issuances of common stock pursuant to the exercise of employee stock options, including the excess tax benefit from those exercises.

**Off-Balance Sheet Arrangements**

We do not use off-balance sheet arrangements with unconsolidated entities or related parties, nor do we use any other forms of off-balance sheet arrangements. Accordingly, our liquidity and capital resources are not subject to off-balance sheet risks from unconsolidated entities. As of December 24, 2017, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

We have entered into operating leases primarily for certain of our U.S. and international facilities in the normal course of business. Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended June 25, 2017, in the section entitled

“Contractual Obligations” for the future minimum lease payments due under our operating leases as of June 25, 2017. There have been no significant changes to the contractual obligations discussed therein.

***Critical Accounting Policies and Estimates***

For information about our critical accounting policies and estimates, see the “Critical Accounting Policies and Estimates” section of “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended June 25, 2017.

***Recent Accounting Pronouncements***

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

For quantitative and qualitative disclosures about our market risks, see “Part II. Item 7A. Quantitative and Qualitative Disclosures About Market Risk” of our Annual Report on Form 10-K for the fiscal year ended June 25, 2017. There have been no material changes to the amounts presented therein.

**Item 4. Controls and Procedures**

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

We routinely review our internal control over financial reporting and from time to time make changes intended to enhance the effectiveness of our internal control over financial reporting. We will continue to evaluate the effectiveness of our disclosure controls and procedures and internal control over financial reporting on an ongoing basis and will take action as appropriate. There have been no changes to our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the second quarter of fiscal 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II – OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

## Item 1A. Risk Factors

Described below are various risks and uncertainties that may affect our business. The descriptions below include any material changes to and supersede the description of the risk factors affecting our business previously disclosed in "Part I, Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended June 25, 2017. If any of the risks described below actually occurs, our business, financial condition or results of operations could be materially and adversely affected.

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

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

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

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

### *We face significant challenges managing our growth strategy.*

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

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

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

While we intend to continue to focus on managing our costs and expenses, in the short term and in the long term 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, during fiscal 2018 we target converting the majority of our Wolfspeed power production from 100mm to 150mm substrates. If we are unable to make this transition in a timely or cost-effective manner, our results could be negatively impacted. In connection with our efforts to cost-effectively manage our growth, we have increasingly relied on contractors for production capacity, logistics support and certain administrative functions including hosting of certain information technology software applications. If our contract manufacturers, original design manufacturers (ODMs) or other service providers do not perform effectively, we may not be able to achieve the expected cost savings and may incur additional costs to correct errors or fulfill customer demand. Depending on the function involved, such errors may also lead to business disruption, processing inefficiencies, the loss of or damage to intellectual property through security breach, or an impact on employee morale. Our operations may also be negatively impacted if any of these contract manufacturers, ODMs or other service providers do not have the financial capability to meet our growing needs. There are also inherent execution risks in starting up a new factory or expanding production capacity, whether one of our own factories or that of our contract manufacturers or ODMs, or moving production to different contract manufacturers or ODMs, that could increase costs and reduce our operating results, including design and construction cost overruns, poor production process yields and reduced quality control.

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

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

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

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

As customer demand for our products changes, we must be able to adjust our production capacity to meet demand. We are continually taking steps to address our manufacturing capacity needs for our products. If we are not able to increase or decrease our production capacity at our targeted rate or if there are unforeseen costs associated with adjusting our capacity levels, we may not be able to achieve our financial targets. For example, our Wolfspeed business is currently experiencing demand in excess of our production capacity, which is resulting in longer manufacturing lead times to customers as we manage our constrained capacity. While we began making significant investments in fiscal 2016 to expand our materials, power and RF device capacity and continue to do so, these investments take time to bring in, install and get fully qualified. As a result, we may be unable to build or qualify such new capacity on a timely basis to meet customer demand and customers may fulfill their orders with one of our competitors instead. In addition, as we introduce new products and change product generations, we must balance the production and inventory of prior generation products with the production and inventory of new generation products, whether manufactured by us or our contract manufacturers, to maintain a product mix that will satisfy customer demand and mitigate the risk of incurring cost write-downs on the previous generation products, related raw materials and tooling.

Due to the proportionately high fixed cost nature of our business (such as facility costs), if demand does not materialize at the rate forecasted, we may not be able to scale back our manufacturing expenses or overhead costs to correspond to the demand. This could result in lower margins and adversely impact our business and results of operations. Additionally, if product demand decreases or we fail to forecast demand accurately, our results may be adversely impacted due to higher costs resulting from lower factory utilization, causing higher fixed costs per unit produced. For example, in the third quarter of fiscal 2017 we had lower overall lighting demand which led to higher costs per unit produced from our Racine factory, thereby reducing gross margins for our Lighting Products segment. Further, we may be required to recognize impairments on our long-lived assets or recognize excess inventory write-off charges. We may in the future be required to recognize excess capacity charges, which would have a negative impact on our results of operations.

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

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

The manufacture of our products involves highly complex processes. Our customers specify quality, performance and reliability standards that we must meet. If our products do not meet these standards, we may be required to replace or rework the products. In some cases, our products may contain undetected defects or flaws that only become evident after shipment and installation. For example, during the second quarter of fiscal 2018 we determined that the quality of several of our commercial lighting products was possibly impacted by certain quality issues that could lower those products' reliability. Therefore, we increased our product warranty reserves for potential future warranty claims. Even if our products meet standard specifications, our customers may attempt to use our products in applications for which they were not designed or in products that were not designed or manufactured properly, resulting in product failures and creating customer satisfaction issues.

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

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

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

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

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

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

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, we may have to revise our estimates and incur additional costs, and our gross margins and operating results could be adversely impacted.

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

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

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

- variability in our process repeatability and control;
- contamination of the manufacturing environment;
- equipment failure, power outages, fires, flooding, information or other system failures or variations in the manufacturing 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. During fiscal 2018, we target converting the majority of our Wolfspeed power production from 100mm to 150mm substrates. If we are unable to make this transition in a timely or cost-effective manner, our results could be negatively impacted.

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

The markets for our products are highly competitive. In the LED market, we compete with companies that manufacture and sell LED chips and LED components. In the lighting market, we compete with companies that manufacture and sell traditional and LED lighting products, many of which have larger and more established sales channels. In the semiconductor market, we compete with companies that have greater market share, name recognition and 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 and Wolfspeed segments. 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.

With the growth potential for LEDs, 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 lighting and LEDs in certain markets. There are also technologies, such as organic LEDs (OLEDs), which could potentially reduce LED demand for backlighting, potentially impacting the overall LED market.

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

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

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

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

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

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

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

We receive a significant amount of our revenue from a limited number of customers, including distributors and retailers, one of which represented 12% of our consolidated revenue in fiscal 2017. Most of our customer orders are made on a purchase order basis, which does not generally require any long-term customer commitments. Therefore, these customers may alter their purchasing behavior with little or no notice to us for various reasons, including developing, or, in the case of our distributors, their customers developing, their own product solutions; choosing to purchase or distribute product from our competitors; incorrectly forecasting end market demand for their products; or experiencing a reduction in their market share in the markets for which they purchase our products. In the case of retailers, these customers may alter their promotional pricing; increase promotion of competitors' products over our products; or reduce their inventory levels; all of which could negatively impact our financial condition and results of operations. If our customers alter their purchasing behavior, if our customers' purchasing behavior does not match our expectations or if we encounter any problems collecting amounts due from them, our financial condition and results of operations could be negatively impacted.

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

From time to time, we evaluate strategic opportunities available to us for product, technology or business transactions, such as business acquisitions, investments, joint ventures, divestitures, or spin-offs. For example, during the first quarter of fiscal 2018 we formed Cree Venture LED, a joint venture between San'an and us to produce and supply to customers high-performance mid-power LED components. 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;
- difficulty integrating an acquired business's operations, personnel and financial and operating systems into our current business;
- 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;
- 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.

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

Our revenue in our LED Products and Wolfspeed 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, lighting systems using our LED components. Even if our customers are able to develop and produce LED lighting products or products that incorporate our power and RF products, there can be no assurance that our customers will be successful in marketing and selling these products in the marketplace.

***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 Kingdom's impending exit from the European Union may negatively impact demand 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.

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

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

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

- protection of intellectual property and trade secrets;
- tariffs, customs, trade sanctions, trade embargoes and other barriers to importing/exporting materials and products in a cost-effective and timely manner, or changes in applicable tariffs or custom rules;
- the burden of complying with and changes in U.S. or international taxation policies;

- timing and availability of export licenses;
- rising labor costs;
- disruptions in or inadequate infrastructure of the countries where we operate;
- difficulties in collecting accounts receivable;
- difficulties in staffing and managing international operations; and
- the burden of complying with foreign and international laws and treaties.

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.

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

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

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

On May 19, 2017, we announced that we were accelerating the succession planning process for our chief executive officer and that Charles M. Swoboda would step down from his executive positions and as a member of the Board of Directors following a transition period. On September 25, 2017, we announced the appointment of Gregg Lowe as President and Chief Executive Officer and a member of our Board of Directors, effective September 27, 2017. Such a leadership transition can be inherently difficult to manage, and an inadequate transition may cause disruption to our business.

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

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

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

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

***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 public company in Taiwan. An investment in another company is subject to the risks inherent in the business of that company and to trends affecting the equity markets as a whole. Investments in publicly held companies are subject to market risks and, like our investment in Lextar, may not be liquidated easily. As a result, we may not be able to reduce the size of our position or liquidate our investments when we deem appropriate to limit our downside risk. Should the value of any such investments we hold decline, the related write-down in value could have a material adverse effect on our financial condition and results of operations. For example, the value of our Lextar investment declined from the date of our investment in December 2014 through the end of the second quarter of fiscal 2018 with variability between quarters, and may continue to decline in the future. As required by Rule 3-09 of Regulation S-X, we filed Lextar's financial statements, prepared by Lextar and audited by its independent public accounting firm, as of and for the years ended December 31, 2015 and 2014 as an exhibit to our Annual Report on Form 10-K for the fiscal year ended June 25, 2017.

***Litigation could adversely affect our operating results and financial condition.***

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

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

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

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

- pay substantial damages;
- indemnify our customers;
- stop the manufacture, use and sale of products found to be infringing;

- incur asset impairment charges;
- discontinue the use of processes found to be infringing;
- expend significant resources to develop non-infringing products or processes; or
- obtain a license to use third party technology.

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

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

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

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

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

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

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

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

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

We closely monitor the performance of our reporting units and perform ongoing assessments of potential impairment indicators related to our finite-lived and indefinite-lived intangible assets. Based upon our fiscal 2017 annual testing and interim fiscal 2018 assessment, we believe that the risk of an impairment to our intangible assets is currently very low, except for our Lighting Products reporting unit. While we have concluded at this time that it is more likely than not that there is no impairment for our Lighting

Products reporting unit and concluded that a quantitative analysis was not necessary, if the reporting unit's growth initiatives do not perform as expected during calendar 2018, a qualitative analysis may be required. As a result, we may determine in the future that an impairment charge is necessary and such charge could be material.

***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. Additionally, outside parties may attempt to access our confidential information through other means, for example by fraudulently inducing our employees to disclose confidential information. We actively seek to prevent, detect and investigate any unauthorized access, which sometimes occurs. We might be unaware of any such access or unable to determine its magnitude and effects. The theft and/or unauthorized use or publication of our trade secrets and other confidential business information as a result of such an incident could adversely affect our competitive position and the value of our investment in research and development could be reduced. Our business could be subject to significant disruption and we could suffer monetary or other losses.

***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, including economic instability in Europe, or lower investments in new infrastructure could have a negative impact on our sales. We also purchase a portion of the materials included in our products from overseas sources.

Our international sales and purchases are subject to numerous U.S. and foreign laws and regulations, including, without limitation, tariffs, trade sanctions, trade barriers, trade embargoes, regulations relating to import-export control, technology transfer restrictions, the International Traffic in Arms Regulation promulgated under the Arms Export Control Act, the Foreign Corrupt Practices Act and the anti-boycott provisions of the U.S. Export Administration Act. If we fail to comply with these laws and regulations, we could be liable for administrative, civil or criminal liabilities, and, in the extreme case, we could be suspended or debarred from government contracts or have our export privileges suspended, which could have a material adverse effect on our business.

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

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

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

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

***Changes in our effective tax rate may affect our results.***

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

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

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

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

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

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

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



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

The methods, estimates and judgments that we use in applying our accounting policies have a significant impact on our results (see “Critical Accounting Policies and Estimates” in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended June 25, 2017). 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 \$21.70 to a high of \$39.63 during the 12 months ended December 24, 2017. 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 expectations around our Lighting Products business recovery may have a dramatic effect on our stock price.

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

Our indebtedness consists of borrowings from our revolving line of credit. Our ability to pay interest and repay the principal for our indebtedness 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 outstanding debt under this line of credit may adversely affect our operating results and financial condition by, among other things:

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

Our line of credit requires us to maintain compliance with certain financial ratios. In addition, our line of credit contains certain restrictions that could limit our ability to, among other things: incur additional indebtedness, dispose of assets, create liens on

assets, make acquisitions or engage in mergers or consolidations, and engage in certain transactions with our subsidiaries and affiliates. These restrictions 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 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. 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 2017 for calendar year 2016. These requirements could affect the sourcing and availability of certain minerals used in the manufacture of our products. As a result, we may not be able to obtain the relevant minerals at competitive prices and there will likely be additional costs associated with complying with the due diligence procedures as required by the SEC. In addition, because our supply chain is complex, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins of all minerals used in our products through the due diligence procedures, and we may incur additional costs as a result of changes to product, processes or sources of supply as a consequence of these requirements.

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

***Sale of Unregistered Securities***

There were no unregistered securities sold during the second quarter of fiscal 2018.

***Stock Repurchase Program***

On June 14, 2017, our Board of Directors approved the extension of our stock repurchase program through June 24, 2018. Pursuant to the program, we are authorized to repurchase shares of our common stock having an aggregate purchase price not exceeding \$200 million for all purchases from June 26, 2017 through the expiration of the program on June 24, 2018. During the six months ended December 24, 2017, the Company repurchased no shares of common stock under the stock repurchase program.

Since the inception of our stock repurchase program in January 2001 through December 24, 2017, we have repurchased 38.7 million shares of our common stock at an average price of \$28.66 per share with an aggregate value of \$1.1 billion. The repurchase program can be implemented through open market or privately negotiated transactions at the discretion of our management.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

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

<b>Exhibit No.</b>	<b>Description</b>
<a href="#">4.1</a>	Specimen Common Stock Certificate
<a href="#">10.1</a>	Notice of Grant to Gregg A. Lowe, dated September 27, 2017 (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K, dated September 27, 2017, filed with the Securities and Exchange Commission on September 28, 2017)
<a href="#">10.2</a>	Form of Stock Unit Award Agreement (Performance-Based) for Gregg A. Lowe (incorporated by reference in Exhibit 10.3 of the Company's Current Report on Form 8-K, dated September 27, 2017, filed with the Securities and Exchange Commission on September 28, 2017)
<a href="#">10.3</a>	2005 Employee Stock Purchase Plan, as amended (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, dated October 24, 2017, filed with the Securities and Exchange Commission on October 24, 2017)
<a href="#">10.4</a>	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 the Cree, Inc., as guarantor, and the other lenders party thereto
<a href="#">10.5</a>	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 the Cree, Inc., as guarantor, and the other lenders party thereto (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, dated November 13, 2017, filed with the Securities and Exchange Commission on November 16, 2017)
<a href="#">10.6</a>	Separation and General Release Agreement with Daniel J. Castillo, dated December 21, 2017
<a href="#">31.1</a>	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
<a href="#">31.2</a>	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
<a href="#">32.1</a>	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
<a href="#">32.2</a>	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from Cree, Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended September 24, 2017 formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income (Loss); (iii) Consolidated Statements of Comprehensive Income (Loss); (iv) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated Financial Statements

**SIGNATURE**

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

CREE, INC.

January 24, 2018

/s/ MICHAEL E. MCDEVITT

Michael E. McDevitt

Executive Vice President and Chief Financial Officer

(Authorized Officer and Principal Financial and Chief Accounting Officer)



INCORPORATED UNDER THE LAWS OF THE STATE OF NORTH CAROLINA

COMMON STOCK

SEE REVERSE FOR CERTAIN DEFINITIONS  
CUSIP 225447 10 1

THIS CERTIFIES THAT

**SPECIMEN**

is the registered holder of

FULLY PAID AND NON-ASSESSABLE SHARES OF THE COMMON STOCK OF

**CREE, INC.**

transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney upon surrender of this certificate properly endorsed. This certificate is not valid unless countersigned by the Transfer Agent and registered by the Registrar.

WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated:

*Bredly D. Koh*  
SECRETARY



*G. Lowe*  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

COUNTERSIGNED AND REGISTERED  
BY  
AMERICAN STOCK TRANSFER & TRUST COMPANY  
NEW YORK, NEW YORK  
TRANSFER AGENT AND REGISTRAR  
AUTHORIZED SIGNATURE

**CREE, INC.**

THE CORPORATION IS AUTHORIZED TO ISSUE DIFFERENT CLASSES AND SERIES OF CAPITAL STOCK. THE CORPORATION WILL FURNISH ANY SHAREHOLDER UPON REQUEST, IN WRITING AND WITHOUT CHARGE, A STATEMENT OF THE DESIGNATIONS, RELATIVE RIGHTS, PREFERENCES AND LIMITATIONS APPLICABLE TO EACH CLASS OF CAPITAL STOCK OF THE CORPORATION AND OF THE VARIATIONS IN RIGHTS, PREFERENCES AND LIMITATIONS DETERMINED FOR EACH SERIES AND THE AUTHORITY OF THE BOARD OF DIRECTORS TO DETERMINE VARIATIONS FOR FUTURE SERIES.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM — as tenants in common  
TEN ENT — as tenants by the entireties  
JT TEN — as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT — ..... Custodian .....  
(Cust) (Minor)  
under Uniform Gifts to Minors Act .....  
(State)

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED, \_\_\_\_\_ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

\_\_\_\_\_ shares of the Common Stock represented by the within certificate, and do hereby irrevocably constitute and appoint

\_\_\_\_\_ Attorney to transfer the said stock on the books of the Corporation with full power of substitution in the premises.

Dated \_\_\_\_\_

X \_\_\_\_\_

X \_\_\_\_\_

NOTICE: THE SIGNATURE(S) TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATSOEVER.

Signature(s) Guaranteed:

THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION SUCH AS A SECURITIES BROKER/DEALER, COMMERCIAL BANK, TRUST COMPANY, SAVINGS ASSOCIATION OR A CREDIT UNION PARTICIPATING IN A MEDALLION PROGRAM PURSUANT TO RULE 17Ad-15 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.



KEEP THIS CERTIFICATE IN A SAFE PLACE. IF IT IS LOST, STOLEN, MUTILATED OR DESTROYED, THE CORPORATION WILL REQUIRE A BOND OF INDEMNITY AS A CONDITION TO THE ISSUANCE OF A REPLACEMENT CERTIFICATE.



## FIRST AMENDMENT TO CREDIT AGREEMENT

**THIS FIRST AMENDMENT TO CREDIT AGREEMENT** (this "Amendment"), dated as of September 10, 2015, is by and among **CREE, INC.**, a North Carolina corporation (the "Borrower"), the Guarantors (as defined in the Credit Agreement), the Lenders (as defined in the Credit Agreement) and **WELLS FARGO BANK, NATIONAL ASSOCIATION**, as administrative agent for the Lenders under the Credit Agreement (as hereinafter defined) (in such capacity, the "Administrative Agent"). Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed thereto in the Credit Agreement.

## WITNESSETH

**WHEREAS**, the Borrower, the Guarantors, the Lenders and the Administrative Agent are parties to that certain Credit Agreement, dated as of January 9, 2015 (as amended, modified, extended, restated, replaced, or supplemented from time to time, the "Credit Agreement");

**WHEREAS**, the Credit Parties have requested that the Required Lenders amend certain provisions of the Credit Agreement;

**WHEREAS**, the Required Lenders are willing to make such amendments to the Credit Agreement, in accordance with and subject to the terms and conditions set forth herein; and

**WHEREAS**, effective as of the date hereof, each Lender delivering an executed signature page to this Amendment to the Administrative Agent by 12:00 p.m. (EST) on or before September 10, 2015 (each such Lender, a "Consenting Lender", and collectively, the "Consenting Lenders") has consented to this Amendment (which together constitute the Required Lenders), and has agreed to the amendments to the Credit Agreement set forth below, which amendments shall become operative on the Amendment Effective Date upon satisfaction or waiver of the conditions set forth in Section 2.1 below.

**NOW, THEREFORE**, in consideration of the agreements hereinafter set forth, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

**ARTICLE I  
AMENDMENTS TO CREDIT AGREEMENT**

**1.1 Amendment to Definition of Consolidated EBITDA.** The definition of Consolidated EBITDA set forth in Section 1.1 of the Credit Agreement is hereby amended and restated in its entirety as follows:

"Consolidated EBITDA" means, for any period, in each case for the Credit Parties and their Subsidiaries on a consolidated basis, an amount equal to Consolidated Net Income for such period plus (a) the following to the extent deducted in calculating such Consolidated Net Income (other than amounts specifically excluded from Consolidated Net Income under clauses (a) through (c) of the definition of Consolidated Net Income): (i) Consolidated Interest Expense, (ii) taxes, (iii) depreciation and amortization, (iv) all non-recurring expenses and charges which do not represent a cash item in such period, (v) expenses in connection with the issuance of stock options or other equity as compensation to employees and/or



management of any Credit Party or Subsidiary and (vi) costs and expenses, in an amount not to exceed \$5,000,000 in the aggregate during any four (4) fiscal quarter period, incurred in connection with any investment, acquisition, asset disposition, equity issuance or incurrence, payment, prepayment, refinancing or redemption of indebtedness (including fees and expenses related to this Agreement and any amendments, supplements and modifications thereof), including the amortization of deferred financing fees, debt issuance costs, commissions, fees and expenses (in each case whether or not consummated) minus (b) to the extent included in calculating Consolidated Net Income, (i) all non-recurring, non-cash items increasing net income for such period and (ii) any cash payments made during such period in respect of items described in clause (iv) above subsequent to the fiscal quarter in which the relevant non-cash expenses or losses were incurred plus (or minus) (c) non-cash losses (or gains) arising from the impact of market-to-market valuation of the Credit Parties' Investment in Lextar Electronics Corporation.

**1.2 Amendment to Definition of Material Domestic Subsidiary.** The definition of Material Domestic Subsidiary set forth in Section 1.1 of the Credit Agreement is hereby amended and restated in its entirety as follows:

“Material Domestic Subsidiary” shall mean any Domestic Subsidiary of the Borrower that, together with its Subsidiaries, (a) generates more than 5% of Consolidated EBITDA on a Pro Forma Basis for the four (4) fiscal quarter period most recently ended or (b) owns more than 5% of the Consolidated Total Assets as of the last day of the most recently ended fiscal quarter of the Borrower; provided, however, that if at any time there are Domestic Subsidiaries which are not classified as “Material Domestic Subsidiaries” but which collectively (i) generate more than 10% of Consolidated EBITDA on a Pro Forma Basis or (ii) own more than 10% of the Consolidated Total Assets as of the last day of the most recently ended fiscal quarter of the Borrower, then the Borrower shall promptly designate one or more of such Domestic Subsidiaries as Material Domestic Subsidiaries and cause any such Domestic Subsidiaries to comply with the provisions of Section 7.11 such that, after such Domestic Subsidiaries become Guarantors hereunder, the Non-Guarantor Subsidiaries shall (A) generate less than 10% of Consolidated EBITDA and (B) own less than 10% of the Consolidated Total Assets.

## ARTICLE II CONDITIONS TO EFFECTIVENESS

**2.1 Closing Conditions.** This Amendment shall become effective upon satisfaction (or waiver) of the following conditions (such date, the “Amendment Effective Date”), except for this Section 2.1 which shall become effective on the date hereof:

(a) Default. After giving effect to this Amendment, no Default or Event of Default shall exist.

(b) Fees and Expenses. The Administrative Agent shall have received from the Borrower such invoiced fees and expenses that are payable in connection with the consummation of the transactions contemplated hereby, including the fees and expenses of King & Spalding LLP, as legal counsel to the Administrative Agent.

## ARTICLE III MISCELLANEOUS

**3.1 Amended Terms.** On and after the Amendment Effective Date, all references to the Credit Agreement in each of the Credit Documents shall hereafter mean the Credit Agreement as amended by this

Amendment. Except as specifically amended hereby or otherwise agreed, the Credit Agreement is hereby ratified and confirmed and shall remain in full force and effect according to its terms.

**3.2 Representations and Warranties of Credit Parties.** Each of the Credit Parties represents and warrants as follows:

- (a) It has taken all necessary action to authorize the execution, delivery and performance of this Amendment.
- (b) This Amendment has been duly executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, except as such enforceability may be subject to (i) bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or similar laws affecting creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).
- (c) No consent, approval, authorization or order of, or filing, registration or qualification with, any court or governmental authority or third party is required in connection with the execution, delivery or performance by it of this Amendment.
- (d) The representations and warranties set forth in Section 6 of the Credit Agreement are true and correct in all material respects, except to the extent any such representation and warranty is qualified by materiality or reference to Material Adverse Effect, in which case, such representation and warranty shall be true and correct in all respects, on and as of the date of this Amendment as if made on and as of such date (except for any such representation and warranty that by its terms is made only as of an earlier date, which representation and warranty shall remain true and correct as of such earlier date).
- (e) After giving effect to this Amendment, no event has occurred and is continuing which constitutes a Default or an Event of Default.
- (f) The Obligations are not reduced or modified by this Amendment.

**3.3 Reaffirmation of Obligations.** Each Credit Party hereby ratifies the Credit Agreement and acknowledges and reaffirms (a) that it is bound by all terms of the Credit Agreement applicable to it and (b) that it is responsible for the observance and full performance of its respective Obligations.

**3.4 Credit Document.** This Amendment shall constitute a Credit Document under the terms of the Credit Agreement.

**3.5 Expenses.** The Borrower agrees to pay all reasonable out-of-pocket costs and expenses of the Administrative Agent in connection with the preparation, execution and delivery of this Amendment, including without limitation the reasonable fees and expenses of the Administrative Agent's legal counsel.

**3.6 Further Assurances.** The Credit Parties agree to promptly take such action, upon the request of the Administrative Agent, as is necessary to carry out the intent of this Amendment.

**3.7 Entirety.** This Amendment and the other Credit Documents embody the entire agreement among the parties hereto and supersede all prior agreements and understandings, oral or written, if any, relating to the subject matter hereof.

**3.8 Counterparts; Telecopy.** This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. Delivery of an executed counterpart to this Amendment by telecopy or other electronic means shall be effective as an original and shall constitute a representation that an original will be delivered.

**3.9 GOVERNING LAW.** This Amendment and the other Credit Documents any claims, controversy or dispute arising out of or relating to this Amendment or any other Credit Document (except, as to any other Credit Document, as expressly set forth therein) shall be governed by, and construed in accordance with, the laws of the State of New York.

**3.10 Successors and Assigns.** This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

**3.11 Consent to Jurisdiction; Service of Process; Waiver of Jury Trial.** The jurisdiction, service of process and waiver of jury trial provisions set forth in Section 11.10 of the Credit Agreement are hereby incorporated by reference, *mutatis mutandis*.

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CREE, INC.  
FIRST AMENDMENT TO CREDIT AGREEMENT

IN WITNESS WHEREOF the parties hereto have caused this Amendment to be duly executed on the date first above written.

**BORROWER:**      **CREE, INC.,**  
   a North Carolina corporation  
  
   By: /s/ Michael E. McDevitt  
   Name: Michael E. McDevitt  
   Title: Executive Vice President and Chief Financial Officer

**GUARANTOR:**      **E-CONOLIGHT LLC,**  
   a Delaware limited liability company  
  
   By: /s/ Michael E. McDevitt  
   Name: Michael E. McDevitt  
   Title: Executive Vice President and Chief Financial Officer

**ADMINISTRATIVE AGENT:**    **WELLS FARGO BANK, NATIONAL ASSOCIATION**, as a Lender and as Administrative Agent

By: /s/ Michael Pugsley  
Name: Michael Pugsley  
Title: Senior Vice President

**LENDERS:**

[     Citibank, N.A.     ],  
as a Lender

By: /s/ Andrew Kreeger  
Name: Andrew Kreeger  
Title: Vice President

**LENDERS:**

[       GOLDMAN SACHS BANK USA,       ],  
as a Lender

By: /s/ Michelle Latzoni  
Name: Michelle Latzoni  
Title: Authorized Signatory

**LENDERS:**

[ HSBC Bank USA, National Association ],  
as a Lender

By: /s/ Chris Burns  
Name: Chris Burns  
Title: Vice President



**LENDERS:**

[ PNC Bank, National Association ],  
as a Lender

By: /s/ Richard C. Brown  
Name: Richard C. Brown  
Title: Senior Vice President

**LENDERS:**

[ SunTrust Bank ],  
as a Lender

By: /s/ Mary K Lundin  
Name: Mary K. Lundin  
Title: Vice President

**LENDERS:**

[ U.S BANK NATIONAL ASSOCIATION ],  
as a Lender

By: /s/ Brian Seipke  
Name: Brian Seipke  
Title: Vice President

**LENDERS:**

[ JPMORGAN CHASE BANK, N.A. ],  
as a Lender

By: /s/ Douglas P Panchal  
Name: Douglas P Panchal  
Title: Vice President

**LENDERS:**

[ Bank of America N.A. ],  
as a Lender

By: /s/ John K. Herman  
Name: John K. Herman  
Title: Vice President

**SEPARATION AND GENERAL RELEASE AGREEMENT**

This SEPARATION AND GENERAL RELEASE AGREEMENT (the "Agreement") is made and entered into between Cree, Inc., a North Carolina corporation (the "Company"), and Daniel J. Castillo ("Executive"). Throughout the remainder of the Agreement, the Company and Executive may be collectively referred to as "the parties."

Executive was employed as Executive Vice President & President – Lighting of the Company, pursuant to an offer letter dated October 4, 2016, as amended by that certain addendum dated June 6, 2017 (the "Offer Letter"). Executive is subject to the Employee Agreement Regarding Confidential Information, Intellectual Property and Noncompetition, dated November 7, 2016. As a former Section 16 Officer of the Company, Executive may also, under specified circumstances, be entitled to certain benefits under (i) the Company's Severance Plan for Section 16 Officers (the "Severance Plan"); (ii) the Company's 2013 Long-Term Incentive Compensation Plan (the "2013 Plan"); (iii) the Executive's Award Agreements under the 2013 Plan; and (iv) the Offer Letter. The parties have negotiated the terms of Executive's termination from employment and have agreed upon acceptable terms as described herein. Executive acknowledges and agrees that this Agreement provides him with different benefits in lieu of the benefits he may have been entitled to receive under any Company plan or agreement, including the Severance Plan, the 2013 Plan and the Offer Letter.

Executive represents that he has carefully read this entire Agreement, understands its consequences, and voluntarily enters into it.

In consideration of the above and the mutual promises set forth below, the Executive and the Company agree as follows:

1. TERMINATION OF EMPLOYMENT. Executive's Employment terminated as of December 5, 2017 (the "Separation Date"). As of the Separation Date, Executive will be deemed to have resigned from all of his officer positions with the Company and its subsidiaries and affiliates, as well as any director or officer positions Executive may hold with third parties at the request of or on behalf of the Company.

2. SEPARATION BENEFITS.

(a) Separation Benefits. In consideration of the release and other promises contained herein, and on the condition that Executive fully complies with his obligations under this Agreement, including but not limited to Sections 3, 4, 5 and 12, and Executive executes and provides the Company with the resignation letter attached to this Agreement as Attachment A, the Company agrees that:

i) Salary Continuation. The Company shall pay to Executive the sum of Four Hundred Twenty Five Thousand and 00/100 Dollars (\$425,000) (less all applicable withholdings) ("Severance Pay"), to be paid in equal installment payments in accordance with the Company's regular payroll schedule over the twelve (12) month period following the Separation Date (the "Severance Period"), beginning on the first such payroll date occurring at least ten (10) days after the revocation period set forth in Section 10 has expired, *provided*

however, that that such payments may be delayed as necessary under and will be subject to Section 18(c); *provided, further*, that in the event of a delay, the first Severance Pay payment will include any payments that would have been made had the Severance Pay begun on the first regular payroll date following the Separating Date.

ii) **Continued Health Benefits.** The Company shall reimburse Executive for the additional costs of continuing his group medical, dental and vision coverage, for the twelve (12) month period following the Separation Date, under the Consolidated Omnibus Reconciliation Act of 1985 ("**COBRA**") applicable to the type of medical, dental and vision coverage in effect for Executive (e.g., family coverage vs. employee-only coverage) as of the Separation Date, subject to all applicable taxes and withholdings. Payment shall be made to Executive in equal installments in accordance with the same schedule on which Severance Pay under Section 2(a)(i) is paid, subject to any 409A Delay Period required by Section 18(c). Nothing in this Agreement constitutes a guarantee of COBRA continuation coverage or benefits or a guarantee of eligibility for health benefits and Executive bears full responsibility for applying for COBRA continuation coverage.

iii) **Bonus.** The Company shall pay to Executive the sum of Three Hundred Forty Thousand and 00/100 Dollars (\$340,000) (less all applicable withholdings), which amount is to be paid in two lump sums, with the first half in the amount of One Hundred Seventy Thousand Dollars (\$170,000) paid in a lump sum on the first such payroll date occurring after September 1, 2018 and the second half in the amount of One Hundred Seventy Thousand Dollars (\$170,000) paid in a lump sum in the last paycheck in which Severance Pay is paid under Section 2(a)(i).

iv) **Conditional Waiver of Partial Repayment of Signing Bonus and Relocation Bonus.** On the condition that Executive fully complies with his obligations under this Agreement, including but not limited to Sections 3, 4, 5 and 12, upon the expiration of the Severance Period, the Company will waive Executive's obligation under the Offer Letter to repay to the Company one-third of his signing bonus in the amount of \$50,000 (the "**Partial Signing Bonus**") and the relocation bonuses in the amount of \$180,000 (the "**Relocation Bonus**"). If Executive has not fully complied with such obligations, then Executive shall be required to pay the partial Signing Bonus and the Relocation Bonus to the Company within ten (10) business days of the Company's written notification to Executive that such payment is due.

(b) **Other Benefits.** As of the Separation Date, Executive shall not be entitled to medical, dental, vision, life, disability, accidental death and dismemberment insurance benefits, or any other employee benefits, and shall not be an active participant in the Company's 401(k) Plan (the "**401(k) Plan**"), the Severance Plan, equity plans or any other plan of any type. For the avoidance of doubt, Executive will not be eligible to contribute to his 401(k) plan from any payments received under this Agreement after the Separation Date, except for his regular salary paid through the Separation Date. Nothing in this Agreement, however, shall be deemed to limit Executive's continuation coverage rights under COBRA or Executive's vested rights, if any, under the 401(k) Plan or any other Company plan, and the terms of those plans shall govern.

(c) **Benefits in Lieu of Any Other Separation or Severance Benefits.** Executive acknowledges that the compensation and benefits available to him under this Agreement are in lieu of any compensation and benefits he would be eligible to receive under any other agreement

or Company plan upon the termination of his employment for any reason, including, but not limited to, the Severance Plan and the 2013 Plan. Accordingly, and for the avoidance of doubt, Executive hereby waives any other severance, separation or post-termination compensation or benefits (including any potential acceleration of vesting of equity awards) available to him under any other agreement or plan, including but not limited to the Severance Plan, the 2013 Plan, any Change in Control plan or agreement and his related Award Agreements.

### 3. RESTRICTIVE COVENANTS.

(a) Existing Agreement. Executive is subject to the Employee Agreement Regarding Confidential Information, Intellectual Property and Noncompetition, dated November 7, 2016 (the "Noncompetition Agreement"). Executive acknowledges and agrees that he will be obligated to comply strictly with the terms of the Noncompetition Agreement in accordance with its terms.

(b) Additional Restrictions. In light of Executive's access to highly confidential and proprietary information during his employment with the Company, and unique access to customers, agents, distributors, vendors and employees, in addition to the terms of the Noncompetition Agreement, in consideration of the benefits under this Agreement, Executive hereby agrees that he will be subject to the additional restrictions for the duration of the Severance Period:

(i) Nonsolicitation of Employees. Executive shall not engage in the following activities, whether on his own behalf or as an officer, director, stockholder, partner, associate, owner, employee, consultant or independent contractor, nor shall Executive provide material assistance to any other person or entity to do so:

(a) offer employment to, solicit for employment or hire any employee of the Company or any person who was employed by the Company or by any Restricted Affiliate of the Company at the time of the termination of Executive's employment by the Company or during the one year period prior to Executive's termination by Company;

(b) offer employment to, solicit for employment or hire any employee of Company or of a Restricted Affiliate with respect to whom Executive had responsibility, or someone whom Executive directly or indirectly supervised had responsibility, at the time of the termination of Executive's employment by the Company or during the one year period prior to Executive's termination by Company; or

(c) offer employment to, solicit for employment or hire any employee of Company or of a Restricted Affiliate who was personally known to Executive.

(ii) Noncompetition. Executive shall not, whether on his own behalf or as an officer, director, stockholder, partner, associate, owner, employee, consultant or independent contractor, become employed by or provide services to any lighting business, company or division, including the lighting business at any of the following companies, which Executive acknowledges are direct competitors of the Company: Cooper Lighting Unit of Eaton, Acuity Brands, Hubbell Lighting, Philips Lighting, LSI Industries, GE Lighting Global, RAB Lighting, HE Williams, Inc., Dialight PLC and LeGrand.



(iii) Nonsolicitation of Customers, Agents and Distributors. Executive shall not engage in the following activities, whether on his own behalf or as an officer, director, stockholder, partner, associate, owner, employee, consultant or independent contractor by or for any third party, nor shall Executive provide material assistance to any other person or entity to do so:

(a) solicit any customer, agent or distributor of the Company or any customer of any Restricted Affiliate, to obtain services or products that the customer, agent or distributor had obtained from the Company or Affiliate from an entity in competition with the Company or Restricted Affiliate:

(b) solicit any person or entity which Executive serviced, contracted with or negotiated with on behalf of the Company or any Restricted Affiliate to obtain services or products that the customer, agent or distributor had obtained from the Company or a Restricted Affiliate from an entity in competition with the Company or Restricted Affiliate;

(c) solicit any person or entity which any employee of Company or any Restricted Affiliate for whom Executive was responsible, serviced, contracted with or negotiated with on behalf of the Company or any Restricted Affiliate, to obtain services or products that the customer, agent or distributor had obtained from the Company or Affiliate from an entity in competition with the Company or Restricted Affiliate;

(d) solicit any customer, agent or distributor of the Company or any Restricted Affiliate, the effective solicitation of which would reasonably be expected to benefit by the knowledge of Confidential Information, to obtain services or products that the customer, agent or distributor had obtained from the Company or a Restricted Affiliate from an entity in competition with the Company or a Restricted Affiliate;

(e) solicit any vendor, supplier, agent or distributor of the Company or a Restricted Affiliate to cease doing business with the Company or Restricted Affiliate, or to provide services or products to an entity in competition with the Company or any Restricted Affiliate the effect of which would be to eliminate or diminish the provision of services or products to the Company or a Restricted Affiliate; or

(f) encourage any vendor, supplier, customer, agent or distributor of the Company or any Restricted Affiliate to cancel, terminate or refrain from renewing or continuing any contract, purchase order or business relationship with the Company or a Restricted Affiliate or to otherwise diminish that entity's relationship with the Company or any Restricted Affiliate.

(c) Definitions. For purposes of this Agreement, these terms shall have the following meaning:

i) "Affiliate(s)" shall mean: (i) any company's parent, subsidiary or related entity; and/or (ii) any entity directly or indirectly controlled or beneficially owned in whole or part by a company or company's parent, subsidiary or related entity.

ii) “Company Business” shall mean the business engaged in by the Company, and its Restricted Affiliates, that includes the development, manufacture, marketing, distribution, research, or sale of any product, service, or technology, including the following products, services, and technologies: (1) silicon carbide (SiC) materials for electronic applications, (2) SiC materials for gemstone applications, (3) AlN nitride materials for electronic applications, (4) light emitting diode (LED) devices and components, (5) power semiconductor devices made using SiC and/or AlN nitride materials and components and modules incorporating such devices, (6) radio frequency (RF) and microwave devices made using SiC and/or AlN nitride materials and components and modules incorporating such devices, (7) LED backlights for liquid crystal displays (LCDs), (8) lighting products, modules, fixtures or devices incorporating any of the above materials or technology, (9) sensors, drivers, networking, and controls related to lighting products, and (10) other semiconductor devices made using SiC and/or AlN nitride materials and components incorporating such devices.

iii) “Restricted Affiliate(s)” shall mean any Affiliate of the Company with which Executive worked, had responsibility or supervisory authority, or which uses Confidential Information of the Company about which Executive has knowledge.

4. **COMPANY PROPERTY.** Upon the Execution of this Agreement, or if earlier as requested by the Company, Executive shall: (i) deliver to the Company all records, memoranda, data, documents and other property of any description which refer or relate in any way to trade secrets or confidential information, including all copies thereof, which are in his possession, custody or control, including any Company strategy documents; (ii) deliver to the Company all Company property (including, but not limited to, keys, credit cards, computers, client files, contracts, proposals, work in process, manuals, forms, computer stored work in process and other computer data, research materials, other items of business information concerning any Company customer or client or potential prospect to purchase some or all of the Company’s assets, or Company business or business methods, including all copies thereof) which is in his possession, custody or control; and (iii) prior to the Separation Date, and during the Severance Period, as requested by the Company, fully cooperate with the Company in winding up his work and transferring that work to other individuals designated by the Company.

Upon the Execution of this Agreement, the Company shall (i) release Executive’s phone number to Executive for Executive’s personal use; and (ii) send to Executive any of Executive’s personal property in Company’s possession.

5. **COOPERATION.** Executive agrees that he will assist and cooperate with the Company in connection with the defense or prosecution of any claim that may be made against or by the Company, or in connection with any ongoing or future investigation or dispute or claim of any kind involving the Company, including any proceeding before any arbitral, administrative, judicial, legislative, or other body or agency, including testifying in any proceeding to the extent such claims, investigations or proceedings relating to services performed or required to be performed by Executive, pertinent knowledge possessed by Executive, or any act or omission by Executive. Executive further agrees to perform all acts and execute and deliver any documents that may be reasonably necessary to carry out the provisions of this Section 5. The Company shall reimburse the Executive for reasonable expenses incurred in connection with such cooperation.

Executive also agrees that he will assist and cooperate with the transition of business and business relationships, including but not limited to sales or partnership opportunities and customers, agent and distributor relationships, to Cree employees. Upon receipt of any business leads or sales opportunities, Executive expressly agrees to communicate all related information to the General Manager of Cree's Lighting business promptly and within a reasonable time period, not to exceed three (3) business days.

6. ADEQUACY OF CONSIDERATION. Executive acknowledges that the benefits available to him under this Agreement are significant, and constitute adequate consideration for the release of claims, under Sections 7 and 8 of this Agreement.

7. RELEASE. In consideration of the benefits conferred by this AGREEMENT, EXECUTIVE (ON BEHALF OF HIMSELF, HIS FAMILY MEMBERS, HEIRS, ASSIGNS, EXECUTORS AND OTHER REPRESENTATIVES) RELEASES THE COMPANY AND ITS PAST, PRESENT AND FUTURE PARENTS, SUBSIDIARIES, AFFILIATES, AND ITS AND/OR THEIR PREDECESSORS, SUCCESSORS, ASSIGNS, AND ITS AND/OR THEIR PAST, PRESENT AND FUTURE OFFICERS, DIRECTORS, EXECUTIVES, OWNERS, INVESTORS, SHAREHOLDERS, ADMINISTRATORS, BUSINESS UNITS, EXECUTIVE BENEFIT PLANS (TOGETHER WITH ALL PLAN ADMINISTRATORS, TRUSTEES, FIDUCIARIES AND INSURERS) AND AGENTS ("RELEASEES") FROM ALL CLAIMS AND WAIVES ALL RIGHTS KNOWN OR UNKNOWN, HE MAY HAVE OR CLAIM TO HAVE IN EACH CASE RELATING TO HIS EMPLOYMENT WITH THE COMPANY, OR HIS SEPARATION THEREFROM arising before the execution of this Agreement by Executive, including but not limited to claims: (i) for discrimination, harassment or retaliation arising under any federal, state or local laws, or the equivalent applicable laws of a foreign country, prohibiting age (including but not limited to claims under the Age Discrimination in Employment Act of 1967 (ADEA), as amended, and the Older Worker Benefit Protection Act of 1990 (OWBPA)), sex, national origin, race, religion, disability, veteran status or other protected class discrimination, the Family and Medical Leave Act, as amended (FMLA), harassment or retaliation for protected activity; (ii) for compensation, commission payments, bonus payments and/or benefits including but not limited to claims under the Fair Labor Standards Act of 1938 (FLSA), as amended, the Employee Retirement Income Security Act of 1974, as amended (ERISA), the Family and Medical Leave Act, as amended (FMLA), and similar federal, state, and local laws, or the applicable laws of any foreign country; (iii) under federal, state or local law, or the applicable laws of any foreign country, of any nature whatsoever, including but not limited to constitutional, statutory; and common law; (iv) under any employment agreement, severance plan or other benefit plan, and (v) for attorneys' fees. Executive specifically waives his right to bring or participate in any class or collective action against the Company. Provided, however, that this release does not apply to claims by Executive: (aa) for workers' compensation benefits or unemployment benefits filed with the applicable state agencies; (bb) for vested pension or retirement benefits including under the Company's 401(k) plan; (cc) to continuation coverage under COBRA, or equivalent applicable law; (dd) to rights arising out of his ownership of stock or options in the Company or its affiliates; (ee) to rights that cannot lawfully be released by a private settlement agreement; or (ff) to enforce, or for a breach of, this Agreement (the "Reserved Claims"). For the purpose of implementing a full and complete release and discharge, Executive expressly acknowledges that this Agreement is intended to

include in its effect, without limitation, all claims which he does not know or suspect to exist in his favor at the time of execution hereof, and that this Agreement contemplated the extinguishment of any such claim or claims.

8. **COVENANT NOT TO SUE.** In consideration of the benefits offered to Executive, Executive will not sue Releasees on any of the released claims or on any matters relating to his employment arising before the execution of this Agreement other than with respect to the Reserved Claims, including but not limited to claims under the ADEA, or join as a party with others who may sue Releasees on any such claims; provided, however, this paragraph will not bar a challenge under the OWBPA to the enforceability of the waiver and release of ADEA claims set forth in this Agreement, the Reserved Claims, or where otherwise prohibited by law. If Executive does not abide by this paragraph, then (i) he will return all monies received under this Agreement and indemnify Releasees for all expenses incurred in defending the action, and (ii) Releasees will be relieved of their obligations hereunder.

9. **RIGHT TO REVIEW.** The Company delivered this Agreement, containing the release language set forth in Sections 7 and 8, to Executive on December 14, 2017 (the "**Notification Date**"), and informed him that it desires that he have adequate time and opportunity to review and understand the consequences of entering into it. The Company advises Executive as follows: (a) Executive should consult with his attorney prior to executing the Agreement; and (b) Executive has 21 days from the Notification Date within which to consider it. Executive must return an executed copy of the Agreement to the Company on or before the 22<sup>nd</sup> day following the Notification Date. Executive acknowledges and understands that he is not required to use the entire 21-day review period and may execute and return this Agreement at any time before the 22<sup>nd</sup> day following the Notification Date. If, however, Executive does not execute and return an executed copy of this Agreement on or before the 22<sup>nd</sup> day following the Notification Date, this Agreement shall become null and void. This executed Agreement shall be returned to: **Brad Kohn, General Counsel, Senior Vice President Legal, General Counsel, and Corporate Secretary, Cree, Inc., 4600 Silicon Drive, Durham, NC 27703.**

10. **REVOCATION.** Executive may revoke the Agreement during the seven (7) day period immediately following his execution of it. This Agreement will not become effective or enforceable until the revocation period has expired. **To revoke this Agreement, a written notice of revocation must be delivered to: Brad Kohn, General Counsel, Senior Vice President Legal, General Counsel, and Corporate Secretary, Cree, Inc., 4600 Silicon Drive, Durham, NC 27703.**

11. **AGENCY CHARGES/INVESTIGATIONS.** Executive affirms that Executive is not aware of, nor has been retaliated against, for reporting any allegations of wrongdoing by Cree or its officers, including any allegations of corporate fraud, misrepresentation or misconduct. Executive affirms that, to the best of Executive's knowledge, Cree has provided accurate and transparent financial information to its shareholders and the public and abided by all provisions of all applicable laws and regulations, including The Sarbanes-Oxley Act of 2002. Both Parties acknowledge that this Agreement does not limit either party's right, where applicable, to file or participate in an investigative proceeding of any federal, state or local governmental agency, as outlined in this Section 11. Nothing in this Agreement prohibits or prevents Executive from filing a charge with or participating, testifying, or assisting in any

investigation, hearing, whistleblower proceeding or other proceeding before any federal, state, or local government agency (e.g. EEOC, NLRB, SEC., etc.) ("Government Agency"), nor does anything in this Agreement preclude, prohibit, or otherwise limit, in any way, Executive's rights and abilities to contact, communicate with, report matters to, or otherwise participate in any whistleblower program administered by any such agencies. Executive further understands that this Agreement does not limit Executive's or the Company's ability to communicate with any Government Agency or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency in connection with reporting a possible securities law violation, or other violation of law, without notice to the Company. Nothing in this Agreement or any other agreement limits Executive's right to receive an award for information provided to any Government Agency/SEC staff.

12. NONDISPARAGEMENT. Executive agrees that from the Separation Date forward he shall not at any time make, publish or communicate to any person or entity or in any public forum any defamatory or disparaging remarks, comments or statements concerning the Company, or any of its employees or officers, products and existing and prospective customers, suppliers, vendors, agents, distributors, investors and other associated third parties, now or in the future. The foregoing restrictions will not apply to any statements that are made truthfully in response to a subpoena or other compulsory legal process. A misrepresentation of the underlying facts culminating in the termination of Executive's employment will constitute a violation of this provision. The Company agrees that the members of the Board of Directors and its Section 16 Officers will not make statements about Executive that are disparaging, defaming or derogatory; provided, however, that nothing in this Section 12 will prevent the Company from providing information requested by subpoena, court order, regulation, law, in response to a request from a government agency, an exchange, or in response to a request from an insurance company, investor or other business.

Executive agrees to direct all reference inquiries to the Company's Senior Vice President of Human Resources. The Company agrees that in response to any reference inquiries, the Senior Vice President of Human Resources will provide only such information dictated by Company policy.

13. LEGAL AND EQUITABLE REMEDIES FOR BREACH OF CERTAIN PROVISIONS. Executive acknowledges that his failure to abide by Sections 3, 4, 5 and/or 12 of this Agreement would cause irreparable harm to the Company and/or its Affiliates for which legal remedies would be inadequate. Therefore, in addition to any legal or other relief to which the Company and/or its Affiliates may be entitled by virtue of Executive's failure to abide by these provisions: (a) the Company will be released of its obligations under this Agreement to make any post-termination payments, including but not limited to those otherwise available pursuant to Section 2 hereof; (b) Executive must immediately repay the Partial Signing Bonus and/or the Relocation Bonus as provided in Section 2(a)(iv); (c) the Company may seek legal and equitable relief, including but not limited to preliminary and permanent injunctive relief, for Executive's actual or threatened failure to abide by these provisions; (d) Executive will return all post-termination payments received pursuant to Section 2 of this Agreement; and (e) if, as a result of Executive's failure to abide by Section 3 of this Agreement, any commission or fee becomes payable to Executive or to any person, corporation or other entity with which Executive has become employed or otherwise associated, Executive shall pay the Company or cause the

person, corporation or other entity with whom he has become employed or otherwise associated to pay the Company an amount equal to such commission or fee. In the event that the Company exercises its right to discontinue payments under this provision, Executive returns all post-termination payments received pursuant to this Agreement, and/or Executive repays the Bonuses described in Section 2(a)(iv), Executive shall nevertheless remain obligated to abide by the terms of this Agreement, including but not limited to Sections 3 and 12.

14. **DISCLAIMER OF LIABILITY.** Nothing in this Agreement is to be construed as either an admission of liability or admission of wrongdoing on the part of either party, each of which denies any liabilities or wrongdoing on its part.

15. **GOVERNING LAW.** This Agreement shall be construed, interpreted, and governed in accordance with and by North Carolina law and the applicable provisions of federal law, including but not limited to the ADEA and the OWBPA (“Applicable Federal Law”). Any and all claims, controversies, and causes of action arising out of or relating to this Agreement, whether sounding in contract, tort, or statute, shall be governed by the laws of the state of North Carolina, including its statutes of limitations, except for Applicable Federal Law, without giving effect to any North Carolina conflict-of-laws rule that would result in the application of the laws of a different jurisdiction. Both Executive and the Company acknowledge and agree that the state or federal courts located in North Carolina have personal jurisdiction over them and over any dispute arising under this Agreement, and both Executive and the Company irrevocably consent to the jurisdiction of such courts.

16. **ENTIRE AGREEMENT.** Except as expressly provided herein, this Agreement: (i) supersedes and cancels all other understandings and agreements, oral or written, with respect to Executive’s employment with the Company; (ii) supersedes all other understandings and agreements, oral or written, between the parties with respect to the subject matter of this Agreement; and (iii) constitutes the sole agreement between the parties with respect to this subject matter. Each party acknowledges that: (i) no representations, inducements, promises or agreements, oral or written, have been made by any party or by anyone acting on behalf of any party, which are not embodied in this Agreement; and (ii) no agreement, statement or promise not contained in this Agreement shall be valid. No change or modification of this Agreement shall be valid or binding upon the parties unless such change or modification is in writing and is signed by the parties.

17. **SEVERABILITY; SEPARATE AND INDEPENDENT COVENANTS.** If any portion, provision, or part of this Agreement is held, determined, or adjudicated by any court of competent jurisdiction to be invalid, unenforceable, void, or voidable for any reason whatsoever, each such portion, provision, or part shall be severed from the remaining portions, provisions, or parts of this Agreement, and such determination or adjudication shall not affect the validity or enforceability of such remaining portions, provisions, or parts.

18. **SECTION 409A OF THE INTERNAL REVENUE CODE.**

(a) **Parties’ Intent.** The parties intend that all payments or benefits hereunder shall either qualify for an exemption from or comply with the applicable rules governing non-qualified deferred compensation under Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), and the regulations thereunder (collectively, “Section 409A”) and all provisions of

this Agreement shall be construed in a manner consistent with such intention. If any provision of this Agreement (or of any award of compensation, including equity compensation or benefits) would cause Executive to incur any additional tax or interest under Section 409A, the Company shall, upon the specific request of Executive, use its reasonable business efforts to in good faith reform such provision to be exempt from, or comply with, Code Section 409A; provided, that to the maximum extent practicable, the original intent and economic benefit to Executive and the Company of the applicable provision shall be maintained, and the Company shall have no obligation to make any changes that could create any material additional economic cost or loss of material benefit to the Company. Notwithstanding the foregoing, the Company shall have no liability with regard to any failure to comply with Section 409A, provided that the Company acted in good faith and in a prudent manner to comply with Section 409A. If a payment that is deferred compensation subject to Section 409A is subject to satisfaction of a release requirement and the period for satisfying the release requirement begins in one calendar year and ends in the following calendar year (the "Release Satisfaction Period"), then any amount becoming payable during the Release Satisfaction Period shall not be paid until the later calendar year.

(b) Separation from Service. A termination of employment or separation from service shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits that constitute nonqualified deferred compensation within the meaning of Section 409A upon or following a termination of employment or separation from service unless such termination also constitutes a "Separation from Service" within the meaning of Section 409A and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment," "separation from service" or like terms shall mean Separation from Service.

(c) Delayed Distribution to Specified Employees. If the Company determines in accordance with Sections 409A and 416(i) of the Code and the regulations promulgated thereunder, in the Company's sole discretion, that a delay in benefits provided under this Agreement is necessary to comply with Code Section 409A(A)(2)(B)(i) since Executive is a Specified Employee thereunder, then any post separation payments and any continuation of benefits or reimbursement of benefit costs provided by this Agreement, and not otherwise exempt from Section 409A, shall be delayed for a period of six (6) months following the date of Executive's separation from service (the "409A Delay Period"). In such event, any post separation payments and the cost of any continuation of benefits provided under this Agreement that would otherwise be due and payable to Executive during the 409A Delay Period shall not commence until, and shall be made to Executive in a lump sum cash amount on the first business day after the date that is six (6) months following Executive's Separation from Service and in such event the initial payment shall include a catch-up amount covering amounts that would otherwise have been paid during the six-month period following Executive's Separation from Service.

19. ACKNOWLEDGEMENT AND AFFIRMATION. Executive affirms that Executive has not divulged any proprietary or confidential information of Company and will continue to maintain the confidentiality of such information consistent with Company's policies and Executive's agreement(s) with Company and/or common law.

20. OTHER TAXES. Executive shall have sole responsibility for the payment of any

and all income taxes and/or excise taxes arising from or due on account of any payment made or benefit provided by the Company under this Agreement.

21. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and all of which taken together shall constitute one and the same instrument. Any party hereto may execute this Agreement by signing any such counterpart.

22. WAIVER OF BREACH. A waiver of any breach of this Agreement shall not constitute a waiver of any other provision of this Agreement or any subsequent breach of this Agreement.

*(SIGNATURE PAGE FOLLOWS)*



*(Signature page to Separation and General Release Agreement)*

**IN WITNESS WHEREOF, the parties have entered into this Agreement as of the day and year written below.**

**CREE, INC.**

By: /s/ Bradley D. Kohn

Name: Bradley D. Kohn

Title: Senior Vice President and General Counsel

Date: 12/21/2017

**DANIEL J. CASTILLO**

By: /s/ Daniel J. Castillo

Date: 12/21/2017

ATTACHMENT A

**RESIGNATION**

I, Daniel J. Castillo, hereby resign as an officer and/or director of Cree, Inc. and all of its subsidiaries, including Cree Canada Corp., effective December 5, 2017.

**DANIEL J. CASTILLO**

By: /s/ Daniel J. Castillo

Date: 12/21/2017

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

I, Gregg A. Lowe, certify that:

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

January 24, 2018

/s/ GREGG A. LOWE

Gregg A. Lowe

President and Chief Executive Officer

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

I, Michael E. McDevitt, certify that:

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

January 24, 2018

/s/ MICHAEL E. MCDEVITT

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Michael E. McDevitt  
Executive Vice President and Chief Financial Officer

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

In connection with the Quarterly Report of Cree, Inc. (the "Company") on Form 10-Q for the quarterly period ended December 24, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregg A. Lowe, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- 1 The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2 The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GREGG A. LOWE

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Gregg A. Lowe

President and Chief Executive Officer

January 24, 2018

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

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

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

In connection with the Quarterly Report of Cree, Inc. (the "Company") on Form 10-Q for the quarterly period ended December 24, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael E. McDevitt, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

- 1 The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2 The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MICHAEL E. MCDEVITT

Michael E. McDevitt

Executive Vice President and Chief Financial Officer

January 24, 2018

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

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