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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 28, 2021

or

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

For the transition period from ______ to ______

Commission file number 0-21154

CREE, INC.

(Exact name of registrant as specified in its charter)

North Carolina	**56-1572719**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

4600 Silicon Drive		
Durham	**North Carolina**	**27703**
(Address of principal executive offices)		**(Zip Code)**

(919) 407-5300

(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☒ No ☐

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

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

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

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

The number of shares outstanding of the registrant’s common stock, par value $0.00125 per share, as of April 23, 2021, was 115,470,771.

CREE, INC.
FORM 10-Q

For the Quarterly Period Ended March 28, 2021

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

CREE, INC.
UNAUDITED CONSOLIDATED BALANCE SHEETS

in millions of U.S. Dollars, except share data in thousands	**March 28, 2021**	**June 28, 2020**
Assets		
Current assets:		
Cash and cash equivalents	$531.6	$448.8
Short-term investments	761.7	790.9
Total cash, cash equivalents and short-term investments	1,293.3	1,239.7
Accounts receivable, net	84.1	72.4
Inventories	147.5	121.9
Income taxes receivable	9.1	6.6
Prepaid expenses	23.8	26.2
Other current assets	38.5	8.7
Current assets held for sale	2.0	1.3
Current assets of discontinued operations	—	116.0
Total current assets	1,598.3	1,592.8
Property and equipment, net	1,165.1	770.8
Goodwill	359.2	349.7
Intangible assets, net	144.6	156.9
Long-term receivables	137.8	—
Other long-term investments	67.2	55.9
Deferred tax assets	1.2	1.2
Other assets	33.0	33.6
Long-term assets of discontinued operations	1.3	270.1
Total assets	$3,507.7	$3,231.0
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$319.5	$189.8
Accrued contract liabilities	24.5	14.2
Income taxes payable	—	1.2
Finance lease liabilities	0.4	3.6
Other current liabilities	37.8	22.2
Current liabilities of discontinued operations	0.6	60.2
Total current liabilities	382.8	291.2
Long-term liabilities:		
Convertible notes, net	813.7	783.8
Deferred tax liabilities	2.3	1.8
Finance lease liabilities - long-term	10.1	11.4
Other long-term liabilities	51.1	43.8
Long-term liabilities of discontinued operations	0.7	9.8
Total long-term liabilities	877.9	850.6
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value $0.01; 3,000 shares authorized at March 28, 2021 and June 28, 2020; none issued and outstanding	—	—
Common stock, par value $0.00125; 200,000 shares authorized at March 28, 2021 and June 28, 2020; 115,425 and 109,230 shares issued and outstanding at March 28, 2021 and June 28, 2020, respectively	0.1	0.1
Additional paid-in-capital	3,658.9	3,106.2
Accumulated other comprehensive income	3.5	16.0
Accumulated deficit	(1,415.5)	(1,039.2)
Total shareholders' equity	2,247.0	2,083.1
Noncontrolling interest from discontinued operations	—	6.1
Total equity	2,247.0	2,089.2
Total liabilities and shareholders' equity	$3,507.7	$3,231.0

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

CREE, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended		Nine months ended	
	March 28, 2021	**March 29, 2020**	**March 28, 2021**	**March 29, 2020**
in millions of U.S. Dollars, except share data				
Revenue, net	$137.3	$113.9	$379.8	$362.3
Cost of revenue, net	93.3	72.6	259.0	232.9
Gross profit	44.0	41.3	120.8	129.4
Operating expenses:				
Research and development	46.0	38.6	132.7	112.5
Sales, general and administrative	44.2	41.7	135.0	135.7
Amortization or impairment of acquisition-related intangibles	3.7	3.7	10.9	10.9
Loss on disposal or impairment of other assets	0.1	0.1	0.8	1.7
Other operating expense	11.4	5.2	22.6	22.2
Operating loss	(61.4)	(48.0)	(181.2)	(153.6)
Non-operating expense, net	8.1	14.7	18.9	8.1
Loss before income taxes	(69.5)	(62.7)	(200.1)	(161.7)
Income tax benefit	(3.0)	(6.5)	(4.0)	(8.3)
Net loss from continuing operations	(66.5)	(56.2)	(196.1)	(153.4)
Net (loss) income from discontinued operations	(41.6)	(3.7)	(178.8)	1.7
Net loss	(108.1)	(59.9)	(374.9)	(151.7)
Net income from discontinued operations attributable to noncontrolling interest	0.8	0.2	1.4	0.5
Net loss attributable to controlling interest	($108.9)	($60.1)	($376.3)	($152.2)
Basic and diluted loss per share				
Continuing operations	($0.59)	($0.52)	($1.75)	($1.42)
Net loss attributable to controlling interest	($0.96)	($0.56)	($3.35)	($1.41)
Weighted average shares - basic and diluted (in thousands)	112,891	108,115	112,330	107,718

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

CREE, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three months ended		Nine months ended	
(in millions of U.S. Dollars)	**March 28, 2021**	**March 29, 2020**	**March 28, 2021**	**March 29, 2020**
Net loss	($108.1)	($59.9)	($374.9)	($151.7)
Other comprehensive loss:				
Reclassification of currency translation gain to loss on sale of discontinued operations	(9.5)	—	(9.5)	—
Net unrealized loss on available-for-sale securities	(2.5)	(1.9)	(3.0)	(1.7)
Comprehensive loss	(120.1)	(61.8)	(387.4)	(153.4)
Net income from discontinued operations attributable to noncontrolling interest	0.8	0.2	1.4	0.5
Comprehensive loss attributable to controlling interest	($120.9)	($62.0)	($388.8)	($153.9)

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

CREE, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in millions of U.S Dollars, except share data)	Common Stock Number of Shares	Common Stock Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Equity - Controlled Interest	Non-controlling Interest from Discontinued Operations	Total Equity
Balance at June 28, 2020	**109,230**	**$0.1**	**$3,106.2**	**($1,039.2)**	**$16.0**	**$2,083.1**	**$6.1**	**$2,089.2**
Net loss	—	—	—	(184.4)	—	(184.4)	0.3	(184.1)
Unrealized gain on available-for-sale securities	—	—	—	—	—	—	—	—
Comprehensive loss						(184.4)	0.3	(184.1)
Tax withholding on vested equity awards	—	—	(22.7)	—	—	(22.7)	—	(22.7)
Stock-based compensation	—	—	16.2	—	—	16.2	—	16.2
Exercise of stock options and issuance of shares	1,066	—	16.5	—	—	16.5	—	16.5
Balance at September 27, 2020	**110,296**	**$0.1**	**$3,116.2**	**($1,223.6)**	**$16.0**	**$1,908.7**	**$6.4**	**$1,915.1**
Net (loss) income	—	—	—	(83.0)	—	(83.0)	0.3	(82.7)
Unrealized loss on available-for-sale securities	—	—	—	—	(0.5)	(0.5)	—	(0.5)
Comprehensive (loss) income						(83.5)	0.3	(83.2)
Tax withholding on vested equity awards	—	—	(1.6)	—	—	(1.6)	—	(1.6)
Stock-based compensation	—	—	18.6	—	—	18.6	—	18.6
Exercise of stock options and issuance of shares	681	—	22.7	—	—	22.7	—	22.7
Balance at December 27, 2020	**110,977**	**$0.1**	**$3,155.9**	**($1,306.6)**	**$15.5**	**$1,864.9**	**$6.7**	**$1,871.6**
Net (loss) income	—	—	—	(108.9)	—	(108.9)	0.8	(108.1)
Reclassification of currency translation gain to loss on sale of discontinued operations	—	—	—	—	(9.5)	(9.5)	—	(9.5)
Unrealized loss on available-for-sale securities	—	—	—	—	(2.5)	(2.5)	—	(2.5)
Comprehensive (loss) income						(120.9)	0.8	(120.1)
Tax withholding on vested equity awards	—	—	(7.4)	—	—	(7.4)	—	(7.4)
Stock-based compensation	—	—	19.5	—	—	19.5	—	19.5
Exercise of stock options and issuance of shares	225	—	1.8	—	—	1.8	—	1.8
Issuance of shares under the at-the-market offering program, net of issuance costs	4,223	—	489.1	—	—	489.1	—	489.1
Reclassification of noncontrolling interest to loss on sale of discontinued operations	—	—	—	—	—	—	(7.5)	(7.5)
Balance at March 28, 2021	**115,425**	**$0.1**	**$3,658.9**	**($1,415.5)**	**$3.5**	**$2,247.0**	**$—**	**$2,247.0**

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

CREE, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in millions of U.S. Dollars, except share data)	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Equity - Controlled Interest	Non-controlling Interest from Discontinued Operations	Total Equity
	Number of Shares	**Par Value**						
Balance at June 30, 2019	**106,570**	**$0.1**	**$2,874.1**	**($847.5)**	**$9.5**	**$2,036.2**	**$5.0**	**$2,041.2**
Net loss	—	—	—	(37.8)	—	(37.8)	—	(37.8)
Unrealized gain on available-for-sale securities	—	—	—	—	0.5	0.5	—	0.5
Comprehensive loss						(37.3)	—	(37.3)
Tax withholding on vested equity awards	—	—	(14.3)	—	—	(14.3)	—	(14.3)
Stock-based compensation	—	—	17.4	—	—	17.4	—	17.4
Exercise of stock options and issuance of shares	1,127	—	18.6	—	—	18.6	—	18.6
Balance at September 29, 2019	**107,697**	**$0.1**	**$2,895.8**	**($885.3)**	**$10.0**	**$2,020.6**	**$5.0**	**$2,025.6**
Net (loss) income	—	—	—	(54.3)	—	(54.3)	0.3	(54.0)
Unrealized loss on available-for-sale securities	—	—	—	—	(0.3)	(0.3)	—	(0.3)
Comprehensive (loss) income						(54.6)	0.3	(54.3)
Tax withholding on vested equity awards	—	—	(0.4)	—	—	(0.4)	—	(0.4)
Stock-based compensation	—	—	13.4	—	—	13.4	—	13.4
Exercise of stock options and issuance of shares	334	—	10.7	—	—	10.7	—	10.7
Balance at December 29, 2019	**108,031**	**$0.1**	**$2,919.5**	**($939.6)**	**$9.7**	**$1,989.7**	**$5.3**	**$1,995.0**
Net (loss) income	—	—	—	(60.1)	—	(60.1)	0.2	(59.9)
Unrealized loss on available-for-sale securities	—	—	—	—	(1.9)	(1.9)	—	(1.9)
Comprehensive (loss) income						(62.0)	0.2	(61.8)
Tax withholding on vested equity awards	—	—	(1.5)	—	—	(1.5)	—	(1.5)
Stock-based compensation	—	—	11.6	—	—	11.6	—	11.6
Exercise of stock options and issuance of shares	122	—	1.7	—	—	1.7	—	1.7
Balance at March 29, 2020	**108,153**	**$0.1**	**$2,931.3**	**($999.7)**	**$7.8**	**$1,939.5**	**$5.5**	**$1,945.0**

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

CREE, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended	
(in millions of U.S. Dollars)	**March 28, 2021**	**March 29, 2020**
Operating activities:		
Net loss	($374.9)	($151.7)
Net (loss) income from discontinued operations	(178.8)	1.7
Net loss from continuing operations	(196.1)	(153.4)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	88.6	73.7
Amortization of debt issuance costs and discount, net of capitalized interest	26.1	17.2
Stock-based compensation	40.3	36.9
Loss on disposal or impairment of long-lived assets	3.7	1.7
Amortization of premium/discount on investments	4.9	0.5
Realized gain on sale of investments	(0.3)	(1.0)
(Gain) loss on equity investment	(7.9)	9.2
Foreign exchange gain on equity investment	(3.4)	(1.2)
Deferred income taxes	0.5	(0.8)
Changes in operating assets and liabilities:		
Accounts receivable, net	(11.7)	(31.7)
Inventories	(25.4)	2.2
Prepaid expenses and other assets	(28.2)	0.9
Accounts payable, trade	27.2	(6.3)
Accrued salaries and wages and other liabilities	12.5	(18.7)
Accrued contract liabilities	10.3	5.9
Net cash used in operating activities of continuing operations	(58.9)	(64.9)
Net cash (used in) provided by operating activities of discontinued operations	(16.6)	25.4
Cash used in operating activities	(75.5)	(39.5)
Investing activities:		
Purchases of property and equipment	(394.0)	(166.9)
Purchases of patent and licensing rights	(3.6)	(2.8)
Proceeds from sale of property and equipment	0.2	1.8
Purchases of short-term investments	(342.1)	(421.2)
Proceeds from maturities of short-term investments	335.6	342.5
Proceeds from sale of short-term investments	28.1	96.4
Proceeds from sale of business, net	36.6	—
Net cash used in investing activities of continuing operations	(339.2)	(150.2)
Net cash used in investing activities of discontinued operations	(0.3)	(2.0)
Cash used in investing activities	(339.5)	(152.2)
Financing activities:		
Proceeds from long-term debt borrowings	30.0	—
Payments on long-term debt borrowings, including finance lease obligations	(30.3)	(0.4)
Proceeds from issuance of common stock	530.1	31.0
Tax withholding on vested equity awards	(31.7)	(16.2)
Commitment fee on long-term incentive agreement	(0.5)	—
Cash provided by financing activities	497.6	14.4
Effects of foreign exchange changes on cash and cash equivalents	0.2	(0.2)
Net change in cash and cash equivalents	82.8	(177.5)
Cash and cash equivalents, beginning of period	448.8	500.5
Cash and cash equivalents, end of period	$531.6	$323.0

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

CREE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation and New Accounting Standards

Overview

Cree, Inc. (the Company) is an innovator of wide bandgap semiconductors, focused on silicon carbide and gallium nitride (GaN) materials and devices for power and radio-frequency (RF) applications. The Company's silicon carbide and GaN materials and devices are targeted for applications such as transportation, power supplies, inverters and wireless systems.

Previously, the Company designed, manufactured and sold specialty lighting-class light emitting diode (LED) products targeted for use in indoor and outdoor lighting, electronic signs and signals and video displays. As discussed more fully below in Note 2, “Discontinued Operations,” on March 1, 2021, the Company completed its previously announced sale of certain assets and subsidiaries comprising its former LED Products segment to SMART Global Holdings, Inc. (SGH) and its wholly owned newly-created acquisition subsidiary CreeLED, Inc. (CreeLED and collectively with SGH, SMART) for up to $300 million, including fixed upfront and deferred payments and contingent consideration (the LED Business Divestiture).

As a result, the Company has classified the results and cash flows of the former LED Products segment as discontinued operations in its consolidated statements of operations and consolidated statements of cash flows for all periods presented. Additionally, the related assets and liabilities associated with the discontinued operations are classified as held for sale as of June 28, 2020 in the consolidated balance sheets. Unless otherwise noted, discussion within these notes to the consolidated financial statements relates to the Company's continuing operations.

The Company’s continuing operations consist of the Wolfspeed business, which includes silicon carbide and GaN materials, power devices and RF devices based on wide bandgap semiconductor materials and silicon. The Company’s materials products and power devices are used in electric vehicles, motor drives, power supplies, solar and transportation applications. The Company’s materials products and RF devices are used in military communications, radar, satellite and telecommunication applications.

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

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

Basis of Presentation

The consolidated financial statements presented herein have been prepared by the Company and have not been audited. In the opinion of management, all normal and recurring adjustments necessary to fairly state the consolidated financial position, results of operations, comprehensive loss, shareholders' equity and cash flows at March 28, 2021, and for all periods presented, have been made. All material intercompany accounts and transactions have been eliminated. The consolidated balance sheet at June 28, 2020 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 28, 2020 (fiscal 2020) (the 2020 Form 10-K) and the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 11, 2021, which recast the relevant financial information in the 2020 Form 10-K to present the financial results of the LED Business as discontinued operations and held for sale in the Company’s consolidated financial statements for all periods presented in the 2020 Form 10-K. The results of operations for the three and nine months ended March 28, 2021 are not necessarily indicative of the operating results that may be attained for the entire fiscal year ending June 27, 2021 (fiscal 2021). Additionally, the impact of the COVID-19 pandemic to the results of operations is uncertain.

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

The Company revised income tax expense for the three months ended March 29, 2020 to correct the income tax provision calculation for the third quarter of fiscal 2020. The Company decreased income tax expense for the three months ended March 29, 2020, resulting in a net decrease to net loss of $1.5 million for the three months ended March 29, 2020. No revision was made to income tax expense for the nine months ended March 29, 2020. The Company concluded this error was not material individually or in the aggregate.

Certain accounting matters that generally require consideration of forecasted financial information were assessed regarding impacts from the COVID-19 pandemic as of March 28, 2021 and through the date of this Quarterly Report using reasonably available information as of those dates. The accounting matters assessed included, but were not limited to, allowance for doubtful accounts, the carrying value of goodwill and other long-lived tangible and intangible assets, the potential impact to earnings of unrealized losses on investments, valuation allowances for tax assets and the ability to estimate an annual effective tax rate. While the assessments resulted in no material impacts to the consolidated financial statements as of and for the quarter ended March 28, 2021, the Company believes the full impact of the pandemic remains uncertain and will continue to assess if ongoing developments related to the pandemic may cause future material impacts to its consolidated financial statements.

Segment Reporting

On March 1, 2021, the Company completed the LED Business Divestiture, and, as a result, now operates a single reporting segment within continuing operations, Wolfspeed. Accordingly, the Chief Operating Decision Maker (CODM) allocates resources and assesses performance on a consolidated basis. The Company's identified CODM is the Chief Executive Officer.

Recently Adopted Accounting Pronouncements

Credit Losses

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13). This standard replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses.

The Company adopted this standard using the modified retrospective transition method on June 29, 2020, the first day of its 2021 fiscal year. Upon adoption, prior period balances were not adjusted and the Company determined no cumulative-effect adjustment to retained earnings as of June 29, 2020 was required.

Under this new standard, expected credit losses for the Company's receivables are evaluated on a collective (pool) basis and aggregated on the basis of similar risk characteristics. These aggregated risk pools are reassessed at each measurement date. A combination of factors is considered in determining the appropriate estimate of expected credit losses, including broad-based economic indicators as well as customers' financial strength, credit standing, payment history and any historical defaults.

Available-for-sale debt securities in an unrealized loss position at each measurement date are individually evaluated for expected credit losses. The Company evaluates whether the unrealized loss is due to market factors or changes in the investment holdings' credit rating. An expected credit loss will be recorded when an investment in an unrealized loss position is determined to have lost value from a decreased credit rating and the Company does not expect to recover the fair value of the security.

Accounting Pronouncements Pending Adoption

Convertible Debt Instruments

In August 2020, the FASB issued ASU 2020-06, Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40). This standard simplifies the accounting for convertible instruments by eliminating the cash conversion and the beneficial conversion accounting models. This update also amends the guidance for the derivatives scope exception for contracts in an entity’s own equity. The update requires an entity to use the if-converted method for all convertible instruments in the diluted earnings per share calculation. An entity may use either a modified or full retrospective approach for adoption. The Company expects to adopt this standard by June 27, 2022 and is currently evaluating the impact on its consolidated financial statements.

Note 2 – Discontinued Operations

On March 1, 2021, the Company completed the LED Business Divestiture pursuant to the terms of the previously reported Asset Purchase Agreement (the Purchase Agreement), dated October 18, 2020, as amended. Pursuant to the Purchase Agreement, (i) the Company completed the sale to SMART of (a) certain equipment, inventory, intellectual property rights, contracts, and real estate comprising the Company's LED Products segment, (b) all of the issued and outstanding equity interests of Cree Huizhou Solid State Lighting Company Limited (Cree Huizhou), a limited liability company organized under the laws of the People's Republic of China and an indirect wholly owned subsidiary of the Company, and (c) the Company's ownership interest in Cree Venture LED Company Limited, the Company's joint venture with San'an Optoelectronics Co., Ltd. (collectively, the LED Business); and (ii) SMART assumed certain liabilities related to the LED Business. The Company retained certain assets used in and pre-closing liabilities associated with the LED Products segment.

The purchase price for the LED Business consisted of (i) a payment of $50 million in cash, subject to customary adjustments, (ii) an unsecured promissory note issued to the Company by SGH in the amount of $125 million (the Purchase Price Note), (iii) the potential to receive an earn-out payment between $2.5 million and $125 million based on the revenue and gross profit performance of the LED Business in the first four full fiscal quarters following the closing (the Earnout Period), also payable in the form of a unsecured promissory note of SGH (the Earnout Note), and (iv) the assumption of certain liabilities. The Purchase Price Note and the Earnout Note will accrue interest at a rate of three-month LIBOR plus 3.0% with interest paid every three months and one bullet payment of principal and all accrued and unpaid interest will be payable on the maturity date of the Purchase Price Note and Earnout Note. The Purchase Price Note will mature on August 15, 2023, and the Earnout Note will mature on March 27, 2025. The Company recognized a loss on sale of the LED Business of $26.3 million. The cost of selling the LED Business was $27.4 million, which was recognized throughout fiscal 2020 and 2021.

In connection with the closing of the LED Business Divestiture, the Company and CreeLED also entered into certain ancillary and related agreements, including (i) an Intellectual Property Assignment and License Agreement, which assigned to CreeLED certain intellectual property owned by the Company and its affiliates and licensed to CreeLED certain additional intellectual property owned by the Company, (ii) a Transition Services Agreement (LED TSA), (iii) a Wafer Supply and Fabrication Services Agreement (the Wafer Supply Agreement), pursuant to which the Company will supply CreeLED with certain silicon carbide materials and fabrication services for up to four years, and (iv) a Real Estate License Agreement (LED RELA), which will allow CreeLED to use certain premises owned by the Company to conduct the LED Business for a period of up to 24 months after closing.

Because the LED Business Divestiture represented a strategic shift that will have a major effect on the Company's operations and financial results, the Company has classified the results of the LED Business as discontinued operations in the Company's consolidated statements of operations for all periods presented. The Company ceased recording depreciation and amortization of long-lived assets conveying in the Purchase Agreement upon classification as discontinued operations in October 2020. Additionally, the related assets and liabilities associated with discontinued operations are classified as held for sale in the consolidated balance sheets as of June 28, 2020.

The following table presents the financial results of the LED Business as (loss) income from discontinued operations, net of income taxes in the Company's consolidated statements of operations:

	Three months ended		Nine months ended	
(in millions of U.S. Dollars)	**March 28, 2021**	**March 29, 2020**	**March 28, 2021**	**March 29, 2020**
Revenue, net	$66.5	$101.7	$272.8	$336.0
Cost of revenue, net	50.3	81.5	213.3	267.8
Gross profit	16.2	20.2	59.5	68.2
Operating expenses:				
Research and development	5.9	8.1	22.3	25.2
Sales, general and administrative	12.5	8.1	29.4	24.5
Goodwill impairment	—	—	112.6	—
Impairment on assets held for sale	—	—	19.5	—
(Gain) loss on disposal or impairment of long-lived assets	(0.6)	0.2	(1.6)	0.4
Other operating expense	6.2	5.6	18.7	9.6
Operating (loss) income	(7.8)	(1.8)	(141.4)	8.5
Non-operating income	(0.3)	(0.2)	(0.3)	(0.3)
(Loss) income before income taxes and loss on sale	(7.5)	(1.6)	(141.1)	8.8
Loss on sale	26.3	—	26.3	—
(Loss) income before income taxes	(33.8)	(1.6)	(167.4)	8.8
Income tax expense	7.8	2.1	11.4	7.1
Net (loss) income	(41.6)	(3.7)	(178.8)	1.7
Net income attributable to noncontrolling interest	0.8	0.2	1.4	0.5
Net (loss) income attributable to controlling interest	($42.4)	($3.9)	($180.2)	$1.2

As of September 27, 2020, the Company determined it would more likely than not sell all or a portion of the assets comprising the LED Products segment below carrying value. As a result, the Company recorded an impairment to goodwill of $105.7 million.

As of December 27, 2020, the Company recorded an additional impairment to goodwill of $6.9 million and an impairment to assets held for sale associated with the pending LED Business Divestiture of $19.5 million.

For the three and nine months ended March 28, 2021, the Company recognized $7.8 million and $11.4 million of income tax expense related to discontinued operations, respectively, which primarily related to the foreign operations of the LED Business. Income tax expense related to discontinued operations for the three and nine months ended March 28, 2021 includes $4.1 million of income tax expense related to the sale of the issued and outstanding equity interests of Cree Huizhou in the third quarter of fiscal 2021.

For the three and nine months ended March 29, 2020, the Company recognized $2.1 million and $7.1 million of income tax expense related to discontinued operations, respectively, which primarily related to the foreign operations of the LED Business.

The income tax impact of the U.S. operations of the LED Business for all periods presented were offset with a valuation allowance as described in Note 12, "Income Taxes."

For the three and nine months ended March 28, 2021, the Company recognized $0.3 million and $1.0 million in administrative fees related to the LED RELA and the LED TSA, respectively, all of which are included in accounts receivable, net in the consolidated balance sheets as of March 28, 2021. These fees were recorded as a reduction in expense within the line item in the consolidated statements of operations in which costs were incurred.

At the inception of the Wafer Supply Agreement, the Company recorded a supply agreement liability of $31.0 million, of which $27.9 million was outstanding as of March 28, 2021. The supply agreement liability is recognized in other current liabilities and other long-term liabilities on the consolidated balance sheets.

The Company recognized a net loss of $0.1 million in non-operating expense, net for the three and nine months ended March 28, 2021 related to the Wafer Supply Agreement. A receivable of $7.2 million was included in other assets in the consolidated balance sheets as of March 28, 2021.

The following table presents the assets and liabilities of the LED Business classified as discontinued operations as of June 28, 2020:

(in millions of U.S. Dollars)	**June 28, 2020**
Assets	
Short-term investments	$12.0
Accounts receivable, net	41.6
Inventories	57.2
Prepaid expenses	0.1
Other current assets	5.1
Current assets of discontinued operations	116.0
Property and equipment, net	60.3
Goodwill	180.3
Intangible assets, net	22.7
Deferred tax assets	5.1
Other assets	1.7
Long-term assets of discontinued operations	270.1
Liabilities	
Accounts payable and accrued expenses	31.0
Accrued contract liabilities	24.1
Income taxes payable	2.0
Other current liabilities	3.1
Current liabilities of discontinued operations	60.2
Other long-term liabilities	9.8
Long-term liabilities of discontinued operations	9.8

Note 3 – Revenue Recognition

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

Contract liabilities primarily include various rights of return and customer deposits, as well as deferred revenue and price protection guarantees. Contract liabilities were $46.7 million as of March 28, 2021 and $47.9 million as of June 28, 2020. The decrease was primarily due to decreased customer deposits offset by increased reserve liabilities. Contract liabilities are recorded within accrued contract liabilities and other long-term liabilities on the balance sheet. Before the adoption of ASC 606, liabilities relating to various rights of return were recorded as a deduction to accounts receivable.

For the three and nine months ended March 28, 2021, the Company did not recognize any revenue that was included in contract liabilities as of June 28, 2020.

Revenue recognized related to performance obligations that were satisfied or partially satisfied in previous periods was not material for the three and nine months ended March 28, 2021.

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

	Three months ended				Nine months ended			
	March 28, 2021		March 29, 2020		March 28, 2021		March 29, 2020	
(in millions of U.S. Dollars)	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Europe	$49.9	36.3 %	$45.8	40.2 %	$139.0	36.6 %	$136.6	37.7 %
United States	31.2	22.7 %	22.2	19.5 %	85.1	22.4 %	78.5	21.7 %
China	26.9	19.6 %	13.0	11.4 %	73.5	19.4 %	46.9	12.9 %
Japan	10.5	7.6 %	12.5	11.0 %	31.9	8.4 %	46.9	12.9 %
South Korea	6.9	5.0 %	13.7	12.0 %	20.5	5.4 %	35.5	9.8 %
Other	11.9	8.8 %	6.7	5.9 %	29.8	7.8 %	17.9	5.0 %
Total	$137.3		$113.9		$379.8		$362.3	

Note 4 – Leases

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

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

Balance Sheet

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

Operating Leases:	March 28, 2021	June 28, 2020
Right-of-use asset (1)	$10.5	$12.3
Current lease liability (2)	5.0	4.8
Non-current lease liability (3)	5.6	7.5
Total operating lease liabilities	10.6	12.3
Finance Leases:		
Finance lease assets (4)	$11.1	$15.4
Current portion of finance lease liabilities	0.4	3.6
Finance lease liabilities, less current portion	10.1	11.4
Total finance lease liabilities	10.5	15.0

(1) Within other assets on the consolidated balance sheets.
(2) Within other current liabilities on the consolidated balance sheets.
(3) Within other long-term liabilities on the consolidated balance sheets.
(4) Within property and equipment, net on the consolidated balance sheets.

Statement of Operations

Operating lease expense was $1.3 million and $4.1 million for the three and nine months ended March 28, 2021, respectively, and $1.3 million and $3.7 million for the three and nine months ended March 29, 2020, respectively.

Short-term lease expense and variable lease expense were immaterial for the three and nine months ended March 28, 2021 and March 29, 2020.

Finance lease amortization was $0.2 million and $0.6 million and interest expense was less than $0.1 million and $0.2 million for the three and nine months ended March 28, 2021, respectively. Finance lease amortization was $0.2 million and interest expense was less than $0.1 million for the three and nine months ended March 29, 2020.

Cash Flows

Cash flow information consisted of the following:

	Nine months ended	
(in millions of U.S. Dollars)	**March 28, 2021**	**March 29, 2020**
Cash used in operating activities:		
Cash paid for operating leases	$4.2	$4.0
Cash paid for interest portion of financing leases [1]	0.2	—
Cash used in financing activities:		
Cash paid for principal portion of finance leases	0.3	0.4
Non-cash activities:		
Operating lease additions due to adoption of ASC 842	—	11.0
Operating lease additions and modifications, net	2.0	5.0
Finance lease additions	—	3.3
Transfer of finance lease liability to accounts payable and accrued expenses [2]	4.2	—

[1] Less than $0.1 million for the nine months ended March 29, 2020.

[2] In the first quarter of fiscal 2021, the Company executed the available bargain purchase option for certain finance leases relating to property and equipment, net, in order to purchase the assets.

Lease Liability Maturities

Maturities of operating and finance lease liabilities as of March 28, 2021 were as follows (in millions of U.S. Dollars):

Fiscal Year Ending	**Operating Leases**	**Finance Leases**	**Total**
June 27, 2021 (remainder of fiscal 2021)	$1.6	$0.2	$1.8
June 26, 2022	4.5	0.7	5.2
June 25, 2023	2.5	0.7	3.2
June 30, 2024	1.2	0.7	1.9
June 29, 2025	0.8	0.7	1.5
Thereafter	0.5	15.2	15.7
Total lease payments	11.1	18.2	29.3
Imputed lease interest	(0.5)	(7.7)	(8.2)
Total lease liabilities	$10.6	$10.5	$21.1

Supplemental Disclosures

	Operating Leases	**Finance Leases**
Weighted average remaining lease term (in months) [1]	30	468
Weighted average discount rate [2]	3.20 %	2.70 %

[1] Weighted average remaining lease term of finance leases without the 49-year ground lease is 68 months.
[2] Weighted average discount rate of finance leases without the 49-year ground lease is 3.40%.

Lease Income

As mentioned in Note 2, "Discontinued Operations", on March 1, 2021 and in connection with the sale of its LED Business, the Company entered into a Real Estate License Agreement pursuant to which the Company leases to CreeLED approximately 58,000 square feet of the Company's property and certain facilities in Durham, North Carolina for a total of $3.6 million per year. The lease term is 24 months and expires on February 28, 2023. The Company accounts for the lease and non-lease components under this agreement as a single lease component. Lease income is recognized on a straight-line basis over the lease term. Subject to certain provisions in the agreement, CreeLED may terminate its rights or a portion of its rights under the agreement at any time with sixty days written notice. A notice of thirty days is permitted under certain circumstances as defined in the agreement. The agreement does not contain any renewal provisions.

The Company recognized lease income of $0.3 million for the three and nine months ended March 28, 2021. The Company did not recognize any variable lease income for the three and nine month periods ended March 28, 2021 and March 29, 2020.

Future minimum rental income relating to the Real Estate License Agreement is as follows (in millions of U.S. Dollars):

June 27, 2021 (remainder of fiscal 2021)	0.9
June 26, 2022	3.6
June 25, 2023	2.4
Total future minimum rental income	6.9

Note 5 – Financial Statement Details

Accounts Receivable, net

Accounts receivable, net consisted of the following:

(in millions of U.S. Dollars)	**March 28, 2021**	**June 28, 2020**
Billed trade receivables	$82.9	$71.5
Unbilled contract receivables	1.3	1.2
Royalties	0.6	0.4
	84.8	73.1
Allowance for bad debts	(0.7)	(0.7)
Accounts receivable, net	$84.1	$72.4

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

(in millions of U.S. Dollars)	**March 28, 2021**
Balance at beginning of period	$0.7
Current period provision change	—
Write-offs, net of recoveries	—
Balance at end of period	$0.7

Inventories

Inventories consisted of the following:

(in millions of U.S. Dollars)	March 28, 2021	June 28, 2020
Raw material	$42.4	$36.9
Work-in-progress	90.2	73.9
Finished goods	14.9	11.1
Inventories	$147.5	$121.9

In addition to inventory held by the Company associated with the Wolfspeed business, the Company holds inventory related to the Wafer Supply Agreement entered into in connection with the LED Business Divestiture as well as unallocated inventoried costs consisting primarily of manufacturing employees' stock-based compensation, profit sharing and quarterly or annual incentive compensation, matching contributions under the Company's 401(k) plan, and acquisition related costs.

	March 28, 2021	June 28, 2020
Wolfspeed	$138.8	$97.3
Wafer Supply Agreement inventory (1)	—	19.0
Unallocated inventories	8.7	5.6
Consolidated inventories	$147.5	$121.9

(1) Inventory related to the Wafer Supply Agreement as of March 28, 2021 is recorded within other current assets in the consolidated balance sheets.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

(in millions of U.S. Dollars)	March 28, 2021	June 28, 2020
Accounts payable, trade	$75.7	$88.1
Accrued salaries and wages	70.2	42.3
Accrued expenses	172.4	55.3
Other	1.2	4.1
Accounts payable and accrued expenses	$319.5	$189.8

Other Operating Expense

Other operating expense consisted of the following:

	Three months ended		Nine months ended	
(in millions of U.S. Dollars)	March 28, 2021	March 29, 2020	March 28, 2021	March 29, 2020
Factory optimization restructuring	$3.8	$1.1	$6.7	$3.5
Severance and other restructuring	0.6	—	3.4	0.8
Total restructuring costs	4.4	1.1	10.1	4.3
Project, transformation and transaction costs	2.4	1.4	3.7	10.8
Factory optimization start-up costs	1.8	2.1	6.0	5.0
Non-restructuring related executive severance	2.8	0.6	2.8	2.1
Other operating expense	$11.4	$5.2	$22.6	$22.2

Accumulated Other Comprehensive Income, net of taxes

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

(in millions of U.S. Dollars)	March 28, 2021	June 28, 2020
Currency translation gain	$—	$9.5
Net unrealized gain on available-for-sale securities [1]	3.5	6.5
Accumulated other comprehensive income, net of taxes	$3.5	$16.0

[1] Amounts as of March 28, 2021 and June 28, 2020 include a $2.4 million loss related to tax on unrealized gain (loss) on available-for-sale securities.

Reclassifications Out of Accumulated Other Comprehensive Income

Reclassifications out of accumulated other comprehensive income were $0.1 million and $0.3 million for the three and nine months ended March 28, 2021 and $0.9 million and $1.0 million for the three and nine months ended March 29, 2020. Amounts were reclassified to non-operating expense, net on the consolidated statements of operations.

Additionally, for the three and nine months ended March 28, 2021, $9.5 million of currency translation gain was reclassified to loss on sale of discontinued operations within net loss on discontinued operations on the consolidated statements of operations.

Non-Operating Expense, net

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

	Three months ended		Nine months ended	
(in millions of U.S. Dollars)	March 28, 2021	March 29, 2020	March 28, 2021	March 29, 2020
Foreign currency (gain) loss, net	($0.1)	$0.3	($2.5)	($0.9)
Gain on sale of investments, net	(0.1)	(0.9)	(0.3)	(1.0)
Gain on arbitration proceeding	—	(8.0)	—	(8.0)
(Gain) loss on equity investment, net	(0.9)	19.1	(7.9)	9.2
Interest income	(1.9)	(3.2)	(6.8)	(13.4)
Interest expense, net of capitalized interest	11.2	7.5	36.2	22.6
Loss on Wafer Supply Agreement	0.1	—	0.1	—
Other, net	(0.2)	(0.1)	0.1	(0.4)
Non-operating expense, net	$8.1	$14.7	$18.9	$8.1

The change in (gain) loss on equity investment, net is due to fluctuations in the Lextar Electronics Corporation (Lextar) stock price, and following January 6, 2021, ENNOSTAR Inc. (ENNOSTAR) stock price. The gain on arbitration proceeding is due to an award from an arbitration proceeding related to a claim by the Company against a contract manufacturer.

Statements of Cash Flows - non-cash activities

	Nine months ended	
	March 28, 2021	March 29, 2020
Lease asset and liability additions [1]	$1.7	$14.6
Lease asset and liability modifications, net	0.3	4.7
Transfer of finance lease liability to accounts payable and accrued expenses [2]	4.2	—

[1] $11.0 million of the lease asset and liability additions for the nine months ended March 29, 2020 relates to the increase of right-of-use assets and matching lease liabilities as a result of adopting ASC 842. See Note 4, "Leases", for further information.

[2] In the first quarter of fiscal 2021, the Company executed the available bargain purchase option for certain finance leases relating to property and equipment, net, in order to purchase the assets.

Accrued property and equipment as of March 28, 2021 and March 29, 2020 was $165.6 million and $6.8 million, respectively.

Note 6 – Investments

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

Short-term investments as of March 28, 2021 and June 28, 2020 consisted of the following:

	March 28, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses [1]	Credit Loss Allowance [2]	Estimated Fair Value
Municipal bonds	$135.6	$2.0	$—	$—	$137.6
Corporate bonds	470.5	3.8	(0.2)	—	474.1
U.S. agency securities	15.3	—	—	—	15.3
U.S. treasury securities	69.4	0.3	—	—	69.7
Certificates of deposit	12.8	—	—	—	12.8
Variable rate demand note	11.0	—	—	—	11.0
Commercial paper	41.2	—	—	—	41.2
Total short-term investments	$755.8	$6.1	($0.2)	$—	$761.7

	June 28, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses [1]	Estimated Fair Value
Municipal bonds	$130.0	$2.0	$—	$132.0
Corporate bonds	473.8	6.3	—	480.1
U.S. agency securities	29.1	—	—	29.1
U.S. treasury securities	52.3	0.6	—	52.9
Certificates of deposit	83.3	—	—	83.3
Variable rate demand note	2.5	—	—	2.5
Commercial paper	11.0	—	—	11.0
Total short-term investments	$782.0	$8.9	$—	$790.9

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

(2) Credit loss allowance is applicable beginning in the first quarter of fiscal 2021 due to adoption of ASU 2016-13, which replaced the Company's other than temporary impairment analysis with an expected credit losses model.

The Company does not include accrued interest in estimated fair values of short-term investments and does not record an allowance for credit losses on receivables related to accrued interest. Accrued interest receivable was $4.0 million and $4.3 million as of March 28, 2021 and June 28, 2020, respectively, and is recorded in other current assets on the consolidated balance sheets. When necessary, write offs of noncollectable interest income are recorded as a reversal to interest income. There were no write offs of noncollectable interest income for each of the three and nine month periods ended March 28, 2021 and March 29, 2020.

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:

	March 28, 2021					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Municipal bonds	$6.4	$—	$—	$—	$6.4	$—
Corporate bonds	113.4	(0.2)	—	—	113.4	(0.2)
U.S. agency securities	13.2	—	—	—	13.2	—
U.S. treasury securities	19.4	—	—	—	19.4	—
Certificates of deposit	0.7	—	—	—	0.7	—
Total	$153.1	($0.2)	$—	$—	$153.1	($0.2)
Number of securities with an unrealized loss		104		—		104

	June 28, 2020					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss [(1)]	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Municipal bonds	$14.3	$—	$—	$—	$14.3	$—
Corporate bonds	29.1	—	—	—	29.1	—
U.S. agency securities	8.6	—	—	—	8.6	—
U.S. treasury securities	13.8	—	—	—	13.8	—
Total	$65.8	$—	$—	$—	$65.8	$—
Number of securities with an unrealized loss		46		—		46

[(1)] Securities with an unrealized loss of less than 12 months for the period as of June 28, 2020 have an unrealized loss value of less than $0.1 million, individually and in the aggregate.

The Company utilizes specific identification in computing realized gains and losses on the sale of investments. Realized gains of $0.1 million and $0.3 million for the three and nine months ended March 28, 2021 and realized gains of $0.9 million and $1.0 million for the three and nine months ended March 29, 2020 are included in non-operating expense in the consolidated statements of operations. Unrealized gains and losses are included as a separate component of equity, net of tax, unless the Company determines there is an expected credit loss.

The Company evaluates its investments for expected credit losses. The Company believes it is able to and intends to hold each of the investments held with an unrealized loss as of March 28, 2021 until the investments fully recover in market value. None of the investments with an unrealized loss as of March 28, 2021 had credit downgrades in the current period. No allowance for credit losses was recorded as of March 28, 2021.

The contractual maturities of short-term investments as of March 28, 2021 were as follows:

	Within One Year	After One, Within Five Years	After Five, Within Ten Years	After Ten Years	Total
Municipal bonds	$25.9	$111.7	$—	$—	$137.6
Corporate bonds	120.5	353.6	—	—	474.1
U.S. agency securities	3.0	12.3	—	—	15.3
U.S. treasury securities	9.6	60.1	—	—	69.7
Certificates of deposit	12.8	—	—	—	12.8
Variable rate demand note	—	—	—	11.0	11.0
Commercial paper	41.2	—	—	—	41.2
Total short-term investments	$213.0	$537.7	$—	$11.0	$761.7

Note 7 – Fair Value of Financial Instruments

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

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

The financial assets for which the Company performs recurring fair value remeasurements are cash equivalents, short-term investments and long-term investments. As of March 28, 2021 and June 28, 2020, financial assets utilizing Level 1 inputs included money market funds and U.S. treasury securities. Financial assets utilizing Level 2 inputs included municipal bonds, corporate bonds, certificates of deposit, commercial paper, U.S. agency securities, variable rate demand notes and common stock of non-U.S. corporations. Level 2 assets are valued based on quoted prices in active markets for instruments that are similar or using a third-party pricing service's consensus price, which is a weighted average price based on multiple sources. These sources determine prices utilizing market income models which factor in, where applicable, transactions of similar assets in active markets, transactions of identical assets in infrequent markets, interest rates, bond or credit default swap spreads and volatility. The Company did not have any financial assets requiring the use of Level 3 inputs as of March 28, 2021 and June 28, 2020.

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

(in millions of U.S. Dollars)	**March 28, 2021**				**June 28, 2020**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:								
Cash equivalents:								
Money market funds	$290.1	$—	$—	$290.1	$199.9	$—	$—	$199.9
Corporate bonds	—	1.5	—	1.5	—	—	—	—
U.S. agency securities	—	11.5	—	11.5	—	19.6	—	19.6
U.S. treasury securities	5.0	—	—	5.0	19.0	—	—	19.0
Certificates of deposit	—	—	—	—	—	54.3	—	54.3
Commercial paper	—	54.1	—	54.1	—	11.1	—	11.1
Total cash equivalents	295.1	67.1	—	362.2	218.9	85.0	—	303.9
Short-term investments:								
Municipal bonds	—	137.6	—	137.6	—	132.0	—	132.0
Corporate bonds	—	474.1	—	474.1	—	480.1	—	480.1
U.S. agency securities	—	15.3	—	15.3	—	29.1	—	29.1
U.S. treasury securities	69.7	—	—	69.7	52.9	—	—	52.9
Certificates of deposit	—	12.8	—	12.8	—	83.3	—	83.3
Commercial paper	—	41.2	—	41.2	—	11.0	—	11.0
Variable rate demand note	—	11.0	—	11.0	—	2.5	—	2.5
Total short-term investments	69.7	692.0	—	761.7	52.9	738.0	—	790.9
Other long-term investments:								
Common stock of non-U.S. corporations	—	67.2	—	67.2	—	55.9	—	55.9
Total assets	$364.8	$826.3	$—	$1,191.1	$271.8	$878.9	$—	$1,150.7

Note 8 – Goodwill and Intangible Assets

Goodwill

The following table summarizes changes in goodwill during the nine months ended March 28, 2021:

(in millions of U.S. Dollars)	**Total**
Balance at June 28, 2020	$349.7
Transfer in connection with LED Business Divestiture [1]	9.5
Balance at March 28, 2021	$359.2

[1] In the second quarter of fiscal 2021, the Company determined that as part of its goodwill impairment analysis on held for sale assets related to the pending LED Business Divestiture, it was necessary to transfer a portion of goodwill from the former LED Products segment, then classified as discontinued operations, to goodwill associated with continuing operations.

Intangible Assets, net

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

	March 28, 2021			June 28, 2020		
(in millions of U.S. Dollars)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Customer relationships	$96.8	($23.6)	$73.2	$96.8	($19.0)	$77.8
Developed technology	68.0	(26.8)	41.2	68.0	(22.8)	45.2
Non-compete agreements	12.2	(9.4)	2.8	12.2	(7.1)	5.1
Acquisition related intangible assets	177.0	(59.8)	117.2	177.0	(48.9)	128.1
Patent and licensing rights	66.7	(39.3)	27.4	69.3	(40.5)	28.8
Total intangible assets	$243.7	($99.1)	$144.6	$246.3	($89.4)	$156.9

Total amortization of acquisition-related intangibles assets was $3.7 million and $10.9 million for the three and nine months ended March 28, 2021 and $3.7 million and $10.9 million for the three and nine months ended March 29, 2020.

Total amortization of patents and licensing rights was $2.0 million and $4.6 million for the three and nine months ended March 28, 2021 and $2.0 million and $4.4 million for the three and nine months ended March 29, 2020.

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

(in millions of U.S. Dollars) **Fiscal Year Ending**	**Acquisition Related Intangibles**	**Patents**	**Total**
June 27, 2021	$3.6	$1.3	$4.9
June 26, 2022	13.5	4.6	18.1
June 25, 2023	11.0	3.9	14.9
June 30, 2024	10.4	3.3	13.7
June 29, 2025	10.4	2.5	12.9
Thereafter	68.3	11.8	80.1
Total future amortization expense	$117.2	$27.4	$144.6

Note 9 – Long-term Debt

Revolving Line of Credit

As of March 28, 2021, the Company had a $125.0 million secured revolving line of credit (the Credit Agreement) under which the Company can borrow, repay and reborrow loans from time to time prior to its scheduled maturity date of January 9, 2023. The Credit Agreement requires the Company to maintain a ratio of certain cash equivalents and marketable securities to outstanding loans and letter of credit obligations greater than 1.25:1, with no other financial covenants.

The Company classifies balances outstanding under the Credit Agreement as long-term debt in the consolidated balance sheets. As of March 28, 2021, the Company had no outstanding borrowings under the Credit Agreement, $125.0 million in available commitments under the Credit Agreement and $125.0 million available for borrowing. For the three and nine months ended March 28, 2021, the average interest rate was 0.09% and 0.04%, respectively, related to a seven day draw of $30.0 million on the line of credit in the third quarter of fiscal 2021. As of March 28, 2021, the unused line fee on available borrowings is 25 basis points.

2023 Convertible Notes

On August 24, 2018, the Company sold $500.0 million aggregate principal amount of 0.875% convertible senior notes due September 1, 2023 to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the Securities Act), and an additional $75.0 million aggregate principal amount of such notes pursuant to the exercise in full of the over-allotment options of the underwriters (the 2023 Notes). The total net proceeds from the debt offering was approximately $562.1 million.

The conversion rate will initially be 16.6745 shares of common stock per one thousand dollars in principal amount of 2023 Notes (equivalent to an initial conversion price of approximately $59.97 per share of common stock). The conversion rate will be subject to adjustment for some events, but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date, or following the Company's issuance of a notice of redemption, the Company will increase the conversion rate for a holder who elects to convert its 2023 Notes in connection with such a corporate event, or who elects to convert any 2023 Notes called for redemption during the related redemption period in certain circumstances. The Company may not redeem the 2023 Notes prior to September 1, 2021. The Company may redeem for cash all or any portion of the 2023 Notes, at its option, on a redemption date occurring on or after September 1, 2021 and on or before the 40th scheduled trading day immediately before the maturity date, if the last reported sales price of its common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which the Company provides a notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption. The redemption price will be 100% of the principal amount of the 2023 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. If the Company undergoes certain fundamental changes related to the Company's common stock, holders may require the Company to repurchase for cash all or any portion of their 2023 Notes at a fundamental change repurchase price equal to 100% of the principal amount of the 2023 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

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

2026 Convertible Notes

On April 21, 2020, the Company sold $500.0 million aggregate principal amount of 1.75% convertible senior notes due May 1, 2026 to qualified institutional buyers pursuant to Rule 144A under the Securities Act and an additional $75.0 million aggregate principal amount of such notes pursuant to the exercise in full of the over-allotment options of the underwriters (the 2026 Notes). The total net proceeds from the debt offerings was approximately $561.4 million.

The conversion rate will initially be 21.1346 shares of common stock per one thousand dollars in principal amount of 2026 Notes (equivalent to an initial conversion price of approximately $47.32 per share of common stock). The conversion rate will be subject to adjustment for some events, but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date, or following the Company's issuance of a notice of redemption, the Company will increase the conversion rate for a holder who elects to convert its 2026 Notes in connection with such a corporate event, or who elects to convert any 2026 Notes called for redemption during the related redemption period in certain circumstances. The Company may not redeem the 2026 Notes prior to May 1, 2023. The Company may redeem for cash all or any portion of the 2026 Notes, at its option, on a redemption date occurring on or after May 1, 2023 and on or before the 40th scheduled trading day immediately before the maturity date, if the last reported sales price of its common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which the Company provides a notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption. The redemption price will be 100% of the principal amount of the 2026 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. If the Company undergoes certain fundamental changes related to the Company's common stock, holders may require the Company to repurchase for cash all or any portions of their 2026 Notes at a fundamental repurchase price equal to 100% of the principal amount of the 2026 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

Holders may convert their 2026 Notes at their option at any time prior to the close of business on the business day immediately preceding November 3, 2025 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending June 30, 2020 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period in which the trading price per $1.0 thousand principal amount of 2026 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of its common stock and the conversion rate on each such trading day; (3) if the Company calls such 2026 Notes for redemption, at any time prior to the close of business on the second business day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On or after November 3, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2026 Notes at any time, regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver cash, shares of its common stock, or a combination of cash and shares of its common stock, at the Company's election.

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

Accounting for 2023 Notes and 2026 Notes (collectively, the Notes)

In accounting for the issuance of the 2023 Notes and 2026 Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability of the equity component representing the conversion option was $110.6 million and $145.4 million for the 2023 and 2026 Notes, respectively. The amounts were determined by deducting the fair value of the liability component from the par value of each of the Notes. Due to the partial extinguishment of the 2023 Notes, the equity component of the 2023 Notes was reduced by $27.7 million.

The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount (the debt discount), along with related issuance fees, are amortized to interest expense over the term of the Notes at an effective annual interest rate of 5.87% and 7.45% for the 2023 and 2026 Notes, respectively.

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

(in millions of U.S. Dollars)	**March 28, 2021**	**June 28, 2020**
Principal	$999.8	$999.8
Unamortized discount and issuance costs	(186.1)	(216.0)
Net carrying amount	$813.7	$783.8

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

(in millions of U.S. Dollars)	**March 28, 2021**	**June 28, 2020**
Discount related to value of conversion option	$262.3	$262.3
Partial extinguishment of 2023 Notes	(27.7)	(27.7)
Debt issuance costs	(6.3)	(6.3)
Net carrying amount	$228.3	$228.3

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

	Three months ended		**Nine months ended**	
(in millions of U.S. Dollars)	**March 28, 2021**	**March 29, 2020**	**March 28, 2021**	**March 29, 2020**
Interest expense, net of capitalized interest	$2.5	$1.3	$8.5	$3.8
Amortization of discount and issuance costs, net of capitalized interest	8.0	5.8	26.1	17.2
Total interest expense, net	$10.5	$7.1	$34.6	$21.0

The Company capitalizes interest related to the Notes in connection with the building of a new silicon carbide device fabrication facility in New York. For the three and nine months ended March 28, 2021, the Company capitalized $1.0 million and $1.8 million of interest expense, respectively, and $2.1 million and $3.8 million of amortization of discount and issuance costs, respectively. No interest expense was capitalized for the three and nine months ended March 29, 2020.

The last reported sale price of the Company's common stock was greater than or equal to 130% of the applicable conversion price for both the 2023 and 2026 Notes for at least 20 trading days in the 30 consecutive trading days ended on March 31, 2021. As a result, the Notes are convertible at the option of the holders through June 30, 2021.

The estimated fair value of the Notes is $2.1 billion as of March 28, 2021, as determined by a Level 2 valuation.

Note 10 – Loss Per Share

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

	Three months ended		**Nine months ended**	
(in millions of U.S. Dollars, except share data)	**March 28, 2021**	**March 29, 2020**	**March 28, 2021**	**March 29, 2020**
Net loss from continuing operations	($66.5)	($56.2)	($196.1)	($153.4)
Net (loss) income from discontinued operations	(41.6)	(3.7)	(178.8)	1.7
Net income from discontinued operations attributable to noncontrolling interest	0.8	0.2	1.4	0.5
Net (loss) income from discontinued operations attributable to controlling interest	(42.4)	(3.9)	(180.2)	1.2
Weighted average shares - basic and diluted (in thousands)	112,891	108,115	112,330	107,718
Loss per share - basic and diluted:				
Continuing operations	($0.59)	($0.52)	($1.75)	($1.42)
Discontinued operations attributable to controlling interest	($0.38)	($0.04)	($1.60)	$0.01

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

For the three and nine months ended March 28, 2021, 3.1 million and 3.6 million of weighted average shares were excluded from the calculation of diluted loss per share because their effect would be anti-dilutive. For the three and nine months ended March 29, 2020, 5.2 million and 5.5 million of weighted average shares were excluded from the calculation of diluted loss per share because their effect would be anti-dilutive.

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

Note 11 – Stock-Based Compensation

Overview of Employee Stock-Based Compensation Plans

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

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

The Company also has an Employee Stock Purchase Plan (ESPP) that provides employees with the opportunity to purchase common stock at a discount. The ESPP limits employee contributions to 15% of each employee's compensation (as defined in the plan) and allows employees to purchase shares at 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

A summary of stock option awards outstanding as of March 28, 2021 and changes during the nine months then ended is as follows:

(shares in thousands)	**Number of Shares**	**Weighted Average Exercise Price**
Outstanding at June 28, 2020	983	$37.88
Granted	—	$—
Exercised	(799)	$39.65
Forfeited or expired	(10)	$64.51
Outstanding at March 28, 2021	174	$28.08

Restricted Stock Awards and Units

A summary of nonvested restricted stock awards (RSAs) and restricted stock unit awards (RSUs) outstanding as of March 28, 2021 and changes during the nine months then ended is as follows:

(awards and units in thousands)	**Number of RSAs/RSUs**	**Weighted Average Grant-Date Fair Value**
Nonvested at June 28, 2020	2,932	$43.89
Granted	1,050	$67.00
Vested	(1,345)	$38.21
Forfeited	(340)	$53.18
Nonvested at March 28, 2021	2,297	$56.28

Stock-Based Compensation Valuation and Expense

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

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

For RSAs and RSUs, the grant-date fair value is based upon the market price of the Company’s common stock on the date of the grant. This fair value is then amortized to compensation expense over the requisite service period or vesting term. Compensation expense for awards that have performance-based conditions 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. For performance awards with market conditions, the Company estimates the grant date fair value using the Monte Carlo valuation model and expenses the awards over the vesting period regardless of whether the market condition is ultimately satisfied. The Monte Carlo option pricing models require the input of highly subjective assumptions. The estimates involve inherent uncertainties and the application of judgment. As a result, if other assumptions had been used, recorded stock-based compensation expense could have been materially different from that depicted below.

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

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

	Three months ended		**Nine months ended**	
(in millions of U.S. Dollars)	**March 28, 2021**	**March 29, 2020**	**March 28, 2021**	**March 29, 2020**
Cost of revenue, net	$4.1	$2.7	$11.2	$7.1
Research and development	2.1	1.9	6.7	6.0
Sales, general and administrative	6.7	5.2	22.4	23.8
Total stock-based compensation expense	$12.9	$9.8	$40.3	$36.9

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

Note 12 – Income Taxes

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

The Company did not record an income tax benefit related to the goodwill impairment expenses described in Note 2, “Discontinued Operations,” as the impairment is non-deductible for income tax purposes.

The Company assesses all available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets by jurisdiction. The Company has concluded that it is necessary to recognize a full valuation allowance against its U.S. and Luxembourg deferred tax assets, as of the nine months ended March 28, 2021.

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 28, 2020, the Company's liability for unrecognized tax benefits was $7.4 million. During the nine months ended March 28, 2021, the Company did not record any material movement in its unrecognized tax benefits. As a result, the total liability for unrecognized tax benefits as of March 28, 2021 was $7.4 million. If any portion of this $7.4 million is recognized, the Company will then include that portion in the computation of its effective tax rate. Although the ultimate timing of the resolution and/or closure of audits is highly uncertain, the Company believes it is reasonably possible that $0.6 million of gross unrecognized tax benefits will change in the next 12 months as a result of statute requirements or settlement with tax authorities.

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

Note 13 – Commitments and Contingencies

Litigation

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

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

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

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

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

Note 14 - Restructuring

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

Factory Optimization Restructuring

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

In September 2019, the Company announced its intent to build the new fabrication facility in Marcy, New York to complement the factory expansion underway at its U.S. campus headquarters in Durham, North Carolina. The Company has commenced the building of the New York facility and is currently evaluating the impact of this decision on future restructuring charges.

The Company expects approximately $70.0 million in restructuring charges related to the factory optimization plan to be incurred through 2024. For the three and nine months ended March 28, 2021, the Company expensed $1.2 million and $4.3 million of restructuring charges associated with the movement of equipment related to the factory optimization plan, respectively, of which $0.1 million is accrued for as of March 28, 2021. Additionally, the Company expensed $2.6 million and $3.4 million of restructuring charges associated with disposals of certain long-lived assets for the three and nine months ended March 28, 2021.

For the three and nine months ended March 29, 2020, the Company expensed and paid $1.1 million and $3.5 million, respectively, of restructuring charges associated with the movement of equipment related to the factory optimization plan.

Corporate Restructuring

In September 2020, the Company realigned certain resources to further focus on areas vital to our growth while driving efficiencies. As a result, the Company recorded $0.0 million and $2.8 million in severance-related costs during the three and nine months ended March 28, 2021. The plan has concluded and all expenses have been paid as of March 28, 2021.

Additionally, in February 2021, the Company realigned the structure of its Asia sales presence. As a result, the Company recorded $0.6 million in severance related costs during the three and nine months ended March 28, 2021. The plan has concluded and all expenses have been paid as of March 28, 2021.

Sales Representatives Restructuring

In July 2019, the Company realigned its sales resources as part of the Company's transition to a more focused semiconductor company. As a result, the Company recorded $0.0 million and $0.8 million in contract termination costs during the three and nine months ended March 29, 2020. The plan has concluded and all expenses have paid as of March 28, 2021.

Note 15 - Shareholders' Equity

On February 11, 2021, the Company established an “at-the-market” offering program (the ATM Program) pursuant to which the Company could offer and sell, from time to time through sales agents, up to an aggregate of $500 million of the Company’s common stock. The ATM Program was conducted pursuant to an equity distribution agreement (the Equity Distribution Agreement) entered into by the Company and Wells Fargo Securities, LLC, BMO Capital Markets Corp., BofA Securities Inc., Canaccord Genuity LLC, Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Goldman Sachs & Co. LLC, Morgan Stanley & Co. LLC and Truist Securities, Inc. (the Managers).

On February 19, 2021, the Company announced that it sold approximately $500.0 million of common stock under the ATM Program. As such, the ATM Program automatically terminated in accordance with the terms of the Equity Distribution Agreement. In total, the Company sold and received payment for 4,222,511 additional shares of common stock at a weighted average price of $118.41 per share through the ATM Program for total gross proceeds of approximately $500.0 million and net proceeds of approximately $489.1 million, after $10.0 million in commissions to the Managers and $0.9 million in other offering costs. The Company expects to use the net proceeds for general corporate purposes.

Note 16 - Subsequent Events

On March 29, 2021, the Company began liquidating its common stock ownership interest in ENNOSTAR. From March 29, 2021 to April 16, 2021, the Company sold all of its previously held 22,825,000 shares in ENNOSTAR for an average price of 82.93 New Taiwanese Dollars per share. Total net proceeds from selling the equity interest in ENNOSTAR totaled $66.1 million. The Company no longer holds any equity interest in ENNOSTAR.

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

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

Executive Summary

The following discussion is designed to provide a better understanding of our unaudited consolidated financial statements, including a brief discussion of our business and products, key factors that impacted our performance and a summary of our operating results. The following discussion should be read in conjunction with the unaudited consolidated financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q, and the consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended June 28, 2020 (the 2020 Form 10-K) and our Current Report on Form 8-K filed with the SEC on February 11, 2021, which recast the relevant financial information in the 2020 Form 10-K to present the financial results of the LED Business (as defined below) as discontinued operations and held for sale in our consolidated financial statements for all periods presented in the 2020 Form 10-K. Historical results and percentage relationships among any amounts in the financial statements are not necessarily indicative of trends in operating results for any future periods.

Overview

Cree, Inc. (Cree, we, our, or us) is an innovator of wide bandgap semiconductors, focused on silicon carbide and gallium nitride (GaN) materials, and devices for power and radio-frequency (RF) applications. Our silicon carbide and gallium nitride materials and devices are targeted for applications such as transportation, power supplies, inverters and wireless systems.

Previously, we designed, manufactured, and sold specialty lighting-class light emitting diode (LED) products targeted for use in indoor and outdoor lighting, electronic signs and signals and video displays. As discussed more fully in "Business Outlook", on March 1, 2021, we completed our previously announced sale of certain assets and subsidiaries comprising our former LED Products segment (the LED Business) to SMART Global Holdings, Inc. (SGH) and its wholly owned newly-created acquisition subsidiary CreeLED, Inc. (CreeLED and collectively with SGH, SMART) for up to $300 million, including fixed upfront and deferred payments and contingent consideration (the LED Business Divestiture). We retained certain assets used in and pre-closing liabilities associated with the LED Products segment. Following the LED Business Divestiture, we operate solely within our Wolfspeed business.

The LED Business Divestiture represented a strategic shift that will have a major effect on our operations and financial results. As a result, we have classified the results and cash flows of the LED Products segment as discontinued operations in our consolidated statements of operations and consolidated statements of cash flows for all periods presented. Additionally, the related assets and liabilities associated with the discontinued operations are classified as held for sale in the consolidated balance sheets. Unless otherwise noted, discussion within this Quarterly Report to the consolidated financial statements relates to our continuing operations.

Our continuing operations consist of the Wolfspeed business, which includes silicon carbide and GaN materials, power devices and RF devices based on wide bandgap semiconductor materials and silicon. Our materials products and power devices are used in electric vehicles, motor drives, power supplies, solar and transportation applications. Our materials products and RF devices are used in military communications, radar, satellite and telecommunication applications.

The majority of our products are manufactured at our production facilities located in North Carolina, California and Arkansas. We also use contract manufacturers for certain products and aspects of product fabrication, assembly and packaging. Additionally, we are in the process of building a silicon carbide device fabrication facility in New York. We operate research and development facilities in North Carolina, California, Arkansas, Arizona and New York.

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

Industry Dynamics and Trends

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

- *COVID-19 Pandemic*. While certain COVID-19 vaccines have been approved in recent months and are now available for use in the United States and certain other countries, we are unable to predict how widely utilized the vaccines will be, whether they will be effective in preventing the spread of COVID-19 (including its variant strains), and when or if normal economic activity and business operations will resume. Despite increasing availability of vaccines, COVID-19 continues to spread globally and to impact the locations where we do business. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and labor force participation and created significant volatility and disruption of financial markets. The full extent of the pandemic, related business and travel restrictions and changes to behavior intended to reduce its spread remain uncertain as of the date of this Quarterly Report as the pandemic and the potential impact of variants of the virus that causes COVID-19 continue to evolve globally. The COVID-19 pandemic has caused us to modify our business practices (including employee travel, employee work locations and cancellation of physical participation in meetings, events and conferences). In addition, the COVID-19 pandemic could continue to affect us in a number of ways including, but not limited to, the impact on employees becoming ill, quarantined, or otherwise unable to work or travel due to illness or governmental restriction, the impact on customers and their related demand and/or purchases, the impact on our suppliers' ability to fulfill our orders, and the overall impact of the aforementioned items that could cause output challenges and increased costs. While travel and other restrictions are generally expected to start loosening in the coming months, the potential continued spread of COVID-19 and any of its variants could result in a number of additional adverse effects, including additional laws and regulations affecting our business, fluctuations in foreign currency markets and the credit risks of our customers. We are paying close attention to the evolving development of, and the disruption to business and economic activities caused by, the COVID-19 pandemic. However, given the dynamic nature of the COVID-19 pandemic, it is not practicable to provide a reasonable estimate of its impact on our financial position, cash flows and operating results at the present.
- *Overall Demand for Products and Applications Using Our Wolfspeed Materials and Devices*. Our potential for growth depends significantly on the adoption of silicon carbide and GaN materials and device products in the power and RF markets, the continued use of silicon devices in the RF telecommunications market and our ability to win new designs for these applications. Demand also fluctuates based on various market cycles, continuously evolving industry supply chains, trade and tariff terms, as well as evolving competitive dynamics in each of the respective markets. These uncertainties make demand difficult to forecast for us and our customers.
- *Governmental Trade and Regulatory Conditions*. Our potential for growth, as with most multi-national companies, depends on a balanced and stable trade, political, economic and regulatory environment among the countries where we do business. Changes in trade policy such as the imposition or extension of tariffs or export bans to specific customers or countries could reduce or limit demand for our products in certain markets.
- *Intense and Constantly Evolving Competitive Environment.* Competition in the industries we serve is intense. Many companies have made significant investments in product development, production equipment and production facilities. Product pricing pressures exist as market participants often undertake pricing strategies to gain or protect market share, increase the utilization of their production capacity and open new applications in the power 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.
- *Technological Innovation and Advancement.* Innovations and advancements in materials, 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 nine months ended March 28, 2021

The following is a summary of our financial results for the nine months ended March 28, 2021:

- Revenue increased to $379.8 million for the nine months ended March 28, 2021 from $362.3 million for the nine months ended March 29, 2020.
- Gross profit decreased to $120.8 million for the nine months ended March 28, 2021 from $129.4 million for the nine months ended March 29, 2020. Gross margin was 31.8% for the nine months ended March 28, 2021 and 35.7% for the nine months ended March 29, 2020.
- Operating loss was $181.2 million for the nine months ended March 28, 2021 compared to $153.6 million for the nine months ended March 29, 2020.
- Diluted loss per share from continuing operations was $1.75 for the nine months ended March 28, 2021 compared to $1.42 for the nine months ended March 29, 2020.
- Combined cash, cash equivalents and short-term investments was $1,293.3 million at March 28, 2021 and $1,239.7 million at June 28, 2020.
- Cash used in operating activities from continuing operations was $58.9 million for the nine months ended March 28, 2021 compared to $64.9 million for the nine months ended March 29, 2020.
- Purchases of property and equipment were $394.0 million for the nine months ended March 28, 2021 compared to $166.9 million for the nine months ended March 29, 2020.

Business Outlook

We believe we are uniquely positioned as an innovator in the global semiconductor industry. The strength of our balance sheet provides us the ability to invest in our business, as indicated by our planned construction of a state-of-the-art, automated 200mm silicon carbide device fabrication facility and a large materials factory to expand our silicon carbide capacity, each of which was announced in May 2019. In September 2019, we announced our intention to build the new device fabrication facility in Marcy, New York to complement the factory expansion already underway at our U.S. campus headquarters in Durham, North Carolina. Construction on the new device fabrication facility commenced in the fourth quarter of fiscal 2020.

The completion of the LED Business Divestiture on March 1, 2021 represents a key milestone in our transformation to be a global semiconductor powerhouse focused on disruptive technology solutions for high-growth applications. This transaction positions us with a sharpened strategic focus to lead the semiconductor industry transition from silicon to silicon carbide and further strengthens our financial position, which we target to support continued investments to capitalize on multi-decade growth opportunities across electrical vehicles (EVs), 5G and industrial applications.

We are focused on investing in our Wolfspeed business to expand the scale, further develop the technologies, and accelerate the growth opportunities of silicon carbide materials, silicon carbide power devices and modules, and GaN and silicon RF devices. We believe these efforts will support our goals of delivering higher revenue and shareholder returns over time.

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

In regards to COVID-19, we have instituted strict measures designed to balance employee safety with meeting the needs of business operations. These measures include increased employee sick days, robust health screening, social distancing policies and cleaning protocols to ensure the safety of our employees and the protection of our customers, suppliers, and partners.

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

Results of Operations

Selected consolidated statements of operations data for the three and nine months ended March 28, 2021 and March 29, 2020 is as follows:

	Three months ended				Nine months ended			
	March 28, 2021		March 29, 2020		March 28, 2021		March 29, 2020	
(in millions of U.S. Dollars, except share data)	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenue, net	**$137.3**	**100.0 %**	**$113.9**	**100.0 %**	**$379.8**	**100.0 %**	**$362.3**	**100.0 %**
Cost of revenue, net	93.3	68.0	72.6	63.7	259.0	68.2	232.9	64.3
Gross profit	**44.0**	**32.0**	**41.3**	**36.3**	**120.8**	**31.8**	**129.4**	**35.7**
Research and development	46.0	33.5	38.6	33.9	132.7	34.9	112.5	31.1
Sales, general and administrative	44.2	32.2	41.7	36.6	135.0	35.5	135.7	37.5
Amortization or impairment of acquisition-related intangibles	3.7	2.7	3.7	3.2	10.9	2.9	10.9	3.0
Loss on disposal or impairment of other assets	0.1	0.1	0.1	0.1	0.8	0.2	1.7	0.5
Other operating expense	11.4	8.3	5.2	4.6	22.6	6.0	22.2	6.1
Operating loss	**(61.4)**	**(44.7)**	**(48.0)**	**(42.1)**	**(181.2)**	**(47.7)**	**(153.6)**	**(42.4)**
Non-operating expense, net	8.1	5.9	14.7	12.9	18.9	5.0	8.1	2.2
Loss before income taxes	**(69.5)**	**(50.6)**	**(62.7)**	**(55.0)**	**(200.1)**	**(52.7)**	**(161.7)**	**(44.6)**
Income tax benefit	(3.0)	(2.2)	(6.5)	(5.7)	(4.0)	(1.1)	(8.3)	(2.3)
Net loss from continuing operations	**($66.5)**	**(48.4)**	**($56.2)**	**(49.3)**	**($196.1)**	**(51.6)**	**($153.4)**	**(42.3)**
Net (loss) income from discontinued operations	(41.6)	(30.3)	(3.7)	(3.2)	(178.8)	(47.1)	1.7	0.5
Net loss	**(108.1)**	**(78.7)**	**(59.9)**	**(52.6)**	**(374.9)**	**(98.7)**	**(151.7)**	**(41.9)**
Net income from discontinued operations attributable to noncontrolling interest	0.8	0.6	0.2	0.2	1.4	0.4	0.5	0.1
Net loss attributable to controlling interest	**($108.9)**	**(79.3)**	**($60.1)**	**(52.8)**	**($376.3)**	**(99.1)**	**($152.2)**	**(42.0)**
Basic and diluted loss per share								
Continuing operations	($0.59)		($0.52)		($1.75)		($1.42)	
Net loss attributable to controlling interest	($0.96)		($0.56)		($3.35)		($1.41)	

<u>Revenue</u>

Revenue was comprised of the following:

	Three months ended		Change		Nine months ended		Change	
(in millions of U.S. Dollars)	March 28, 2021	March 29, 2020			March 28, 2021	March 29, 2020		
Revenue	$137.3	$113.9	$23.4	21 %	$379.8	$362.3	$17.5	5 %

Revenue

Revenue for the three months ended March 28, 2021 compared to the three months ended March 29, 2020 increased due to increases in demand for power and RF devices.

Revenue for the nine months ended March 28, 2021 compared to the nine months ended March 29, 2020 increased due to increases in demand for power and RF devices, and increases in production capacity for our power devices, offset by supply and demand factors relating to the COVID-19 pandemic. Comparatively, COVID-19 related supply and demand factors were more impactful in the first and second quarters in fiscal 2021 compared to fiscal 2020 due to COVID-19 impacts beginning in the third quarter of fiscal 2020.

Gross Profit and Gross Margin

Gross profit and gross margin were as follows:

(in millions of U.S. Dollars)	Three months ended		Change		Nine months ended		Change	
	March 28, 2021	**March 29, 2020**			**March 28, 2021**	**March 29, 2020**		
Gross profit	$44.0	$41.3	$2.7	7 %	$120.8	$129.4	($8.6)	(7)%
Gross margin	32.0 %	36.3 %			31.8 %	35.7 %		

Gross Profit and Gross Margin

The increase in gross profit for the three months ended March 28, 2021 compared to the three months ended March 29, 2020 is primarily due to increased revenues in the current period as well as improved yields.

The decrease in gross margin for the three months ended March 28, 2021 compared to the three months ended March 29, 2020 is primarily due to unfavorable product mix shift and higher factory costs.

The decrease in gross profit and gross margin for the nine months ended March 28, 2021 compared to the nine months ended March 29, 2020 is primarily due to unfavorable product mix shift and higher factory costs.

Research and Development

Research and development expenses include costs associated with the development of new products, enhancements of existing products and general technology research. These costs consisted primarily of employee salaries and related compensation costs, occupancy costs, consulting costs and the cost of development equipment and supplies. Research and development costs also include developing supporting technologies for our planned expansion to a new silicon carbide device fabrication facility in Marcy, New York.

Research and development expenses were as follows:

(in millions of U.S. Dollars)	Three months ended		Change		Nine months ended		Change	
	March 28, 2021	**March 29, 2020**			**March 28, 2021**	**March 29, 2020**		
Research and development	$46.0	$38.6	$7.4	19 %	$132.7	$112.5	$20.2	18 %
Percent of revenue	34 %	34 %			35 %	31 %		

The increase in research and development expenses is primarily due to our continued investment in our silicon carbide and GaN technologies, including the development of existing silicon carbide materials and fabrication technology for next generation platforms and expansion of our power and RF product portfolio.

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

Sales, General and Administrative

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

Sales, general and administrative expenses were as follows:

(in millions of U.S. Dollars)	Three months ended		Change		Nine months ended		Change	
	March 28, 2021	**March 29, 2020**			**March 28, 2021**	**March 29, 2020**		
Sales, general and administrative	$44.2	$41.7	$2.5	6 %	$135.0	$135.7	($0.7)	(1)%
Percent of revenue	32 %	37 %			36 %	37 %		

The increase in sales, general and administrative expenses for the three months ended March 28, 2021 compared to March 29, 2020 was primarily due to increased stock based compensation expense and increased employee incentive compensation expense. These additional costs were offset in part by lower information technology costs.

The decrease in sales, general and administrative expenses for the nine months ended March 28, 2021 compared to March 29, 2020 was primarily due to decreased information technology costs and decreased professional and legal fees, offset by increased employee incentive compensation expense. Additionally, our travel costs decreased as a result of travel restrictions due to the COVID-19 pandemic.

Amortization or Impairment of Acquisition-Related Intangibles

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

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

	Three months ended				Nine months ended			
(in millions of U.S. Dollars)	**March 28, 2021**	**March 29, 2020**	**Change**		**March 28, 2021**	**March 29, 2020**	**Change**	
Customer relationships	$1.5	$1.5	$—	— %	$4.6	$4.6	$—	— %
Developed technology	1.4	1.4	—	— %	4.0	4.0	—	— %
Non-compete agreements	0.8	0.8	—	— %	2.3	2.3	—	— %
Total amortization	$3.7	$3.7	$—	— %	$10.9	$10.9	$—	— %

Amortization of acquisition-related intangible assets stayed consistent due to the absence of acquisition-related intangible activity between the periods, as well as no impairments.

Loss on Disposal or Impairment of Other Assets

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

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

	Three months ended				Nine months ended			
(in millions of U.S. Dollars)	**March 28, 2021**	**March 29, 2020**	**Change**		**March 28, 2021**	**March 29, 2020**	**Change**	
Loss on disposal or impairment of other assets	$0.1	$0.1	$—	— %	$0.8	$1.7	($0.9)	(53)%

Loss on disposal or impairment of other assets primarily relate to proceeds from asset sales offset by write-offs of fixed asset projects, as well as the write-offs of impaired or abandoned patents.

Other Operating Expense

Other operating expense was as follows:

	Three months ended				Nine months ended			
(in millions of U.S. Dollars)	**March 28, 2021**	**March 29, 2020**	**Change**		**March 28, 2021**	**March 29, 2020**	**Change**	
Factory optimization restructuring	$3.8	$1.1	$2.7	245 %	$6.7	$3.5	$3.2	91 %
Severance and other restructuring	0.6	—	0.6	100 %	3.4	0.8	2.6	325 %
Total restructuring costs	4.4	1.1	3.3	300 %	10.1	4.3	5.8	135 %
Project, transformation and transaction costs	2.4	1.4	1.0	71 %	3.7	10.8	(7.1)	(66)%
Factory optimization start-up costs	1.8	2.1	(0.3)	(14)%	6.0	5.0	1.0	20 %
Non-restructuring related executive severance	2.8	0.6	2.2	367 %	2.8	2.1	0.7	33 %
Other operating expense	$11.4	$5.2	$6.2	119 %	$22.6	$22.2	$0.4	2 %

Factory optimization restructuring costs relate to facility consolidations as well as disposals on certain long-lived assets. Severance and other restructuring costs relate to corporate restructuring plans. See Note 14, "Restructuring," to our unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report for additional information on our restructuring costs.

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

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

Other operating expense for the three months ended March 28, 2021 compared to the three months ended March 29, 2020 primarily increased due to increased restructuring and severance costs.

Other operating expense for the nine months ended March 28, 2021 compared to the nine months ended March 29, 2020 stayed fairly steady due to increased restructuring costs offset by decreased project and transaction costs.

Non-Operating Expense, net

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

	Three months ended				Nine months ended			
(in millions of U.S. Dollars)	**March 28, 2021**	**March 29, 2020**	**Change**		**March 28, 2021**	**March 29, 2020**	**Change**	
Gain on sale of investments, net	($0.1)	($0.9)	$0.8	(89)%	($0.3)	($1.0)	$0.7	(70)%
(Gain) loss on equity investment, net	($0.9)	$19.1	($20.0)	(105)%	($7.9)	$9.2	($17.1)	(186)%
Gain on arbitration proceeding	—	(8.0)	8.0	(100)%	—	(8.0)	8.0	(100)%
Foreign currency (gain) loss, net	(0.1)	0.3	(0.4)	(133)%	(2.5)	(0.9)	(1.6)	178 %
Interest income	(1.9)	(3.2)	1.3	(41)%	(6.8)	(13.4)	6.6	(49)%
Interest expense, net of capitalized interest	11.2	7.5	3.7	(49)%	36.2	22.6	13.6	(60)%
Loss on Wafer Supply Agreement	0.1	—	0.1	100 %	0.1	—	0.1	100 %
Other, net	(0.2)	(0.1)	(0.1)	100 %	0.1	(0.4)	0.5	(125)%
Non-operating expense, net	$8.1	$14.7	($6.6)	(45)%	$18.9	$8.1	$10.8	133 %

(Gain) loss on equity investment, net. The (gain) loss on equity investment for the three and nine months ended March 28, 2021 and March 29, 2020 relate to changes in fair value of our ENNOSTAR Inc. (ENNOSTAR) investment.

Our ENNOSTAR equity investment was previously held as a 16% common stock ownership interest in Lextar Electronics Corporation (Lextar). In June 2020, Lextar announced a plan to restructure under a holding company with EPISTAR Corporation via a share swap. Effective January 6, 2021, we received 0.275 shares of common stock of the holding company named ENNOSTAR for each of our shares of Lextar, representing in the aggregate an approximate 3.3% common stock ownership interest in ENNOSTAR. The shares of ENNOSTAR are listed on the Taiwan Stock Exchange, as was our previously held Lextar common stock.

Gain on arbitration proceeding. The gain on arbitration proceeding relates to an award from an arbitration proceeding in the third quarter of fiscal 2020 for which we were awarded damages for a claim by us against a contract manufacturer.

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

Interest income. The decrease in interest income was due to significant reductions in investment returns on our short-term investment securities.

Interest expense, net of capitalized interest. The increase in interest expense was primarily due to the addition of our 1.75% convertible senior notes due May 1, 2026 (2026 Notes), which were sold on April 21, 2020, partially offset by the partial repurchase of our 0.875% convertible senior notes due September 1, 2023 (2023 Notes) soon after the sale of the 2026 Notes.

Income tax benefit

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

	Three months ended				Nine months ended			
(in millions of U.S. Dollars)	**March 28, 2021**	**March 29, 2020**	**Change**		**March 28, 2021**	**March 29, 2020**	**Change**	
Income tax benefit	($3.0)	($6.5)	$3.5	(54)%	($4.0)	($8.3)	$4.3	(52)%
Effective tax rate	4 %	10 %			2 %	5 %		

The change in our effective tax rate for the three and nine months ended March 28, 2021 was primarily due to the increased tax benefit recorded in the third quarter of fiscal 2020 related to net operating loss provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act and lower forecasted income derived from international locations in fiscal 2020.

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

Net (loss) income from discontinued operations

As discussed above, we have classified the results of our former LED Products segment as discontinued operations in our consolidated statements of operations for all periods presented. We ceased recording depreciation and amortization of long-lived assets of the LED Products business upon classification as discontinued operations in October 2020.

Net loss from discontinued operations was $41.6 million and $178.8 million for the three and nine months ended March 28, 2021, respectively. For the three and nine months ended March 29, 2020, we recorded a net loss of $3.7 million and net income of $1.7 million, respectively.

Liquidity and Capital Resources

Overview

We require cash to fund our operating expenses and working capital requirements, including outlays for research and development, capital expenditures, strategic acquisitions and investments. Our principal sources of liquidity are cash on hand, marketable securities, cash generated from operations and availability under our line of credit. We have a $125 million line of credit as discussed in Note 9, “Long-term Debt,” in our consolidated financial statements included in Part I, Item 1 of this Quarterly Report. The purpose of this facility is to provide short term flexibility to optimize returns on our cash and investment portfolio while funding capital expenditures and other general business needs.

On April 21, 2020, we issued and sold a total of $575.0 million aggregate principal amount of 2026 Notes, as discussed in Note 9, “Long-term Debt,” in our consolidated financial statements included in Part I, Item 1 of this Quarterly Report. The total net proceeds of the 2026 Notes was $561.4 million, of which we used $144.3 million to repurchase $150.2 million aggregate principal amount of our 2023 Notes. We expect to use the remainder of the net proceeds for general corporate purposes.

Additionally, in the third quarter of fiscal 2021, we filed a shelf registration statement on Form S-3 to register for possible future sale shares of our common stock. We may offer an indeterminate amount of common stock in amounts, at prices and on terms to be determined by the board of directors if and when shares are issued. The registration statement became automatically effective upon filing with the SEC on February 11, 2021. Using this shelf registration statement, we implemented an at-the-market program (the ATM Program) as described in the prospectus supplement filed with the SEC on February 11, 2021 and Note 15, “Shareholders’ Equity” to our unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report. The ATM Program was conducted pursuant to an equity distribution agreement (the Equity Distribution Agreement) with Wells Fargo Securities, LLC, BMO Capital Markets Corp., BofA Securities Inc., Canaccord Genuity LLC, Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Goldman Sachs & Co. LLC, Morgan Stanley & Co. LLC and Truist Securities, Inc. (the Managers). On February 19, 2021, we announced that we had sold approximately $500.0 million of common stock under the ATM Program. As such, the ATM Program automatically terminated in accordance with the terms of the Equity Distribution Agreement. In total, we sold and received payment for 4,222,511 shares of our common stock at a weighted average price of $118.41 per share for total gross proceeds of approximately $500.0 million and net proceeds of approximately $489.1 million, after $10.0 million in commissions to the Managers and $0.9 million in other offering costs. We expect to use the net proceeds for general corporate purposes.

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

From time to time, we evaluate strategic opportunities, including potential acquisitions, joint ventures, divestitures, spin-offs or investments in complementary businesses, and we have continued to make such evaluations. For example, we recently completed the LED Business Divestiture, which provided us with (i) $50 million in upfront payments (ii) a $125 million unsecured promissory note due in August 2023, and (iii) the potential to receive an earn-out payment between $2.5 million and $125 million based on the revenue and gross profit performance of the LED Business in the first four full fiscal quarters following the closing, also payable in the form of an unsecured promissory note due March 2025. We may also access capital markets through the issuance of debt or additional shares of common stock, which we may use in connection with the acquisition of complementary businesses or other significant assets or for other strategic opportunities or general corporate purposes.

We are currently building a new silicon carbide device fabrication facility in Marcy, New York, to expand capacity for our silicon carbide device business. We expect to invest approximately $1.0 billion in construction, equipment and other related costs for the new facility through fiscal 2024, of which approximately $500 million is expected to be reimbursed in future fiscal years by the State of New York through a grant program administered by the State of New York Urban Development Corporation (doing business as Empire State Development). Given our current cash position, we believe we are positioned to adequately fund the construction of the facility.

The full extent to which the COVID-19 pandemic may impact our results of operations or liquidity is uncertain. Our operations have, and likely will continue, to experience supply, labor, demand and output challenges. We continue to monitor the impact that the COVID-19 pandemic is having on our business, the semiconductor industry, and the economies in which we operate. We believe our future results of operations, including the results for fiscal 2021, could be materially impacted by the

COVID-19 pandemic, but at this time we do not expect the impact from the COVID-19 pandemic will have a material effect on our liquidity or financial position. However, given the speed and frequency of continuously evolving developments with respect to this pandemic, we cannot reasonably estimate the magnitude of the impact to our results of operations. The ultimate extent to which COVID-19 will impact our business depends on future developments, which include the effectiveness and utilization of vaccines for COVID-19 and its variants. New information may emerge concerning the severity of COVID-19 and its variants, and additional actions may be taken in order to contain or limit their spread. To the extent our suppliers continue to be materially and adversely impacted by COVID-19, this could reduce the availability, or result in delays, of materials or supplies to or from us, which in turn could materially interrupt our business operations.

Liquidity

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

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

	Three months ended		
	March 28, 2021	June 28, 2020	Change
Days of sales outstanding [(a)]	47	53	(6)
Days of supply in inventory [(b)]	142	117	25
Days in accounts payable [(c)]	(90)	(115)	25
Cash conversion cycle	99	55	44

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

b) Days of supply in inventory (DSI) measures the average number of days from procurement to sale of our product. DSI is based on ending inventory and cost of revenue, net for the quarter then ended. DSI is calculated by dividing ending inventory (excluding inventory related to a future Wafer Supply and Fabrication Services Agreement to be entered into in connection with the LED Business Divestiture (the Wafer Supply Agreement) 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. Due to the significant amount of capital expenditures associated with our future silicon carbide device fabrication facility in New York, we exclude accounts payable related to capital expenditures in connection with the facility. DPO is calculated by dividing ending accounts payable and accrued expenses (less accrued salaries and wages and accounts payable balances related to our future silicon carbide device fabrication facility in New York) by the average cost of revenue, net per day for the respective 90-day period.

The increase in our cash conversion cycle was primarily driven by increased inventory balances as we expand production globally and build a raw materials buffer to ensure continuity of supply during the pandemic. Further contributing to the increase was a decrease in accounts payable (excluding amounts related to capital expenditures for our future silicon carbide device fabrication facility in Mohawk Valley) while our cost of sales for the quarter increased.

As of March 28, 2021, we had unrealized losses on our short-term investments of $0.2 million. All of our short-term investments had investment grade ratings, and any such investments that were in an unrealized loss position at March 28, 2021 were in such position due to interest rate changes, sector credit rating changes, company-specific rating changes or negative market conditions surrounding the COVID-19 pandemic. We evaluate our short-term investments for expected credit losses. We believe we are able to and we intend to hold each of the investments held with an unrealized loss as of March 28, 2021 until the investments fully recover in market value. No allowance for credit losses was recorded as of March 28, 2021.

Cash Flows

In summary, our cash flows were as follows:

	Nine months ended			
	March 28, 2021	March 29, 2020	Change	
Cash used in operating activities	($75.5)	($39.5)	($36.0)	91 %
Cash used in investing activities	(339.5)	(152.2)	(187.3)	(123)%
Cash provided by financing activities	497.6	14.4	483.2	3,356 %
Effect of foreign exchange changes	0.2	(0.2)	0.4	(200)%
Net change in cash and cash equivalents	$82.8	($177.5)	$260.3	(147)%

Cash Flows from Operating Activities

Net cash used in operating activities increased primarily due to an increase in net loss during the period and decreased cash provided by operating activities of discontinued operations, offset by increased working capital.

Total cash (used in) provided by operating activities includes $16.6 million of cash used in and $25.4 million of cash provided by operating activities from discontinued operations for the nine months ended March 28, 2021 and March 29, 2020, respectively.

Cash Flows from Investing Activities

Our investing activities primarily relate to short-term investment transactions, purchases of property and equipment and payments for patents and licensing rights. For the nine months ended March 28, 2021, our investing activities include net proceeds from the sale of the LED Business.

Cash used in investing activities increased primarily due to an increase in property and equipment purchases of $227.1 million partially offset by an increase in net proceeds from short-term investments of $3.9 million and net proceeds from the sale of the LED business of $36.6 million.

For fiscal 2021, we target approximately $550.0 million of net capital investment, which is primarily related to capacity and infrastructure projects to support our Wolfspeed business longer-term growth and strategic priorities. This target is highly dependent on the timing and overall progress on the construction of our new silicon carbide device fabrication facility in New York and is net of expected reimbursements from Empire State Development under a Grant Disbursement Agreement (GDA). For more details on the GDA, see Note 13, "Commitments and Contingencies," to our unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report.

Total cash used in investing activities includes $0.3 million and $2.0 million of cash provided by investing activities from discontinued operations for the nine months ended March 28, 2021 and March 29, 2020, respectively.

Cash Flows from Financing Activities

For the nine months ended March 28, 2021, our financing activities primarily consisted of net proceeds of $498.4 million from issuances of common stock pursuant to the exercise of employee stock options and issuances of common stock in connection with the ATM Program.

For the nine months ended March 29, 2020, our financing activities consisted of net proceeds of $14.8 million from issuances of common stock pursuant to the exercise of employee stock options.

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 March 28, 2021, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Critical Accounting Policies and Estimates

Allowance for Available-for-sale Debt Securities (new for fiscal 2021 due to ASC 326 Adoption)

Available-for-sale debt securities in an unrealized loss position at each measurement date are individually evaluated for expected credit losses. First, we determine our intent and ability to hold the security in an unrealized loss position until it recovers its fair value. If we do not have the intent or ability to hold the security until recovery, we recognize an expected credit loss equal to the decrease in fair value. If we have the intent and ability to hold the security until recovery, we evaluate if the unrealized loss is the result of credit related factors, primarily using qualitative data. If we determine the security has an unrealized loss as a result of credit related factors, we use a discounted cash flow model to determine the present value of expected cash flows. If the security has a present value of expected cash flows less than its amortized cost, we record an allowance and an expense equal to the amount of the unrealized loss. If the investment recovers its fair value, the allowance is reversed and a recovery is recognized in earnings.

We record any unrealized loss related to market interest rate changes or other non-credit related factors as an adjustment to other comprehensive income.

We do not include accrued interest in our assessment of credit losses for available-for-sale debt securities. We record losses related to noncollectable interest receivable as an adjustment to interest income in the period the losses are realized.

Allowance for Doubtful Accounts (updated for fiscal 2021 due to ASC 326 Adoption)

Receivables are evaluated for expected credit losses on a collective (pool) basis and aggregated on the basis of similar risk characteristics, including customers' financial strength, credit standing, payment history and historical defaults, as well as geographical and industry conditions. Pooling criteria is evaluated each period to ensure the risk profile for each pool is consistent with the prior period. If a receivable does not fit into a defined risk pool, it is evaluated for expected credit losses on an individual basis.

Each risk pool is assigned an expected credit loss rate (if any), which is calculated by considering historical write offs, current market conditions, forecast data and other qualitative data. Expected credit losses are recorded each period by applying the expected credit loss rates to the total balance of each defined risk pool.

For information on our other critical accounting policies and estimates, see the "Critical Accounting Policies and Estimates" section of "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2020 Form 10-K and 2020 Form 10-K Recast.

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 the 2020 Form 10-K. 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 third quarter of fiscal 2021 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 the 2020 Form 10-K. If any of the risks described below actually occurs, our business, financial condition or results of operations could be materially and adversely affected.

Risk categories:
- Risks related to the effects of COVID-19 and other potential future public health crises, pandemics or similar events
- Risks related to sales, product development and manufacturing
- Risks related to our global operations
- Risks associated with our strategic transactions
- Risks associated with cybersecurity, intellectual property and litigation
- Risks related to legal, regulatory, accounting, tax and compliance matters
- General risk factors

Risks related to the effects of COVID-19 and other potential future public health crises, pandemics or similar events.

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

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

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

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

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

Risks related to sales, product development and manufacturing

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

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

- qualification and acceptance of our new product and systems designs, specifically entering into automotive applications which require even more stringent levels of qualification and standards;
- our ability to effectively transfer increasingly complex products and technology from development to manufacturing, including the transition to 200mm substrates;
- our ability to introduce new products in a timely and cost-effective manner;
- our ability to secure volume purchase orders related to new products;
- achievement of technology breakthroughs required to make commercially viable products;
- the accuracy of our predictions for market requirements;
- our ability to predict, influence and/or react to evolving standards;
- acceptance of new technology in certain markets;
- our ability to protect intellectual property developed in new products;
- the availability of qualified research and development personnel;
- our timely completion of product designs and development;
- our ability to develop repeatable processes to manufacture new products in sufficient quantities, with the desired specifications and at competitive costs;
- our customers' ability to develop competitive products incorporating our products; and
- market acceptance of our products and our customers' products.

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

We face significant challenges managing our growth strategy.

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

- maintain, expand, construct and purchase adequate manufacturing facilities and equipment, as well as secure sufficient third-party manufacturing resources, to meet customer demand, including specifically the expansion of our silicon carbide capacity with the construction of a state-of-the-art, automated 200mm capable silicon carbide device fabrication facility and a large materials factory;
- manage an increasingly complex supply chain that has the ability to supply an increasing number of raw materials, subsystems and finished products with the required specifications and quality, and deliver on time to our manufacturing facilities, our third-party manufacturing facilities, our logistics operations, or our customers;
- expand the capability of our information systems to support a more complex business, such as our current initiative to implement a new company-wide ERP system;
- be successful in the qualification and acceptance of our new product and systems designs, including those entering into automotive applications which require even more stringent levels of qualification and standards;
- expand research and development, sales and marketing, technical support, distribution capabilities, manufacturing planning and administrative functions;
- safeguard confidential information and protect our intellectual property;
- manage organizational complexity and communication;
- expand the skills and capabilities of our current management team;
- add experienced senior level managers and executives;
- attract and retain qualified employees; and
- execute, maintain and adjust the operational and financial controls that support our business.

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

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

- design and construction delays and cost overruns;
- issues in installing and qualifying new equipment and ramping production with 200mm silicon carbide;
- poor production process yields and reduced quality control; and
- insufficient personnel with requisite expertise and experience to operate a fabrication facility.

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

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

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

- variability in our process repeatability and control;
- contamination of the manufacturing environment;
- equipment failure, power outages, fires, flooding, information or other system failures or variations in the manufacturing process;
- lack of consistency and adequate quality and quantity of piece parts, other raw materials and other bill of materials items;
- inventory shrinkage or human errors;
- defects in production processes (including system assembly) either within our facilities or at our suppliers; and
- any transitions or changes in our production process, planned or unplanned.

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

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

In addition, our ability to convert volume manufacturing to larger diameter substrates can be an important factor in providing a more cost-effective manufacturing process. We continue to prepare for production using 200mm substrates and if we are unable to make this transition in a timely or cost-effective manner, our results could be negatively impacted.

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

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

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

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

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

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

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

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

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

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

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

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

As competition increases, we need to continue to develop new products that meet or exceed the needs of our customers. Therefore, our ability to continually produce more efficient and lower cost power 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 depend on a limited number of customers, including distributors, for a substantial portion of our revenue, and the loss of, or a significant reduction in purchases by, one or more of these customers could adversely affect our operating results.

We receive a significant amount of our revenue from a limited number of customers and distributors, two of which represented more than 10% of our consolidated revenue from continuing operations in fiscal 2020. Many of our customer orders are made on a purchase order basis, which does not generally require any long-term customer commitments. Therefore, these customers may alter their purchasing behavior with little or no notice to us for various reasons, including developing, or, in the case of our distributors, their customers developing, their own product solutions; choosing to purchase or distribute product from our competitors; incorrectly forecasting end market demand for their products; or experiencing a reduction in their market share in the markets for which they purchase our products. If our customers alter their purchasing behavior, if our customers' purchasing behavior does not match our expectations or if we encounter any problems collecting amounts due from them, our financial condition and results of operations could be negatively impacted.

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

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

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

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

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

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

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

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

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

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 to deliver consistently positive consumer experiences, the products becoming unavailable to consumers or consumer perception that we have acted in an irresponsible manner. Damage to our brand, reputation or loss of customer confidence in our brand or products could result in decreased demand for our products and have a negative impact on our business, results of operations or financial condition.

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

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

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

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

A significant product recall could also result in adverse publicity, damage to our reputation and a loss of customer or consumer confidence in our products. We also may be the target of product liability lawsuits against us if the use of our products at issue is determined to have caused injury or contained a substantial product hazard.

We provide standard warranty periods of 90 days on our products with longer periods under a limited number of customer contracts. 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.

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

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

Risks related to our global operations

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

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

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

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

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

Our international sales and purchases are subject to numerous United States and foreign laws and regulations, including, without limitation, tariffs, trade sanctions, trade barriers, trade embargoes, regulations relating to import-export control, technology transfer restrictions, the International Traffic in Arms Regulation promulgated under the Arms Export Control Act, the Foreign Corrupt Practices Act and the anti-boycott provisions of the U.S. Export Administration Act. The U.S Government has imposed, and in the future may impose, restrictions on shipments to some of our current customers. Government restrictions on sales to certain foreign customers will reduce company revenue and profit related to those customers in the short term and could have a potential long-term impact.

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

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

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

- protection of intellectual property and trade secrets;
- tariffs, customs, trade sanctions, trade embargoes and other barriers to importing/exporting materials and products in a cost-effective and timely manner, or changes in applicable tariffs or custom rules;
- the burden of complying with and changes in United States or international taxation policies;
- timing and availability of export licenses;
- rising labor costs;
- disruptions in or inadequate infrastructure of the countries where we operate;
- the impact of public health epidemics on employees and the global economy, such as COVID-19;
- difficulties in collecting accounts receivable;
- difficulties in staffing and managing international operations; and
- the burden of complying with foreign and international laws and treaties.

For example, the United States has imposed significant tariffs on Chinese-made goods, which the Biden administration has indicated will remain in place. The tariffs imposed on Chinese goods, among other potential countries and any corresponding tariffs from China or such other countries in response has, and may in the future, negatively impact demand and/or increase the costs for our products. In some instances, we have received and may continue to receive incentives from foreign governments to encourage our investment in certain countries, regions or areas outside of the United States. 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, including those which may result from the Biden administration and Democratic control of Congress, 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. For example, President Biden has suggested the reversal or modification of a number of provisions in the Tax Cuts and Jobs Act of 2017 (TCJA) and certain of these proposals, if enacted, would result in a higher U.S. corporate income tax rate than is currently in effect. 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.

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

Global financial markets continue to reflect uncertainty, which has been heightened by the COVID-19 pandemic. Given these uncertainties, there could be future disruptions in the global economy, financial markets and consumer confidence. If economic conditions deteriorate unexpectedly, our business and results of operations could be materially and adversely affected. For example, our customers, including our distributors and their customers, may experience difficulty obtaining the working capital and other financing necessary to support historical or projected purchasing patterns, which could negatively affect our results of operations.

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

Risks associated with our strategic transactions

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

On March 1, 2021, we completed the sale of our former LED Products segment to SMART pursuant to the Asset Purchase Agreement dated October 18, 2021 (the Purchase Agreement). We are subject to a number of risks associated with this transaction, including risks associated with:

- issues, delays or complications in completing required transition activities to allow the LED Business to operate under the SMART portfolio of businesses after the closing, including incurring unanticipated costs to complete such activities;
- the diversion of our management’s attention away from the operation of the business we are retaining;
- the restrictions on and obligations with respect to our business set forth in the transition services agreement and the Wafer Supply Agreement, in each case between us and CreeLED;
- the need to provide transition services in connection with the transaction;
- any required payments of indemnification obligations under the Purchase Agreement for retained liabilities and breaches of representations, warranties or covenants;
- our failure to realize the full purchase price anticipated under the Purchase Agreement, including the ability of the LED Business to generate revenue and gross profit in the first four full fiscal quarters following the closing (the Earnout Period) sufficient to result in payment of the targeted earnout payment; and
- the ability of SMART to pay the unsecured promissory note issued to us at the closing of the transaction and the additional unsecured promissory notes to be issued following the end of the Earnout Period.

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

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

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

- any required payments of indemnification obligations under the Purchase Agreement with IDEAL for retained liabilities and breaches of representations, warranties or covenants; and
- our failure to realize the full purchase price anticipated under the Purchase Agreement, including the ability of the Lighting Products business unit to generate adjusted EBITDA in the third year post-closing sufficient to result in payment of the targeted earnout or any earnout payment.

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

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

From time to time, including the present, we evaluate strategic opportunities available to us for product, technology or business transactions, such as business acquisitions, investments, joint ventures, divestitures, or spin-offs. For example, in the fourth quarter of fiscal 2019, we completed the sale of our Lighting Products business unit to IDEAL and in the third quarter of fiscal 2021, we completed the sale of our LED Business segment to SMART. 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 regulatory actions taken by governmental agencies;
- that we are not able to enter into acceptable contractual arrangements with the significant customers of an acquired business;
- difficulty integrating an acquired business's operations, personnel and financial and operating systems into our current business;
- that we are not able to develop and expand customer bases and accurately anticipate demand from end customers, which can result in increased inventory and reduced orders as we experience wide fluctuations in supply and demand;
- diversion of management attention;
- difficulty separating the operations, personnel and financial and operating systems of a spin-off or divestiture from our current business;

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

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

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.

Risks associated with cybersecurity, intellectual property and litigation

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

We face attempts by others to gain unauthorized access to our information technology systems on which we maintain proprietary and other confidential information. Our security measures may be breached as the result of industrial or other espionage actions of outside parties, employees, employee error, malfeasance or otherwise, and as a result, an unauthorized party may obtain access to our systems. The risk of a security breach or disruption, particularly through cyber-attacks, or cyber intrusion, including by computer hackers, foreign governments, and cyber terrorists, has generally increased as cyber-attacks have become more prevalent and harder to detect and fight against. Additionally, outside parties may attempt to access our confidential information through other means, for example by fraudulently inducing our employees to disclose confidential information. We actively seek to prevent, detect and investigate any unauthorized access, which sometimes occurs. To date, we do not believe that such unauthorized access has caused us any material damage. We might be unaware of any such access or unable to determine its magnitude and effects. In addition, these threats are constantly evolving, thereby increasing the difficulty of successfully defending against them or implementing adequate preventative measures. The theft and/or unauthorized use or publication of our trade secrets and other confidential business information as a result of such an incident could adversely affect our competitive position and the value of our investment in research and development could be reduced. In addition, as a result of the COVID-19 pandemic, the increased prevalence of employees working from home may exacerbate the aforementioned cybersecurity risks. Our business could be subject to significant disruption and we could suffer monetary or other losses.

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

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

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

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

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

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

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.

Risks related to legal, regulatory, accounting, tax and compliance matters

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

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

We review goodwill for impairment whenever events or circumstances indicate potential impairment. In the first quarter of fiscal 2021, we determined we would more likely than not sell all or a portion of the assets comprising the LED Products segment below carrying value. As a result of this triggering event, we recorded an impairment to goodwill of $105.7 million as of September 27, 2020. Additionally, in the second quarter of fiscal 2021, we recorded an additional impairment to goodwill of $6.9 million.

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 encourage energy efficiency or vehicle range. For example, efforts to change, eliminate or reduce industry or regulatory standards could negatively impact our business. 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.

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;
- potential changes in tax laws proposed by the Biden administration and Democratic controlled Congress or alterations in the 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 TCJA and the Coronavirus Aid, Relief and Economic Security Act of 2020;
- the resolution of issues arising from tax audits with various authorities;
- changes in the valuation of our deferred tax assets and liabilities;
- adjustments to estimated taxes upon finalization of various tax returns;
- increases in expenses not deductible for tax purposes, including impairment of goodwill in connection with acquisitions;
- changes in available tax credits;
- the recognition and measurement of uncertain tax positions;
- variations in realized tax deductions for certain stock-based compensation awards (such as non-qualified stock options and restricted stock) from those originally anticipated; and
- the repatriation of non-U.S. earnings for which we have not previously provided for taxes or any changes in legislation that may result in these earnings being taxed, regardless of our decision regarding repatriation of funds. For example, the TCJA included a one-time tax on deemed repatriated earnings of non-U.S. subsidiaries.

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

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

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

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

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

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

The methods, estimates and judgments that we use in applying our accounting policies have a significant impact on our results (see “Critical Accounting Policies and Estimates” in Item 7, "Management’s Discussion and Analysis of Financial Condition and Results of Operations" in the 2020 Form 10-K and the 2020 Form 10-K Recast). 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.

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of minerals originating from the conflict zones of the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC established new annual disclosure and reporting requirements for those companies who may use “conflict” minerals mined from the DRC and adjoining countries in their products. Our most recent disclosure regarding our due diligence was filed in May 2020 for calendar year 2019. These requirements could affect the sourcing and availability of certain minerals used in the manufacture of our products. As a result, we may not be able to obtain the relevant minerals at competitive prices and there will likely be additional costs associated with complying with the due diligence procedures as required by the SEC. In addition, because our supply chain is complex, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins of all minerals used in our products through the due diligence procedures, and we may incur additional costs as a result of changes to product, processes or sources of supply as a consequence of these requirements.

General risk factors

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.

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

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

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

Our 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 $31.45 to a high of $128.28 during the twelve months ended March 28, 2021. 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, the ramp up of our Wolfspeed business, and the effect of tariffs or COVID-19 on our business, may have a dramatic effect on our stock price.

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

As of March 28, 2021, our indebtedness consisted of $424.8 million aggregate principal amount of our 2023 Notes and $575.0 million aggregate principal amount of our 2026 Notes (collectively with the 2023 Notes, the Notes) and potential borrowings from our revolving line of credit. Our ability to pay interest and repay the principal for any outstanding indebtedness under our line of credit and the Notes is dependent upon our ability to manage our business operations and generate sufficient cash flows to service such debt. There can be no assurance that we will be able to manage any of these risks successfully.

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

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

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

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

Our amended and restated bylaws provide that, unless we consent in writing to the selection of an alternative forum, the state courts of North Carolina will be the sole and exclusive forum for substantially all disputes between us and our shareholders, which could limit our shareholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees or agents.

Our amended and restated bylaws provide that, unless we consent in writing to the selection of an alternative forum, the sole and exclusive forum for all litigation relating to our internal affairs, including without limitation (i) any derivative action or proceeding brought on behalf of Cree, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of Cree to Cree or our shareholders, (iii) any action asserting a claim arising pursuant to any provision of the North Carolina Business Corporation Act (the NCBCA), our restated articles of incorporation, as amended, or our amended and restated bylaws, or (iv) any action asserting a claim governed by the internal affairs doctrine, shall be the state courts of North Carolina, or if such courts lack jurisdiction, a federal court located within the State of North Carolina, in all cases subject to the court's having personal jurisdiction over the indispensable parties named as defendants. Any such action filed in a North Carolina state court shall be designated by the party filing the action as a mandatory complex business case. In any such action where the NCBCA specifies the division or county wherein the action must be brought, the action shall be brought in such division or county.

If a court were to find the choice of forum provision contained in our amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, results of operations, and financial condition. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management and other employees.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

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

			Incorporated by Reference		
Exhibit No.	Description	Filed Herewith	Form	Exhibit	Filing Date
2.1^	Asset Purchase Agreement, dated October 18, 2020, between Cree Inc., SMART Global Holdings, Inc. and CreeLED, Inc., as amended		8-K	2.1	3/2/2021
10.1	Equity Distribution Agreement by and among Cree, Inc. and Wells Fargo Securities, LLC, BMO Capital Markets Corp., BofA Securities Inc., Canaccord Genuity LLC, Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Goldman Sachs & Co. LLC, Morgan Stanley & Co. LLC and Truist Securities, Inc., dated February 11, 2021		8-K	1.1	2/12/2021
10.2	Purchase Price Promissory Note between SMART Global Holdings, Inc., as maker, and Cree, Inc., as holder	X			
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
101	The following materials from Cree, Inc.’s Quarterly Report on Form 10-Q for the fiscal quarter ended March 28, 2021 formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Loss; (iv) Consolidated Statement of Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements	X			
104	The cover page from Cree Inc.’s Quarterly Report on Form 10-Q for the quarter ended March 28, 2021 formatted in Inline XBRL (included in Exhibit 101)	X			

^ Portions of this exhibit have been omitted pursuant to Rule 601(b)(2) of Regulation S-K. The omitted information is not material and is the type of information that the Company customarily and actually treats as private and confidential.

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.

April 29, 2021

/s/ Neill P. Reynolds

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

Exhibit 10.2

PROMISSORY NOTE

(Purchase Price Note)

March 1, 2021

$125,000,000.00

FOR VALUE RECEIVED, the undersigned, SMART Global Holdings, Inc., a Cayman Islands exempted company (the "Company", or the "Parent"), hereby unconditionally promises to pay to Cree, Inc., a North Carolina corporation ("Cree" and together with any permitted successor, permitted registered assignee or permitted transferee of, or other permitted holder of, this promissory note (this "Note"), the "Holder") One Hundred Twenty-Five Million Dollars ($125,000,000.00) (the "Loan"). The Company further hereby agrees to pay interest on the unpaid principal amount hereof from time to time outstanding at the rates and on the dates specified in Article II. This Note is the Purchase Price Note referred to in, and was executed and delivered in connection with, that certain Asset Purchase Agreement made and entered into as of October 18, 2020 (as amended, supplemented or otherwise modified from time to time in accordance with the terms thereof, the "Purchase Agreement"), among (i) Cree, as the Seller, (ii) CreeLED, Inc. (f/k/a Chili Acquisition, Inc.), a Delaware corporation and a wholly owned subsidiary of the Company, as the Buyer, and (iii) the Company, as the Buyer Parent. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Purchase Agreement.

ARTICLE I
DEFINITIONS

Section 1.1 **Defined Terms**

As used herein, the terms below shall have the following meanings. Any of such terms, unless the context otherwise requires, may be used in the singular or plural, depending upon the reference.

"***Affiliate***" means, as to any Person, any other Person that, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" of a Person means the power, directly or indirectly, to direct or cause the direction of the management and policies of such Person, whether by contract or otherwise.

"***Agreement Date***" means October 18, 2020.

"***Bankruptcy Code***" means the Bankruptcy Code in Title 11 of the United States Code, as amended, modified, succeeded, or replaced from time to time.

"***Benchmark***" means LIBOR or a Benchmark Replacement that is in effect hereunder, as applicable.

"***Benchmark Replacement***" has the meaning assigned to such term in Section 2.2.

“***Board of Directors***” means, with respect to any Person, (a) in the case of any corporation, the board of directors of such Person or any committee thereof duly authorized to act on behalf of such board, (b) in the case of any limited liability company, the board of managers, board of directors, manager or managing member of such Person or the functional equivalent of the foregoing, (c) in the case of any partnership, the board of directors, board of managers, manager or managing member of a general partner of such Person or the functional equivalent of the foregoing and (d) in any other case, the functional equivalent of the foregoing. In addition, the term “director” means a director or functional equivalent thereof with respect to the relevant Board of Directors.

“***Business Day***” means any day other than a Saturday, Sunday or other day on which banks in New York, New York are permitted or required to close by Law.

“***Buyer***” has the meaning assigned to such term in the first paragraph of this Note.

“***Change in Control***” means the acquisition of beneficial ownership by any Person or group, other than the Permitted Holders (as defined in the Credit Agreement as of the Agreement Date) (or any holding company parent of Parent owned directly or indirectly by the Permitted Holders), of Equity Interests representing 40% or more of the aggregate votes entitled to vote for the election of directors of Parent having a majority of the aggregate votes on the Board of Directors of Parent and the aggregate number of votes for the election of such directors of the Equity Interests beneficially owned by such Person or group is greater than the aggregate number of votes for the election of such directors represented by the Equity Interests beneficially owned by the Permitted Holders, unless the Permitted Holders otherwise have the right (pursuant to contract, proxy or otherwise), directly or indirectly, to designate, nominate or appoint (and do so designate, nominate or appoint) directors of Parent having a majority of the aggregate votes on the Board of Directors of Parent.

For purposes of this definition, including other defined terms used herein in connection with this definition and notwithstanding anything to the contrary in this definition or any provision of Section 13d-3 of the Exchange Act, (i) “beneficial ownership” shall be as defined in Rules 13(d)-3 and 13(d)-5 under the Exchange Act as in effect on the Agreement Date, (ii) the phrase Person or group is within the meaning of Section 13(d) or 14(d) of the Exchange Act, but excluding any employee benefit plan of such Person or group or its subsidiaries and any Person acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan, (iii) if any group includes one or more Permitted Holders, the issued and outstanding Equity Interests of Parent, directly or indirectly owned by the Permitted Holders that are part of such group shall not be treated as being beneficially owned by such group or any other member of such group for purposes of clause (b) of this definition, (iv) a Person or group shall not be deemed to beneficially own Equity Interests to be acquired by such Person or group pursuant to a stock or asset purchase agreement, merger agreement, option agreement, warrant agreement or similar agreement (or voting or option or similar agreement related thereto) until the consummation of the acquisition of the Equity Interests in connection with the transactions contemplated by such agreement and (v) a Person or group will not be deemed to beneficially own the Equity Interests of another Person as a result of its ownership of Equity Interests or other securities of such other

Person’s parent (or related contractual rights) unless it owns 50% or more of the total voting power of the Equity Interests entitled to vote for the election of directors of such Person’s parent having a majority of the aggregate votes on the Board of Directors of such Person’s parent.

“***Company***” has the meaning assigned to such term in the first paragraph of this Note.

“***Credit Agreement***” means that certain Third Amended and Restated Credit Agreement dated as of March 6, 2020, among SMART Worldwide Holdings, Inc., a Cayman Islands exempted company, SMART Modular Technologies (Global), Inc., a Cayman Islands exempted company, SMART Modular Technologies, Inc., a California corporation, the lenders party thereto and Barclays Bank PLC, as Administrative Agent and as Collateral Agent.

“***Debtor Relief Laws***” means the Bankruptcy Code and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief laws of the United States or other applicable jurisdictions from time to time in effect.

“***Default***” means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

“***Dollars***” or “**$**” refers to lawful money of the United States.

“***Effective Date***” means March 1, 2021.

“***Equity Interests***” means shares of the capital stock (including common and preferred shares), partnership interests, membership interest in a limited liability company, beneficial interests in a trust, any subscriptions, options, warrants, commitments, preemptive rights or agreements of any kind (including any shareholders’ or voting trust agreements) for the issuance, sale, registration or voting of, or securities convertible into, any additional equity interests, or other equity interests.

“***Event of Default***” has the meaning assigned to such term in Section 6.1.

“***Exchange Act***” means the Securities Exchange Act of 1934.

“***Excluded Taxes***” means any of the following Taxes imposed on or with respect to the Holder or required to be withheld or deducted from a payment to the Holder, (a) Taxes imposed on or measured by net income (however denominated), franchise Taxes, and branch profits Taxes, in each case, (i) imposed as a result of the Holder being organized under the laws of, or having its principal office or its lending office located in, the jurisdiction imposing such Tax (or any political subdivision thereof) or (ii) that are Other Connection Taxes, (b) United States federal withholding Taxes imposed on interest in a loan pursuant to a law in effect on the Effective Date and (c) Taxes attributable to the Holder’s failure to comply with Section 3.6.

“***Fair Market Value***” means with respect to any asset or group of assets on any date of determination, the value of the consideration obtainable in a sale of such asset at such date of determination assuming a sale by a willing seller to a willing purchaser dealing at arm’s length and arranged in an orderly manner over a reasonable period of time having regard to the nature and characteristics of such asset. Except as otherwise expressly set forth herein, such value shall be determined in good faith by the Parent.

"***Financial Officer***" means the chief financial officer, principal accounting officer, treasurer or controller of the Parent.

"***FRB/NYFRB***" has the meaning assigned to such term in Section 2.2.

"***Fully Satisfied***" means, as of any date, that on or before such date: (a) the principal of and interest accrued to such date on the Loan shall have been paid in full in cash and (b) all fees, expenses and other amounts then due and payable (other than contingent amounts for which a claim has not been made) shall have been paid in full in cash.

"***GAAP***" means United States generally accepted accounting principles, as in effect from time to time.

"***Governmental Authority***" means the government of the United States or any other nation, or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory, or administrative powers or functions of or pertaining to government including any supra-national bodies (such as the European Union or the European Central Bank).

"***Guarantee***" of or by any Person (for purposes of this definition, the "guarantor") means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other monetary obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other monetary obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof or pledge any assets to secure the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other monetary obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other monetary obligation, (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or monetary obligation, or (e) entered into for the purpose of assuring in any other manner the holder of such Indebtedness or other monetary obligation of the payment or performance thereof or to protect such holder against loss in respect thereof (in whole or in part). The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as reasonably determined by the guaranteeing Person in good faith. The term "Guarantee" as a verb has a corresponding meaning. Notwithstanding the foregoing, the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

"***Indebtedness***" of any Person means, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (d) all obligations of such Person in respect of the deferred purchase price of property or services (excluding trade accounts payable in the ordinary course of business and any earn-out obligation until such obligation becomes a liability on the balance sheet of such Person in accordance with GAAP and if not paid after being due and payable), (e) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (f) all Guarantees by such Person of Indebtedness of others, (g) all capital lease obligations and finance lease obligations of such Person, (h) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty and (i) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances; provided that the term "Indebtedness" shall not include (i) deferred or prepaid revenue, (ii) purchase price holdbacks in respect of a portion of the purchase price of an asset to satisfy warranty or other unperformed obligations of the seller, (iii) any obligations attributable to the exercise of appraisal rights and the settlement of any claims or actions (whether actual, contingent or potential) with respect thereto or (iv) Indebtedness of any parent of the Company appearing on the balance sheet of the Company, or solely by reason of push down accounting under GAAP. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor. The amount of Indebtedness of any Person for purposes of clause (e) above shall (unless such Indebtedness has been assumed by such Person) be deemed to be equal to the lesser of (A) the aggregate unpaid amount of such Indebtedness and (B) the Fair Market Value of the property encumbered thereby as determined by such Person in good faith. For all purposes hereof, the Indebtedness of the Company and its Subsidiaries shall exclude intercompany liabilities arising from their cash management, tax, and accounting operations and intercompany loans, advances or Indebtedness having a term not exceeding 364 days (inclusive of any rollover or extensions of terms) and made in the ordinary course of business.

"***Indemnified Person***" has the meaning assigned to such term in Section 10.8.

"***Indemnified Taxes***" means (a) Taxes, other than Excluded Taxes and (b) to the extent not otherwise described in clause (a), Other Taxes.

"***Interest Payment Date***" means (a) the last day of each Interest Period and (b) the Maturity Date.

"***Interest Period***" means the period commencing on the Effective Date and ending June 30, 2021 and, thereafter, each subsequent three (3) month period ending on September 30, December 31, March 31 and June 30 of any applicable year.

"***Interest Rate***" means LIBOR plus 3.0%.

"***LIBOR***" means, for each Interest Period, a rate per annum equal to the London Interbank Offered Rate, as determined by ICE Benchmark Administration Limited (or any successor or substitute therefor acceptable to the Holder) for U.S. dollar deposits for a three-month period as obtained by the Holder from Reuters, Bloomberg or another commercially available source as may be designated by the Holder from time to time, two (2) Business Days before the first day of such Interest Period; provided that in no event shall LIBOR be less than zero.

"***Lien***" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset and (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset; provided that in no event shall an operating lease be deemed to constitute a Lien.

"***Loan***" has the meaning assigned to such term in the first paragraph of this Note.

"***Loan Documents***" means, collectively, this Note and all other documents, instruments, and agreements executed and delivered, or acknowledged by the Obligor in connection with this Note, in each case excluding the Purchase Agreement and all other documents, instruments, and agreements entered into in connection with the Purchase Agreement that are not specifically related to the Note.

"***Maturity Date***" means August 15, 2023.

"***Obligations***" means all of the obligations, indebtedness and liabilities of the Obligor to the Holder under this Note or any of the other Loan Documents, including principal, interest, fees, expenses, reimbursements and indemnification obligations and other amounts, absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue after the commencement by or against the Obligor of any proceeding under any Debtor Relief Laws or other similar laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding.

"***Obligor***" means the Company.

"***Other Connection Taxes***" means Taxes imposed as a result of a present or former connection between the Holder and the jurisdiction imposing such Tax (other than connections arising from the Holder having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in the Note or any Loan Document).

"***Other Taxes***" means all present or future stamp, court, documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any Loan Document, except any such Taxes that are Other Connection Taxes imposed with respect to an assignment.

"***Parent***" has the meaning assigned to such term in the first paragraph of this Note.

"***Person***" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority, or other entity.

"***Pro Forma Total Leverage Ratio***" means the Total Leverage Ratio determined as if all Specified Transactions that have occurred during the applicable four consecutive fiscal quarter period or subsequent to such period and prior to or simultaneously with the event for which the Pro Forma Total Leverage Ratio calculation is required to be made are deemed to have occurred as of the first day of the applicable four consecutive fiscal quarter period.

"***Purchase Agreement***" has the meaning assigned to such term in the first paragraph of this Note.

"***Secured Leverage Ratio***" has the meaning assigned to, and shall be calculated pursuant to the terms of and using the other relevant defined terms in, the Credit Agreement (as in effect on the Agreement Date); provided that the phrase "Parent Borrower and its Restricted Subsidiaries" in such defined term and such other relevant defined terms shall be replaced with "Parent and its Subsidiaries" for the purposes of making such calculation on a consolidated basis for the Company and its Subsidiaries.

"***Specified Transaction***" means any incurrence of Indebtedness.

"***Spread Adjustment***" has the meaning assigned to such term in Section 2.2.

"***Subsidiary***" means, with respect to any Person (for purposes of this definition, the "parent") at any date, any other Person the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other Person (a) of which more than fifty percent (50%) of the Equity Interests or more than fifty percent (50%) of the ordinary voting power, are as of such date, owned, controlled or held by the parent (either directly or through one or more intermediaries or both) or (b) the management of which is, as of such date, otherwise controlled, by the parent (either directly or through one or more intermediaries or both). Unless otherwise specified, "Subsidiary" means a Subsidiary of the Parent.

"***Taxes***" means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

"***Total Leverage Ratio***" has the meaning assigned to, and shall be calculated pursuant to the terms of and using the other relevant defined terms in, the Credit Agreement (as in effect on the Agreement Date); provided that the phrase "Parent Borrower and its Restricted Subsidiaries" in such defined term and such other relevant defined terms shall be replaced with “Parent and its Subsidiaries” for the purpose of making such calculation on a consolidated basis for the Company and its Subsidiaries.

“***United States***” and “***U.S.***” mean the United States of America.

Section 1.2 **Interpretation**

With reference to this Note and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine, and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall”. Unless the context requires otherwise (i) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (ii) any reference herein to any Person shall be construed to include such Person’s permitted successors and assigns, (iii) the words “herein”, “hereof” and “hereunder”, and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) unless otherwise specified, all references in any Loan Document to sections, exhibits and schedules shall be construed to refer to sections of, and exhibits and schedules to, the Loan Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, (vi) any table of contents, captions and headings are for convenience of reference only and shall not affect the construction of this Note or any other Loan Document, and (vii) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

(b) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including;” the words “to” and “until” each mean “to but excluding;” and the word “through” means “to and including.”

(c) All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data required to be submitted pursuant to this Agreement shall be prepared in conformity with GAAP, as in effect from time to time. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Company or the Holder shall so request, the Company and the Holder shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP; provided that, until so amended, such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein; provided, further that all obligations of any Person that are or would have been treated as operating leases for purposes of GAAP prior to the effectiveness of FASB ASC 842 shall continue to be accounted for as operating leases for purposes of all financial definitions and calculations for purpose of this Note (whether or not such operating lease obligations were in effect on such date) notwithstanding the fact that such obligations are required in accordance with FASB ASC 842 (on a prospective or retroactive basis or otherwise) to be treated as capital lease obligations in the financial statements.

ARTICLE II
INTEREST AND PRINCIPAL PAYMENTS

Section 2.1 **Interest**

The Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate equal to the Interest Rate for such Interest Period and shall be payable in arrears on each Interest Payment Date. Any overdue interest or principal payment on this Note shall bear interest, payable on demand, for each day from and including the date payment thereof was due to but excluding the date of actual payment, at a rate per annum equal to the rate that would otherwise be applicable thereto plus 2.00% per annum. All interest hereunder shall be computed on the basis of a year of 365 days, and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable LIBOR shall be determined by the Holder and such determination shall be conclusive absent manifest error. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

Section 2.2 **Ineffective Interest Rate; Benchmark Replacement**

Notwithstanding anything to the contrary contained herein:

(a) if the Holder and Parent jointly determine as to LIBOR or any other then-current Benchmark at any time that for any reason:

(i) such Benchmark (or a published component used in the calculation thereof) is not available or is no longer being published, or adequate and reasonable means otherwise do not exist for ascertaining such Benchmark,

(ii) the administrator for such Benchmark (or for a published component used in the calculation thereof) or any relevant agency or authority (including such administrator's regulatory supervisor or the U.S. Federal Reserve System) has announced that such Benchmark (or component) will no longer be published, permanently or indefinitely (unless, at the time of such announcement, there is a successor administrator that will continue to provide such Benchmark (or component)), or the regulatory supervisor of such Benchmark's administrator has announced that such Benchmark (or a published component used in the calculation thereof) is no longer representative, or

(iii) it has become impractical or unlawful for the Holder to maintain the credit referenced herein based on such Benchmark,

the Holder may, in consultation with Parent, substitute for LIBOR or such other then-current Benchmark, as applicable, an alternative index rate (a "Benchmark Replacement") (which may include, or to which the Holder may add, a spread adjustment, which may be a positive or negative value or zero (a "Spread Adjustment")), giving due consideration to any selection or recommendation of an alternative index rate and/or spread adjustment (or mechanism for determining such a rate and/or adjustment) by the Federal Reserve Board and/or the Federal Reserve Bank of New York (the "FRB/NYFRB"), or any committee officially endorsed or convened by the FRB/NYFRB, and/or any evolving or then-prevailing market conventions; provided that (A) if a condition arises under clause (a)(i) above, then if and for so long as the Holder determines that such condition is likely to be temporary, the Holder may, in consultation with Parent, substitute for the relevant Benchmark or component a value or rate (which may include, or to which the Holder may add, a Spread Adjustment) on a temporary basis without limiting its right to reinstate such Benchmark or component (or to substitute and implement a Benchmark Replacement) thereafter, and (B) a Benchmark Replacement based solely on the condition described in clause (a)(iii) above will not take effect earlier than the 90th day before the expected date of the then-current Benchmark's (or any applicable component's) non-publication as of such announcement. Notwithstanding the foregoing, if at any time any Benchmark is not available or is no longer being published or if it has become impractical or unlawful for the Holder to maintain the credit referenced herein based on such Benchmark, then, until the Holder, in consultation with Parent, substitutes a different Benchmark Replacement for such Benchmark, the Benchmark Replacement shall be the Secured Overnight Financing Rate (SOFR) and, for clarity, the Interest Rate shall be SOFR plus 3.0%.

Section 2.3 **Scheduled Principal Payments**

(a) This Note shall not be subject to any required principal payment prior to the Maturity Date, other than as expressly set forth in Article VII.

(b) On the Maturity Date, the Company shall pay the then-outstanding principal amount of this Note and all accrued and unpaid interest thereon.

Section 2.4 **Optional Prepayment**

The Company may, at its option and upon notice, prepay at any time all, or from time to time any part of, this Note at 100% of the principal amount so prepaid, plus accrued but unpaid interest through the prepayment date with respect to such principal amount, but without any premium or penalty. Amounts prepaid or repaid may not be reborrowed.

Section 2.5 **Payments; Payment Dates**

All payments hereunder shall be made in Dollars by wire transfer of immediately available funds to such account as the Holder may designate from time to time in writing to the

Company. Whenever any payment of interest or principal under this Note is stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and any such additional days elapsed shall be reflected in the computation of the interest payable on such next succeeding Business Day.

ARTICLE III
TAXES

Section 3.1 **Payments Free of Taxes**

Any and all payments by or on account of any obligation of the Obligor hereunder or under any other Loan Document shall be made free and clear of and without deduction or withholding for any Taxes; provided that if the Company shall be required by applicable Law (as determined in the good faith discretion of the Company) to deduct or withhold any Taxes from such payments, then (i) the Company shall make such deductions or withholdings, (ii) the Company shall timely pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with applicable Law and (iii) if such Tax is an Indemnified Tax, then the sum payable by the Company shall be increased as necessary so that after such deduction or withholding has been made (including such deductions and withholdings applicable to additional sums payable under this Article III), the Holder receives an amount equal to the sum it would have received had no such deduction or withholding been made.

Section 3.2 **Tax Indemnification**

The Company shall indemnify the Holder, within ten (10) Business Days after demand therefor, for the full amount of any Indemnified Taxes (including Indemnified Taxes imposed or asserted on or attributable to amounts payable under this Article III) payable or paid by the Holder or required to be withheld or deducted from a payment to the Holder and any reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Company by the Holder shall be conclusive absent manifest error.

Section 3.3 **Evidence of Payments**

Within ten (10) Business Days after any payment of Taxes by the Company to a Governmental Authority pursuant to this Article III, the Company shall deliver to the Holder the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Holder.

Section 3.4 **Survival**

The agreements and obligations of the Company and the Holder contained in this Article III shall survive the repayment, satisfaction, replacement or discharge, in full or in part, of the

Loan or any other obligations under the Loan Documents and the termination of this Note or any other Loan Document.

Section 3.5 **Treatment of Certain Refunds**

If the Holder determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes as to which it has been indemnified pursuant to this Article III (including by the payment of additional amounts pursuant to this Article III), it shall pay to the Company an amount equal to such refund (but only to the extent of indemnity payments made under this Article III with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) of the Holder and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund). The Company, upon the request of the Holder, shall repay to the Holder the amount paid over pursuant to this Article III (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) in the event that the Holder is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this Section 3.5, in no event will the Holder be required to pay any amount to the Company pursuant to this Section 3.5 the payment of which would place the Holder in a less favorable net after-Tax position than the Holder would have been in if the Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts with respect to such Tax had never been paid. This paragraph shall not be construed to require the Holder to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to the Company or any other Person.

Section 3.6 **Status of Holder**

If the Holder is entitled to an exemption from or reduction of withholding Tax with respect to payments made under the Loan, the Holder shall deliver to the Company, at the time or times reasonably requested by the Company, such properly completed and executed documentation reasonably requested by the Company as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, the Holder, if reasonably requested by the Company, shall deliver such other documentation prescribed by applicable Law or reasonably requested by the Company as will enable the Company to determine whether or not the Holder is subject to backup withholding or information reporting requirements.

ARTICLE IV
AFFIRMATIVE COVENANTS

Beginning on the Effective Date and thereafter until all Obligations are Fully Satisfied:

Section 4.1 **Financial Statements**

(a) As soon as practicable and in any event within ninety (90) days (or, if earlier, on the date of any required public filing thereof) after the end of each fiscal year of the Parent, the Company shall deliver to the Holder an audited consolidated balance sheet of the Parent and its Subsidiaries as of the close of such fiscal year and audited consolidated statements of operations and comprehensive income, stockholders' equity and cash flows including the notes thereto, all in reasonable detail setting forth in comparative form the corresponding figures as of the end of and for the preceding fiscal year and prepared in accordance with GAAP and, if applicable, containing disclosure of the effect on the financial position or results of operations of any change in the application of accounting principles and practices during the year. Such annual financial statements shall be audited by an independent certified public accounting firm of recognized national standing and accompanied by a report and opinion thereon by such certified public accountants prepared in accordance with generally accepted auditing standards.

(b) As soon as practicable and in any event within forty-five (45) days (or, if earlier, on the date of any required public filing thereof) after the end of the first three fiscal quarters of each fiscal year of the Parent, the Company shall deliver to the Holder an unaudited consolidated balance sheet of the Parent and its Subsidiaries as of the close of such fiscal quarter and unaudited consolidated statements of operations and comprehensive income, stockholders' equity and cash flows including the notes thereto, all in reasonable detail setting forth in comparative form the corresponding figures as of the end of and for the corresponding period in the preceding fiscal year and prepared by the Parent in accordance with GAAP and, if applicable, containing disclosure of the effect on the financial position or results of operations of any change in the application of accounting principles and practices during the period, and certified by the chief financial officer of the Parent to present fairly in all material respects the financial condition of the Parent and its Subsidiaries on a consolidated basis as of their respective dates and the results of operations of the Parent and its Subsidiaries for the respective periods then ended, subject to normal year-end adjustments and the absence of footnotes.

(c) Documents required to be delivered pursuant to Section 4.1(a) or Section 4.1(b) (to the extent any such documents are included in materials otherwise filed with the U.S. Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date on which the Borrower posts such documents, or provides a link thereto on the Parent's website.

Section 4.2 **Compliance Certificate**

On or before the date that is 45 days after the end of each of the first three fiscal quarters of each fiscal year of the Parent, and on or before the date that is 90 days after the end of each fiscal year of the Parent, the Company shall deliver to the Holder a certificate certified by a Financial Officer demonstrating compliance with the covenant set forth in Section 5.2 as of the end of each such fiscal period, in a form reasonably acceptable to the Holder.

Section 4.3 **Further Assurances**

The Company shall execute any and all further documents, agreements and instruments, and take all such further actions, which may be required under any applicable Law, or which the Holder may reasonably request, to effectuate the transactions contemplated by the Loan Documents all at the expense of the Company.

ARTICLE V
NEGATIVE COVENANTS

Beginning on the Effective Date and thereafter until all Obligations are Fully Satisfied, Parent shall not, nor shall Parent permit any of its Subsidiaries to:

Section 5.1 **Indebtedness**

Create, incur, assume or permit to exist any Indebtedness, except Indebtedness that (i) after giving effect to the incurrence of any such Indebtedness and the use of proceeds thereof the Pro Forma Total Leverage Ratio is equal to or less than 5.00 to 1.00 and (ii) does not mature prior to the Maturity Date (except that this clause (ii) shall not apply to (x) an aggregate outstanding principal amount of secured Indebtedness of $150,000,000 at any time or (y) any Indebtedness other than the types described in clauses (a) and (b) of the definition thereof).

Section 5.2 **Financial Covenant**

As of the end of each fiscal quarter of the Parent, permit the Secured Leverage Ratio to be greater than 3.50:1.0.

ARTICLE VI
EVENTS OF DEFAULT

Section 6.1 **Events of Default**

An "Event of Default" shall exist if any of the following conditions or events shall occur and be continuing:

(a) the Obligor shall fail to pay any principal of any Loan when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Obligor shall fail to pay any interest on any Loan or any other amount (other than an amount referred to in clause (a) of this Section 6.1) payable under this Note or under any other Loan Document, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of five (5) or more Business Days; and

(c) the Obligor shall fail to observe or perform any other covenant, condition or agreement contained in Article IV or Article V and such failure shall continue unremedied for a period of twenty (20) or more Business Days;

(d) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency or other relief in respect of the Obligor or any of its Subsidiaries or debts, or of a substantial part of its assets, under any Debtor Relief Laws or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator, liquidator, rehabilitator, or similar official for the Obligor or any of its Subsidiaries or for a substantial part of its or their assets, and, in any such case, such proceeding or petition shall continue undismissed for a period of sixty (60) or more consecutive days or an order or decree approving or ordering any of the foregoing shall be entered;

(e) the Obligor or any of its Subsidiaries shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, or other relief under any Debtor Relief Laws now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (d) of this Section 6.1, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator, liquidator, rehabilitator, or similar official for the Obligor or any of its Subsidiaries or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, or (vi) take any action for the purpose of effecting any of the foregoing;

(f) a Change in Control shall occur or the Parent shall sell, transfer, lease or otherwise dispose of (in one transaction or in a series of transactions) all or substantially all of its assets (in each case, whether now owned or hereafter acquired);

(g) a default by the Parent or any of its Subsidiaries with respect to any one or more mortgages, agreements or other instruments under which there is outstanding, or by which there is secured or evidenced, any Indebtedness for money borrowed with an aggregate principal amount exceeding the greater of (i) $26,000,000 and (ii) 25% of Consolidated EBITDA (as defined in the Credit Agreement as of the Agreement Date) for the most recently ended Test Period (as defined in the Credit Agreement as of the Agreement Date) at such time (or its foreign currency equivalent) in the aggregate of the Parent and its Subsidiaries, whether such indebtedness exists as of the Effective Date or is thereafter created, to the extent that such default results in such Indebtedness becoming due prior to its scheduled maturity or enables or permits (with all applicable grace periods having expired) the holder or holders of any such Indebtedness or any trustee or agent on its or their behalf to cause any such Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity, or a failure by the Parent or any of its Subsidiaries to make any payment (whether of principal or interest and regardless of amount) in respect of any such Indebtedness, when and as the same shall become due and payable (after giving effect to any applicable grace period); provided that this clause (g) shall not apply to (x) secured Indebtedness that becomes due according to its terms as a result of the sale, transfer or other disposition (including as a result of a casualty or condemnation event) of the property or assets securing such Indebtedness or (y) any breach or default that is (I) remedied by the Parent or its applicable Subsidiary or (II) waived (including in the form of amendment) by the required holders of the applicable item of Indebtedness, in the case of (I) and (II), prior to the acceleration of Loans pursuant to Section 7.1; or

(h) any material provision of any Loan Document shall for any reason be asserted by the Obligor not to be a legal, valid and binding obligation of the Obligor thereto other than as expressly permitted hereunder or thereunder.

ARTICLE VII
REMEDIES ON DEFAULT, ETC.

Section 7.1 **Acceleration**

(a) If an Event of Default with respect to the Company described in clauses (d) or (e) of Section 6.1 has occurred, this Note then shall automatically become immediately due and payable.

(b) If any Event of Default (other than as described in clause (a) of this Section 7.1) has occurred and is continuing, the Holder may, at any time at its option by written notice to the Company, declare this Note to be immediately due and payable.

(c) Upon this Note becoming due and payable under this Section 7.1, whether automatically or by declaration, this Note will forthwith mature and the entire unpaid principal amount of this Note, plus all accrued and unpaid interest, shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived.

Section 7.2 **Other Remedies**

If any Event of Default has occurred and is continuing, and irrespective of whether this Note has become or has been declared immediately due and payable under Section 7.1, the Holder may proceed to protect and enforce its rights by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein, or for an injunction against a violation of any of the terms hereof, or in aid of the exercise of any power granted hereby or by law or otherwise.

Section 7.3 **Rescission**

At any time after this Note has been declared due and payable pursuant to clause (b) of Section 7.1, the Holder, by written notice to the Company, may (but in no event shall be obligated to) rescind and annul any such declaration and its consequences. No rescission and annulment under this Section 7.3 will extend to or affect any subsequent Default or Event of Default or impair any right consequent thereon.

ARTICLE VIII
AMENDMENT OR WAIVER

Section 8.1 **Requirements**

Neither this Note, nor any other Loan Document nor any provision hereof or thereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Company and the Holder.

Section 8.2 **Binding Effect, No Deemed Waivers; Remedies Cumulative, Etc.**

(a) Any amendment or waiver consented to as provided in this Article VIII is binding upon the Holder, each subsequent holder of this Note and upon the Company without regard to whether this Note has been marked to indicate such amendment or waiver.

(b) No failure or delay by the Holder in exercising any right or power hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Holder hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that it would otherwise have. No waiver of any provision of any Loan Document or consent to any departure by the Obligor therefrom shall in any event be effective unless the same shall be permitted by Section 8.1, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given.

(c) As used herein, the term “this Note” and references hereto shall mean this Note as it may from time to time be amended or supplemented.

ARTICLE IX
NOTICES

Section 9.1 **Notices**

All notices, requests, claims, demands and other communications under this Note shall be in writing and shall be deemed to have been duly given or made as follows: (a) if sent by reputable overnight courier service (charges prepaid), upon receipt, (b) if sent by nationally recognized overnight air courier, one (1) Business Day after mailing, (c) if sent by email (with confirmation of delivery), on the date sent to such recipient if sent during the normal business hours of the recipient, and on the next Business Day if sent after the normal business hours of the recipient, and (d) if otherwise actually personally delivered, when delivered, provided that such notices, requests, demands and other communications are delivered to the address set forth below, or to such other address as the applicable party shall provide by like notice to the other party:

(i) if to the Holder, to it at

Cree, Inc.
4600 Silicon Dr.
Durham, North Carolina 27703
Email: [****]
Attention: Bradley D. Kohn, General Counsel and Corporate Secretary

with a copy to (not constituting notice):

Smith, Anderson, Blount, Dorsett, Mitchell & Jernigan, L.L.P.
Wells Fargo Capitol Center
150 Fayetteville Street, Suite 2300
Raleigh, North Carolina 27601
Email: groach@smithlaw.com
Attention: Gerald F. Roach

(ii) if to any subsequent holder of this Note, to such holder at such address as such holder shall have specified to the Company in writing, or

(iii) if to the Company, to it at

SMART Global Holdings, Inc.
c/o SMART Modular Technologies, Inc.
Legal Department
39870 Eureka Dr.
Newark, California 94560
Email: [****]
Attention: Bruce Goldberg, Chief Legal Officer

with a copy to (not constituting notice):

O’Melveny & Myers LLP
2765 Sand Hill Road
Menlo Park, California 94025
Attention: Warren Lazarow
E-mail: wlazarow@omm.com

and

O’Melveny & Myers LLP
610 Newport Center Drive, 17th Floor
Newport Beach, California 92660
Attention: Andor D. Terner and Nikole Kingston
E-mail: aterner@omm.com; nkingston@omm.com

ARTICLE X
MISCELLANEOUS

Section 10.1 **<u>Successors and Assigns</u>**

All covenants and other agreements contained in this Note by or on behalf of any of the parties hereto shall bind and inure to the benefit of their respective successors and assigns, <u>provided</u> that the Company may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Holder and the Holder may assign or otherwise transfer any of its rights or obligations hereunder with the prior written consent of the Company (such consent not to be unreasonably withheld).

Section 10.2 **<u>Certain Pledges</u>**

The Holder may at any time pledge or assign a security interest in all or any portion of its rights under this Note to secure obligations of the Holder; <u>provided</u> that no such pledge or assignment shall release the Holder from any of its obligations hereunder or substitute any such pledgee or assignee for the Holder as a party hereto.

Section 10.3 **<u>Severability</u>**

Any provision of this Note that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 10.4 **<u>Construction</u>**

Each covenant contained in this Note shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision in this Note refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person. The article and section headings contained in this Note are for reference purposes only and shall not affect the meaning or interpretation of this Note.

Section 10.5 **<u>Integration</u>**

This Note embodies the entire agreement and understanding between the Company and the Holder and supersedes all prior agreements and understandings relating to the subject matter hereof.

Section 10.6 **Lost, Stolen, Destroyed or Mutilated Note**

Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Note and of indemnity arrangements reasonably satisfactory to the Company from or on behalf of the holder of this Note, and upon surrender or cancellation of this Note if mutilated, the Company shall make and deliver a new note of like tenor in lieu of such lost, stolen, destroyed or mutilated Note, at the Holder's expense.

Section 10.7 **Confidentiality**

During the term of this Note, the provisions of Section 6.2 and Section 6.10 of the Purchase Agreement are incorporated herein, *mutatis mutandis*, as if a part hereof.

Section 10.8 **Expenses; Indemnity**

(a) **Costs and Expenses**. The Company agrees to promptly pay, not later than thirty (30) days following written demand therefor, all reasonable and documented out-of-pocket expenses incurred by the Holder, including the reasonable and documented fees, charges and disbursements of in the case of the Holder, one primary counsel, one local counsel in each relevant jurisdiction, and one specialty counsel for each relevant specialty area, in each case in connection with the enforcement or protection of the Holder's rights in connection with this Note and the other Loan Documents, including its rights under this Section 10.8, and including in connection with any bankruptcy or insolvency proceeding, workout, restructuring or related negotiations in respect thereof.

(b) **Indemnification**. The Obligor will indemnify the Holder and its Affiliates and their respective, partners, directors, officers, agents, representatives and advisors (each, an "Indemnified Person") and hold them harmless from and against all liabilities, damages, claims, costs and expenses (including reasonable and documented fees, disbursements, settlement costs and other charges of one primary legal counsel (and, in the case of an actual or perceived conflict of interest where the Indemnified Person affected by such conflict notifies the Obligor of the existence of such conflict and thereafter retains its own counsel, of another firm of counsel for such affected Indemnified Person) and one local counsel in each relevant jurisdiction, in each case, on behalf of the Holder) relating to this Note; provided that no Indemnified Person will have any right to indemnification for any of the foregoing to the extent resulting from (i) the gross negligence, material breach in bad faith or willful misconduct of the Loan Documents by, the relevant Indemnified Person or any of its Affiliates or their respective partners, directors, officers, employees, agents, advisors or other representatives as determined by a final, non-appealable judgment of a court of competent jurisdiction or (ii) any dispute solely among the Indemnified Persons (other than any claims arising out of any act or omission of the Company or any of its affiliates). This Section 10.8(b) shall not apply with respect to Taxes other than any Taxes that represent losses, claims, damages, etc. arising from any non-Tax claim.

Section 10.9 **Governing Law; Consent to Jurisdiction**

This Note shall be interpreted and construed in accordance with the laws of the State of New York. Any and all claims, controversies, and causes of action arising out of or relating to this Note, whether sounding in contract, tort, or statute, shall be governed by the laws of the State of New York, including its statutes of limitations, without giving effect to any conflict-of-laws rule that would result in the application of the laws of a different jurisdiction. Each of the parties hereby irrevocably and unconditionally submits, for itself and its assets and properties, to the exclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, and each of the parties consents to the jurisdiction of such courts (and of the appropriate appellate courts) in any such claim, controversy, or cause of action and waives any objection to venue laid therein. Process in any such claim, controversy, or cause of action referred to in the preceding sentence may be served on any party anywhere in the world using any of the means described in Section 9.1, which the parties agree shall constitute effective service of process.

Section 10.10 **Right of Setoff**

If an Event of Default shall have occurred and be continuing, the Holder and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held, and other obligations (in whatever currency) at any time due and owing, by the Holder or any such Affiliate, to or for the credit or the account of the Obligor against any and all of the obligations of the Obligor now or hereafter existing under this Note or any other Loan Document to the Holder or its Affiliates, irrespective of whether or not the Holder or any such Affiliate shall have made any demand under this Note or any other Loan Document and although such obligations of the Obligor may be contingent or unmatured or are owed to an Affiliate of the Holder different from the Affiliate holding such deposit or obligated on such indebtedness. The rights of the Holder and its Affiliates under this Section 10.10 are in addition to other rights and remedies (including other rights of setoff) that the Holder or its Affiliates may have. The Holder agrees to notify the Company promptly after any such setoff; provided that the failure to give such notice shall not affect the validity of such setoff and application.

SIGNATURE PAGE FOLLOWS

IN WITNESS WHEREOF, the undersigned has executed and delivered this Promissory Note as of the Effective Date.

SMART GLOBAL HOLDINGS, INC.

By:	/s/ Bruce Goldberg
Name:	Bruce Goldberg
Title:	Vice President & Chief Legal Officer

Agreed and Acknowledged by:

CREE, INC.

By:	/s/ Neill P. Reynolds
Name:	Neill P. Reynolds
Title:	EVP and Chief Financial Officer

Exhibit 31.1

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

I, Gregg A. Lowe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cree, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 29, 2021

/s/ GREGG A. LOWE
Gregg A. Lowe
Chief Executive Officer and President

Exhibit 31.2

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

I, Neill P. Reynolds, certify that:

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

Date: April 29, 2021

/s/ NEILL P. REYNOLDS
Neill P. Reynolds
Executive Vice President and Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Cree, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 28, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregg A. Lowe, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

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

/s/ GREGG A. LOWE

Gregg A. Lowe
Chief Executive Officer and President

April 29, 2021

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

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

Exhibit 32.2

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

In connection with the Quarterly Report of Cree, Inc. (the “Company”) on Form 10-Q for the quarterly period ended March 28, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Neill P. Reynolds, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

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

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

/s/ NEILL P. REYNOLDS
Neill P. Reynolds
Executive Vice President and Chief Financial Officer
April 29, 2021

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

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