

CREE INC
Form 10-Q
May 03, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2019

or

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

For the transition period from _____ to _____
Commission file number 0-21154

CREE, INC.

(Exact name of registrant as specified in its charter)

North Carolina 56-1572719

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

4600 Silicon Drive 27703
Durham, North Carolina

(Address of principal executive offices) (Zip Code)

(919) 407-5300

(Registrant's telephone number, including area code)

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

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

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
 Smaller reporting company

Smaller reporting company

Non-accelerated
filer

Emerging growth company

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

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

Yes No

The number of shares outstanding of the registrant's common stock, par value \$0.00125 per share, as of April 26, 2019, was 105,248,244.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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CREE, INC.

UNAUDITED CONSOLIDATED BALANCE SHEETS

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

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

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

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CREE, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF (LOSS) INCOME

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

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

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CREE, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

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

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

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CREE, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

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

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

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CREE, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

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

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

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CREE, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Significant non-cash transactions:

Accrued property and equipment	\$15,247	\$19,275
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The accompanying notes are an integral part of the consolidated financial statements.

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CREE, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation and New Accounting Standards

Overview

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

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

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

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

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

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

The Company's two reportable segments are:

•Wolfspeed

•LED Products

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

Basis of Presentation

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

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

(fiscal 2019). Historical periods presented include reclassifications to reflect discontinued operations (see Note 2).

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

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

Recently Issued Accounting Pronouncements Adopted

Nonemployee Stock Compensation

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

Fair Value Measurement Disclosure

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

Cloud Computing Arrangements

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

Revenue from Contracts with Customers

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

Goodwill Impairment Testing

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

qualitative test, to continue to perform Step 1 of the goodwill impairment test. The Company early adopted this standard in the third quarter of fiscal 2018.

Recently Issued Accounting Pronouncements Pending Adoption

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Leases

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

Note 2 – Discontinued Operations

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

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

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

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

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

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	Three Months		Nine Months Ended	
	Ended			Ended
	March 31, 2019	March 25, 2018	March 31, 2019	March 25, 2018
Revenue, net	\$109,386	\$130,759	\$376,008	\$425,100
Cost of revenue, net	82,490	106,564	287,553	347,037
Gross profit	26,896	24,195	88,455	78,063