CREE INC
Form 10-Q
January 25, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 25, 2016
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)
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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X] No [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check	Smaller reporting company [ ]

if
a
smaller
reporting
company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No[X]
The number of shares outstanding of the registrant’s common stock, par value $0.00125 per share, as of January 20, 2017, was 97,404,938.

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

	December 25, 2016	June 26, 2016
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$137,093	$166,154
Short-term investments	454,021	439,151
Total cash, cash equivalents and short-term investments	591,114	605,305
Accounts receivable, net	121,759	138,772
Income tax receivable	3,245	6,304
Inventories	281,677	281,671
Prepaid expenses	22,017	25,728
Other current assets	45,024	44,501
Current assets held for sale	434,859	54,426
Total current assets	1,499,695	1,156,707
Property and equipment, net	360,171	387,167
Goodwill	518,059	518,059
Intangible assets, net	246,246	259,400
Other long-term investments	34,315	40,179
Deferred income taxes	41,019	38,564
Long-term assets held for sale	—	356,735
Other assets	8,165	9,249
Total assets	$2,707,670	$2,766,060
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$109,306	$122,808
Accrued salaries and wages	41,955	40,128
Other current liabilities	42,107	45,101
Current liabilities held for sale	21,281	14,962
Total current liabilities	214,649	222,999
Long-term liabilities:		
Long-term debt	170,000	160,000
Deferred income taxes	945	943
Long-term liabilities held for sale	—	1,850
Other long-term liabilities	22,057	12,444
Total long-term liabilities	193,002	175,237
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred stock, par value $0.01; 3,000 shares authorized at December 25, 2016 and June 26, 2016; none issued and outstanding	—	—
Common stock, par value $0.00125; 200,000 shares authorized at December 25, 2016 and June 26, 2016; 97,399 and 100,829 shares issued and outstanding at December 25, 2016 and June 26, 2016, respectively	121	125
Additional paid-in-capital	2,388,855	2,359,584

Accumulated other comprehensive income, net of taxes	3,299	8,728
Accumulated deficit	(92,256)	(613)
Total shareholders' equity	2,300,019	2,367,824
Total liabilities and shareholders' equity	$2,707,670	$2,766,060

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

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

	Three Months Ended		Six Months Ended	
	December 25, 2016	December 27, 2015	December 25, 2016	December 27, 2015
	(In thousands, except per share amounts)			
Revenue, net	$346,962	$393,758	$668,291	$775,307
Cost of revenue, net	236,071	282,624	471,059	556,981
Gross profit	110,891	111,134	197,232	218,326
Operating expenses:				
Research and development	28,070	31,563	56,601	64,294
Sales, general and administrative	67,671	67,877	129,042	138,049
Amortization or impairment of acquisition-related intangibles	5,937	6,468	12,203	12,937
Loss on disposal or impairment of long-lived assets	530	2,015	846	11,580
Total operating expenses	102,208	107,923	198,692	226,860
Operating income (loss)	8,683	3,211	(1,460)	(8,534)
Non-operating (expense) income, net	(4,754)	8,016	(4,912)	(14,787)
Income (loss) from continuing operations before income taxes	3,929	11,227	(6,372)	(23,321)
Income tax expense (benefit)	5,036	1,815	(2,407)	(6,997)
(Loss) income from continuing operations	(1,107)	9,412	(3,965)	(16,324)
Income from discontinued operations, net of tax	7,326	4,030	10,750	5,277
Net income (loss)	$6,219	$13,442	$6,785	($11,047)
Earnings (loss) per share-basic				
Continuing operations	($0.01)	$0.09	($0.04)	($0.16)
Discontinued operations	0.07	0.04	0.11	0.05
Earnings (loss) per share-basic	$0.06	$0.13	$0.07	($0.11)
Earnings (loss) per share-diluted				
Continuing operations	($0.01)	$0.09	($0.04)	($0.16)
Discontinued operations	0.07	0.04	0.11	0.05
Earnings (loss) per share-diluted	$0.06	$0.13	$0.07	($0.11)
Weighted average shares used in per share calculation:				
Basic	98,467	102,391	99,513	102,932
Diluted	98,467	102,521	99,513	102,932

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

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

	Three Months Ended		Six Months Ended	
	December 25, 2016	December 27, 2015	December 25, 2016	December 27, 2015
	(In thousands)			
Net income (loss)	$6,219	$13,442	$6,785	($11,047)
Other comprehensive loss:				
Currency translation loss	(1,343)	(430)	(1,314)	(789)
Net unrealized (loss) gain on available-for-sale securities, net of tax benefit (expense) of $2,357 and $113, $2,556 and ($376), respectively	(3,795)	(180)	(4,115)	612
Other comprehensive loss	(5,138)	(610)	(5,429)	(177)
Comprehensive income (loss)	$1,081	$12,832	$1,356	($11,224)

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

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CREE, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	December 25, 2016	December 27, 2015
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$6,785	($11,047)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	62,574	81,746
Stock-based compensation	26,856	29,462
Excess tax benefit from stock-based payment arrangements	(1)	(12)
Loss on disposal or impairment of long-lived assets	845	16,587
Amortization of premium/discount on investments	2,749	2,747
Loss on equity investment	6,298	12,922
Foreign exchange (gain) loss on equity investment	(434)	2,800
Deferred income taxes	44	60
Changes in operating assets and liabilities:		
Accounts receivable, net	13,647	3,883
Inventories	1,290	379
Prepaid expenses and other assets	2,735	12,025
Accounts payable, trade	(13,836)	(8,788)
Accrued salaries and wages and other liabilities	10,164	(18,968)
Net cash provided by operating activities	119,716	123,796
Cash flows from investing activities:		
Purchases of property and equipment	(35,211)	(81,804)
Purchases of patent and licensing rights	(5,836)	(7,628)
Proceeds from sale of property and equipment	236	2,376
Purchases of short-term investments	(125,022)	(169,197)
Proceeds from maturities of short-term investments	93,312	194,406
Proceeds from sale of short-term investments	7,619	19,352
Purchase of acquired business, net of cash acquired	(2,775)	(12,513)
Net cash used in investing activities	(67,677)	(55,008)
Cash flows from financing activities:		
Proceeds from long-term debt borrowings	245,000	368,000
Payments on long-term debt borrowings	(235,000)	(363,000)
Net proceeds from issuance of common stock	8,021	9,939
Excess tax benefit from stock-based payment arrangements	1	12
Repurchases of common stock	(98,431)	(131,749)
Net cash used in financing activities	(80,409)	(116,798)
Effects of foreign exchange changes on cash and cash equivalents	(691)	(1,114)
Net decrease in cash and cash equivalents	(29,061)	(49,124)
Cash and cash equivalents:		
Beginning of period	166,154	139,710
End of period	$137,093	$90,586
Supplemental disclosure of cash flow information:		
Significant non-cash transactions:		
Accrued property and equipment	$8,240	$7,681

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 a leading innovator of lighting-class light emitting diode (LED) products, lighting products and wide bandgap semiconductor products for power and radio-frequency (RF) applications. The Company's products are targeted for applications such as indoor and outdoor lighting, video displays, transportation, electronic signs and signals, power supplies, inverters and wireless systems.
The Company's lighting products primarily consist of LED lighting systems and bulbs. The Company designs, manufactures and sells lighting fixtures and lamps for the commercial, industrial and consumer markets.
The Company's LED products consist of LED components and LED chips. The Company's LED products enable its customers to develop and market LED-based products for lighting, video screens and other industrial applications.
In addition, the Company develops, manufactures and sells silicon carbide (SiC) materials, power devices and RF devices based on wide bandgap semiconductor materials such as SiC and gallium nitride (GaN). The Company's SiC materials products are sold to customers developing power and RF products as well as gemstones. These SiC materials products had previously been included within the LED Products segment. The Company's power products are made from SiC and provide increased efficiency, faster switching speeds and reduced system size and weight over comparable silicon-based power devices. The Company's RF devices are made from GaN and provide improved efficiency, bandwidth and frequency of operation as compared to silicon or gallium arsenide (GaAs). Collectively, the Company refers to these product lines as the Wolfspeed business. As discussed more fully below in Note 2, “Discontinued Operations,” on July 13, 2016, the Company executed a definitive agreement to sell its Wolfspeed business to Infineon Technologies AG (Infineon). As a result, the Company has classified the results of the Wolfspeed business as discontinued operations in its consolidated statements of income (loss) 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, 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, California, Wisconsin, India, Italy and China (including Hong Kong).
Cree, Inc. is a North Carolina corporation established in 1987 and is headquartered in Durham, North Carolina.
The Company's two reportable segments are:
- Lighting Products
- LED Products

For financial results by reportable segment, please refer to Note 14, "Reportable Segments."
Basis of Presentation
The consolidated balance sheet at December 25, 2016, the consolidated statements of income (loss) for the three and six months ended December 25, 2016 and December 27, 2015, the consolidated statements of comprehensive income (loss) for the three and six months ended December 25, 2016 and December 27, 2015, and the consolidated statements of cash flows for the six months ended December 25, 2016 and December 27, 2015 (collectively, the consolidated financial statements) have been prepared by the Company and have not been audited. In the opinion of management, all normal and recurring adjustments necessary to fairly state the consolidated financial position, results of operations, comprehensive income and cash flows at December 25, 2016, and for all periods presented, have been made. All intercompany accounts and transactions have been eliminated. The consolidated balance sheet at June 26, 2016 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

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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 26, 2016 (fiscal 2016). The results of operations for the three and six months ended December 25, 2016 are not necessarily indicative of the operating results that may be attained for the entire fiscal year ending June 25, 2017 (fiscal 2017).
The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities. Actual amounts could differ materially from those estimates.
Certain fiscal 2016 amounts in the accompanying consolidated financial statements have been reclassified to conform to the fiscal 2017 presentation. These reclassifications had no effect on previously reported consolidated net income or shareholders’ equity.

Revision of Prior Period Financial Statements

During the third quarter of fiscal 2016, the Company identified errors in its previously reported financial statements in which amortization expense was understated as certain patents were being amortized over a life longer than the life of the underlying patent right.
The Company assessed the materiality of these errors on prior periods’ financial statements in accordance with the United States Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 99, Materiality, codified in the Accounting Standards Codification (ASC) 250, Presentation of Financial Statements, and concluded that they were not material individually or in the aggregate to any prior annual or interim periods. However, through the second quarter of fiscal 2016 the aggregate amount of the prior period errors of $6.8 million before income taxes would have been material to the Company's interim Consolidated Statements of Income (Loss) for the third quarter of fiscal 2016. Consequently, in accordance with ASC 250, the Company corrected these errors, and other immaterial errors, for all prior periods presented by revising the consolidated financial statements and other financial information included herein.

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The following table summarizes the effects of the revision on the consolidated statements of income (loss) (in thousands):

	Three Months Ended December 27, 2015			Six Months Ended December 27, 2015		
	As Reported	Revision Adjustments	As Revised	As Reported	Revision Adjustments	As Revised
Cost of revenue, net	$281,992	$632	$282,624	$555,248	$1,733	$556,981
Gross profit	111,766	(632)	111,134	220,059	(1,733)	218,326
Operating income (loss)	3,843	(632)	3,211	(6,801)	(1,733)	(8,534)
Income (loss) from continuing operations before income taxes	11,859	(632)	11,227	(21,588)	(1,733)	(23,321)
Income tax expense (benefit)	1,985	(170)	1,815	(6,543)	(454)	(6,997)
(Loss) income from continuing operations	9,874	(462)	9,412	(15,045)	(1,279)	(16,324)
Income (loss) from discontinued operations, net of tax	4,084	(54)	4,030	5,380	(103)	5,277
Net income (loss)	$13,958	($516)	$13,442	($9,665)	($1,382)	($11,047)
Earnings (loss) per share-basic						
Continuing operations	$0.10	($0.01)	$0.09	($0.14)	($0.02)	($0.16)
Discontinued operations	0.04	—	0.04	0.05	—	0.05
Earnings (loss) per share-basic	$0.14	($0.01)	$0.13	($0.09)	($0.02)	($0.11)
Earnings (loss) per share-diluted						
Continuing operations	$0.10	($0.01)	$0.09	($0.14)	($0.02)	($0.16)
Discontinued operations	0.04	—	0.04	0.05	—	0.05
Earnings (loss) per share-diluted	$0.14	($0.01)	$0.13	($0.09)	($0.02)	($0.11)

The revision had no net impact on the Company’s net cash provided by operating activities.

Recently Issued Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09: Revenue from Contracts with Customers (Topic 606). The FASB has subsequently issued multiple ASUs which amend and clarify the guidance in Topic 606. The ASU establishes a principles-based approach for accounting for revenue arising from contracts with customers and supersedes existing revenue recognition guidance. The ASU provides that an entity should apply a five-step approach for recognizing revenue, including (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. Also, the entity must provide various disclosures concerning the nature, amount and timing of revenue and cash flows arising from contracts with customers. The effective date will be the first quarter of the Company's fiscal year ending June 30, 2019, using one of two retrospective application methods. The Company is currently analyzing the impact of this new pronouncement.

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Leases

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

Stock Compensation

In March 2016, the FASB issued ASU No. 2016-09: Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU simplifies the current stock compensation guidance for tax consequences. The ASU requires an entity to recognize all excess tax benefits and tax deficiencies as income tax expense or benefit in its income statement. The ASU also eliminates the requirement to defer recognition of an excess tax benefit until the benefit is realized through a reduction to taxes payable. For cash flows statement purposes, excess tax benefits should be classified as an operating activity and cash payments made to taxing authorities on the employee’s behalf for withheld shares should be classified as financing activity. The ASU is effective for public companies for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company is currently analyzing the impact of this new pronouncement.

Note 2 – Discontinued Operations

On July 13, 2016, the Company executed an Asset Purchase Agreement (the APA) with Infineon. The transaction, which was approved by both the Company’s Board of Directors and Infineon’s Supervisory Board, is currently pending customary closing conditions and governmental approvals. The Company targets closing the transaction within its third quarter of fiscal year 2017.

Pursuant to the APA, the Company will sell to Infineon, and Infineon will (i) purchase from the Company (a) the assets comprising the Company’s power and RF product lines (formerly the Company's Power and RF Products segment), including manufacturing facilities and equipment, inventory, intellectual property rights, contracts, real estate, and the outstanding equity interests of Cree Fayetteville, Inc, one of the Company’s wholly-owned subsidiaries, and (b) certain related portions of the Company’s SiC materials and gemstones business previously included within the LED Products segment and (ii) assume certain liabilities related to the Wolfspeed business. The Company will retain certain liabilities associated with the Wolfspeed business arising prior to the closing of the transaction. Infineon is expected to hire most of the Company’s approximately 594 Wolfspeed employees either at the closing of the transaction or following a transition period.

The purchase price for the Wolfspeed business will be $850 million in cash, which is subject to certain adjustments. In connection with the transaction, the Company and Infineon will also enter into certain ancillary and related agreements, including (i) an intellectual property assignment and license agreement, which will assign to Infineon certain intellectual property owned by the Company and license to Infineon certain additional intellectual property owned by the Company, (ii) a transition services agreement, which is designed to ensure a smooth transition of the Wolfspeed business to Infineon, and (iii) a wafer supply agreement, pursuant to which the Company will supply Infineon with SiC wafers and SiC boules for a transitional period of time.

The APA contains customary representations, warranties and covenants, including covenants to cooperate in seeking regulatory approvals, as well as the Company’s agreement to not compete with the Wolfspeed business for five years following the closing of the transaction and to indemnify Infineon for certain damages that Infineon may suffer following the closing of the transaction.

Infineon's obligation to purchase the Wolfspeed business is subject to the satisfaction or waiver of a number of conditions set forth in the APA, including regulatory approval under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and certain similar non-U.S. regulations, the approval of the Committee on Foreign Investment in the United States and other customary closing conditions. The APA provides for customary termination rights of the parties and also provides that in the event the APA is terminated for certain specified regulatory-related circumstances, Infineon may be required to pay the Company a termination fee ranging from $12.5 million to $42.5 million.

The Company has classified the results of the Wolfspeed business as discontinued operations in the Company’s consolidated statements of income (loss) for all periods presented. The Company ceased recording depreciation and amortization of long-lived assets of the Wolfspeed business upon classification as discontinued operations in July 2016. Additionally, the related assets and liabilities associated with the discontinued operations are classified as held for sale in the consolidated balance sheets. The assets

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and liabilities held for sale as of December 25, 2016 are classified as current in the consolidated balance sheet as the Company expects the transaction to close within one year.

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

	Three Months Ended		Six Months Ended	
	December 25, 2016	December 27, 2015	December 25, 2016	December 27, 2015
Revenue, net	$54,363	$42,048	$104,265	$85,987
Cost of revenue, net	24,688	18,723	51,002	39,271
Gross profit	29,675	23,325	53,263	46,716
Total operating expenses	18,854	17,812	37,509	39,325
Income from discontinued operations before income taxes	10,821	5,513	15,754	7,391
Income tax expense	3,495	1,483	5,004	2,114
Income from discontinued operations, net of income taxes	$7,326	$4,030	$10,750	$5,277

The following table presents the assets and liabilities related to the Wolfspeed business held for sale (in thousands):

	December 25, 2016	June 26, 2016
Assets Held For Sale		
Accounts receivable, net	$30,020	$26,839
Prepaid and other Current Assets	2,130	1,369
Inventories	19,435	21,871
Property and equipment, net	235,319	214,936
Intangible assets, net	45,273	43,409
Goodwill	100,769	100,769
Total Assets Held for Sale*	$432,946	$409,193
Liabilities Held for Sale		
Accounts payable	$12,813	$9,477
Accrued salaries and wages	5,473	4,514
Other accrued liabilities	2,995	971
Other long term liabilities	—	1,850
Total Liabilities Held for Sale*	$21,281	$16,812

*Amounts in the June 26, 2016 column are classified as current and long-term in the consolidated balance sheet.

The following table presents the cash flow of the Wolfspeed business (in thousands):

	Six Months Ended	
	December 25, 2016	December 27, 2015
Net cash provided by discontinued operating activities	$17,314	$21,146
Net cash used in discontinued investing activities	22,699	68,221

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Note 3 – Acquisition

On July 8, 2015, the Company closed on the acquisition of Arkansas Power Electronics International, Inc. (APEI), a global leader in power modules and power electronics applications, pursuant to a merger agreement with APEI and certain shareholders of APEI, whereby the Company acquired all of the outstanding share capital of APEI in exchange for a base purchase price of $13.8 million, subject to certain adjustments. In addition, if certain goals are achieved over the subsequent two years, additional cash payments totaling up to $4.6 million may be made to the former APEI shareholders. Payments totaling $2.8 million were made to the former APEI shareholders in July 2016 based on achievement of the first year goals. The Company expects that the second year goals will also be achieved. In connection with this acquisition, APEI became a wholly owned subsidiary of the Company, renamed Cree Fayetteville, Inc. (Cree Fayetteville). Cree Fayetteville is not considered a significant subsidiary of the Company and its results from operations were reported as part of the Company's former Power and RF Products segment prior to the classification of the Wolfspeed business as discontinued operations and is discussed more fully in Note 2, "Discontinued Operations."

The total purchase price for this acquisition was as follows (in thousands):

Cash consideration paid to shareholders	$13,797
Post-closing adjustments	181
Contingent consideration	4,625
Total purchase price	$18,603

The purchase price for this acquisition has been allocated to the assets acquired and liabilities assumed based on their estimated fair values as follows (in thousands):

Tangible assets:	
Cash and cash equivalents	$1,284
Accounts receivable	1,006
Inventories	143
Property and equipment	935
Other assets	270
Total tangible assets	3,638
Intangible assets:	
Patents	40
Customer relationships	4,500
Developed technology	11,403
In-process research and development	7,565
Non-compete agreements	231
Goodwill	2,483
Total intangible assets	26,222
Liabilities assumed:	
Accounts payable	55
Accrued expenses and liabilities	1,911
Other long-term liabilities	9,291
Total liabilities assumed	11,257
Net assets acquired	$18,603

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Prior to the classification of the Wolfspeed business as discontinued operations, the identifiable intangible assets acquired as a result of the acquisition were being amortized over their respective estimated useful lives as follows (in thousands, except for years):

	Asset Amount	Estimated Life in Years
Patents	$40	20
Customer relationships	4,500	4
Developed technology	11,403	10
In-process research and development[1]	7,565	7
Non-compete agreements	231	3
Total identifiable intangible assets	$23,739	

(1) In-process research and development (IPR&D) is initially classified as indefinite-lived assets and tested for impairment at least annually or when indications of potential impairment exist. The IPR&D was completed in January 2016.

Goodwill largely consists of expansion of product offerings of power modules and power electronics applications, manufacturing and other synergies of the combined companies, and the value of the assembled workforce.

The assets, liabilities, and operating results of APEI have been included in the Company's consolidated financial statements from the date of acquisition and are not significant to the Company as a whole.

Note 4 – Financial Statement Details

Accounts Receivable, net

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

	December 25, 2016	June 26, 2016
Billed trade receivables	$173,645	$188,672
Unbilled contract receivables	182	59
	173,827	188,731
Allowance for sales returns, discounts and other incentives	(46,235)	(44,543)
Allowance for bad debts	(5,833)	(5,416)
Accounts receivable, net	$121,759	$138,772

Inventories

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

	December 25, 2016	June 26, 2016
Raw material	$69,219	$79,957
Work-in-progress	80,635	84,459
Finished goods	131,823	117,255
Inventories	$281,677	$281,671

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Other Current Liabilities

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

	December 25, 2016	June 26, 2016
Accrued taxes	$12,033	$12,023
Accrued professional fees	9,569	7,959
Accrued warranty	15,045	20,102
Accrued other	5,460	5,017
Other current liabilities	$42,107	$45,101

Accumulated Other Comprehensive Income, net of taxes

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

	December 25, 2016	June 26, 2016
Currency translation gain	$3,310	$4,624
Net unrealized (loss) gain on available-for-sale securities	(11)	4,104
Accumulated other comprehensive income, net of taxes	$3,299	$8,728

Non-Operating Expense, net

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

	Three Months Ended		Six Months Ended	
	December 25, 2016	December 27, 2015	December 25, 2016	December 27, 2015
Foreign currency loss, net	($1,856)	($385)	($495)	($4,679)
Gain on sale of investments, net	—	14	12	16
(Loss) gain on equity investment	(3,796)	7,026	(6,283)	(12,922)
Interest income, net	900	1,220	1,787	2,517
Other, net	(2)	141	67	281
Non-operating (expense) income, net	($4,754)	$8,016	($4,912)	($14,787)

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Reclassifications Out of Accumulated Other Comprehensive Income, net of taxes
The following table summarizes the amounts reclassified out of accumulated other comprehensive income, net of taxes (in thousands):

Accumulated Other Comprehensive Income Component	Amount Reclassified Out of Accumulated Other Comprehensive Income				Affected Line Item in the Consolidated Statements of Income (Loss)
	Three Months Ended		Six Months Ended		
	December 25, 2016	December 27, 2015	December 25, 2016	December 27, 2015	
Net unrealized gain on available-for-sale securities, net of taxes	$—	$14	$12	$16	Non-operating (expense) income, net
	—	14	12	16	Income (loss) from continuing operations before income taxes
	—	2	5	5	Income tax expense (benefit)
	$—	$12	$7	$11	(Loss) income from continuing operations

Note 5 – Investments
Investments consist of municipal bonds, corporate bonds, commercial paper and certificates of deposit. All short-term investments are classified as available-for-sale. Other long-term investments consist of the Company's ownership interest in Lextar Electronics Corporation.
The following tables summarize short-term investments (in thousands):

	December 25, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal bonds	$186,214	$583	($767)	$186,030
Corporate bonds	165,016	874	(813)	165,077
Non-U.S. certificates of deposit	89,901	—	—	89,901
U.S. certificates of deposit	9,150	—	—	9,150
Commercial paper	3,863	—	—	3,863
Total short-term investments	$454,144	$1,457	($1,580)	$454,021

	June 26, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal bonds	$186,893	$3,562	($15)	$190,440
Corporate bonds	165,766	3,074	(73)	168,767
Non-U.S. certificates of deposit	73,127	—	—	73,127
U.S. certificates of deposit	3,500	—	—	3,500
Commercial paper	3,317	—	—	3,317
Total short-term investments	$432,603	$6,636	($88)	$439,151

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

	December 25, 2016					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Municipal bonds	$106,408	($767)	$—	$—	$106,408	($767)
Corporate bonds	80,976	(808)	2,495	(5)	83,471	(813)
Total	$187,384	($1,575)	$2,495	($5)	$189,879	($1,580)
Number of securities with an unrealized loss		131		1		132

	June 26, 2016					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Municipal bonds	$2,936	($9)	$3,535	($6)	$6,471	($15)
Corporate bonds	27,578	(73)	—	—	27,578	(73)
Total	$30,514	($82)	$3,535	($6)	$34,049	($88)
Number of securities with an unrealized loss		22		3		25

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

The Company evaluates its investments for possible impairment or a decline in fair value below cost basis that is deemed to be other-than-temporary on a periodic basis. It considers such factors as the length of time and extent to which the fair value has been below the cost basis, the financial condition of the investee, and its ability and intent to hold the investment for a period of time that may be sufficient for an anticipated full recovery in market value. Accordingly, the Company considered declines in its investments to be temporary in nature, and did not consider its securities to be impaired as of December 25, 2016 and June 26, 2016.

The contractual maturities of short-term investments as of December 25, 2016 were as follows (in thousands):

	Within One Year	After One, Within Five Years	After Five, Within Ten Years	After Ten Years	Total
Municipal bonds	$44,551	$112,725	$28,755	$—	$186,031
Corporate bonds	32,559	96,042	36,476	—	165,077
Non-U.S. certificates of deposit	89,901	—	—	—	89,901
U.S. certificates of deposit	6,150	3,000	—	—	9,150
Commercial paper	3,862	—	—	—	3,862
Total short-term investments	$177,023	$211,767	$65,231	$—	$454,021

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Note 6 – Fair Value of Financial Instruments

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

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

The financial assets for which the Company performs recurring fair value remeasurements are cash equivalents, short-term investments and long-term investments. As of December 25, 2016, financial assets utilizing Level 1 inputs included money market funds, and financial assets utilizing Level 2 inputs included municipal bonds, corporate bonds, certificates of deposit, and common stock of non-U.S. corporations. Level 2 assets are valued based on quoted prices in active markets for instruments that are similar or using a third-party pricing service's consensus price, which is a weighted average price based on multiple sources. These sources determine prices utilizing market income models which factor in, where applicable, transactions of similar assets in active markets, transactions of identical assets in infrequent markets, interest rates, bond or credit default swap spreads and volatility. The Company did not have any financial assets requiring the use of Level 3 inputs as of December 25, 2016. There were no transfers between Level 1 and Level 2 during the six months ended December 25, 2016.

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

	December 25, 2016				June 26, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents:								
U.S. agency securities	$—	$—	$—	$—	$—	$—	$—	$—
Non-U.S. certificates of deposit	—	—	—	—	—	137	—	137
Money market funds	466	—	—	466	576	—	—	576
Total cash equivalents	466	—	—	466	576	137	—	713
Short-term investments:								
Municipal bonds	—	186,030	—	186,030	—	190,440	—	190,440
Corporate bonds	—	165,077	—	165,077	—	168,767	—	168,767
U.S. certificates of deposit	—	9,150	—	9,150	—	3,500	—	3,500
Commercial paper	—	3,862	—	3,862	—	3,317	—	3,317
Non-U.S. certificates of deposit	—	89,901	—	89,901	—	73,127	—	73,127
Total short-term investments	—	454,020	—	454,020	—	439,151	—	439,151
Other long-term investments:								
Common stock of non-U.S. corporations	—	34,315	—	34,315	—	40,179	—	40,179
Total other long-term investments	—	34,315	—	34,315	—	40,179		