

Cree, Inc.
Non-GAAP Measures of Financial Performance

To supplement the company's consolidated financial statements presented in accordance with generally accepted accounting principles, or GAAP, Cree uses non-GAAP measures of certain components of financial performance. These non-GAAP measures include non-GAAP net income, non-GAAP earnings per diluted share, non-GAAP gross margin, non-GAAP operating income and free cash flow.

Reconciliation to the nearest GAAP measure of all historical non-GAAP measures included in this press release can be found in the tables included with this press release. In this press release, Cree also presents its target for non-GAAP expenses, which is expenses less stock-based compensation expense, charges for amortization or impairment of acquired intangibles, acquisition finished goods inventory step-up, acquisition inventory write-off, and acquisition costs.

Non-GAAP measures presented in this press release are not in accordance with or an alternative to measures prepared in accordance with GAAP and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. Non-GAAP measures have limitations in that they do not reflect all of the amounts associated with Cree's results of operations as determined in accordance with GAAP. These non-GAAP measures should only be used to evaluate Cree's results of operations in conjunction with the corresponding GAAP measures.

Cree believes that these non-GAAP measures, when shown in conjunction with the corresponding GAAP measures, enhance investors' and management's overall understanding of the company's current financial performance and the company's prospects for the future, including cash flows available to pursue opportunities to enhance shareholder value. In addition, because Cree has historically reported certain non-GAAP results to investors, the company believes the inclusion of non-GAAP measures provides consistency in the company's financial reporting.

For its internal budgeting process, and as discussed further below, Cree's management uses financial statements that do not include stock-based compensation expense or amortization or impairment of acquired intangible assets, and the income taxes associated with the foregoing, and also do not include acquisition finished goods inventory step-up, acquisition inventory write-off, and acquisition costs. Cree's management also uses non-GAAP measures, in addition to the corresponding GAAP measures, in reviewing the company's financial results.

As described above, Cree excludes the following items from one or more of its non-GAAP measures when applicable:

Stock-based compensation expense. This expense consists of expenses for stock options, restricted stock and employee stock purchases through its ESPP. Cree excludes stock-based compensation expenses from its non-GAAP measures because they are non-cash expenses that Cree does not believe are reflective of ongoing operating results.

Amortization or impairment of acquired intangible assets. Cree incurs amortization or impairments of acquired intangible assets in connection with acquisitions. Cree excludes these items because they arise from Cree's prior acquisitions and have no direct correlation to the ongoing operating results of Cree's business.

Income tax effects of the foregoing non-GAAP items. This amount is used to present each of the amounts described above on an after-tax basis consistent with the presentation of non-GAAP net income.

Cree expects to incur stock-based compensation expense and amortization of acquired intangible assets in future periods, including income taxes associated with all of the foregoing. In addition to the non-GAAP measures discussed above, Cree also uses free cash flow as a measure of operating performance. Free cash flow represents operating cash flows less net purchases of property and equipment and patent and licensing rights. Cree considers free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business after the purchases of property and equipment, which can then be used to, among other things, invest in Cree's business, make strategic acquisitions, strengthen the balance sheet and repurchase stock. A limitation of the utility of free cash flow as a measure of financial performance is that it does not represent the total increase or decrease in the company's cash balance for the period.

CREE, INC.
Reconciliation of GAAP to Non-GAAP Measures
(in thousands, except per share amounts and percentages)
(unaudited)

Non-GAAP Gross Margin

	Three Months Ended		Year Ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
GAAP gross profit	\$ 162,266	\$ 140,725	\$ 618,795	\$ 523,260
GAAP gross margin percentage	37.2 %	37.5 %	37.6 %	37.8 %
Adjustments:				
Stock-based compensation expense	2,996	2,514	11,353	9,389
Non-GAAP gross profit	<u>\$ 165,262</u>	<u>\$ 143,239</u>	<u>\$ 630,148</u>	<u>\$ 532,649</u>
Non-GAAP gross margin percentage	37.9 %	38.2 %	38.2 %	38.4 %

Non-GAAP Operating Income

	Three Months Ended		Year Ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
GAAP operating income	\$ 31,721	\$ 30,861	\$ 134,275	\$ 96,494
GAAP operating income percentage	7.3 %	8.2 %	8.1 %	7.0 %
Adjustments:				
Stock-based compensation expense:				
Cost of revenue, net	2,996	2,514	11,353	9,389
Research and development	3,939	2,985	15,392	13,429
Sales, general and administrative	8,489	7,456	34,941	31,081
Total stock-based compensation expense	<u>15,424</u>	<u>12,955</u>	<u>61,686</u>	<u>53,899</u>
Amortization or impairment of acquisition-related intangibles	10,188	7,715	31,988	30,823
Total adjustments to GAAP operating income	<u>25,612</u>	<u>20,670</u>	<u>93,674</u>	<u>84,722</u>
Non-GAAP operating income	<u>\$ 57,333</u>	<u>\$ 51,531</u>	<u>\$ 227,949</u>	<u>\$ 181,216</u>
Non-GAAP operating income percentage	13.1 %	13.7 %	13.8 %	13.1 %

Non-GAAP Net Income

	Three Months Ended		Year Ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
GAAP net income	\$ 29,849	\$ 28,242	\$ 124,191	\$ 86,925
Adjustments:				
Stock-based compensation expense	15,424	12,955	61,686	53,899
Amortization or impairment of acquisition-related intangibles	10,188	7,715	31,988	30,823
Total adjustments to GAAP net income before provision for income taxes	25,612	20,670	93,674	84,722
Income tax effect *	(4,175)	(3,267)	(14,800)	(16,266)
Non-GAAP net income	\$ 51,286	\$ 45,645	\$ 203,065	\$ 155,381

Earnings per share

Non-GAAP diluted net income per share	\$ 0.42	\$ 0.38	\$ 1.65	\$ 1.32
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Shares used in diluted net income per share calculation

Non-GAAP shares used	122,043	121,081	122,914	117,979
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*Estimated income tax effect is based upon the Company's overall consolidated effective tax rate for the given period.

Free Cash Flow

	Three Months Ended		Year Ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
Cash flow from operations	\$ 91,138	\$ 61,164	\$ 319,308	\$ 285,234
Less: PP&E spending	(58,943)	(22,062)	(178,557)	(77,468)
Less: Patents spending	(5,428)	(5,064)	(20,183)	(20,858)
Total free cash flow	\$ 26,767	\$ 34,038	\$ 120,568	\$ 186,908