

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 gross margin, non-GAAP operating (loss) income, non-GAAP non-operating (loss) income, net, non-GAAP net (loss) income, non-GAAP (loss) earnings per diluted share 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 are expenses less stock-based compensation expense, charges for amortization or impairment of acquisition-related intangibles, asset retirement charges, net changes associated with equity method investments and charges associated with LED business restructuring.

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, amortization or impairment of acquisition-related intangibles, asset retirement charges, charges associated with LED business restructuring, net changes associated with equity method investments and the income taxes associated with the foregoing. 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 acquisition-related intangibles. Cree incurs amortization or impairment of acquisition-related intangibles 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.

Asset retirement charges. Cree has recognized charges for the impact of the decision to abandon or retire certain property and equipment prior to the end of their estimated useful lives. These charges also include the adjustment of a previously capitalized patent cost. Because these charges relate to assets which have been or will be retired prior to the end of their estimated useful lives, Cree does not consider these charges to be reflective of ongoing operating results.

Costs associated with LED business restructuring. Due to recent LED market trends that have resulted in higher LED average selling price erosion than previously forecasted and the continued under-utilization of the Company's LED factories in the fourth quarter of fiscal 2015, Cree's board of directors approved a plan to restructure the LED business. The restructuring is expected to reduce excess capacity and overhead in order to improve the cost

structure moving forward. The components of the restructuring include the planned sale or abandonment of certain manufacturing equipment, facility consolidation and the elimination of certain positions. Because these charges relate to assets which have been or will be retired prior to the end of their estimated useful lives and severance costs for eliminated positions, Cree does not consider these charges to be reflective of ongoing operating results.

Net changes associated with equity method investments. The Company completed its common stock ownership investment in Lextar Electronics Corporation in the second quarter of fiscal 2015. The investment is accounted for under the equity method utilizing the fair value option. As such, changes in fair value are recognized in income, including fluctuations due to the exchange rate between the New Taiwan Dollar and the United States Dollar. Cree excludes the impact of these gains or losses from its non-GAAP measures because they are non-cash impacts that Cree does not believe are reflective of ongoing operating results. Additionally, Cree excludes the impact of dividends received on its Lextar investment as Cree does not believe it is reflective of ongoing operating results.

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 (loss) income.

Cree expects to incur stock-based compensation expense, amortization or impairment of acquisition-related intangibles, asset retirement charges, charges associated with LED business restructuring and net changes associated with equity method investments 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 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
GAAP gross profit	\$ 76,949	\$ 162,266	\$ 474,956	\$ 618,795
GAAP gross margin percentage	20.1%	37.2%	29.1%	37.6%
Adjustments:				
Stock-based compensation expense	3,325	2,996	12,838	11,353
Non-GAAP gross profit	<u>\$ 80,274</u>	<u>\$ 165,262</u>	<u>\$ 487,794</u>	<u>\$ 630,148</u>
Non-GAAP gross margin percentage	21.0%	37.9%	29.9%	38.2%

Non-GAAP Operating (Loss) Income

	Three Months Ended		Year Ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
GAAP operating (loss) income	\$ (95,672)	\$ 31,721	\$ (72,513)	\$ 134,275
GAAP operating income percentage	(25.0)%	7.3%	(4.4)%	8.1%
Adjustments:				
Stock-based compensation expense:				
Cost of revenue, net	3,325	2,996	12,838	11,353
Research and development	3,728	3,939	16,521	15,392
Sales, general and administrative	7,988	8,489	34,940	34,941
Total stock-based compensation expense	<u>15,041</u>	<u>15,424</u>	<u>64,299</u>	<u>61,686</u>
Amortization or impairment of acquisition-related intangibles	6,477	10,188	26,220	31,988
Asset retirement charges	—	—	3,139	—
Costs associated with LED business restructuring	45,981	—	45,981	—
Total adjustments to GAAP operating income	<u>67,499</u>	<u>25,612</u>	<u>139,639</u>	<u>93,674</u>
Non-GAAP operating (loss) income	<u>\$ (28,173)</u>	<u>\$ 57,333</u>	<u>\$ 67,126</u>	<u>\$ 227,949</u>
Non-GAAP operating (loss) income percentage	(7.4)%	13.1%	4.1 %	13.8%

Non-GAAP Non-Operating (Loss) Income, net

	Three Months Ended		Year Ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
GAAP non-operating (loss) income, net	\$ (14,155)	\$ 3,922	\$ (10,389)	\$ 13,295
Adjustment:				
Net changes associated with equity method investments	16,689	—	20,390	—
Non-GAAP non-operating income, net	<u>2,534</u>	<u>3,922</u>	<u>10,001</u>	<u>13,295</u>

Non-GAAP Net (Loss) Income

	Three Months Ended		Year Ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
GAAP net (loss) income	\$ (87,983)	\$ 29,849	\$ (64,051)	\$ 124,191
Adjustments:				
Stock-based compensation expense	15,041	15,424	64,299	61,686
Amortization or impairment of acquisition-related intangibles	6,477	10,188	26,220	31,988
Asset retirement charges	—	—	3,139	—
Costs associated with LED business restructuring	45,981	—	45,981	—
Net changes associated with equity method investments	16,689	—	20,390	—
Total adjustments to GAAP net (loss) income before provision for income taxes	84,188	25,612	160,029	93,674
Income tax effect *	(16,753)	(4,175)	(24,063)	(14,800)
Non-GAAP net (loss) income	\$ (20,548)	\$ 51,286	\$ 71,915	\$ 203,065
(Loss) earnings per share				
Non-GAAP diluted net (loss) income per share	\$ (0.19)	\$ 0.42	\$ 0.64	\$ 1.65

Shares used in diluted net (loss) income per share calculation

Non-GAAP shares used	106,558	122,043	113,022	122,914
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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 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Cash flow from operations	\$ 87,555	\$ 91,138	\$ 181,254	\$ 319,308
Less: PP&E spending	(47,883)	(58,943)	(206,160)	(178,557)
Less: Patents spending	(4,941)	(5,428)	(19,491)	(20,183)
Total free cash flow	\$ 34,731	\$ 26,767	\$ (44,397)	\$ 120,568

Source: Cree, Inc.