

**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 acquisition-related intangibles and asset retirement charges.

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, or changes in the fair value of 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.* In conjunction with Cree's plans to expand its manufacturing facilities, 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. 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.

*Changes in the fair value of 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.

*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, amortization or impairment of acquisition-related intangibles, asset retirement charges and changes in the fair value of 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		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
GAAP gross profit	\$ 136,779	\$ 155,778	\$ 272,599	\$ 306,535
GAAP gross margin percentage	33.1%	37.5%	32.4%	38.0%
Adjustment:				
Stock-based compensation expense	3,448	2,849	\$ 6,353	\$ 5,228
Non-GAAP gross profit	<u>\$ 140,227</u>	<u>\$ 158,627</u>	<u>\$ 278,952</u>	<u>\$ 311,763</u>
Non-GAAP gross margin percentage	33.9%	38.2%	33.2%	38.7%

**Non-GAAP Operating Income**

	Three Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
GAAP operating income	\$ 10,185	\$ 35,383	\$ 21,642	\$ 72,175
GAAP operating income percentage	2.5%	8.5%	2.6%	9.0%
Adjustments:				
Stock-based compensation expense:				
Cost of revenue, net	3,448	2,849	6,353	5,228
Research and development	4,112	3,829	8,583	7,541
Sales, general and administrative	8,876	8,994	18,260	17,481
Total stock-based compensation expense	<u>16,436</u>	<u>15,672</u>	<u>33,196</u>	<u>30,250</u>
Amortization or impairment of acquisition-related intangibles	6,495	7,256	12,994	14,543
Asset retirement charges	884	—	1,395	—
Total adjustments to GAAP operating income	<u>23,815</u>	<u>22,928</u>	<u>47,585</u>	<u>44,793</u>
Non-GAAP operating income	<u>\$ 34,000</u>	<u>\$ 58,311</u>	<u>\$ 69,227</u>	<u>\$ 116,968</u>
Non-GAAP operating income percentage	8.2%	14.0%	8.2%	14.5%

## Non-GAAP Non-Operating Income, net

	Three Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
GAAP non-operating income, net	\$ 1,728	\$ 3,403	\$ 4,632	\$ 6,221
Adjustment:				
Changes in the fair value of equity method investments	1,477	—	1,477	—
Non-GAAP non-operating income, net	\$ 3,205	\$ 3,403	\$ 6,109	\$ 6,221

## Non-GAAP Net Income

	Three Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
GAAP net income	\$ 12,151	\$ 35,681	\$ 23,281	\$ 66,178
Adjustments				
Stock-based compensation expense	16,436	15,672	33,196	30,250
Amortization or impairment of acquisition-related intangibles	6,495	7,256	12,994	14,543
Changes in the fair value of equity method investments	1,477	—	1,477	—
Asset retirement charges	884	—	1,395	—
Total adjustments to GAAP net income before provision for income taxes	25,292	22,928	49,062	44,793
Income tax effect *	506	(1,835)	(5,593)	(6,988)
Non-GAAP net income	\$ 37,949	\$ 56,774	\$ 66,750	\$ 103,983

### Earnings per share

Non-GAAP diluted net income per share	\$ 0.33	\$ 0.46	\$ 0.56	\$ 0.85
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### Shares used in diluted net income per share calculation

Non-GAAP shares used	115,845	123,204	118,599	122,821
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\*Estimated income tax effect is based upon the Company's overall consolidated effective tax rate for the given period.

## Earnings diluted per share, excluding impact of R&D tax benefit

	Three Months Ended
	December 28, 2014
GAAP diluted earnings per share	\$ 0.10
Adjustment:	
R&D tax credit benefit	\$ (0.02)
Earnings per diluted share, excluding impact of R&D tax credit benefit	\$ 0.08

**Non-GAAP earnings per diluted share, excluding impact of R&D tax credit benefit**

	<b>Three Months Ended</b>
	<b>December 28, 2014</b>
Non-GAAP diluted net income per share (from above)	\$ 0.33
Adjustment:	
R&D tax credit benefit	\$ (0.08)
Non-GAAP earnings per diluted share, excluding impact of R&D tax credit benefit	<u>\$ 0.25</u>

## Free Cash Flow

	Three Months Ended		Six Months Ended	
	December 28, 2014	December 29, 2013	December 28, 2014	December 29, 2013
Cash flows from operations	\$ 14,768	\$ 98,751	\$ 28,052	\$ 167,987
Less: PP&E spending	(49,929)	(49,770)	(113,375)	(83,450)
Less: Patents spending	(4,798)	(5,277)	(9,604)	(10,046)
Total free cash flow	\$ (39,959)	\$ 43,704	\$ (94,927)	\$ 74,491