



FOR IMMEDIATE RELEASE

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Cree Reports Financial Results for the First Quarter of Fiscal Year 2015

*Quarterly Revenue Increased 9% Year-over-Year to \$428 million
Quarterly Net Income Decreased 64% Year-over-Year to \$11.1 million*

DURHAM, N.C., October 21, 2014 - Cree, Inc. (Nasdaq: CREE), a market leader in LED lighting, today announced revenue of \$427.7 million for its first quarter of fiscal 2015, ended September 28, 2014. This represents a 9% increase compared to revenue of \$391.0 million reported for the first quarter of fiscal 2014. GAAP net income for the first quarter was \$11.1 million, or \$0.09 per diluted share, a decrease of 64% year-over-year compared to GAAP net income of \$30.5 million, or \$0.25 per diluted share, for the first quarter of fiscal 2014. On a non-GAAP basis, net income for the first quarter of fiscal 2015 was \$29.6 million, or \$0.24 per diluted share, a decrease of 38% year-over-year compared to non-GAAP net income for the first quarter of fiscal 2014 of \$47.3 million, or \$0.39 per diluted share.

“We have good momentum in our Lighting and Power & RF segments, although fiscal Q1 results were below our targeted levels due primarily to lower than expected LED demand,” stated Chuck Swoboda, Cree Chairman and CEO. “While the LED industry conditions are challenging, we’re confident that innovation is still the key to leading the market and driving growth in all of our businesses. Given our technology leadership, new product pipeline and strong balance sheet, we remain uniquely positioned to capitalize as the industry transitions to LED lighting.”

Q1 2015 Financial Metrics

(in thousands, except per share amounts and percentages)

	First Quarter		Change	
	2015	2014		
	(unaudited)	(unaudited)		
Revenue, net	\$ 427,672	\$ 391,006	\$ 36,666	9 %
GAAP				
Gross margin	31.8 %	38.6 %		
Operating margin	2.7 %	9.4 %		
Net income	\$ 11,130	\$ 30,497	\$ (19,367)	(64) %
Earnings per diluted share	\$ 0.09	\$ 0.25	\$ (0.16)	(64) %
Non-GAAP				
Gross margin	32.4 %	39.2 %		
Operating margin	8.2 %	15.0 %		
Net income	\$ 29,550	\$ 47,332	\$ (17,782)	(38) %
Earnings per diluted share	\$ 0.24	\$ 0.39	\$ (0.15)	(38) %

- Gross margin decreased 540 basis points from Q4 of fiscal 2014 to 31.8% on a GAAP basis, and decreased 550 basis points to 32.4% on a non-GAAP basis.
- Cash and investments decreased by \$57.6 million from Q4 of fiscal 2014 to \$1.1 billion.
- Accounts receivable, net increased by \$11.8 million from Q4 of fiscal 2014 to \$237.0 million, with days sales outstanding of 50.
- Inventory increased by \$26.0 million from Q4 of fiscal 2014 to \$310.8 million and represents 96 days of inventory.

Recent Business Highlights:

- Introduced the Cree[®] ZR High-Efficacy (HE) LED troffer, the first commercially available 150-lumens-per-watt LED troffer in the market;
- Launched the Cree XLamp[®] MH-B LED, a new generation of high-power LEDs that delivers better performance and a more-effective way to achieve low-cost systems than mid-power LEDs;
- Announced a cooperation with Lextar Electronics whereby Cree will make an investment in Lextar and the companies will enter into a supply agreement for sapphire-based LED chips;
- Released the industry's first all-SiC, 1.7kV power module in an industry-standard 62-mm housing, enabling engineers to design systems that are smaller, more efficient, more reliable and lower cost.

Business Outlook:

For its second quarter of fiscal 2015 ending December 28, 2014, Cree targets revenue in a range of \$400 million to \$420 million with GAAP gross margin targeted to be 32.6% +/- and non-GAAP gross margin targeted to be 33.5% +/- . Our GAAP gross margin targets include stock-based compensation expense of approximately \$3.4 million, while our non-GAAP targets do not. Operating expenses are targeted to increase approximately \$2 million from Q1. The tax rate is targeted at 22.5% +/- for the second quarter of fiscal 2015. GAAP net income is targeted at \$6 million to \$10 million, or \$0.05 to \$0.09 per diluted share. Non-GAAP net income is targeted in a range of \$24 million to \$29 million, or \$0.20 to \$0.24 per diluted share. The GAAP and non-GAAP net income per diluted share targets are based on an estimated 120 million diluted weighted average shares. Targeted non-GAAP earnings exclude expenses related to the amortization of acquired intangibles, stock-based compensation expense and asset retirement charges of \$0.15 per diluted share.

Quarterly Conference Call:

Cree will host a conference call at 5:00 p.m. EST today to review the highlights of the fiscal 2015 first quarter results and the fiscal 2015 second quarter business outlook, including significant factors and assumptions underlying the targets noted above.

The conference call will be available to the public through a live audio web broadcast via the Internet. For webcast details, visit Cree's website at investor.cree.com/events.cfm.

Supplemental financial information, including the non-GAAP reconciliation attached to this press release, is available on Cree's website at investor.cree.com/results.cfm.

About Cree, Inc.

Cree is leading the LED lighting revolution and making energy-wasting traditional lighting technologies obsolete through the use of energy-efficient, mercury-free LED lighting. Cree is a market-leading innovator of lighting-class LEDs, lighting products and semiconductor products for power and radio frequency (RF) applications.

Cree's product families include LED lighting systems and bulbs, blue and green LED chips, high-brightness LEDs, lighting-class power LEDs, power-switching devices and RF devices. Cree's products are driving improvements in applications such as general illumination, electronic signs and signals, power supplies and inverters.

For additional product and company information, please refer to www.cree.com.

Non-GAAP Financial Measures:

This press release highlights the company's financial results on both a GAAP and a non-GAAP basis. The GAAP results include certain costs, charges and expenses which are excluded from non-GAAP results. By publishing the non-GAAP measures, management intends to provide investors with additional information to further analyze the company's performance, core results and underlying trends. Cree's management evaluates results and makes operating decisions using both GAAP and non-GAAP measures included in this press release. Non-GAAP results are not prepared in accordance with GAAP and non-GAAP information should be considered a supplement to, and not a substitute for, financial statements prepared in accordance with GAAP. Investors and potential investors are encouraged to review the reconciliation of non-GAAP financial measures to their most directly comparable GAAP measures attached to this press release.

Forward Looking Statements:

The schedules attached to this release are an integral part of the release. This press release contains forward-looking statements involving risks and uncertainties, both known and unknown, that may cause actual results to differ

materially from those indicated in the forward-looking statements. Actual results, including with respect to our targets and prospects, could differ materially due to a number of factors, including the risk that we may not obtain sufficient orders to achieve our targeted revenues; price competition in key markets; the risk that we or our channel partners are not able to develop and expand customer bases and accurately anticipate demand from end customers, which can result in increased inventory and reduced orders as we experience wide fluctuations in supply and demand; the risk that our results will suffer if we are unable to balance fluctuations in customer demand and capacity; product mix; risks associated with the ramp-up of production of our new products, and our entry into new business channels different from those in which we have historically operated; the risk that we may experience production difficulties that preclude us from shipping sufficient quantities to meet customer orders or that result in higher production costs and lower margins; our ability to lower costs; the risk that customers do not maintain their favorable perception of our brand and products, resulting in lower demand for our products; the risk that retail customers may alter promotional pricing, increase promotion of a competitor's products over our products or reduce their inventory levels, all of which could negatively affect product demand; the risk that we have an increasingly complex supply chain and its ability to scale to enable maintaining a sufficient supply of raw materials; ongoing uncertainty in global economic conditions, infrastructure development or customer demand that could negatively affect product demand, collectability of receivables and other related matters as consumers and businesses may defer purchases or payments, or default on payments; the risk we may be required to record a significant charge to earnings if our goodwill or amortizable assets become impaired; our ability to complete development and commercialization of products under development, such as our pipeline of improved LED chips, LED components and LED lighting products; risks resulting from the concentration of our business among few customers, including the risk that customers may reduce or cancel orders or fail to honor purchase commitments; risks related to our multi-year warranty periods for LED lighting products; risks associated with acquisitions, divestitures or investments, including our ability to complete our previously announced transaction with Lextar Electronics; the rapid development of new technology and competing products that may impair demand or render our products obsolete; the potential lack of customer acceptance for our products; risks associated with ongoing litigation; and other factors discussed in our filings with the Securities and Exchange Commission (SEC), including our report on Form 10-K for the fiscal year ended June 29, 2014, and subsequent reports filed with the SEC. These forward-looking statements represent Cree's judgment as of the date of this release. Except as required under the U.S. federal securities laws and the rules and regulations of the SEC, Cree disclaims any intent or obligation to update any forward-looking statements after the date of this release, whether as a result of new information, future events, developments, changes in assumptions or otherwise.

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CREE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts and percentages)
(unaudited)

	Three Months Ended	
	September 28, 2014	September 29, 2013
Revenue, net	\$ 427,672	\$ 391,006
Cost of revenue, net	291,852	240,249
Gross profit	135,820	150,757
Gross margin percentage	31.8 %	38.6 %
Operating expenses:		
Research and development	46,725	41,743
Sales, general and administrative	69,692	64,278
Amortization or impairment of acquisition-related intangibles	6,499	7,287
Loss on disposal or impairment of long-lived assets	1,447	657
Total operating expenses	124,363	113,965
Operating income	11,457	36,792
Operating income percentage	2.7 %	9.4 %
Non-operating income, net	2,904	2,818
Income before income taxes	14,361	39,610
Income tax expense	3,231	9,113
Net income	\$ 11,130	\$ 30,497
Diluted earnings per share	\$ 0.09	\$ 0.25
Shares used in diluted per share calculation:	121,143	122,364

CREE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	September 28, 2014 (unaudited)	June 29, 2014
ASSETS		
Current assets:		
Cash, cash equivalents, and short-term investments	\$ 1,104,843	\$ 1,162,466
Accounts receivable, net	236,992	225,160
Inventories	310,780	284,780
Deferred income taxes	29,695	29,414
Prepaid expenses and other current assets	74,371	72,071
Total current assets	<u>1,756,681</u>	<u>1,773,891</u>
Property and equipment, net	635,341	605,713
Goodwill	616,345	616,345
Intangible assets, net	332,123	336,423
Other assets	12,162	11,997
Total assets	<u>\$ 3,352,652</u>	<u>\$ 3,344,369</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	\$ 198,631	\$ 202,294
Accrued salaries and wages	43,268	50,527
Income taxes payable	11,850	14,848
Other current liabilities	39,129	38,986
Total current liabilities	<u>292,878</u>	<u>306,655</u>
Long-term liabilities:		
Long-term debt	45,000	—
Deferred income taxes	15,828	12,173
Other long-term liabilities	29,082	35,395
Total long-term liabilities	<u>89,910</u>	<u>47,568</u>
Shareholders' equity:		
Common stock	148	149
Additional paid-in-capital	2,214,601	2,190,011
Accumulated other comprehensive income, net of taxes	9,727	11,405
Retained earnings	745,388	788,581
Total shareholders' equity	<u>2,969,864</u>	<u>2,990,146</u>
Total liabilities and shareholders' equity	<u>\$ 3,352,652</u>	<u>\$ 3,344,369</u>

CREE, INC.
FINANCIAL RESULTS BY OPERATING SEGMENT
(in thousands, except percentages)
(unaudited)

The following table reflects the results of the Company's reportable segments as reviewed by the Company's Chief Executive Officer, its Chief Operating Decision Maker or CODM, for the three months ended September 28, 2014 and the three months ended September 29, 2013. The CODM does not review inter-segment transactions when evaluating segment performance and allocating resources to each segment. As such, total segment revenue is equal to the Company's consolidated revenue.

	Three Months Ended		Change	
	September 28, 2014	September 29, 2013		
LED Products revenue	\$ 173,590	\$ 218,023	\$ (44,433)	(20)%
<i>Percent of revenue</i>	41 %	56 %		
Lighting Products revenue	223,086	147,918	75,168	51 %
<i>Percent of revenue</i>	52 %	38 %		
Power and RF Products revenue	30,996	25,065	5,931	24 %
<i>Percent of revenue</i>	7 %	6 %		
Total revenue	\$ 427,672	\$ 391,006	\$ 36,666	9 %

	Three Months Ended		Change	
	September 28, 2014	September 29, 2013		
LED Products gross profit	\$ 67,624	\$ 101,653	\$ (34,029)	(33)%
<i>LED Products gross margin</i>	39.0 %	46.6 %		
Lighting Products gross profit	55,592	39,818	15,774	40 %
<i>Lighting Products gross margin</i>	24.9 %	26.9 %		
Power and RF Products gross profit	17,857	13,456	4,401	33 %
<i>Power and RF Products gross margin</i>	57.6 %	53.7 %		
Unallocated costs	(5,253)	(4,170)	(1,083)	26 %
Consolidated gross profit	\$ 135,820	\$ 150,757	\$ (14,937)	(10)%
<i>Consolidated gross margin</i>	31.8 %	38.6 %		

Reportable Segments Description

The Company's LED Products segment includes LED components, LED chips, and silicon carbide materials. The Company's Lighting Products segment primarily consists of LED lighting systems and bulbs. The Company's Power and RF Products segment includes power devices and RF devices.

Financial Results by Reportable Segment

The Company's CODM reviews gross profit as the lowest and only level of segment profit. As such, all items below gross profit in the consolidated statements of income must be included to reconcile the consolidated gross profit presented in the preceding table to the Company's consolidated income before taxes.

The Company allocates direct costs and indirect costs to each segment's cost of revenue. The allocation methodology is based on a reasonable measure of utilization considering the specific facts and circumstances of the cost being allocated.

Certain costs are not allocated when evaluating segment performance. These unallocated costs consist primarily of manufacturing employees' stock-based compensation, expenses for profit sharing and quarterly or annual incentive plans and matching contributions under the Company's 401(k) Plan.

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, or asset retirement charges, 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.

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 and asset retirement charges 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	
	September 28, 2014	September 29, 2013
GAAP gross profit	\$ 135,820	\$ 150,757
GAAP gross margin percentage	31.8 %	38.6 %
Adjustment:		
Stock-based compensation expense	2,905	2,379
Non-GAAP gross profit	\$ 138,725	\$ 153,136
Non-GAAP gross margin percentage	32.4 %	39.2 %

Non-GAAP Operating Income

	Three Months Ended	
	September 28, 2014	September 29, 2013
GAAP operating income	\$ 11,457	\$ 36,792
GAAP operating income percentage	2.7 %	9.4 %
Adjustments:		
Stock-based compensation expense:		
Cost of revenue, net	2,905	2,379
Research and development	4,471	3,712
Sales, general and administrative	9,383	8,487
Total stock-based compensation expense	16,759	14,578
Amortization or impairment of acquisition-related intangibles	6,499	7,287
Asset retirement charges	511	—
Total adjustments to GAAP operating income	23,769	21,865
Non-GAAP operating income	\$ 35,226	\$ 58,657
Non-GAAP operating income percentage	8.2 %	15.0 %

Non-GAAP Net Income

	Three Months Ended	
	September 28, 2014	September 29, 2013
GAAP net income	\$ 11,130	\$ 30,497
Adjustments		
Stock-based compensation expense	16,759	14,578
Amortization or impairment of acquisition-related intangibles	6,499	7,287
Asset retirement charges	511	—
Total adjustments to GAAP net income before provision for income taxes	23,769	21,865
Income tax effect *	(5,349)	(5,030)
Non-GAAP net income	\$ 29,550	\$ 47,332
Earnings per share		
Non-GAAP diluted net income per share	\$ 0.24	\$ 0.39
Shares used in diluted net income per share calculation		
Non-GAAP shares used	121,143	122,364

*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	
	September 28, 2014	September 29, 2013
Cash flows from operations	\$ 13,284	\$ 69,236
Less: PP&E spending	(63,446)	(33,680)
Less: Patents spending	(4,806)	(4,769)
Total free cash flow	\$ (54,968)	\$ 30,787