

# CREE INC

## **FORM 8-K** (Current report filing)

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Address	4600 SILICON DR DURHAM, NC, 27703
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Sector	Technology
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934**

**Date of Report (Date of Earliest Event Reported): October 17, 2017**

**CREE, INC.**

**(Exact name of registrant as specified in its charter)**

**North Carolina**  
**(State or other jurisdiction of**  
**incorporation)**

**0-21154**  
**(Commission File**  
**Number)**

**56-1572719**  
**(I.R.S. Employer**  
**Identification Number)**

**4600 Silicon Drive**  
**Durham, North Carolina**  
**(Address of principal executive offices)**

**27703**  
**(Zip Code)**

**(919) 407-5300**

**Registrant's telephone number, including area code**

**N/A**  
**(Former name or former address, if changed since last report)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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**Item 2.02 Results of Operations and Financial Condition**

On October 17, 2017, Cree, Inc. (the “Company”) issued a press release announcing results for the fiscal quarter ended September 24, 2017. The press release is attached as Exhibit 99.1 and incorporated into this report by reference.

The information in this Item 2.02, including Exhibit 99.1, shall not be deemed “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Furthermore, the information in this report shall not be deemed incorporated by reference into the filings of the Company under the Securities Act of 1933, as amended.

**Item 9.01 Financial Statements and Exhibits****(d) Exhibits**

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
99.1	<a href="#">Press release dated October 17, 2017</a>

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**CREE, INC.**

By: /s/ Michael E. McDevitt  
Michael E. McDevitt  
Executive Vice President and Chief Financial Officer

Date: October 17, 2017



October 17, 2017

## **Cree Reports Financial Results for the First Quarter of Fiscal Year 2018**

*DURHAM, N.C.* -- Cree, Inc. (Nasdaq: CREE) today announced financial results for its first quarter of fiscal 2018, ended September 24, 2017. Revenue for the first quarter of fiscal 2018 was \$360 million, which represents a 3% decrease compared to revenue of \$371 million for the first quarter of fiscal 2017 and a slight increase compared to the fourth quarter of fiscal 2017. GAAP net loss for the first quarter of fiscal 2018 was \$20 million, or \$0.20 per diluted share. This compares to GAAP net income of \$566 thousand, or \$0.01 per diluted share, for the first quarter of fiscal 2017. On a non-GAAP basis, net income for the first quarter of fiscal 2018 was \$4 million, or \$0.04 per diluted share, compared to non-GAAP net income for the first quarter of fiscal 2017 of \$15 million, or \$0.15 per diluted share.

"Cree is a company that's known as an innovator with a long history of blazing new trails, and I'm excited to be part of this team," stated Gregg Lowe, Cree CEO. "There are a number of opportunities and challenges in front of us, and I look forward to working together with our talented team to maximize those opportunities while dealing with the challenges head on."

### **Business Outlook :**

For its second quarter of fiscal 2018 ending December 24, 2017, Cree targets revenue in a range of \$340 million to \$360 million. GAAP net loss is targeted at \$25 million to \$31 million, or \$0.25 to \$0.31 per diluted share. Non-GAAP net income is targeted to be in a range of \$1 million loss to a \$4 million profit, or \$0.01 loss per diluted share to \$0.04 earnings per diluted share. Targeted non-GAAP income excludes \$29 million of expenses, net of tax, related to stock-based compensation expense and the amortization or impairment of acquisition-related intangibles. The GAAP and non-GAAP targets do not include any estimated change in the fair value of Cree's Lextar investment.

### **Quarterly Conference Call:**

Cree will host a conference call at 5:00 p.m. Eastern time today to review the highlights of the fiscal 2018 first quarter results and the fiscal 2018 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](http://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](http://investor.cree.com/results.cfm).

### **About Cree, Inc.**

Cree is a leading innovator of lighting-class LEDs, lighting products and wide bandgap semiconductor products for power and radio frequency (RF) applications. Cree's product families include LED lighting systems and lamps, blue and green LED chips, high-brightness LEDs, lighting-class power LEDs, SiC materials, power devices and RF devices.

Cree's products are driving improvements in applications such as commercial and consumer general illumination, video screens, electronic signs and signals, motor drives, power supplies, EV charging, solar, traction, transportation, radar, communications, telecom, data link and broadband amplifiers.

For additional product and Company information, please refer to [www.cree.com](http://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 commercial Lighting results will continue to suffer if new issues arise regarding issues related to product quality of supplied components for this business; 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 our results will suffer if we are unable to balance fluctuations in customer demand and capacity, including bringing on additional capacity on a timely basis to meet customer demand; the risk that longer manufacturing lead times may cause customers to fulfill their orders with a competitor's products instead; 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 customers do not maintain their favorable perception of our brand and products, resulting in lower demand for our products; the risk that our products fail to perform or fail to meet customer requirements or expectations, resulting in significant additional costs, including costs associated with warranty returns or the potential recall of 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 our investments may experience periods of significant stock price volatility causing us to recognize fair value losses on our investment; the risk posed by managing an increasingly complex supply chain that has the ability to supply a sufficient quantity of raw materials, subsystems and finished products with the required specifications and quality; 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, LED lighting products, and Wolfspeed 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, joint ventures or investments generally; 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 25, 2017, 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.

Cree<sup>®</sup> is a registered trademark and Wolfspeed<sup>™</sup> is a trademark of Cree, Inc.

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

	Three Months Ended	
	September 24, 2017	September 25, 2016
Revenue, net	\$360,398	\$371,231
Cost of revenue, net	260,066	261,302
Gross profit	100,332	109,929
Gross margin percentage	27.8 %	29.6 %
Operating expenses:		
Research and development	41,859	39,948
Sales, general and administrative	62,964	68,458
Amortization or impairment of acquisition-related intangibles	6,792	6,408
Loss on disposal or impairment of long-lived assets	2,825	324
Total operating expenses	114,440	115,138
Operating loss	(14,108)	(5,209)
Operating loss percentage	(3.9)%	(1.4)%
Non-operating expense, net	(1,068)	(158)
Loss before income taxes	(15,176)	(5,367)
Income tax expense (benefit)	4,697	(5,933)
Net (loss) income	(19,873)	566
Net loss attributable to noncontrolling interest	(16)	—
Net (loss) income attributable to controlling interest	\$(19,857)	\$566
Diluted (loss) earnings per share	(\$0.20)	\$0.01
Shares used in diluted per share calculation	97,811	100,559

**CREE, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except par value)

	September 24, 2017	June 25, 2017
<b>ASSETS</b>		
Current assets:		
Cash, cash equivalents, and short-term investments	\$624,854	\$610,938
Accounts receivable, net	154,854	148,392
Income tax receivable	7,639	8,040
Inventories	277,944	284,385
Prepaid expenses	23,572	23,305
Other current assets	15,352	23,390
Current assets held for sale	2,254	2,180
Total current assets	1,106,469	1,100,630
Property and equipment, net	594,698	581,263
Goodwill	618,828	618,828
Intangible assets, net	267,066	274,315
Other long-term investments	47,298	50,366
Deferred income taxes	11,137	11,763
Other assets	12,491	12,702
Total assets	\$2,657,987	\$2,649,867
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable, trade	\$146,578	\$133,185
Accrued salaries and wages	39,766	41,860
Other current liabilities	43,024	36,978
Total current liabilities	229,368	212,023
Long-term liabilities:		
Long-term debt	141,000	145,000
Deferred income taxes	52,895	49,860
Other long-term liabilities	18,743	20,179
Total long-term liabilities	212,638	215,039
Shareholders' equity:		
Common stock	121	121
Additional paid-in-capital	2,426,063	2,419,517
Accumulated other comprehensive income, net of taxes	7,512	5,909
Accumulated deficit	(222,599)	(202,742)
Total shareholders' equity	2,211,097	2,222,805
Noncontrolling interest	\$4,884	\$—
Total liabilities and equity	\$2,657,987	\$2,649,867

**CREE, INC.**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three Months Ended	
	September 24, 2017	September 25, 2016
(In thousands)		
<b>Cash flows from operating activities:</b>		
Net (loss) income	(\$19,873)	\$566
<b>Adjustments to reconcile net (loss) income to net cash provided by operating activities:</b>		
Depreciation and amortization	37,400	35,939
Stock-based compensation	10,135	14,650
Excess tax benefit from stock-based payment arrangements	—	(12)
Loss on disposal or impairment of long-lived assets	2,824	325
Amortization of premium/discount on investments	1,310	1,382
Loss on equity investment	3,267	2,487
Foreign exchange gain on equity investment	(199)	(1,373)
Deferred income taxes	3,133	54
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable, net	(5,996)	(9,227)
Inventories	6,960	(10,808)
Prepaid expenses and other assets	9,323	(1,922)
Accounts payable, trade	6,442	(2,111)
Accrued salaries and wages and other liabilities	(603)	(11,852)
Net cash provided by operating activities	<u>54,123</u>	<u>18,098</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(36,450)	(19,337)
Purchases of patent and licensing rights	(2,476)	(2,252)
Proceeds from sale of property and equipment	327	165
Purchases of short-term investments	(117,607)	(106,749)
Proceeds from maturities of short-term investments	119,928	77,645
Proceeds from sale of short-term investments	1,974	5,148
Net cash used in investing activities	<u>(34,304)</u>	<u>(45,380)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuing shares to non-controlling interest	4,900	—
Payment of acquisition-related contingent consideration	(1,850)	(2,775)
Proceeds from long-term debt borrowings	95,000	110,000
Payments on long-term debt borrowings	(99,000)	(83,000)
Net proceeds from issuance of common stock	119	406
Excess tax benefit from stock-based payment arrangements	—	12
Repurchases of common stock	—	(35,663)
Net cash used in financing activities	<u>(831)</u>	<u>(11,020)</u>
Effects of foreign exchange changes on cash and cash equivalents	473	(11)
Net increase (decrease) in cash and cash equivalents	19,461	(38,313)
<b>Cash and cash equivalents:</b>		
Beginning of period	132,597	166,154
End of period	<u>\$152,058</u>	<u>\$127,841</u>
<b>Supplemental disclosure of cash flow information:</b>		
<b>Significant non-cash transactions:</b>		
Accrued property and equipment	\$18,909	\$3,103

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

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

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 24, 2017 and the three months ended September 25, 2016. 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 24, 2017	September 25, 2016		
Lighting Products revenue	\$149,724	\$183,836	(\$34,112)	(19)%
<i>Percent of revenue</i>	42%	50%		
LED Products revenue	144,520	137,493	7,027	5 %
<i>Percent of revenue</i>	40%	37%		
Wolfspeed revenue	66,154	49,902	16,252	33 %
<i>Percent of revenue</i>	18%	13%		
Total revenue	<u>\$360,398</u>	<u>\$371,231</u>	<u>(\$10,833)</u>	<u>(3)%</u>

	Three Months Ended		Change	
	September 24, 2017	September 25, 2016		
Lighting Products gross profit	\$31,883	\$49,290	(\$17,407)	(35)%
<i>Lighting Products gross margin</i>	21.3%	26.8%		
LED Products gross profit	38,810	41,770	(2,960)	(7)%
<i>LED Products gross margin</i>	26.9%	30.4%		
Wolfspeed gross profit	32,398	23,460	8,938	38 %
<i>Wolfspeed gross margin</i>	49.0%	47.0%		
Unallocated costs	(2,759)	(4,591)	1,832	(40)%
Consolidated gross profit	<u>\$100,332</u>	<u>\$109,929</u>	<u>(\$9,597)</u>	<u>(9)%</u>
<i>Consolidated gross margin</i>	<u>27.8%</u>	<u>29.6%</u>		

### Reportable Segments Description

The Company's Lighting Products segment primarily consists of LED lighting systems and lamps. The Company's LED Products segment includes LED chips and LED components. The Company's Wolfspeed segment includes power devices, RF devices, and SiC materials.

### 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 (loss) income must be included to reconcile the consolidated gross profit presented in the preceding table to the Company's consolidated loss 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 costs 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.

### **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 income, non-GAAP non-operating income, net, non-GAAP net income, non-GAAP diluted (loss) earnings per 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 expenses in the various categories described below. Both our GAAP targets and non-GAAP targets do not include any estimated changes in the fair value of our Lextar investment.

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 the items listed below and the income tax effects 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.

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, performance stock awards 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.

*LED business restructuring charges or gains .* In June 2015, Cree's board of directors approved a plan to restructure the LED business. The restructuring, which was completed during fiscal 2016, reduced excess capacity and overhead in order to improve the cost structure moving forward. The components of the restructuring included 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 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. Similarly, Cree does not consider realized gains or losses on the sale of assets relating to the restructuring to be reflective of ongoing operating results.

*Net changes associated with equity investment.* The Company's common stock ownership investment in Lextar Electronics Corporation is accounted for 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.

*Transaction costs associated with the terminated sale of the Wolfspeed business* . The Company incurred transaction costs in fiscal 2017 in conjunction with the previously proposed sale of its Wolfspeed business to Infineon. Because these costs were incurred relative to a portion of the business which was previously reported as discontinued operations in fiscal 2017, Cree does not consider these amounts 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. Non-GAAP net income is presented using a non-GAAP tax rate. The Company's non-GAAP tax rate represents a recalculation of the GAAP tax rate reflecting the exclusion of the non-GAAP items.

Cree expects to incur many of these same expenses, including income taxes associated with these expenses, in future periods. In addition to the non-GAAP measures discussed above, Cree also uses free cash flow as a measure of operating performance and liquidity. 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 an operating performance and 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, a portion of 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 operating performance and liquidity is that it does not represent the residual cash flow available to the company for discretionary expenditures, as it excludes certain mandatory expenditures such as debt service.

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

**Non-GAAP Gross Margin**

	Three Months Ended	
	September 24, 2017	September 25, 2016
GAAP gross profit	\$100,332	\$109,929
GAAP gross margin percentage	27.8%	29.6%
Adjustment:		
Stock-based compensation expense	1,775	2,805
Non-GAAP gross profit	<u>\$102,107</u>	<u>\$112,734</u>
Non-GAAP gross margin percentage	28.3%	30.4%

**Non-GAAP Operating Income**

	Three Months Ended	
	September 24, 2017	September 25, 2016
GAAP operating loss	(\$14,108)	(\$5,209)
GAAP operating loss percentage	(3.9)%	(1.4)%
Adjustments:		
Stock-based compensation expense:		
Cost of revenue, net	1,775	2,805
Research and development	2,457	3,439
Sales, general and administrative	5,903	8,406
Total stock-based compensation expense	10,135	14,650
Amortization or impairment of acquisition-related intangibles	6,792	6,408
LED business restructuring charges	—	7
Transaction costs related to the terminated sale of the Wolfspeed business	—	1,996
Total adjustments to GAAP operating loss	16,927	23,061
Non-GAAP operating income	<u>\$2,819</u>	<u>\$17,852</u>
Non-GAAP operating income percentage	0.8 %	4.8 %

**Non-GAAP Non-Operating Income, net**

	Three Months Ended	
	September 24, 2017	September 25, 2016
GAAP non-operating loss, net	(\$1,068)	(\$158)
Adjustment:		
Net changes associated with equity method investment	3,067	1,114
Non-GAAP non-operating income, net	<u>\$1,999</u>	<u>\$956</u>

**Non-GAAP Net Income**

	Three Months Ended	
	September 24, 2017	September 25, 2016
GAAP net (loss) income	(\$19,857)	\$566
Adjustments:		
Stock-based compensation expense	10,135	14,650
Amortization or impairment of acquisition-related intangibles	6,792	6,408
LED business restructuring charges	—	7
Transaction costs related to the terminated sale of the Wolfspeed business	—	1,996
Net changes associated with equity method investment	3,067	1,114
Total adjustments to GAAP net (loss) income before provision for income taxes	19,994	24,175
Income tax effect	3,974	(9,595)
Non-GAAP net income	\$4,111	\$15,146
Non-GAAP Earnings per share		
Non-GAAP diluted earnings per share	\$0.04	\$0.15
Shares used in non-GAAP diluted earnings per share calculation		
Non-GAAP shares used	97,811	100,559

**Free Cash Flow**

	Three Months Ended	
	September 24, 2017	September 25, 2016
Cash flows from operations	\$54,123	\$18,098
Less: PP&E spending	(36,450)	(19,337)
Less: Patents spending	(2,476)	(2,252)
Total free cash flow	\$15,197	(\$3,491)

Contact:  
Raiford Garrabrant  
Cree, Inc.  
Director, Investor Relations  
Phone: 919-407-7895  
investorrelations@cree.com

Source: Cree, Inc.