

Conference Call Financial Metrics

(Unaudited)

| | Quarter Ended | | | | | | | | | |
|---|----------------------|-----------|----------------------|-------------|-----------------------|------------|-----------------------|------------|-----------------------|-----------|
| | 3/25/2007 | | 12/24/2006 | | 9/24/2006 | | 6/25/2006 | | 3/26/2006 | |
| | Seq | Change % | Seq | Change % | Seq | Change % | Seq | Change % | Seq | Change % |
| Revenue by product from continuing operations: *** | | | | | | | | | | |
| LED revenue | \$ 67,193,000 | 3% | \$ 65,510,000 | -21% | \$ 82,641,000 | -3% | \$ 85,141,000 | -2% | \$ 86,850,000 | 0% |
| Materials revenue | 10,030,000 | -6% | 10,625,000 | 4% | 10,192,000 | 8% | 9,429,000 | -6% | 10,024,000 | 10% |
| High power products | 5,023,000 | -6% | 5,321,000 | 18% | 4,510,000 | -9% | 4,962,000 | 29% | 3,838,000 | 26% |
| Freight revenue | 72,000 | 9% | 66,000 | -12% | 75,000 | 3% | 73,000 | 4% | 70,000 | 13% |
| Total product revenue | 82,318,000 | 1% | 81,522,000 | -16% | 97,418,000 | -2% | 99,605,000 | -1% | 100,782,000 | 2% |
| Contract revenue | 7,935,000 | 9% | 7,268,000 | 12% | 6,492,000 | -9% | 7,101,000 | 3% | 6,922,000 | 1% |
| Total revenue from continuing operations | \$ 90,253,000 | 2% | \$ 88,790,000 | -15% | \$ 103,910,000 | -3% | \$ 106,706,000 | -1% | \$ 107,704,000 | 2% |
| LED product metrics: | | | | | | | | | | |
| LED revenue - % by product: | | | | | | | | | | |
| Mid-brightness | 48% | | 52% | | 64% | | 61% | | 66% | |
| High-brightness | 52% | | 48% | | 36% | | 39% | | 34% | |
| LED ASPs % change: | | | | | | | | | | |
| Sequentially | 7% | | -7% | | -11% | | -7% | | -5% | |
| Change from year ago quarter | -18% | | -28% | | -26% | | -24% | | -22% | |
| LED costs per unit % change: | | | | | | | | | | |
| Sequentially | 10% | | 10% | | -12% | | 6% | | 0% | |
| Change from year ago quarter | 13% | | 3% | | -12% | | 1% | | -5% | |
| LED unit shipments % change: | | | | | | | | | | |
| Sequentially | -5% | | -15% | | 10% | | 6% | | 6% | |
| Change from year ago quarter | -6% | | 5% | | 32% | | 33% | | 38% | |
| BALANCE SHEET/CASH FLOW /ADJUSTMENTS | | | | | | | | | | |
| Days Sales Outstanding | 61 ** | | 65 ** | | 63 ** | | 58 ** | | 49 ** | |
| Inventory Days on Hand | 74 ** | | 75 ** | | 59 ** | | 44 ** | | 46 ** | |
| Cash flow from operations | \$ 22,568,000 | | \$ 18,407,000 | | \$ 42,631,000 | | \$ 28,873,000 | | \$ 34,969,000 | |
| CapEx spending | \$ 11,228,000 | | \$ 26,777,000 | | \$ 33,845,000 | | \$ 23,046,000 | | \$ 20,984,000 | |
| Free cash flow (cash flow from operations* less CapEx spending) | \$ 11,340,000 | | \$ (8,370,000) | | \$ 8,786,000 | | \$ 5,827,000 | | \$ 13,985,000 | |
| * Most directly comparable GAAP measure to free cash flow | | | | | | | | | | |
| ** Metric measured for continuing operations only / Starting Q1 '07, the DSO calculation has been changed to conform to the conventional practice of dividing quarter-end accounts receivable by revenue for the quarter and multiplying by 90. | | | | | | | | | | |
| *** Certain revenue amounts reclassified to conform with fiscal 2007 presentation. These reclassifications have no effect on previously reported total revenue, net income or shareholders' equity. | | | | | | | | | | |
| Other quarterly metrics: | | | | | | | | | | |
| Stock compensation expense: | | | | | | | | | | |
| Total stock compensation expense, pre tax | <u>\$ 2,742,000</u> | | <u>\$ 2,718,000</u> | | <u>\$ 3,707,000</u> | | <u>\$ 3,310,000</u> | | <u>\$ 3,470,000</u> | |
| Total stock compensation expense, net of tax | <u>\$ 1,947,917</u> | | <u>\$ 1,981,150</u> | | <u>\$ 2,434,000</u> | | <u>\$ 2,251,000</u> | | <u>\$ 2,367,000</u> | |

The following is a reconciliation showing how Cree, Inc.'s third quarter income statements for fiscal 2007 and 2006 would appear if they were adjusted for the items noted below.

CREE, INC.
Reconciling Items to Q3 Financial Statements
(in thousands, except per share amounts)

| | Three Months Ended March 25, 2007 | | | Three Months Ended March 26, 2006 | | |
|--|--------------------------------------|--------------------|-----------------|--------------------------------------|-------------------|------------------|
| | GAAP | Adjustments | As Adjusted | GAAP | Adjustments | As Adjusted |
| Product revenue | \$ 82,318 | \$ - | \$ 82,318 | \$ 100,781 | \$ - | \$ 100,781 |
| Contract revenue | 7,935 | - | 7,935 | 6,923 | - | 6,923 |
| Total revenue | <u>90,253</u> | <u>-</u> | <u>90,253</u> | <u>107,704</u> | <u>-</u> | <u>107,704</u> |
| Cost of product revenue | 55,279 | (580) (a) | 54,699 | 50,946 | (1,299) (a) | 49,647 |
| Cost of contract revenue | 6,002 | - | 6,002 | 5,423 | - | 5,423 |
| Total cost of sales | <u>61,281</u> | <u>(580)</u> | <u>60,701</u> | <u>56,369</u> | <u>(1,299)</u> | <u>55,070</u> |
| Gross profit | 28,972 | 580 | 29,552 | 51,335 | 1,299 | 52,634 |
| Operating expenses: | | | | | | |
| Research and development | 15,797 | (831) (a) | 14,966 | 13,333 | (1,050) (a) | 12,283 |
| Sales, general and administrative | 13,123 | (1,331) (a) | 11,792 | 11,826 | (1,121) (a) | 10,705 |
| Loss on disposal of assets | (154) | - | (154) | 208 | - | 208 |
| Total operating expenses | <u>28,766</u> | <u>(2,162)</u> | <u>26,604</u> | <u>25,367</u> | <u>(2,171)</u> | <u>23,196</u> |
| Operating income | 206 | 2,742 | 2,948 | 25,968 | 3,470 | 29,438 |
| Non-operating income: | | | | | | |
| Gain (loss) on investments in securities | 3 | - | 3 | - | - | - |
| Other non-operating income | (8) | - | (8) | 38 | - | 38 |
| Net interest income | 3,998 | - | 3,998 | 3,482 | - | 3,482 |
| Income from continuing operations before income taxes | <u>4,199</u> | <u>2,742</u> | <u>6,941</u> | <u>29,488</u> | <u>3,470</u> | <u>32,958</u> |
| Income tax expense | (9,846) | 12,036 (b) | 2,190 | 5,194 | 4,848 (d) | 10,042 |
| Net income from continuing operations | <u>14,045</u> | <u>(9,294)</u> | <u>4,751</u> | <u>24,294</u> | <u>(1,378)</u> | <u>22,916</u> |
| Loss from discontinued operations, net of related tax | 7,085 | (7,286) (c) | (201) | (294) | 343 (e) | 49 |
| Net income | <u>\$ 21,130</u> | <u>\$ (16,580)</u> | <u>\$ 4,550</u> | <u>\$ 24,000</u> | <u>\$ (1,035)</u> | <u>\$ 22,965</u> |
| Earnings per diluted share: | | | | | | |
| From continuing operations | \$ 0.18 | \$ (0.13) | \$ 0.06 | \$ 0.31 | \$ (0.02) | \$ 0.29 |
| From discontinued operations | \$ 0.09 | \$ (0.09) | \$ (0.00) | \$ (0.00) | \$ 0.00 | \$ 0.00 |
| From net income | <u>\$ 0.27</u> | <u>\$ (0.22)</u> | <u>\$ 0.06</u> | <u>\$ 0.31</u> | <u>\$ (0.01)</u> | <u>\$ 0.28</u> |
| Weighted average shares of common stock outstanding, basic | 76,417 | - | 76,417 | 76,464 | - | 76,464 |
| Weighted average shares of common stock outstanding, diluted | 77,134 | - | 77,134 | 78,471 | - | 78,471 |

(a) Non-cash stock-based compensation expense.

(b) Tax effects of \$800,000 for non-cash stock based compensation, \$10.6 million of tax benefit related to the the release of contingent tax reserves associated with the completion of our research and experimentation tax credit study and the expected resolution of of Internal Revenue Service audits of fiscal 2003, 2004 and 2005 Federal tax returns, and \$600,000 for the release of valuation allowances on deferred tax assets related to Federal capital loss carry forwards and income tax provision adjustments associated with the filing of our fiscal 2006 federal tax returns.

(c) \$7.3 million of tax benefit related to the the release of contingent tax reserves associated with the completion of Internal Revenue Service audits of fiscal 2003, 2004 and 2005 Federal tax returns.

(d) Tax effects for non-cash stock based compensation. Also includes \$2.3 million tax benefit related to investment in Color Kinetics and \$1.4 million prior years adjustment.

(e) Includes adjustments for costs to terminate an operating lease in Sunnyvale, CA, net of tax.

The following is a reconciliation showing how Cree, Inc.'s year to date income statements for fiscal 2007 and 2006 would appear if they were adjusted for the items noted below.

CREE, INC.
Reconciling Items to Q3 Financial Statements
(in thousands, except per share amounts)

| | Nine Months Ended March 25, 2007 | | | Nine Months Ended March 26, 2006 | | |
|--|-------------------------------------|--------------------|------------------|-------------------------------------|-----------------|------------------|
| | GAAP | Adjustments | As Adjusted | GAAP | Adjustments | As Adjusted |
| Product revenue | \$ 261,258 | \$ - | \$ 261,258 | \$ 295,859 | \$ - | \$ 295,859 |
| Contract revenue | 21,695 | - | 21,695 | 20,387 | - | 20,387 |
| Total revenue | <u>282,953</u> | <u>-</u> | <u>282,953</u> | <u>316,246</u> | <u>-</u> | <u>316,246</u> |
| Cost of product revenue | 163,778 | (2,787) (a) | 160,991 | 145,634 | (1,789) (a) | 143,845 |
| Cost of contract revenue | 16,934 | - | 16,934 | 14,880 | - | 14,880 |
| Total cost of sales | <u>180,712</u> | <u>(2,787)</u> | <u>177,925</u> | <u>160,514</u> | <u>(1,789)</u> | <u>158,725</u> |
| Gross profit | 102,241 | 2,787 | 105,028 | 155,732 | 1,789 | 157,521 |
| Operating expenses: | | | | | | |
| Research and development | 44,777 | (2,606) (a) | 42,171 | 40,910 | (2,108) (a) | 38,802 |
| Sales, general and administrative | 37,659 | (3,774) (a) | 33,885 | 33,395 | (2,227) (a) | 31,168 |
| Loss on disposal of assets | 28 | - | 28 | 908 | - | 908 |
| Total operating expenses | <u>82,464</u> | <u>(6,380)</u> | <u>76,084</u> | <u>75,213</u> | <u>(4,335)</u> | <u>70,878</u> |
| Operating income | 19,777 | 9,167 | 28,944 | 80,519 | 6,124 | 86,643 |
| Non-operating income: | | | | | | |
| Gain (loss) on investments in securities | 11,411 | (11,351) (b) | 60 | 587 | (587) | - |
| Other non-operating income | (6) | - | (6) | 41 | - | 41 |
| Net interest income | 11,844 | - | 11,844 | 8,777 | - | 8,777 |
| Income from continuing operations before income taxes | <u>43,026</u> | <u>(2,184)</u> | <u>40,842</u> | <u>89,924</u> | <u>5,537</u> | <u>95,461</u> |
| Income tax expense | (649) | 13,706 (c) | 13,057 | 22,342 | 4,133 (e) | 26,475 |
| Net income from continuing operations | <u>43,675</u> | <u>(15,890)</u> | <u>27,785</u> | <u>67,582</u> | <u>1,404</u> | <u>68,986</u> |
| Loss from discontinued operations, net of related tax | 7,224 | (7,566) (d) | (342) | (4,152) | 3,162 (f) | (990) |
| Net income | <u>\$ 50,899</u> | <u>\$ (23,455)</u> | <u>\$ 27,444</u> | <u>\$ 63,430</u> | <u>\$ 4,566</u> | <u>\$ 67,996</u> |
| Earnings per diluted share: | | | | | | |
| From continuing operations | \$ 0.57 | \$ (0.21) | \$ 0.36 | \$ 0.86 | \$ 0.02 | \$ 0.88 |
| From discontinued operations | \$ 0.09 | \$ (0.10) | \$ (0.00) | \$ (0.05) | \$ 0.04 | \$ (0.01) |
| From net income | <u>\$ 0.66</u> | <u>\$ (0.31)</u> | <u>\$ 0.36</u> | <u>\$ 0.81</u> | <u>\$ 0.06</u> | <u>\$ 0.86</u> |
| Weighted average shares of common stock outstanding, basic | 76,417 | - | 76,417 | 76,464 | - | 76,464 |
| Weighted average shares of common stock outstanding, diluted | 77,134 | - | 77,134 | 78,471 | - | 78,471 |

(a) Non-cash stock-based compensation expense.

(b) Gain on sale of 931,000 shares of Color Kinetics common stock.

(c) Tax effects for non-cash stock based compensation, tax benefit related to the the release of contingent tax reserves associated with the completion of our research an experimentation tax credit study, tax benefit related to the completion of Internal Revenue Service audits of fiscal 2003, 2004 and 2005 Federal tax returns, tax benefit of the release of valuation allowances on deferred tax assets related to Federal capital loss carry forwards and income tax return to provision adjustments associated with the filing of our fiscal 2006 federal tax returns.

(d) Tax benefit related to the the release of contingent tax reserves associated with the completion of Internal Revenue Service audits of fiscal 2003, 2004 and 2005 Federal

(e) Tax effects for non-cash stock based compensation. Also includes \$4.7 million tax benefit related to investment in Color Kinetics and \$1.4 million prior years adjustment.

(f) Includes adjustments for costs to terminate an operating lease in Sunnyvale, CA, net of tax.