

## Conference Call Financial Metrics

(Unaudited)

	Quarter Ended							
	3/26/2006	Seq Growth %	12/25/2005	Seq Growth %	9/25/2005	Seq Growth %	6/26/2005	Seq Growth %
<b>Revenue by product from continuing operations:</b>								
LED revenue	\$ 86,450,000	0%	\$ 86,516,000	2%	\$ 84,621,000	1%	\$ 83,639,000	4%
Wafer revenue	6,211,000	14%	5,431,000	6%	5,127,000	-4%	5,359,000	-3%
Gemstone material revenue	3,809,000	4%	3,648,000	14%	3,199,000	25%	2,566,000	25%
High power products	3,838,000	26%	3,044,000	-8%	3,296,000	60%	2,061,000	3%
Freight revenue	70,000	13%	62,000	2%	61,000	11%	55,000	15%
<b>Total product revenue</b>	<b>100,378,000</b>	<b>2%</b>	<b>98,701,000</b>	<b>2%</b>	<b>96,304,000</b>	<b>3%</b>	<b>93,680,000</b>	<b>4%</b>
Contract revenue	7,326,000	6%	6,939,000	5%	6,598,000	47%	4,503,000	-18%
<b>Total revenue from continuing operations</b>	<b>\$ 107,704,000</b>	<b>2%</b>	<b>\$ 105,640,000</b>	<b>3%</b>	<b>\$ 102,902,000</b>	<b>5%</b>	<b>\$ 98,183,000</b>	<b>3%</b>
Revenue from Cree Microwave (shown as discontinued operations)	\$ -		\$ 3,312,000		954,000		700,000	
<b>LED product metrics:</b>								
<b>LED revenue - % by product:</b>								
Mid-brightness	67%		62%		57%		76%	
High-brightness	33%		38%		43%		24%	
<b>LED ASPs % change:</b>								
Sequentially	-5%		-5%		-8%		-6%	
Change from year ago quarter	-22%		-13%		-24%		-18%	
<b>LED costs per unit % change:</b>								
Sequentially	0%		-5%		0%		0%	
Change from year ago quarter	-5%		-9%		-8%		-17%	
<b>LED unit shipments % change:</b>								
Sequentially	6%		8%		10%		10%	
Change from year ago quarter	38%		26%		42%		41%	
<b>Wafer metrics:</b>								
Wafer volume- % change, sequentially	-13%		-35%		-3%		-6%	
Wafer ASPs - % change, sequentially	32%		62%		-1%		3%	
Wafer average cost- % change, sequentially	29%		24%		44%		17%	
<b>CONTRACTS</b>								
Amount of contract funding recorded as an offset to R&D	\$ 500,000		\$ 567,000		\$ 435,000		\$ 1,220,000	
Amount of contract costs recorded as an R&D expense	\$ 620,000		\$ 637,000		\$ 460,000		\$ 1,475,000	
<b>BALANCE SHEET/CASH FLOW /ADJUSTMENTS</b>								
Loss on disposal of property and equipment - \$	\$ 208,000		\$ 132,000		\$ 581,000		\$ 576,000	
Gain (loss) on investments	\$ -		\$ -		\$ 587,000		\$ (197,000)	
Income tax expense adjustment public company investment	\$ (2,339,000)		\$ (132,000)		\$ (2,213,000)		\$ (814,000)	
Income tax expense adjustment prior year	\$ (1,406,000)		\$ -		\$ -		\$ -	
Days Sales Outstanding	41 **		37 **		39 **		32	
Inventory Days on Hand	46 **		46 **		50 **		59	
Cash flow from operations - \$	\$ 34,970,000		\$ 56,711,000		\$ 30,977,000		\$ 66,313,000	
CapEx spending \$	\$ 22,488,000		\$ 19,256,000		\$ 12,470,000		\$ 22,039,000	
Free cash flow - \$ (cash flow from operations* less CapEx spending)	\$ 12,482,000		\$ 37,455,000		\$ 18,507,000		\$ 44,274,000	
*Most directly comparable GAAP measure to free cash flow								
** Metric measured for continuing operations only								
<b>Other quarterly metrics:</b>								
<b>Cree Microwave write-downs included in discontinued operations</b>								
Accrual for lease obligation	\$ 503,000		\$ 3,075,000					
Inventory write-down	-		468,000					
fixed asset impairment	-		93,000					
Severance expense	-		232,000					
<b>Total</b>	<b>\$ 503,000</b>		<b>\$ 3,868,000</b>					
<b>Stock compensation expense:</b>								
<b>Stock compensation expense from continuing operations:</b>								
Cost of sales	\$ 1,299,000		\$ 1,222,000		\$ 567,000			
Research and development	1,050,000		1,041,000		1,067,000			
Selling and general and administrative	1,121,000		1,087,000		1,140,000			
<b>Total stock compensation expense</b>	<b>3,470,000</b>		<b>3,350,000</b>		<b>2,774,000</b>			
<b>Stock compensation expense from discontinued operations:</b>								
Cost of sales	-		114,000		61,000			
Research and development	-		-		-			
Selling and general and administrative	-		12,000		15,000			
<b>Total stock compensation expense</b>	<b>-</b>		<b>126,000</b>		<b>76,000</b>			

The following is a reconciliation of how Cree, Inc.'s Q3'06 income statement would appear if it were adjusted for: 1) non-cash compensation expense, which was reported for the first time in Q1'06 as an expense 2) write-downs for our silicon-based business that are now reflected as discontinued operations and 3) tax affects of the above mentioned items, plus a \$2.3 million tax benefit related to our investment in Color Kinetics and a \$1.4 million prior year tax adjustment.

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

	Three Months Ended March 26, 2006			Three Months Ended March 27, 2005		
	GAAP	Adjustments	As Adjusted	GAAP	Adjustments	As Adjusted
Product revenue	\$ 100,378	\$ -	\$ 100,378	\$ 90,279	\$ 441 (d)	\$ 90,720
Contract revenue	7,326	-	7,326	5,475	-	5,475
Total revenue	<u>107,704</u>	<u>-</u>	<u>107,704</u>	<u>95,754</u>	<u>441</u>	<u>96,195</u>
Cost of product revenue	50,946	(1,299) (a)	49,647	38,574	2,212 (d)	40,786
Cost of contract revenue	5,423	-	5,423	4,260	-	4,260
Total cost of sales	<u>56,369</u>	<u>(1,299)</u>	<u>55,070</u>	<u>42,834</u>	<u>2,212</u>	<u>45,046</u>
Gross profit	51,335	1,299	52,634	52,920	(1,771)	51,149
Operating expenses:						
Research and development	13,333	(1,050) (a)	12,283	10,894	-	10,894
Sales, general and administrative	11,826	(1,121) (a)	10,705	8,367	-	8,367
Loss on disposal of property and equipment	208	-	208	277	-	277
Other expense	-	-	-	-	-	-
Operating expenses	<u>25,367</u>	<u>(2,171)</u>	<u>23,196</u>	<u>19,538</u>	<u>-</u>	<u>19,538</u>
Income from operations	25,968	3,470	29,438	33,382	(1,771)	31,611
Non-operating income:						
Gain on investments in securities	-	-	-	2,808	(2,808) (e)	-
Other non-operating income	38	-	38	-	-	-
Interest income, net	3,482	-	3,482	1,404	-	1,404
Income from continuing operations before income taxes	<u>29,488</u>	<u>3,470</u>	<u>32,958</u>	<u>37,594</u>	<u>(4,579)</u>	<u>33,015</u>
Income tax expense	5,194	4,848 (b)	10,042	14,801	(4,579) (f)	10,222
Net income from continuing operations	<u>24,294</u>	<u>(1,378)</u>	<u>22,916</u>	<u>22,793</u>	<u>-</u>	<u>22,793</u>
(Loss) from discontinued operations, net of related tax	(294)	343 (c)	49	(2,110)	-	(2,110)
Net income	<u>\$ 24,000</u>	<u>\$ (1,035)</u>	<u>\$ 22,965</u>	<u>\$ 20,683</u>	<u>\$ -</u>	<u>\$ 20,683</u>
Earnings per share:						
Diluted						
Income from continuing operations	\$ 0.31	\$ (0.02)	\$ 0.29	\$ 0.29	\$ -	\$ 0.29
(Loss) from discontinued operations	\$ -	\$ -	\$ -	\$ (0.02)	\$ -	\$ (0.02)
Net income	<u>\$ 0.31</u>	<u>\$ (0.02)</u>	<u>\$ 0.29</u>	<u>\$ 0.27</u>	<u>\$ -</u>	<u>\$ 0.27</u>
Weighted average shares of common stock outstanding, basic	76,464	-	76,464	75,694	-	75,694
Weighted average shares of common stock outstanding, diluted	78,471	-	78,471	77,428	-	77,428

(a) Non-cash stock based compensation expense.

(b) Tax effects for non-cash stock based compensation. Also includes \$2,339,000 tax benefit related to investment in Color Kinetics and \$1,406,000 prior year adjustment.

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

(d) Includes a \$441,000 revenue adjustment and \$2,212,000 cost of sales reduction related to a change in accounting for sales returns.

(e) Reflects a \$2,808,000 gain on the sale of a portion of our investment in Color Kinetics.

(f) Includes tax effect of the reduction in revenue and cost of sales related to the change in the sales return reserve and the gain on the sale of a portion of the Color Kinetics investment and other tax adjustments. The tax adjustments include a \$4.1 million increase in tax expense related to our investment in Color Kinetics partly offset by a \$716,000 benefit due to a tax rate change and \$230,000 in other tax benefits.

The following is a reconciliation of how Cree, Inc.'s Nine Months income statement would appear if it were adjusted for: 1) non-cash compensation expense, which was reported for the first time in Q1'06 as an expense 2) write-downs for our silicon-based business which is now reflected as a discontinued operation and 3) tax adjustments for the above mentioned items, plus a \$4.7 million tax benefit related to our investment in Color Kinetics and a \$1.4 million prior year tax adjustment.

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

	Nine Months Ended March 26, 2006			Nine Months Ended March 27, 2005		
	GAAP	Adjustments	As Adjusted	GAAP	Adjustments	As Adjusted
Product revenue	\$ 295,382	\$ -	\$ 295,382	\$ 269,084	\$ 441 (d)	\$ 269,525
Contract revenue	20,864	-	20,864	17,191	-	17,191
Total revenue	<u>316,246</u>	<u>-</u>	<u>316,246</u>	<u>286,275</u>	<u>441</u>	<u>286,716</u>
Cost of product revenue	145,634	(3,088) (a)	142,546	114,659	2,212 (d)	116,871
Cost of contract revenue	14,880	-	14,880	13,604	-	13,604
Total cost of sales	<u>160,514</u>	<u>(3,088)</u>	<u>157,426</u>	<u>128,263</u>	<u>2,212</u>	<u>130,475</u>
Gross profit	155,732	3,088	158,820	158,012	(1,771)	156,241
Operating expenses:						
Research and development	40,910	(3,158) (a)	37,752	30,788	-	30,788
Sales, general and administrative	33,395	(3,348) (a)	30,047	22,324	-	22,324
Loss on disposal of property and equipment	908	-	908	603	-	603
Operating expenses	<u>75,213</u>	<u>(6,506)</u>	<u>68,707</u>	<u>53,715</u>	<u>-</u>	<u>53,715</u>
Income from operations	80,519	9,594	90,113	104,297	(1,771)	102,526
Non-operating income:						
Gain on investments in securities	583	(587)	(4)	935	(816) (e)	119
Other non-operating income	45	-	45	4	-	4
Interest income, net	8,777	-	8,777	3,691	-	3,691
Income from continuing operations before income taxes	<u>89,924</u>	<u>9,007</u>	<u>98,931</u>	<u>108,927</u>	<u>(2,587)</u>	<u>106,340</u>
Income tax expense	22,342	8,955 (b)	31,297	32,457	2,592 (f)	35,049
Net income from continuing operations	67,582	52	67,634	76,470	(5,179)	71,291
(Loss) from discontinued operations, net of tax	(4,152)	3,505 (c)	(647)	(6,338)	-	(6,338)
Net income	<u>\$ 63,430</u>	<u>\$ 3,557</u>	<u>\$ 66,987</u>	<u>\$ 70,132</u>	<u>\$ (5,179)</u>	<u>\$ 64,953</u>
Earnings per share:						
Diluted						
Income from continuing operations	\$ 0.87	\$ -	\$ 0.87	\$ 0.99	\$ (0.07)	\$ 0.92
(Loss) from discontinued operations	\$ (0.06)	\$ 0.05	\$ (0.01)	\$ (0.08)	\$ -	\$ (0.08)
Net income	<u>\$ 0.81</u>	<u>\$ 0.05</u>	<u>\$ 0.86</u>	<u>\$ 0.91</u>	<u>\$ (0.07)</u>	<u>\$ 0.84</u>
Weighted average shares of common stock outstanding, basic	76,011	-	76,011	74,860	-	74,860
Weighted average shares of common stock outstanding, diluted	77,943	-	77,943	77,256	-	77,256

(a) Non-cash stock based compensation expense.

(b) Tax effect of non-cash stock based compensation offset by gain in investment in securities. Also includes \$4.7 million tax benefit related to investment in Color Kinetics and \$1,406,000 prior year tax adjustment.

(c) Includes cost to terminate an operating lease in Sunnyvale, CA of \$3,578,000, severance of \$624,000, inventory write down \$668,000 and fixed asset impairments of \$303,000, net of tax.

(d) Includes a \$441,000 revenue adjustment and \$2,212,000 cost of sales reduction related to a change in accounting for sales returns.

(e) Reflects reserve for the decline in value of a private equity investment of \$1,992,000 offset by a \$2,808,000 gain on the sale of a portion of our investment in Color Kinetics.

(f) Includes tax effects for the following adjustments: (a) the reduction in revenue and cost of sales related to the change in the sales return reserve (b) the decline in the value of a privately held investment (c) a gain on the sale of a portion of the Color Kinetics investment and (d) other tax adjustments. The tax adjustments include a net \$3.8 million benefit related to investment in Color Kinetics offset by a \$1.9 million tax adjustment for a settlement on state income taxes and a \$716,000 benefit due to a tax rate change and other adjustments.