

Conference Call Financial Metrics

(Unaudited)

	Quarter Ended									
	12/24/2006		9/24/2006		6/25/2006		3/26/2006		12/25/2005	
	Seq	Change %	Seq	Change %	Seq	Change %	Seq	Change %	Seq	Change %
Revenue by product from continuing operations: ***										
LED revenue	\$ 65,510,000	-21%	\$ 82,641,000	-3%	\$ 85,141,000	-2%	\$ 86,850,000	0%	\$ 86,516,000	1%
Materials revenue	10,625,000	4%	10,192,000	8%	9,429,000	-6%	10,024,000	10%	9,153,000	-4%
High power products	5,321,000	18%	4,510,000	-9%	4,962,000	29%	3,838,000	26%	3,044,000	60%
Freight revenue	66,000	-12%	75,000	3%	73,000	4%	70,000	13%	62,000	11%
Total product revenue	81,522,000	-16%	97,418,000	-2%	99,605,000	-1%	100,782,000	2%	98,775,000	3%
Contract revenue	7,268,000	12%	6,492,000	-9%	7,101,000	3%	6,922,000	1%	6,865,000	47%
Total revenue from continuing operations	\$ 88,790,000	-15%	\$ 103,910,000	-3%	\$ 106,706,000	-1%	\$ 107,704,000	2%	\$ 105,640,000	5%
Revenue from Cree Microwave (shown as discontinued operations)	\$ -		\$ -		\$ -		\$ -		\$ 3,312,000	
LED product metrics:										
LED revenue - % by product:										
Mid-brightness	52%		64%		61%		66%		63%	
High-brightness	48%		36%		39%		34%		37%	
LED ASPs % change:										
Sequentially	-7%		-11%		-7%		-5%		-5%	
Change from year ago quarter	-28%		-26%		-24%		-22%		-13%	
LED costs per unit % change:										
Sequentially	10%		-12%		6%		0%		-5%	
Change from year ago quarter	3%		-12%		1%		-5%		-9%	
LED unit shipments % change:										
Sequentially	-15%		10%		6%		6%		8%	
Change from year ago quarter	5%		32%		33%		38%		26%	
BALANCE SHEET/CASH FLOW /ADJUSTMENTS										
Days Sales Outstanding	65 **		63 **		58 **		49 **		40 **	
Inventory Days on Hand	75 **		59 **		44 **		46 **		46 **	
Cash flow from operations	\$ 18,407,000		\$ 42,631,000		\$ 28,873,000		\$ 34,969,000		\$ 56,711,000	
CapEx spending	\$ 26,777,000		\$ 33,845,000		\$ 23,046,000		\$ 20,984,000		\$ 19,256,000	
Free cash flow (cash flow from operations* less CapEx spending)	\$ (8,370,000)		\$ 8,786,000		\$ 5,827,000		\$ 13,985,000		\$ 37,455,000	
* 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	\$ 2,718,000		\$ 3,707,000		\$ 3,310,000		\$ 3,470,000		\$ 3,350,000	
Total stock compensation expense, net of tax	\$ 1,981,150		\$ 2,434,000		\$ 2,251,000		\$ 2,367,000		\$ 2,353,000	

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

CREE, INC.
Reconciling Items to Q2 Financial Statements
(in thousands, except per share amounts)

	Three Months Ended December 24, 2006			Three Months Ended December 25, 2005		
	GAAP	Adjustments	As Adjusted	GAAP	Adjustments	As Adjusted
Product revenue	\$ 81,522	\$ -	\$ 81,522	\$ 98,775	\$ -	\$ 98,775
Contract revenue	7,268	-	7,268	6,865	-	6,865
Total revenue	<u>88,790</u>	<u>-</u>	<u>88,790</u>	<u>105,640</u>	<u>-</u>	<u>105,640</u>
Cost of product revenue	52,626	(1,000) (a)	51,626	48,387	(1,222) (a)	47,165
Cost of contract revenue	5,795	-	5,795	5,023	-	5,023
Total cost of sales	<u>58,421</u>	<u>(1,000)</u>	<u>57,421</u>	<u>53,410</u>	<u>(1,222)</u>	<u>52,188</u>
Gross profit	30,369	1,000	31,369	52,230	1,222	53,452
Operating expenses:						
Research and development	14,614	(652) (a)	13,962	14,785	(1,041) (a)	13,744
Sales, general and administrative	12,590	(1,066) (a)	11,524	10,834	(1,087) (a)	9,747
Loss on disposal of assets	85	-	85	132	-	132
Total operating expenses	<u>27,289</u>	<u>(1,718)</u>	<u>25,571</u>	<u>25,751</u>	<u>(2,128)</u>	<u>23,623</u>
Operating income	3,080	2,718	5,798	26,479	3,350	29,829
Non-operating income:						
Gain (loss) on investments in securities	11,409	(11,351) (b)	58	-	-	-
Other non-operating income	2	-	2	-	-	-
Net interest income	3,980	-	3,980	2,969	-	2,969
Income from continuing operations before income taxes	<u>18,471</u>	<u>(8,633)</u>	<u>9,838</u>	<u>29,448</u>	<u>3,350</u>	<u>32,798</u>
Income tax expense	2,208	674 (c)	2,882	9,390	2,213 (c)	11,603
Net income from continuing operations	<u>16,263</u>	<u>(9,307)</u>	<u>6,956</u>	<u>20,058</u>	<u>1,137</u>	<u>21,195</u>
Loss from discontinued operations, net of related tax	216	(287) (d)	(71)	(2,349)	-	(2,349)
Net income	<u>\$ 16,479</u>	<u>\$ (9,594)</u>	<u>\$ 6,885</u>	<u>\$ 17,709</u>	<u>\$ 1,137</u>	<u>\$ 18,846</u>
Earnings per diluted share:						
From continuing operations	\$ 0.21	\$ (0.12)	\$ 0.09	\$ 0.26	\$ 0.01	\$ 0.27
From discontinued operations	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ (0.03)	\$ -	\$ (0.03)
From net income	<u>\$ 0.21</u>	<u>\$ (0.13)</u>	<u>\$ 0.09</u>	<u>\$ 0.23</u>	<u>\$ 0.01</u>	<u>\$ 0.23</u>
Weighted average shares of common stock outstanding, basic	76,948	-	76,948	75,966	-	75,966
Weighted average shares of common stock outstanding, diluted	78,093	-	78,093	77,612	-	77,612

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

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

(c) Tax benefit related to stock options, investment in Color Kinetics and retroactive reinstatement of R&D tax credit.

(d) Includes gain realized as a result of entering into a sublease agreement at Cree Microwave.

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

CREE, INC.
Reconciling Items to Q2 Financial Statements
(in thousands, except per share amounts)

	Six Months Ended December 24, 2006			Six Months Ended December 25, 2005		
	GAAP	Adjustments	As Adjusted	GAAP	Adjustments	As Adjusted
Product revenue	\$ 178,940	\$ -	\$ 178,940	\$ 195,078	\$ -	\$ 195,078
Contract revenue	13,760	-	13,760	13,464	-	13,464
Total revenue	192,700	-	192,700	208,542	-	208,542
Cost of product revenue	108,499	(2,207) (a)	106,292	94,688	(1,789) (a)	92,899
Cost of contract revenue	10,932	-	10,932	9,457	-	9,457
Total cost of sales	119,431	(2,207)	117,224	104,145	(1,789)	102,356
Gross profit	73,269	2,207	75,476	104,397	1,789	106,186
Operating expenses:						
Research and development	28,980	(1,775) (a)	27,205	27,577	(2,108) (a)	25,469
Sales, general and administrative	24,536	(2,443) (a)	22,093	21,569	(2,227) (a)	19,342
Loss on disposal of assets	182	-	182	700	-	700
Total operating expenses	53,698	(4,218)	49,480	49,846	(4,335)	45,511
Operating income	19,571	6,425	25,996	54,551	6,124	60,675
Non-operating income:						
Gain (loss) on investments in securities	11,408	(11,351) (b)	57	587	(587)	-
Other non-operating income	2	-	2	3	-	3
Net interest income	7,846	-	7,846	5,295	-	5,295
Income from continuing operations before income taxes	38,827	(4,926)	33,901	60,436	5,537	65,973
Income tax expense	9,197	1,553 (c)	10,750	17,149	4,133 (c)	21,282
Net income from continuing operations	29,630	(6,479)	23,151	43,287	1,404	44,691
Loss from discontinued operations, net of related tax	139	(271) (d)	(132)	(3,858)	3,162 (e)	(696)
Net income	\$ 29,769	\$ (6,750)	\$ 23,019	\$ 39,429	\$ 4,566	\$ 43,995
Earnings per diluted share:						
From continuing operations	\$ 0.38	\$ (0.09)	\$ 0.30	\$ 0.56	\$ 0.02	\$ 0.58
From discontinued operations	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ (0.05)	\$ 0.04	\$ (0.01)
From net income	\$ 0.38	\$ (0.09)	\$ 0.29	\$ 0.51	\$ 0.06	\$ 0.56
Weighted average shares of common stock outstanding, basic	76,948	-	76,948	75,966	-	75,966
Weighted average shares of common stock outstanding, diluted	78,093	-	78,093	77,612	-	77,612

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

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

(c) Tax benefit related to stock options, investment in Color Kinetics and retroactive reinstatement of R&D tax credit.

(d) Includes gain realized as a result of entering into a sublease agreement at Cree Microwave.

(e) Includes cost to terminate an operating lease in Sunnyvale, CA of \$3,075,000, severance of \$624,000, inventory write down of \$688,000 and fixed asset impairments of \$303,000, net of tax.