

The following is a reconciliation showing how Cree, Inc.'s year to date income statements for fiscal 2008 and 2007 would appear if they were adjusted for the items noted below.

CREE, INC.
Reconciling Items to Six Months Financial Statements - GAAP to Non-GAAP
(in thousands, except per share amounts)
(Unaudited)

	Six Months Ended December 30, 2007			Six Months Ended December 24, 2006		
	GAAP	Adjustments	As Adjusted	GAAP	Adjustments	As Adjusted
Product revenue	\$ 217,304	\$ -	\$ 217,304	\$ 178,940	\$ -	\$ 178,940
Contract revenue	15,081	-	15,081	13,760	-	13,760
Total revenue	<u>232,385</u>	<u>-</u>	<u>232,385</u>	<u>192,700</u>	<u>-</u>	<u>192,700</u>
Cost of product revenue	143,831	(1,640)	(a) 142,191	108,499	(2,207)	(a) 106,292
Cost of contract revenue	12,018	-	12,018	10,932	-	10,932
Total cost of sales	<u>155,849</u>	<u>(1,640)</u>	<u>154,209</u>	<u>119,431</u>	<u>(2,207)</u>	<u>117,224</u>
Gross margin	76,536	1,640	78,176	73,269	2,207	75,476
Gross margin percentage	33%		34%	38%		39%
Operating expenses:						
Research and development	27,678	(1,936)	(a) 25,742	28,653	(1,775)	(a) 26,878
Sales, general and administrative	36,373	(4,656)	(a)(b) 31,717	24,522	(2,443)	(a) 22,079
Amortization of acquisition-related intangibles	8,096	(8,096)	(c) -	341	(341)	(c) -
Loss on disposal of assets	1,209	-	1,209	182	-	182
Total operating expenses	<u>73,356</u>	<u>(14,688)</u>	<u>58,668</u>	<u>53,698</u>	<u>(4,559)</u>	<u>49,139</u>
Operating income	3,180	16,328	19,508	19,571	6,766	26,337
Non-operating income:						
Gain (loss) on investments in securities	14,117	(14,117)	(d) -	11,408	(11,351)	(d) 57
Other non-operating income	77	-	77	2	-	2
Net interest income	8,232	-	8,232	7,846	-	7,846
Income from continuing operations before income taxes	<u>25,606</u>	<u>2,211</u>	<u>27,817</u>	<u>38,827</u>	<u>(4,585)</u>	<u>34,242</u>
Income tax expense	6,098	547	(e) 6,645	9,197	1,594	(e) 10,791
Net income from continuing operations	<u>19,508</u>	<u>1,664</u>	<u>21,172</u>	<u>29,630</u>	<u>(6,179)</u>	<u>23,451</u>
Loss from discontinued operations, net of related tax	(174)	-	(174)	139	(271)	(f) (132)
Net income	<u>\$ 19,334</u>	<u>\$ 1,664</u>	<u>\$ 20,998</u>	<u>\$ 29,769</u>	<u>\$ (6,450)</u>	<u>\$ 23,319</u>
Earnings per diluted share:						
From continuing operations	\$ 0.22	\$ 0.02	\$ 0.24	\$ 0.38	\$ (0.08)	\$ 0.30
From discontinued operations	\$ (0.00)	\$ -	\$ (0.00)	\$ 0.00	\$ (0.00)	\$ (0.00)
From net income	<u>\$ 0.22</u>	<u>\$ 0.02</u>	<u>\$ 0.24</u>	<u>\$ 0.38</u>	<u>\$ (0.08)</u>	<u>\$ 0.30</u>
Weighted average shares of common stock outstanding, basic	84,936	-	84,936	77,005	-	77,005
Weighted average shares of common stock outstanding, diluted	86,713	-	86,713	78,043	-	78,043

(a) Non-cash stock-based compensation expense of \$1,640 in costs of product revenue, \$1,936 in research and development and \$3,608 in sales, general and administrative for the six months ended December 30, 2007 and \$2,207 in costs of product revenue, \$1,775 in research and development and \$2,443 in sales, general and administrative for the six months ended December 24, 2006.

(b) Personal property assessment of \$1,048 related to finalizing the audits of our 2002 through 2007 property tax returns.

(c) Amortization expense of \$8,096 for the six months ended December 30, 2007 and \$341 for the six months ended December 24, 2006 recognized on intangible assets resulting from prior-year acquisitions.

(d) Gain on the sale of 500,000 shares of Color Kinetics Incorporated common stock during the six months ended December 30, 2007 and on the sale of 931,000 shares of Color Kinetics Incorporated common stock during the six months ended December 24, 2006.

(e) Tax effects for non-cash stock-based compensation expense, personal property tax assessment, the amortization of acquisition-related intangible assets and on the sale of Color Kinetics Incorporated common stock.

(f) Gain realized as a result of entering into a sublease agreement at Cree Microwave.