

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 Twelve Months Financial Statements - GAAP to Non-GAAP
(in thousands, except per share amounts)
(Unaudited)

	Twelve Months Ended June 24, 2007			Twelve Months Ended June 25, 2006		
	GAAP	Adjustments	As Adjusted	GAAP	Adjustments	As Adjusted
Product revenue	\$ 364,718	\$ -	\$ 364,718	\$ 394,383	\$ -	\$ 394,383
Contract revenue	29,403	-	29,403	28,569	-	28,569
Total revenue	<u>394,121</u>	<u>-</u>	<u>394,121</u>	<u>422,952</u>	<u>-</u>	<u>422,952</u>
Cost of product revenue	237,125	(6,328) (a)(b)	230,797	202,412	(4,330) (a)	198,082
Cost of contract revenue	23,008	-	23,008	19,647	-	19,647
Total cost of sales	<u>260,133</u>	<u>(6,328)</u>	<u>253,805</u>	<u>222,059</u>	<u>(4,330)</u>	<u>217,729</u>
Gross margin	133,988	6,328	140,316	200,893	4,330	205,223
Gross margin percentage	34%		36%	47%		49%
Operating expenses:						
Research and development	58,836	(4,286) (a)(c)	54,550	54,871	(4,089) (a)	50,782
Sales, general and administrative	53,105	(5,047) (a)(c)	48,058	44,760	(4,485) (a)	40,275
Amortization of acquisition related intangibles	4,192	(4,192) (c)	-	-	-	-
Loss on disposal of assets	1,199	-	1,199	2,421	-	2,421
Total operating expenses	<u>117,332</u>	<u>(13,525)</u>	<u>103,807</u>	<u>102,052</u>	<u>(8,574)</u>	<u>93,478</u>
Operating income	16,656	19,853	36,509	98,841	12,904	111,745
Non-operating income:						
Gain (loss) on investments in securities	19,233	(19,233) (d)	-	583	(583)	-
Other non-operating income	238	-	238	46	-	46
Net interest income	14,984	-	14,984	12,893	-	12,893
Income from continuing operations before income taxes	<u>51,111</u>	<u>620</u>	<u>51,731</u>	<u>112,363</u>	<u>12,321</u>	<u>124,684</u>
Income tax expense	918	15,029 (e)	15,947	32,404	8,279 (g)	40,683
Net income from continuing operations	<u>50,193</u>	<u>(14,409)</u>	<u>35,784</u>	<u>79,959</u>	<u>4,042</u>	<u>84,001</u>
Loss from discontinued operations, net of related tax	7,141	(7,566) (f)	(425)	(3,286)	2,460 (h)	(826)
Net income	<u>\$ 57,334</u>	<u>\$ (21,975)</u>	<u>\$ 35,359</u>	<u>\$ 76,673</u>	<u>\$ 6,502</u>	<u>\$ 83,175</u>
Earnings per diluted share:						
From continuing operations	\$ 0.63	\$ (0.19)	\$ 0.45	\$ 1.02	\$ 0.05	\$ 1.07
From discontinued operations	\$ 0.09	\$ (0.10)	\$ (0.01)	\$ (0.04)	\$ 0.03	\$ (0.01)
From net income	<u>\$ 0.72</u>	<u>\$ (0.28)</u>	<u>\$ 0.44</u>	<u>\$ 0.98</u>	<u>\$ 0.08</u>	<u>\$ 1.06</u>
Weighted average shares of common stock outstanding, basic	78,560	-	78,560	76,270	-	76,270
Weighted average shares of common stock outstanding, diluted	79,496	-	79,496	78,207	-	78,207

(a) Non-cash stock-based compensation expense of \$3.3 million in costs of product revenue, \$3.4 million in research and development and \$5.0 million in sale, general and administrative for the year ended June 24, 2007 and \$4.3 million in costs of product revenue, \$4.1 million in research and development and \$4.5 million in sale, general and administrative for the year ended June 25, 2006.

(b) FAS 141 adjustment of \$3.0 million related to valuation of inventory in connection with the purchase of COTCO

(c) IPR&D charge of \$950,000 specifically related to the COTCO acquisition and amortization expense of \$4.2 million recognized on intangible assets resulting from current year acquisitions.

(d) Gain on the sale of 1,296,000 shares of Color Kinetics common stock.

(e) Tax effects for non-cash stock based compensation, amortization of intangible assets, tax benefit related to the release of contingent tax reserves associated with the completion of our research and 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.

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

(g) Tax adjustments for non-cash stock-based compensation less the gain on sale of Color Kinetics stock. Also includes \$3.2 million tax benefit related to investment in Color Kinetics and \$1.2 million of end-of-year and prior year tax adjustments.

(h) Includes costs to terminate an operating lease in Sunnyvale, CA of \$3.6 million, severance of \$624,000, inventory write-down of \$668,000 and fixed asset impairments of \$303,000, net or related tax benefit.