

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

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

	Year Ended June 29, 2008			Year Ended June 24, 2007		
	GAAP	Adjustments	As Adjusted	GAAP	Adjustments	As Adjusted
Product revenue	\$ 464,907	\$ -	\$ 464,907	\$ 364,718	\$ -	\$ 364,718
Contract revenue	28,389	-	28,389	29,403	-	29,403
Total revenue	493,296	-	493,296	394,121	-	394,121
Cost of product revenue	304,663	(2,913) (a)	301,750	237,125	(6,328) (a), (i)	230,797
Cost of contract revenue	22,806	-	22,806	23,008	-	23,008
Total cost of sales	327,469	(2,913)	324,556	260,133	(6,328)	253,805
Gross margin	165,827	2,913	168,740	133,988	6,328	140,316
Gross margin percentage	33.6%		34.2%	34.0%		35.6%
Operating expenses:						
Research and development	58,846	(4,362) (a)	54,484	58,836	(4,286) (a), (e)	54,550
Sales, general and administrative	76,607	(9,758) (a)(b)	66,849	53,105	(5,047) (a)	48,058
Amortization of acquisition-related intangibles	17,127	(17,127) (c)	-	4,192	(4,192) (c)	-
Loss on disposal and impairment of long-lived assets	1,206	-	1,206	1,199	-	1,199
Total operating expenses	153,786	(31,247)	122,539	117,332	(13,525)	103,807
Operating income	12,041	34,160	46,201	16,656	19,853	36,509
Operating income percentage	2.4%		9.4%	4.2%		9.3%
Non-operating income:						
Gain (loss) on investments in securities	14,117	(14,117) (d)	-	19,233	(19,233) (d)	-
Interest and other non-operating income, net	14,891	-	14,891	15,222	-	15,222
Income from continuing operations before income taxes	41,049	20,043	61,092	51,111	620	51,731
Income tax expense	9,237	4,510 (f)	13,747	918	15,029 (f)	15,947
Net income from continuing operations	31,812	15,533	47,345	50,193	(14,409)	35,784
(Loss) gain from discontinued operations, net of related tax	1,627	(1,820) (g)	(193)	7,141	(7,566) (h)	(425)
Net income	<u>\$ 33,439</u>	<u>\$ 13,713</u>	<u>\$ 47,152</u>	<u>\$ 57,334</u>	<u>\$ (21,975)</u>	<u>\$ 35,359</u>
Earnings per diluted share:						
From continuing operations	\$ 0.36	\$ 0.18	\$ 0.54	\$ 0.63	\$ (0.18)	\$ 0.45
From discontinued operations	\$ 0.02	\$ (0.02)	\$ (0.00)	\$ 0.09	\$ (0.10)	\$ (0.01)
From net income	<u>\$ 0.38</u>	<u>\$ 0.16</u>	<u>\$ 0.54</u>	<u>\$ 0.72</u>	<u>\$ (0.28)</u>	<u>\$ 0.44</u>
Weighted average shares of common stock outstanding, basic	86,366	-	86,366	78,560	-	78,560
Weighted average shares of common stock outstanding, diluted	88,077	-	88,077	79,496	-	79,496

(a) Non-cash stock-based compensation expense of \$2,913,000 in costs of product revenue, \$4,362,000 in research and development and \$8,710,000 in sale, general and administrative for the year ended June 29, 2008, and \$3,300,000 in costs of product revenue, \$3,400,000 in research and development and \$5,047,000 in sale, general and administrative for the year ended June 24, 2007.

(b) Personal property assessment of \$1,048,000 related to finalizing the audits of our 2002 through 2007 property tax returns.

(c) Amortization expense of \$17,127,000 for the year ended June 29, 2008, and \$4,192,000 for the year ended June 24, 2007, recognized on acquisition-related intangibles.

(d) Gain on the sale of shares of Color Kinetics common stock during the respective periods.

(e) IPR&D charge of \$950,000 specifically related to the COTCO acquisition.

(f) Tax effects of non-cash stock-based compensation expense, amortization related to acquisition-related intangible assets and other non-GAAP adjustments.

(g) Net gain on sale of certain patents related to the discontinued Cree Microwave segment.

(h) 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, and gain realized as a result of entering into a sublease agreement at Cree Microwave.

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