

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

CREE, INC.
Reconciling Items to Q4 Financial Statements - GAAP to Non-GAAP
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 24, 2007			Three Months Ended June 25, 2006		
	GAAP	Adjustments	As Adjusted	GAAP	Adjustments	As Adjusted
Product revenue	\$ 103,459	\$ -	\$ 103,459	\$ 99,001	\$ -	\$ 99,001
Contract revenue	7,709	-	7,709	7,705	-	7,705
Total revenue	111,168	-	111,168	106,706	-	106,706
Cost of product revenue	73,350	(3,541) (a)(b)	69,809	56,778	(1,242) (a)	55,536
Cost of contract revenue	6,073	-	6,073	4,767	-	4,767
Total cost of sales	79,423	(3,541)	75,882	61,545	(1,242)	60,303
Gross margin	31,745	3,541	35,286	45,161	1,242	46,403
Gross margin percentage	29%		32%	42%		43%
Operating expenses:						
Research and development	14,564	(1,680) (a)(c)	12,884	13,961	(931) (a)	13,030
Sales, general and administrative	15,471	(1,272) (a)	14,199	11,365	(1,137) (a)	10,228
Amortization of acquisition related intangibles	3,664	(3,664) (c)	-	-	-	-
Loss on disposal of assets	1,170	-	1,170	1,513	-	1,513
Total operating expenses	34,869	(6,616)	28,253	26,839	(2,068)	24,771
Operating income	(3,124)	10,157	7,033	18,322	3,310	21,632
Non-operating income:						
Gain (loss) on investments in securities	7,822	(7,822) (d)	-	-	-	-
Other non-operating income	244	-	244	1	-	1
Net interest income	3,140	-	3,140	4,116	-	4,116
Income from continuing operations before income taxes	8,082	2,335	10,417	22,439	3,310	25,749
Income tax expense	1,566	1,323 (e)	2,889	10,061	(1,740) (f)	8,321
Net income from continuing operations	6,516	1,012	7,528	12,378	5,050	17,428
Loss from discontinued operations, net of related tax	(83)	-	(83)	866	(1,045) (g)	(179)
Net income	\$ 6,433	\$ 1,012	\$ 7,445	\$ 13,244	\$ 4,005	\$ 17,249
Earnings per diluted share:						
From continuing operations	\$ 0.08	\$ 0.01	\$ 0.09	\$ 0.16	\$ 0.06	\$ 0.22
From discontinued operations	\$ (0.00)	\$ -	\$ (0.00)	\$ 0.01	\$ (0.01)	\$ (0.00)
From net income	\$ 0.08	\$ 0.01	\$ 0.09	\$ 0.17	\$ 0.05	\$ 0.22
Weighted average shares of common stock outstanding, basic	83,815	-	83,815	77,049	-	77,049
Weighted average shares of common stock outstanding, diluted	84,929	-	84,929	78,978	-	78,978

(a) Non-cash stock-based compensation expense of \$550,000 in costs of product revenue, \$730,000 in research and development and \$1.3 million in sale, general and administrative for the three months ended June 24, 2007 and \$1.2 million in costs of product revenue, \$931,000 in research and development and \$1.1 million in sale, general and administrative for the three months 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 \$3.7 recognized on intangible assets resulting from current year acquisitions.

(d) Gain on the sale of 364,000 shares of Color Kinetics common stock.

(e) Tax effects of \$1.2 million for non-cash stock based compensation, \$1.1 million related to current year acquisitions, \$775,000 of tax benefit related to the release of valuation allowances on deferred tax assets related to Federal capital loss carry forwards and other year end provision adjustments.

(f) Tax adjustments for non-cash stock based compensation that are offset by \$1.8 million of additional tax expense related to investment in Color Kinetics and other end-of-year tax adjustments.

(g) Year to date tax adjustment of \$1.1 million to reclassify to discontinued operations certain tax benefits associated with the Cree Microwave shutdown.