

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

CREE, INC.
Reconciling Items to Q4 2008 & 2007 Financial Statements - GAAP to Non-GAAP
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 29, 2008			Three Months Ended June 24, 2007		
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
Product revenue	\$ 129,443	\$ -	\$ 129,443	\$ 103,459	\$ -	\$ 103,459
Contract revenue	6,482	-	6,482	7,709	-	7,709
Total revenue	<u>135,925</u>	<u>-</u>	<u>135,925</u>	<u>111,168</u>	<u>-</u>	<u>111,168</u>
Cost of product revenue	84,897	(703) (a)	84,194	73,350	(3,541) (a), (d)	69,809
Cost of contract revenue	5,286	-	5,286	6,073	-	6,073
Total cost of sales	<u>90,183</u>	<u>(703)</u>	<u>89,480</u>	<u>79,423</u>	<u>(3,541)</u>	<u>75,882</u>
Gross margin	45,742	703	46,445	31,745	3,541	35,286
Gross margin percentage	33.7%		34.2%	28.6%		31.7%
Operating expenses:						
Research and development	15,763	(1,331) (a)	14,432	14,564	(1,680) (a), (e)	12,884
Sales, general and administrative	19,158	(2,638) (a)	16,520	15,471	(1,272) (a)	14,199
Amortization of acquisition-related intangibles	4,806	(4,806) (b)	-	3,664	(3,664) (b)	-
Loss on disposal and impairment of long-lived assets	719	-	719	1,170	-	1,170
Total operating expenses	<u>40,446</u>	<u>(8,775)</u>	<u>31,671</u>	<u>34,869</u>	<u>(6,616)</u>	<u>28,253</u>
Operating income	5,296	9,478	14,774	(3,124)	10,157	7,033
Operating income percentage	3.9%		10.9%	-2.8%		6.3%
Non-operating income:						
Gain (loss) on investments in securities	-	-	-	7,822	(7,822) (f)	-
Interest and other non-operating income, net	2,699	-	2,699	3,384	-	3,384
Income from continuing operations before income taxes	<u>7,995</u>	<u>9,478</u>	<u>17,473</u>	<u>8,082</u>	<u>2,335</u>	<u>10,417</u>
Income tax expense (benefit)	1,352	1,603 (c)	2,955	1,566	1,323 (c)	2,889
Net income from continuing operations	<u>6,643</u>	<u>7,875</u>	<u>14,518</u>	<u>6,516</u>	<u>1,012</u>	<u>7,528</u>
(Loss) gain from discontinued operations, net of related tax	1,803	(1,820) (g)	(17)	(83)	-	(83)
Net income	<u>\$ 8,446</u>	<u>\$ 6,055</u>	<u>\$ 14,501</u>	<u>\$ 6,433</u>	<u>\$ 1,012</u>	<u>\$ 7,445</u>
Earnings per diluted share:						
From continuing operations	\$ 0.07	\$ 0.09	\$ 0.16	\$ 0.08	\$ 0.01	\$ 0.09
From discontinued operations	\$ 0.02	\$ (0.02)	\$ (0.00)	\$ (0.00)	\$ -	\$ (0.00)
From net income	<u>\$ 0.09</u>	<u>\$ 0.07</u>	<u>\$ 0.16</u>	<u>\$ 0.08</u>	<u>\$ 0.01</u>	<u>\$ 0.09</u>
Weighted average shares of common stock outstanding, basic	88,380	-	88,380	83,815	-	83,815
Weighted average shares of common stock outstanding, diluted	89,615	-	89,615	84,929	-	84,929

(a) Non-cash stock-based compensation expense of \$703,000 in costs of product revenue, \$1,331,000 in research and development and \$2,638,000 in sales, general and administrative for the three months ended June 29, 2008, and \$550,000 in costs of product revenue, \$730,000 in research and development and \$1,272,000 in sales, general and administrative for the three months ended June 24, 2007.

(b) Amortization expense of \$4,806,000 for the three months ended June 29, 2008, and \$3,664,000 for the three months ended June 24, 2007, recognized on intangible assets resulting from acquisitions.

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

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

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

(f) Gain on the sale of shares of Color Kinetics common stock.

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