

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

**CREE, INC.**  
**Reconciling Items to Q2 2008 & 2007 Financial Statements - GAAP to Non-GAAP**  
(in thousands, except per share amounts)  
(Unaudited)

	Three Months Ended December 30, 2007			Three Months Ended December 24, 2006		
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
Product revenue	\$ 111,341	\$ -	\$ 111,341	\$ 81,522	\$ -	\$ 81,522
Contract revenue	7,658	-	7,658	7,268	-	7,268
Total revenue	118,999	-	118,999	88,790	-	88,790
Cost of product revenue	71,251	(726) (a)	70,525	52,626	(1,000) (a)	51,626
Cost of contract revenue	5,952	-	5,952	5,795	-	5,795
Total cost of sales	77,203	(726)	76,477	58,421	(1,000)	57,421
Gross margin	41,796	726	42,522	30,369	1,000	31,369
Gross margin percentage	35%		36%	34%		35%
Operating expenses:						
Research and development	14,901	(1,039) (a)	13,862	14,287	(652) (a)	13,635
Sales, general and administrative	18,211	(1,492) (a)(b)	16,719	12,576	(1,066) (a)	11,510
Amortization of acquisition-related intangibles	4,048	(4,048) (c)	-	341	(341) (c)	-
Loss on disposal of assets	474	-	474	85	-	85
Total operating expenses	37,634	(6,579)	31,055	27,289	(2,059)	25,230
Operating (loss) income	4,162	7,305	11,467	3,080	3,059	6,139
Non-operating income:						
Gain (loss) on investments in securities	-	-	-	11,409	(11,351) (e)	58
Other non-operating income	66	-	66	2	-	2
Net interest income	4,516	-	4,516	3,980	-	3,980
Income from continuing operations before income taxes	8,744	7,305	16,049	18,471	(8,292)	10,179
Income tax expense	2,104	1,753 (d)	3,857	2,208	715 (f)	2,923
Net income from continuing operations	6,640	5,552	12,192	16,263	(9,007)	7,256
Income (loss) from discontinued operations, net of related tax	(20)	-	(20)	216	(287) (g)	(71)
Net income	\$ 6,620	\$ 5,552	\$ 12,172	\$ 16,479	\$ (9,294)	\$ 7,185
Earnings per diluted share:						
From continuing operations	\$ 0.08	\$ 0.06	\$ 0.14	\$ 0.21	\$ (0.12)	\$ 0.09
From discontinued operations	\$ (0.00)	\$ -	\$ (0.00)	\$ 0.00	\$ (0.00)	\$ (0.00)
From net income	\$ 0.08	\$ 0.06	\$ 0.14	\$ 0.21	\$ (0.12)	\$ 0.09
Weighted average shares of common stock outstanding, basic	85,190	-	85,190	76,948	-	76,948
Weighted average shares of common stock outstanding, diluted	86,848	-	86,848	78,093	-	78,093

(a) Non-cash stock-based compensation expense of \$726 in costs of product revenue, \$1,039 in research and development and \$2,174 in sales, general and administrative for the three months ended December 30, 2007 and \$1,000 in costs of product revenue, \$652 in research and development and \$1,066 in sales, general and administrative for the three months ended December 24, 2006.

(b) Reversal of \$682 in personal property assessment related to settling the audits of our 2002 through 2007 property tax returns with the County of Durham.

(c) Amortization expense of \$4,048 for the three months ended December 30, 2007 and \$341 for the three months ended December 24, 2006 recognized on intangible assets resulting from prior-year acquisitions.

(d) Tax effects of non-cash stock-based compensation expense, the reversal of a portion of the amount accrued related to our personal property tax assessments and amortization related to acquisition-related intangible assets.

(e) Gain on the sale of 931,000 shares of Color Kinetics Incorporated common stock.

(f) Tax effect related to non-cash stock-based compensation expense, the change in valuation allowance on our investment in Color Kinetics Incorporated common stock and the retroactive reinstatement of R&D tax credit, and amortization of acquisition-related intangible assets.

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