

The following is a reconciliation showing how Cree, Inc.'s year-to-date income statements for fiscal 2009 and 2008 would appear if they were adjusted for the items noted below.

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

	Six Months Ended December 28, 2008			Six Months Ended December 30, 2007		
	GAAP	Adjustments	As Adjusted	GAAP	Adjustments	As Adjusted
Product revenue	\$ 272,288	\$ -	\$ 272,288	\$ 217,304	\$ -	\$ 217,304
Contract revenue	10,131	-	10,131	15,081	-	15,081
Up-front license fees	5,582	-	5,582	-	-	-
Total revenue	<u>288,001</u>	<u>-</u>	<u>288,001</u>	<u>232,385</u>	<u>-</u>	<u>232,385</u>
Cost of product revenue	173,475	(2,185) (a)	171,290	143,831	(1,640) (a)	142,191
Cost of contract revenue	8,161	-	8,161	12,018	-	12,018
Cost of up-front license fees	506	-	506	-	-	-
Total cost of sales	<u>182,142</u>	<u>(2,185)</u>	<u>179,957</u>	<u>155,849</u>	<u>(1,640)</u>	<u>154,209</u>
Gross margin	105,859	2,185	108,044	76,536	1,640	78,176
Gross margin percentage	37%		38%	33%		34%
Operating expenses:						
Research and development	35,716	(2,693) (a)	33,023	27,678	(1,936) (a)	25,742
Sales, general and administrative	44,761	(5,664) (a)	39,097	36,373	(4,656) (a), (d)	31,717
Amortization of acquisition related intangibles	8,124	(8,124) (b)	-	8,096	(8,096) (b)	-
Loss on disposal and impairment of long-lived assets	1,050	-	1,050	1,209	-	1,209
Total operating expenses	<u>89,651</u>	<u>(16,481)</u>	<u>73,170</u>	<u>73,356</u>	<u>(14,688)</u>	<u>58,668</u>
Operating income	16,208	18,666	34,874	3,180	16,328	19,508
Operating income percentage	5.6%		12.1%	1.4%		8.4%
Non-operating income:						
Gain (loss) on investments in securities	65	-	65	14,117	(14,117) (e)	-
Interest and other non-operating income, net	5,484	-	5,484	8,309	-	8,309
Income from continuing operations before income taxes	<u>21,757</u>	<u>18,666</u>	<u>40,423</u>	<u>25,606</u>	<u>2,211</u>	<u>27,817</u>
Income tax expense	4,972	4,338 (c)	9,310	6,098	547 (f)	6,645
Net income from continuing operations	<u>16,785</u>	<u>14,328</u>	<u>31,113</u>	<u>19,508</u>	<u>1,664</u>	<u>21,172</u>
Loss from discontinued operations, net of related tax	(170)	-	(170)	(174)	-	(174)
Net income	<u>\$ 16,615</u>	<u>\$ 14,328</u>	<u>\$ 30,943</u>	<u>\$ 19,334</u>	<u>\$ 1,664</u>	<u>\$ 20,998</u>
Earnings per diluted share:						
From continuing operations	\$ 0.19	\$ 0.16	\$ 0.35	\$ 0.22	\$ 0.02	\$ 0.24
From discontinued operations	\$ (0.00)	\$ -	\$ (0.00)	\$ (0.00)	\$ -	\$ (0.01)
From net income	<u>\$ 0.19</u>	<u>\$ 0.16</u>	<u>\$ 0.35</u>	<u>\$ 0.22</u>	<u>\$ 0.02</u>	<u>\$ 0.24</u>
Weighted average shares of common stock outstanding, basic	<u>87,954</u>	<u>-</u>	<u>87,954</u>	<u>84,936</u>	<u>-</u>	<u>84,936</u>
Weighted average shares of common stock outstanding, diluted	<u>88,619</u>	<u>-</u>	<u>88,619</u>	<u>86,713</u>	<u>-</u>	<u>86,713</u>

(a) Non-cash stock-based compensation expense of \$2,185 in costs of product revenue, \$2,693 in research and development and \$5,664 in sales, general and administrative for the six months ended December 28, 2008 and \$1,640 in costs of product revenue, \$1,936 in research and development and \$3,068 in sales, general and administrative for the six months ended December 30, 2007.

(b) Amortization expense of \$8,124 for the six months ended December 28, 2008 and \$8,096 for the six months ended December 30, 2007 recognized on intangible assets resulting from prior year acquisitions.

(c) Estimated tax effects of non-cash stock-based compensation expense and amortization related to acquisition related intangible assets based upon the Company's effective tax rate for the given period.

(d) Personal property assessment of \$1,048 related to finalizing the audits of the Company's 2002 through 2007 property tax returns.

(e) Gain on the sale of 500,000 shares of Color Kinetics Incorporated common stock during the six months ended December 30, 2007.

(f) Estimated tax effects of non-cash stock-based compensation expense, personal property tax assessment, amortization related to acquisition related intangible assets and gain on sale of Color Kinetics Incorporated common stock based upon the Company's overall consolidated effective tax rate for the given period.