

Conference Call Financial Metrics

(Unaudited)

	Quarter Ended									
	9/24/2006	Seq Change %	6/25/2006	Seq Change %	3/26/2006	Seq Change %	12/25/2005	Seq Change %	9/25/2005	Seq Change %
Revenue by product from continuing operations: ***										
LED revenue	\$ 82,641,000	-3%	\$ 85,141,000	-2%	\$ 86,850,000	0%	\$ 86,516,000	2%	\$ 84,621,000	1%
Wafer revenue	6,566,000	13%	5,813,000	-6%	6,215,000	13%	5,505,000	7%	5,127,000	-4%
Gemstone material revenue	3,626,000	0%	3,616,000	-5%	3,809,000	4%	3,648,000	14%	3,199,000	25%
High power products	4,510,000	-9%	4,962,000	29%	3,838,000	26%	3,044,000	-8%	3,296,000	60%
Freight revenue	75,000	3%	73,000	4%	70,000	13%	62,000	2%	61,000	11%
Total product revenue	97,418,000	-2%	99,605,000	-1%	100,782,000	2%	98,775,000	3%	96,304,000	3%
Contract revenue	6,492,000	-9%	7,101,000	3%	6,922,000	1%	6,865,000	4%	6,598,000	47%
Total revenue from continuing operations	\$ 103,910,000	-3%	\$ 106,706,000	-1%	\$ 107,704,000	2%	\$ 105,640,000	3%	\$ 102,902,000	5%
Revenue from Cree Microwave (shown as discontinued operat	-		-		-		3,312,000		954,000	
LED product metrics:										
LED revenue - % by product:										
Mid-brightness	64%		61%		66%		63%		58%	
High-brightness	36%		39%		34%		37%		42%	
LED ASPs % change:										
Sequentially	-11%		-7%		-5%		-5%		-8%	
Change from year ago quarter	-26%		-24%		-22%		-13%		-24%	
LED costs per unit % change:										
Sequentially	-12%		6%		0%		-5%		0%	
Change from year ago quarter	-12%		1%		-5%		-9%		-8%	
LED unit shipments % change:										
Sequentially	10%		6%		6%		8%		10%	
Change from year ago quarter	32%		33%		38%		28%		42%	
BALANCE SHEET/CASH FLOW /ADJUSTMENTS										
Loss on disposal of property and equipment	\$ 97,000		\$ 1,513,000		\$ 208,000		\$ 132,000		\$ 568,000	
Gain (loss) on investments	\$ (1,000)		\$ -		\$ (4,000)		\$ -		\$ 587,000	
Income tax expense adjustment public company investment	\$ (82,000)		\$ 1,534,000		\$ (2,339,000)		\$ (132,000)		\$ (2,213,000)	
End-of-year and prior year income tax adjustments	\$ -		\$ 220,000		\$ (1,406,000)		\$ -		\$ -	
Days Sales Outstanding	63 **		58 **		49 **		40 **		45 **	
Inventory Days on Hand	59 **		44 **		46 **		46 **		50 **	
Cash flow from operations	\$ 42,631,000		\$ 28,873,000		\$ 34,969,000		\$ 56,711,000		\$ 30,977,000	
CapEx spending	\$ 33,845,000		\$ 23,046,000		\$ 20,984,000		\$ 19,256,000		\$ 13,072,000	
Free cash flow (cash flow from operations* less CapEx spending)	\$ 8,786,000		\$ 5,827,000		\$ 13,985,000		\$ 37,455,000		\$ 17,905,000	
* Most directly comparable GAAP measure to free cash flow										
** Metric measured for continuing operations only / Starting Q1 '07, the DSO calculation has been changed to conform to the conventional practice of dividing quarter-end accounts receivable by revenue for the quarter and multiplying by 90.										
*** Certain revenue amounts reclassified to conform with fiscal 2007 presentation. These reclassifications have no effect on previously reported total revenue, net income or shareholders' equity.										
Other quarterly metrics:										
Stock compensation expense:										
Stock compensation expense from continuing operations:										
Cost of sales	1,207,000		1,242,000		1,299,000		1,222,000		567,000	
Research and development	1,123,000		931,000		1,050,000		1,041,000		1,067,000	
Selling and general and administrative	1,377,000		1,137,000		1,121,000		1,087,000		1,140,000	
Total stock compensation expense	3,707,000		3,310,000		3,470,000		3,350,000		2,774,000	
Stock compensation expense from discontinued operations:										
Cost of sales	-		-		-		114,000		61,000	
Research and development	-		-		-		-		-	
Selling and general and administrative	-		-		-		12,000		15,000	
Total stock compensation expense	-		-		-		126,000		76,000	
Total stock compensation expense - pre-tax	3,707,000		3,310,000		3,470,000		3,476,000		2,850,000	
Income tax benefit from stock compensation expense	1,273,000		1,059,000		1,103,000		1,123,000		917,000	
Total stock compensation expense, net of tax	2,434,000		2,251,000		2,367,000		2,353,000		1,933,000	
Income tax adjustment impact in fourth quarter fiscal 2006:										
Income tax expense from continuing operations impact:										
Tax expense adjustment public company investment			1,534,000							
End-of-year tax expense adjustments			220,000							
Tax benefit reclassification to discontinued operations			1,045,000							
Total income tax expense impact from continuing operations			2,799,000							
Income tax expense from discontinued operation impact:										
Tax benefit reclassification to discontinued operations			(1,045,000)							
Net Income tax adjustment impact			1,754,000							
Income Tax adjustment impact in fourth quarter fiscal 2006 to EPS:										
EPS impact to net income from continuing operations	\$		0.03							
EPS impact to net income from discontinued operations	\$		(0.01)							
EPS impact to net income	\$		0.02							

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

CREE, INC.
Reconciling Items to Q1 Financial Statements
(in thousands, except per share amounts)

	Three Months Ended September 24, 2006			Three Months Ended September 25, 2005		
	GAAP	Adjustments	As Adjusted	GAAP	Adjustments	As Adjusted
Product revenue	\$ 97,418	\$ -	\$ 97,418	\$ 96,304	\$ -	\$ 96,304
Contract revenue	6,492	-	6,492	6,598	-	6,598
Total revenue	<u>103,910</u>	<u>-</u>	<u>103,910</u>	<u>102,902</u>	<u>-</u>	<u>102,902</u>
Cost of product revenue	55,873	(1,207) (a)	54,666	46,301	(567) (a)	45,734
Cost of contract revenue	5,137	-	5,137	4,434	-	4,434
Total cost of sales	<u>61,010</u>	<u>(1,207)</u>	<u>59,803</u>	<u>50,735</u>	<u>(567)</u>	<u>50,168</u>
Gross profit	42,900	1,207	44,107	52,167	567	52,734
Operating expenses:						
Research and development	14,366	(1,123) (a)	13,243	12,792	(1,067) (a)	11,725
Sales, general and administrative	11,946	(1,377) (a)	10,569	10,735	(1,140) (a)	9,595
Loss on disposal of assets	97	-	97	568	-	568
Total operating expenses	<u>26,409</u>	<u>(2,500)</u>	<u>23,909</u>	<u>24,095</u>	<u>(2,207)</u>	<u>21,888</u>
Operating income	16,491	3,707	20,198	28,072	2,774	30,846
Non-operating income:						
Gain (loss) on investments in securities	(1)	-	(1)	587	-	587
Other non-operating income	-	-	-	3	-	3
Net interest income	3,866	-	3,866	2,326	-	2,326
Income from continuing operations before income taxes	<u>20,356</u>	<u>3,707</u>	<u>24,063</u>	<u>30,988</u>	<u>2,774</u>	<u>33,762</u>
Income tax expense	6,989	1,355 (b)	8,344	7,759	2,213 (b)	9,972
Net income from continuing operations	<u>13,367</u>	<u>2,352</u>	<u>15,719</u>	<u>23,229</u>	<u>561</u>	<u>23,790</u>
Loss from discontinued operations, net of related tax	<u>(77)</u>	<u>-</u>	<u>(77)</u>	<u>(1,509)</u>	<u>-</u>	<u>(1,509)</u>
Net income	<u>\$ 13,290</u>	<u>\$ 2,352</u>	<u>\$ 15,642</u>	<u>\$ 21,720</u>	<u>\$ 561</u>	<u>\$ 22,281</u>
Earnings per diluted share:						
From continuing operations	\$ 0.17	\$ 0.03	\$ 0.20	\$ 0.30	\$ 0.01	\$ 0.31
From discontinued operations	\$ (0.00)	\$ -	\$ (0.00)	\$ (0.02)	\$ -	\$ (0.02)
From net income	<u>\$ 0.17</u>	<u>\$ 0.03</u>	<u>\$ 0.20</u>	<u>\$ 0.28</u>	<u>\$ 0.01</u>	<u>\$ 0.28</u>
Weighted average shares of common stock outstanding, basic	77,061	-	77,061	75,601	-	75,601
Weighted average shares of common stock outstanding, diluted	78,039	-	78,039	77,558	-	77,558

(a) Non-cash stock-based compensation expense.

(b) Tax benefit related to stock options and investment in Color Kinetics.