

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

**CREE, INC.**  
**Reconciling Items to Q1 Financial Statements - GAAP to Non-GAAP**  
(in thousands, except per share amounts)  
(Unaudited)

	Three Months Ended September 23, 2007			Three Months Ended September 24, 2006		
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
Product revenue	\$ 105,963	\$ -	\$ 105,963	\$ 97,418	\$ -	\$ 97,418
Contract revenue	7,423	-	7,423	6,492	-	6,492
Total revenue	113,386	-	113,386	103,910	-	103,910
Cost of product revenue	72,580	(914) (a)	71,666	55,873	(1,207) (a)	54,666
Cost of contract revenue	6,066	-	6,066	5,137	-	5,137
Total cost of sales	78,646	(914)	77,732	61,010	(1,207)	59,803
Gross margin	34,740	914	35,654	42,900	1,207	44,107
Gross margin percentage	31%		31%	41%		42%
Operating expenses:						
Research and development	12,777	(897) (a)	11,880	14,366	(1,123) (a)	13,243
Sales, general and administrative	18,164	(3,164) (a)(b)	15,000	11,946	(1,377) (a)	10,569
Amortization of acquisition related intangibles	4,048	(4,048) (c)	-	-	-	-
Loss on disposal of assets	734	-	734	97	-	97
Total operating expenses	35,723	(8,109)	27,614	26,409	(2,500)	23,909
Operating (loss) income	(983)	9,023	8,040	16,491	3,707	20,198
Non-operating income:						
Gain (loss) on investments in securities	14,117	(14,117) (d)	-	(1)	-	(1)
Other non-operating income	12	-	12	-	-	-
Net interest income	3,715	-	3,715	3,866	-	3,866
Income from continuing operations before income taxes	16,861	(5,094)	11,767	20,356	3,707	24,063
Income tax expense	3,994	(1,206) (e)	2,788	6,989	1,355 (f)	8,344
Net income from continuing operations	12,867	(3,888)	8,979	13,367	2,352	15,719
Loss from discontinued operations, net of related tax	(154)	-	(154)	(77)	-	(77)
Net income	\$ 12,713	\$ (3,888)	\$ 8,825	\$ 13,290	\$ 2,352	\$ 15,642
Earnings per diluted share:						
From continuing operations	\$ 0.15	\$ (0.05)	\$ 0.10	\$ 0.17	\$ 0.03	\$ 0.20
From discontinued operations	\$ (0.00)	\$ -	\$ (0.00)	\$ (0.00)	\$ -	\$ (0.00)
From net income	\$ 0.15	\$ (0.05)	\$ 0.10	\$ 0.17	\$ 0.03	\$ 0.20
Weighted average shares of common stock outstanding, basic	84,683	-	84,683	77,061	-	77,061
Weighted average shares of common stock outstanding, diluted	86,566	-	86,566	78,039	-	78,039

(a) Non-cash stock-based compensation expense of \$914,000 in costs of product revenue, \$897,000 in research and development and \$1.4 million in sales, general and administrative for the three months ended September 23, 2007 and \$1.2 million in costs of product revenue, \$1.1 million in research and development and \$1.4 million in sales, general and administrative for the three months ended September 24, 2006.

(b) Personal property assessment of \$1.7 million related to the audit of our 2002 through 2007 property tax returns.

(c) Amortization expense of \$4.0 million recognized on intangible assets resulting from prior year acquisitions.

(d) Gain on the sale of 500,000 shares of Color Kinetics Corporation common stock.

(e) Tax effects of \$768,000 for non-cash stock based compensation, \$959,000 million related to amortization expense of prior year acquisitions, \$3.3 million related to the sale of Color Kinetics common stock and \$410,000 related to the audit of our 2002 through 2007 personal property tax returns.

(f) Tax effect related to non-cash stock-based compensation expense and the change in the valuation allowance due to changes in the fair market value of Color Kinetics common stock.