

Conference Call Financial Metrics

(Unaudited)

	Quarter Ended							
	Seq		Seq		Seq		Seq	
	6/25/2006	Change %	3/26/2006	Change %	12/25/2005	Change %	9/25/2005	Change %
Revenue by product from continuing operations:								
LED revenue	\$ 84,541,000	-2%	\$ 86,450,000	0%	\$ 86,516,000	2%	\$ 84,621,000	1%
Wafer revenue	5,809,000	-6%	6,211,000	14%	5,431,000	6%	5,127,000	-4%
Gemstone material revenue	3,616,000	-5%	3,809,000	4%	3,648,000	14%	3,199,000	25%
High power products	4,962,000	29%	3,838,000	26%	3,044,000	-8%	3,296,000	60%
Freight revenue	73,000	4%	70,000	13%	62,000	2%	61,000	11%
Total product revenue	99,001,000	-1%	100,378,000	2%	98,701,000	2%	96,304,000	3%
Contract revenue	7,705,000	5%	7,326,000	6%	6,939,000	5%	6,598,000	47%
Total revenue from continuing operations	\$ 106,706,000	-1%	\$ 107,704,000	2%	\$ 105,640,000	3%	\$ 102,902,000	5%
Revenue from Cree Microwave (shown as discontinued operations)	\$ -		\$ -		\$ 3,312,000		954,000	
LED product metrics:								
LED revenue - % by product:								
Mid-brightness	62%		67%		62%		57%	
High-brightness	38%		33%		38%		43%	
LED ASPs % change:								
Sequentially	-8%		-5%		-5%		-8%	
Change from year ago quarter	-24%		-22%		-13%		-24%	
LED costs per unit % change:								
Sequentially	6%		0%		-5%		0%	
Change from year ago quarter	1%		-5%		-9%		-8%	
LED unit shipments % change:								
Sequentially	6%		6%		8%		10%	
Change from year ago quarter	33%		38%		26%		42%	
BALANCE SHEET/CASH FLOW /ADJUSTMENTS								
Loss on disposal of property and equipment	\$ 1,513,000		\$ 208,000		\$ 132,000		\$ 581,000	
Gain (loss) on investments	\$ -		\$ (4,000)		\$ -		\$ 587,000	
Income tax expense adjustment public company investment	\$ 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	47 **		41 **		37 **		39 **	
Inventory Days on Hand	44 **		46 **		46 **		50 **	
Cash flow from operations	\$ 28,873,000		\$ 34,969,000		\$ 56,711,000		\$ 30,977,000	
CapEx spending	\$ 23,046,000		\$ 20,984,000		\$ 19,256,000		\$ 12,470,000	
Free cash flow (cash flow from operations* less CapEx spending)	\$ 5,827,000		\$ 13,985,000		\$ 37,455,000		\$ 18,507,000	
* Most directly comparable GAAP measure to free cash flow								
** Metric measured for continuing operations only								
Other quarterly metrics:								
Stock compensation expense:								
Stock compensation expense from continuing operations:								
Cost of sales	1,242,000		1,299,000		1,222,000		567,000	
Research and development	931,000		1,050,000		1,041,000		1,067,000	
Selling and general and administrative	1,137,000		1,121,000		1,087,000		1,140,000	
Total stock compensation expense	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	3,310,000		3,470,000		3,476,000		2,850,000	
Income tax benefit from stock compensation expense	1,059,000		1,110,000		1,112,000		912,000	
Total stock compensation expense, net of tax	2,251,000		2,360,000		2,364,000		1,938,000	
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 of how Cree, Inc.'s fourth quarter income statements for fiscal 2006 and 2005 would appear if it were adjusted for the items noted in a) through e) below.

CREE, INC.
Reconciling Items to Q4 Financial Statements
(in thousands, except per share amounts)

	Three Months Ended June 25, 2006			Three Months Ended June 26, 2005		
	GAAP	Adjustments	As Adjusted	GAAP	Adjustments	As Adjusted
Product revenue	\$ 99,001	\$ -	\$ 99,001	\$ 93,681	\$ -	\$ 93,681
Contract revenue	7,705	-	7,705	4,502	-	4,502
Total revenue	<u>106,706</u>	<u>-</u>	<u>106,706</u>	<u>98,183</u>	<u>-</u>	<u>98,183</u>
Cost of product revenue	56,778	(1,242) (a)	55,536	41,762	-	41,762
Cost of contract revenue	4,767	-	4,767	3,010	-	3,010
Total cost of sales	<u>61,545</u>	<u>(1,242)</u>	<u>60,303</u>	<u>44,772</u>	<u>-</u>	<u>44,772</u>
Gross profit	45,161	1,242	46,403	53,411	-	53,411
Operating expenses:						
Research and development	13,961	(931) (a)	13,030	9,188	-	9,188
Sales, general and administrative	11,365	(1,137) (a)	10,228	9,158	-	9,158
Loss on disposal of assets	1,513	-	1,513	286	-	286
Operating expenses	<u>26,839</u>	<u>(2,068)</u>	<u>24,771</u>	<u>18,632</u>	<u>-</u>	<u>18,632</u>
Operating income	18,322	3,310	21,632	34,779	-	34,779
Non-operating income:						
Gain (loss) on investments in securities	-	-	-	(197)	197 (d)	-
Other non-operating income	1	-	1	3	-	3
Net interest income	4,116	-	4,116	1,696	-	1,696
Income from continuing operations before income taxes	<u>22,439</u>	<u>3,310</u>	<u>25,749</u>	<u>36,281</u>	<u>197</u>	<u>36,478</u>
Income tax expense	10,061	(1,740) (b),(c)	8,321	6,195	2,967 (e)	9,162
Net income from continuing operations	<u>12,378</u>	<u>5,050</u>	<u>17,428</u>	<u>30,086</u>	<u>(2,770)</u>	<u>27,316</u>
Income or (Loss) from discontinued operations, net of related tax	866	(1,045) (c)	(179)	(9,076)	-	(9,076)
Net income	<u>\$ 13,244</u>	<u>\$ 4,005</u>	<u>\$ 17,249</u>	<u>\$ 21,010</u>	<u>\$ (2,770)</u>	<u>\$ 18,240</u>
Earnings per share:						
Diluted						
Income from continuing operations	\$ 0.16	\$ 0.06	\$ 0.22	\$ 0.39	\$ (0.04)	\$ 0.35
Income or (Loss) from discontinued operations	\$ 0.01	\$ (0.01)	\$ (0.00)	\$ (0.12)	\$ -	\$ (0.12)
Net income	<u>\$ 0.17</u>	<u>\$ 0.05</u>	<u>\$ 0.22</u>	<u>\$ 0.27</u>	<u>\$ (0.04)</u>	<u>\$ 0.23</u>
Weighted average shares of common stock outstanding, basic	77,049	-	77,049	75,399	-	75,399
Weighted average shares of common stock outstanding, diluted	78,978	-	78,978	76,962	-	76,962

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

(b) Tax adjustments for non-cash stock-based compensation that are offset by \$1,754,000 of additional tax expense related to investment in Color Kinetics and other end-of-year tax adjustments.

(c) Year to date tax adjustment of \$1,045,000 to reclassify to discontinued operations certain tax benefits associated with the Cree Microwave shutdown. This reclassification adjustment was made during the fourth quarter of fiscal 2006.

(d) Reflects a \$197,000 loss on the sale of our investment in a privately held company.

(e) The tax adjustments include an \$814,000 decrease in tax expense related to our investment in Color Kinetics and a \$2.1 million benefit due to other tax related items.

Note: Cree Microwave segment results for fiscal 2005 have been reclassified as discontinued operations to conform to the fiscal 2006 presentation in accordance with generally accepted accounting principles. These reclassifications had no effect on previously reported net income or shareholders' equity.

The following is a reconciliation of how Cree, Inc.'s twelve month income statements for foiscal 2006 and 2005 would appear if it were adjusted for the items noted in a) through f) below.

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

	Twelve Months Ended June 25, 2006			Twelve Months Ended June 26, 2005		
	GAAP	Adjustments	As Adjusted	GAAP	Adjustments	As Adjusted
Product revenue	\$ 394,383	\$ -	\$ 394,383	\$ 362,765	\$ 441 (d)	\$ 363,206
Contract revenue	28,569	-	28,569	21,693	-	21,693
Total revenue	<u>422,952</u>	<u>-</u>	<u>422,952</u>	<u>384,458</u>	<u>441</u>	<u>384,899</u>
Cost of product revenue	202,412	(4,330) (a)	198,082	156,428	2,212 (d)	158,640
Cost of contract revenue	19,647	-	19,647	16,614	-	16,614
Total cost of sales	<u>222,059</u>	<u>(4,330)</u>	<u>217,729</u>	<u>173,042</u>	<u>2,212</u>	<u>175,254</u>
Gross profit	200,893	4,330	205,223	211,416	(1,771)	209,645
Operating expenses:						
Research and development	54,871	(4,089) (a)	50,782	39,962	-	39,962
Sales, general and administrative	44,760	(4,485) (a)	40,275	31,482	-	31,482
Impairment or loss on disposal of assets	2,421	-	2,421	889	-	889
Operating expenses	<u>102,052</u>	<u>(8,574)</u>	<u>93,478</u>	<u>72,333</u>	<u>-</u>	<u>72,333</u>
Operating income	98,841	12,904	111,745	139,083	(1,771)	137,312
Non-operating income:						
Gain on investments in securities	583	(583) (b)	-	737	(737) (e)	-
Other non-operating income	46	-	46	8	-	8
Net interest income	12,893	-	12,893	5,387	-	5,387
Income from continuing operations before income taxes	<u>112,363</u>	<u>12,321</u>	<u>124,684</u>	<u>145,215</u>	<u>(2,508)</u>	<u>142,707</u>
Income tax expense	32,404	8,279 (c)	40,683	38,651	4,916 (f)	43,567
Net income from continuing operations	<u>79,959</u>	<u>4,042.28</u>	<u>84,001</u>	<u>106,564</u>	<u>(7,424)</u>	<u>99,140</u>
Loss from discontinued operations, net of tax	(3,286)	-	(3,286)	(15,421)	-	(15,421)
Net income	<u>\$ 76,673</u>	<u>\$ 4,042</u>	<u>\$ 80,715</u>	<u>\$ 91,143</u>	<u>\$ (7,424)</u>	<u>\$ 83,719</u>
Earnings per share:						
Diluted						
Income from continuing operations	\$ 1.02	\$ 0.05	\$ 1.07	\$ 1.38	\$ (0.10)	\$ 1.28
Loss from discontinued operations	\$ (0.04)	\$ -	\$ (0.04)	\$ (0.20)	\$ -	\$ (0.20)
Net income	<u>\$ 0.98</u>	<u>\$ 0.05</u>	<u>\$ 1.03</u>	<u>\$ 1.18</u>	<u>\$ (0.10)</u>	<u>\$ 1.08</u>
Weighted average shares of common stock outstanding, basic	76,270	-	76,270	74,995	-	74,995
Weighted average shares of common stock outstanding, diluted	78,207	-	78,207	77,172	-	77,172

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

(b) Reflects the effect of the sale of Color Kinetics stock for a gain of \$0.6 million.

(c) Tax adjustments for non-cash stock-based compensation less the gain on the sale of Color Kinetics stock. Also includes \$3.2 million tax benefit related to investment in Color Kinetics and \$1.2 million of end-of-year and prior year tax adjustment.

(d) Includes a \$.04 million revenue adjustment and \$2.2 million cost of sales reduction related to a change in accounting for sales returns.

(e) Reflects reserve for the decline in value of a private equity investment of \$2.1 million offset by a \$2.8 million gain on the sale of a portion of our investment in Color Kinetics.

(f) Includes tax effects for the following adjustments: (a) the reduction in revenue and cost of sales related to the change in the sales return reserve (b) the decline in the value of a privately held investment (c) a gain on the sale of a portion of the Color Kinetics investment and (d) other tax adjustments. The tax adjustments include a net \$4.6 million benefit related to investment in Color Kinetics offset by a \$1.9 million tax adjustment for a settlement on state income taxes and a \$3.0 million benefit due to a tax rate change and other adjustments.

Note: Cree Microwave segment results for fiscal 2005 have been reclassified as discontinued operations to conform to the fiscal 2006 presentation in accordance with generally accepted accounting principles. These reclassifications had no effect on previously reported net income or shareholders' equity.