

Conference Call Financial Metrics

(Unaudited)

	Quarter Ended						
	12/25/2005	Seq Growth %	9/25/2005	Seq Growth %	6/26/2005	Seq Growth %	3/27/2005
Revenue by product from continuing operations:							
LED revenue	\$ 86,516,000	2%	\$ 84,621,000	1%	\$ 83,639,000	4%	\$ 80,634,000
Wafer revenue	5,431,000	6%	5,127,000	-4%	5,359,000	-3%	5,537,000
Gemstone material revenue	3,648,000	14%	3,199,000	25%	2,566,000	25%	2,057,000
High power products	3,044,000	-8%	3,296,000	60%	2,061,000	3%	2,002,000
Freight revenue	62,000	2%	61,000	11%	55,000	15%	48,000
Total product revenue	98,701,000	2%	96,304,000	3%	93,680,000	4%	90,278,000
Contract revenue	6,939,000	5%	6,598,000	47%	4,503,000	-18%	5,475,000
Total revenue from continuing operations	\$ 105,640,000	3%	\$ 102,902,000	5%	\$ 98,183,000	3%	\$ 95,753,000
Revenue from Cree Microwave (shown as discontinued operations)	\$ 3,312,000		954,000		700,000		957,000
LED product metrics:							
LED revenue - % by product:							
Mid-brightness	62%		57%		76%		80%
High-brightness	38%		43%		24%		20%
LED ASPs % change:							
Sequentially	-5%		-8%		-6%		6%
Change from year ago quarter	-13%		-24%		-18%		-15%
LED costs per unit % change:							
Sequentially	-5%		0%		0%		-5%
Change from year ago quarter	-9%		-8%		-17%		-20%
LED unit shipments % change:							
Sequentially	8%		10%		10%		-4%
Change from year ago quarter	26%		42%		41%		53%
Wafer metrics:							
Wafer volume- % change, sequentially	-35%		-3%		-6%		-23%
Wafer ASPs - % change, sequentially	62%		-1%		3%		2%
Wafer average cost- % change, sequentially	24%		44%		17%		-41%
CONTRACTS							
Amount of contract funding recorded as an offset to R&D	\$ 567,000		\$ 435,000		\$ 1,220,000		\$ -
Amount of contract costs recorded as an R&D expense	\$ 637,000		\$ 460,000		\$ 1,475,000		\$ -
BALANCE SHEET/CASH FLOW /ADJUSTMENTS							
Loss on disposal of property and equipment - \$	\$ 132,000		\$ 581,000		\$ 576,000		\$ 277,000
Gain (loss) on investments	\$ -		\$ 587,000		\$ (197,000)		\$ 2,808,000
Income tax expense adjustment public company investment	\$ (132,000)		\$ (2,213,000)		\$ (814,000)		\$ 4,126,000
Days Sales Outstanding	37 **		39 **		32		38
Inventory Days on Hand	46 **		50 **		59		57
Cash flow from operations - \$	\$ 56,711,000		\$ 30,977,000		\$ 66,313,000		\$ 16,630,000
CapEx spending \$	\$ 19,256,000		\$ 12,470,000		\$ 22,039,000		\$ 37,256,000
Free cash flow - \$ (cash flow from operations* less CapEx spending)	\$ 37,455,000		\$ 18,507,000		\$ 44,274,000		\$ (20,626,000)
*Most directly comparable GAAP measure to free cash flow							
** Metric measured for continuing operations only							
Other quarterly metrics:							
Cree Microwave write-downs included in discontinued operations:							
Accrual for lease obligation	\$ 3,075,000						
Inventory write-down	\$ 468,000						
fixed asset impairment	\$ 93,000						
Severance expense	\$ 232,000						

The following is a reconciliation of how Cree, Inc.'s Q2'06 income statement would appear if it were adjusted for: 1) non-cash compensation expense, which was reported for the first time in Q1'06 as an expense 2) write-downs for our silicon-based business that are now reflected as discontinued operations and 3) tax adjustments for the above mentioned items and a \$132,000 tax adjustment related to our investment in Color Kinetics.

CREE, INC.
Reconciling Items to Q2 Financial Statements
(in thousands, except per share amounts)

	Three Months Ended December 25, 2005			Three Months Ended December 26, 2004		
	GAAP	Adjustments	As Adjusted	GAAP	Adjustments	As Adjusted
Product revenue	\$ 98,701	\$ -	\$ 98,701	\$ 90,055	\$ -	\$ 90,055
Contract revenue	6,939	-	6,939	6,005	-	6,005
Total revenue	<u>105,640</u>	<u>-</u>	<u>105,640</u>	<u>96,060</u>	<u>-</u>	<u>96,060</u>
Cost of product revenue	48,387	(1,222) (a)	47,165	40,521	-	40,521
Cost of contract revenue	5,023	-	5,023	5,053	-	5,053
Total cost of sales	<u>53,410</u>	<u>(1,222)</u>	<u>52,188</u>	<u>45,574</u>	<u>-</u>	<u>45,574</u>
Gross profit	52,230	1,222	53,452	50,486	-	50,486
Operating expenses:						
Research and development	14,785	(1,041) (a)	13,744	10,294	-	10,294
Sales, general and administrative	10,834	(1,087) (a)	9,747	7,118	-	7,118
Loss on disposal of assets	132	-	132	248	-	248
Other expense	-	-	-	-	-	-
Operating expenses	<u>25,751</u>	<u>(2,128)</u>	<u>23,623</u>	<u>17,660</u>	<u>-</u>	<u>17,660</u>
Operating income	26,479	3,350	29,829	32,826	-	32,826
Non-operating income:						
Gain (loss) on investments in securities	-	-	-	(1,992)	1,992 (d)	-
Other non-operating income	-	-	-	-	-	-
Net interest income	2,969	-	2,969	1,139	-	1,139
Income from continuing operations before income taxes	<u>29,448</u>	<u>3,350</u>	<u>32,798</u>	<u>31,973</u>	<u>1,992</u>	<u>33,965</u>
Income tax expense	9,390	1,214 (b)	10,604	4,880	6,641 (e)	11,521
Net income from continuing operations	<u>20,058</u>	<u>2,136</u>	<u>22,194</u>	<u>27,093</u>	<u>(4,649)</u>	<u>22,444</u>
(Loss) from discontinued operations, net of related tax	(2,349)	2,619 (c)	270	(2,071)	-	(2,071)
Net income	<u>\$ 17,709</u>	<u>\$ 4,755</u>	<u>\$ 22,464</u>	<u>\$ 25,022</u>	<u>\$ (4,649)</u>	<u>\$ 20,373</u>
Earnings per share:						
Diluted						
Income from continuing operations	\$ 0.26	\$ 0.03	\$ 0.29	\$ 0.35	\$ (0.06)	\$ 0.29
(Loss) from discontinued operations	\$ (0.03)	\$ 0.03	\$ 0.00	\$ (0.03)	\$ -	\$ (0.03)
Net income	<u>\$ 0.23</u>	<u>\$ 0.06</u>	<u>\$ 0.29</u>	<u>\$ 0.32</u>	<u>\$ (0.06)</u>	<u>\$ 0.26</u>
Weighted average shares of common stock outstanding, basic	75,966	-	75,966	75,383	-	75,383
Weighted average shares of common stock outstanding, diluted	77,612	-	77,612	78,298	-	78,298

(a) Non-cash stock based compensation expense.

(b) Tax adjustments for non-cash stock based compensation. Also includes \$132,000 tax benefit related to investment in Color Kinetics.

(c) Includes accrued cost to terminate an operating lease in Sunnyvale, CA of \$3,075,000, severance of \$232,000, inventory write off of \$468,000 and fixed asset impairments of \$93,000 shown net of tax.

(d) Reflects reserve for the decline in value of a private equity investment.

(e) Includes tax effect of the reserve for the decline in value of a privately held investment and other tax adjustments. The tax adjustments include a \$7.9 million benefit related to investment in Color Kinetics offset by a \$1.9 million tax adjustment for a settlement on state income taxes and other adjustments.

The following is a reconciliation of how Cree, Inc.'s Six Months income statement would appear if it were adjusted for: 1) non-cash compensation expense, which was reported for the first time in Q1'06 as an expense 2) write-downs for our silicon-based business which is now reflected as a discontinued operation and 3) tax adjustments for the above mentioned items and a \$2.3 million tax adjustment related to our investment in Color Kinetics.

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

	Six Months Ended December 25, 2005			Six Months Ended December 26, 2004		
	GAAP	Adjustments	As Adjusted	GAAP	Adjustments	As Adjusted
Product revenue	\$ 195,004	\$ -	\$ 195,004	\$ 178,805	\$ -	\$ 178,805
Contract revenue	13,538	-	13,538	11,716	-	11,716
Total revenue	<u>208,542</u>	<u>-</u>	<u>208,542</u>	<u>190,521</u>	<u>-</u>	<u>190,521</u>
Cost of product revenue	94,688	(1,789) (a)	92,899	76,099	-	76,099
Cost of contract revenue	9,457	-	9,457	9,344	-	9,344
Total cost of sales	<u>104,145</u>	<u>(1,789)</u>	<u>102,356</u>	<u>85,443</u>	<u>-</u>	<u>85,443</u>
Gross profit	104,397	1,789	106,186	105,078	-	105,078
Operating expenses:						
Research and development	27,577	(2,108) (a)	25,469	19,881	-	19,881
Sales, general and administrative	21,569	(2,227) (a)	19,342	13,957	-	13,957
Impairment or loss on disposal of assets	700	-	700	326	-	326
Operating expenses	<u>49,846</u>	<u>(4,335)</u>	<u>45,511</u>	<u>34,164</u>	<u>-</u>	<u>34,164</u>
Operating income	54,551	6,124	60,675	70,914	-	70,914
Non-operating income:						
Gain on investments in securities	587	(587)	-	(1,874)	1,992 (d)	118
Other non-operating income	3	-	3	5	-	5
Net interest income	5,295	-	5,295	2,288	-	2,288
Income from continuing operations before income taxes	<u>60,436</u>	<u>5,537</u>	<u>65,973</u>	<u>71,333</u>	<u>1,992</u>	<u>73,325</u>
Income tax expense	17,149	4,133 (b)	21,282	17,655	6,641 (e)	24,296
Net income from continuing operations	43,287	1,404	44,691	53,678	(4,649)	49,029
(Loss) from discontinued operations, net of tax	(3,858)	3,162 (c)	(696)	(4,228)	0	(4,228)
Net income	<u>\$ 39,429</u>	<u>\$ 4,566</u>	<u>\$ 43,995</u>	<u>\$ 49,450</u>	<u>\$ (4,649)</u>	<u>\$ 44,801</u>
Earnings per share:						
Diluted						
Income from continuing operations	\$0.56	\$0.02	\$0.58	\$0.70	\$ (0.06)	\$ 0.64
(Loss) from discontinued operations	(\$0.06)	\$0.04	(\$0.02)	(\$0.06)	\$ -	\$ (0.06)
Net income	<u>\$ 0.51</u>	<u>\$ 0.06</u>	<u>\$ 0.57</u>	<u>\$ 0.64</u>	<u>\$ (0.06)</u>	<u>\$ 0.58</u>
Weighted average shares of common stock outstanding, basic	75,784	-	75,784	74,443	-	74,443
Weighted average shares of common stock outstanding, diluted	77,675	-	77,675	77,020	-	77,020

(a) Non-cash stock based compensation expense.

(b) Tax adjustments for non-cash stock based compensation. Also includes \$2.3 million tax benefit related to investment in Color Kinetics.

(c) Includes cost to terminate an operating lease in Sunnyvale, CA of \$3,075,000, severance of \$624,000, inventory write down \$668,000 and fixed asset impairments of \$303,000, net of tax.

(d) Reflects reserve for the decline in value of a private equity investment.

(e) Includes tax effect of the reserve for the decline in value of a privately held investment and other tax adjustments. The tax adjustments include a \$7.9 million benefit related to investment in Color Kinetics offset by a \$1.9 million tax adjustment for a settlement on state income taxes and other adjustments.