

Conference Call Financial Metrics

(Unaudited)

	Quarter Ended							
	9/25/2005	Seq Growth %	6/26/2005	Seq Growth %	3/27/2005	Seq Growth %	12/26/2004	Seq Growth %
Revenue by product:								
LED revenue	\$ 84,621,000	1%	\$ 83,639,000	4%	\$ 80,634,000	2%	\$ 78,928,000	0%
Wafer revenue	5,127,000	-4%	5,359,000	-3%	5,537,000	-22%	7,055,000	4%
Gemstone material revenue	3,199,000	25%	2,566,000	25%	2,057,000	13%	1,815,000	19%
High power products	3,296,000	60%	2,061,000	3%	2,002,000	-9%	2,210,000	54%
Cree Microwave silicon-based revenue	954,000	36%	700,000	-27%	957,000	-37%	1,514,000	5%
Freight revenue	61,000	11%	55,000	15%	48,000	2%	47,000	12%
Total product revenue	97,258,000	3%	94,380,000	3%	91,235,000	0%	91,569,000	2%
Contract revenue	6,598,000	47%	4,503,000	-18%	5,475,000	-9%	6,005,000	5%
Total revenue	\$ 103,856,000	5%	\$ 98,883,000	2%	\$ 96,710,000	-1%	\$ 97,574,000	2%
LED product metrics:								
LED revenue - % by product:								
Standard	4%		3%		3%		6%	
Mid-brightness	28%		32%		31%		42%	
High-brightness	68%		65%		66%		52%	
LED ASPs % change:								
Sequentially	-8%		-6%		6%		-18%	
Change from year ago quarter	-24%		-18%		-15%		-18%	
LED costs per unit % change:								
Sequentially	0%		0%		-5%		-4%	
Change from year ago quarter	-8%		-17%		-20%		-23%	
LED unit shipments % change:								
Sequentially	10%		10%		-4%		21%	
Change from year ago quarter	42%		41%		53%		70%	
Wafer metrics:								
Wafer volume- % change, sequentially	-3%		-6%		-23%		-21%	
Wafer ASPs - % change, sequentially	-1%		3%		2%		32%	
Wafer average cost- % change, sequentially	44%		17%		-41%		19%	
CREE MICROWAVE-silicon-based metrics:								
Gross profit- \$	\$ (1,298,000)		\$ (2,521,000)		\$ (1,713,000)		\$ (1,637,000)	
Inventory reserve included in cost of sales	\$ 200,000		\$ 652,000		\$ -		\$ -	
Impairment of Cree Microwave long-lived assets	\$ 196,000		\$ 5,529,000		\$ -		\$ -	
Cree Microwave severance	\$ 391,000		\$ 519,000		\$ -		\$ -	
CONTRACTS								
Amount of contract funding recorded as an offset to R&D	\$ 435,000		\$ 1,220,000		\$ -		\$ -	
Amount of contract costs recorded as an R&D expense	\$ 460,000		\$ 1,475,000		\$ -		\$ -	
BALANCE SHEET/CASH FLOW /ADJUSTMENTS								
Loss on disposal of property and equipment - \$	\$ 581,000		\$ 576,000		\$ 277,000		\$ 248,000	
Gain (loss) on investments	\$ 587,000		\$ (197,000)		\$ 2,808,000		\$ (1,992,000)	
Income tax expense adjustment public company investment	\$ (2,213,000)		\$ (814,000)		\$ 4,126,000		\$ (7,900,000)	
Days Sales Outstanding	39		32		38		41	
Inventory Days on Hand	50		59		57		47	
Cash flow from operations - \$	\$ 30,977,000		\$ 66,313,000		\$ 16,630,000		\$ 38,880,000	
CapEx spending \$	\$ 12,470,000		\$ 22,039,000		\$ 37,256,000		\$ 47,868,000	
Free cash flow - \$ (cash flow from operations* less CapEx spending)	\$ 18,507,000		\$ 44,274,000		\$ (20,626,000)		\$ (8,988,000)	

*Most directly comparable GAAP measure to free cash flow

The following is a reconciliation of how Cree, Inc.'s Q1'06 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 we will reflect as a discontinued operation beginning in the Q3'06 quarter and 3) tax adjustments for the above mentioned items and a \$2.2 million tax adjustment related to our investment in Color Kinetics.

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

	Three Months Ended September 25, 2005			Three Months Ended September 26, 2004		
	GAAP	Adjustments	As Adjusted	GAAP	Adjustments	As Adjusted
Product revenue	\$ 97,258	\$ -	\$ 97,258	\$ 90,186	\$ -	\$ 90,186
Contract revenue	6,598	-	6,598	5,711	-	5,711
Total revenue	103,856	-	103,856	95,897	-	95,897
Cost of product revenue	48,554	(828) (a)	47,726	38,341	-	38,341
Cost of contract revenue	4,433	-	4,433	4,291	-	4,291
Total cost of sales	52,987	(828)	52,159	42,632	-	42,632
Gross profit	50,869	828	51,697	53,265	-	53,265
Operating expenses:						
Research and development	12,793	(1,067) (b)	11,726	10,610	-	10,610
Sales, general and administrative	11,058	(1,155) (b)	9,903	7,660	-	7,660
Severance charges	391	(391) (c)	-	-	-	-
Impairment or loss on disposal of assets	777	(196) (c)	581	-	-	-
Other expense	-	-	-	78	-	78
Operating expenses	25,019	(2,809)	22,210	18,348	-	18,348
Income from operations	25,850	3,637	29,487	34,917	-	34,917
Non-operating income:						
Gain on investments in securities	587	(587)	-	118	-	118
Other non-operating income	3	-	3	5	-	5
Net interest income	2,325	-	2,325	1,149	-	1,149
Income before income taxes	28,765	3,050	31,815	36,189	-	36,189
Income tax expense	7,045	3,195 (d)	10,240	11,761	-	11,761
Net income	\$ 21,720	\$ (145)	\$ 21,575	\$ 24,428	\$ -	\$ 24,428
Earnings per share, diluted	\$ 0.28	\$ (0.00)	\$ 0.28	\$ 0.32	\$ -	\$ 0.32
Weighted average shares of common stock outstanding, basic	75,601	-	75,601	73,503	-	73,503
Weighted average shares of common stock outstanding, diluted	77,558	-	77,558	75,600	-	75,600

(a) Non-cash stock based compensation expense of \$628, plus write-down of silicon-based business inventory of \$200. The silicon-based business will be shown as a discontinued operation in Q3'06.

(b) Non-cash stock based compensation expense.

(c) Write down of intangible assets for silicon-based business which will be shown as a discontinued operation in Q3'06

(d) Tax adjustments for non-cash stock based compensation and the write down of silicon-based business which will be shown as a discontinued operation in Q3'06. Also includes \$2,213 tax benefit related to investment in Color Kinetics.

CREE, INC.
Details of Silicon-based Business
(in thousands)

	Three Months Ended	
	9/25/2005 <u>(Unaudited)</u>	9/26/2004 <u>(Unaudited)</u>
Revenue:		
Other Cree	\$ 102,902	\$ 94,461
Silicon-based Cree Microwave	954	1,436
Total revenue	<u>\$ 103,856</u>	<u>\$ 95,897</u>
Net income (loss) before income taxes:		
Other Cree	\$ 30,988	\$ 39,360
Silicon-based Cree Microwave	<u>(2,223)</u>	<u>(3,171)</u>
Total net income before income taxes	<u>\$ 28,765</u>	<u>\$ 36,189</u>