

The following is a reconciliation showing how Cree, Inc.'s second quarter income statements for fiscal 2009 and 2008 would appear if they were adjusted for the items noted below.

CREE, INC.
Reconciling Items to Q2 2009 & 2008 Financial Statements - GAAP to Non-GAAP
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended December 28, 2008			Three Months Ended December 30, 2007		
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
Product revenue	\$ 137,595	\$ -	\$ 137,595	\$ 111,341	\$ -	\$ 111,341
Contract revenue	4,446	-	4,446	7,658	-	7,658
Up-front license fees	5,582	-	5,582	-	-	-
Total revenue	<u>147,623</u>	<u>-</u>	<u>147,623</u>	<u>118,999</u>	<u>-</u>	<u>118,999</u>
Cost of product revenue	86,831	(883) (a)	85,948	71,251	(726) (a)	70,525
Cost of contract revenue	3,790	-	3,790	5,952	-	5,952
Cost of up-front license fees	506	-	506	-	-	-
Total cost of sales	<u>91,127</u>	<u>(883)</u>	<u>90,244</u>	<u>77,203</u>	<u>(726)</u>	<u>76,477</u>
Gross margin	56,496	883	57,379	41,796	726	42,522
Gross margin percentage	38.3%		38.9%	35.1%		35.7%
Operating expenses:						
Research and development	18,441	(1,247) (a)	17,194	14,901	(1,039) (a)	13,862
Sales, general and administrative	21,843	(2,979) (a)	18,864	18,211	(1,492) (a), (d)	16,719
Amortization of acquisition related intangibles	4,062	(4,062) (b)	-	4,048	(4,048) (b)	-
Gain on disposal of assets	645	-	645	474	-	474
Total operating expenses	<u>44,991</u>	<u>(8,288)</u>	<u>36,703</u>	<u>37,634</u>	<u>(6,579)</u>	<u>31,055</u>
Operating income	11,505	9,171	20,676	4,162	7,305	11,467
Operating income percentage	7.8%		14.0%	3.5%		9.6%
Non-operating income:						
Gain on investments in securities	53	-	53	-	-	-
Interest and other non-operating income, net	2,507	-	2,507	4,582	-	4,582
Income from continuing operations before income taxes	<u>14,065</u>	<u>9,171</u>	<u>23,236</u>	<u>8,744</u>	<u>7,305</u>	<u>16,049</u>
Income tax expense	3,218	2,098 (c)	5,316	2,104	1,753 (e)	3,857
Net income from continuing operations	<u>10,847</u>	<u>7,073</u>	<u>17,920</u>	<u>6,640</u>	<u>5,552</u>	<u>12,192</u>
Loss from discontinued operations, net of related tax	(151)	-	(151)	(20)	-	(20)
Net income	<u>\$ 10,696</u>	<u>\$ 7,073</u>	<u>\$ 17,769</u>	<u>\$ 6,620</u>	<u>\$ 5,552</u>	<u>\$ 12,172</u>
Earnings per diluted share:						
From continuing operations	\$ 0.12	\$ 0.07	\$ 0.20	\$ 0.08	\$ 0.06	\$ 0.14
From discontinued operations	\$ (0.00)	\$ -	\$ (0.00)	\$ (0.00)	\$ -	\$ (0.00)
From net income	<u>\$ 0.12</u>	<u>\$ 0.07</u>	<u>\$ 0.20</u>	<u>\$ 0.08</u>	<u>\$ 0.06</u>	<u>\$ 0.14</u>
Weighted average shares of common stock outstanding, basic	<u>88,057</u>	<u>-</u>	<u>88,057</u>	<u>85,190</u>	<u>-</u>	<u>85,190</u>
Weighted average shares of common stock outstanding, diluted	<u>88,511</u>	<u>-</u>	<u>88,511</u>	<u>86,848</u>	<u>-</u>	<u>86,848</u>

(a) Non-cash stock-based compensation expense of \$883 in costs of product revenue, \$1,247 in research and development and \$2,979 in sales, general and administrative for the three months ended December 28, 2008 and \$726 in costs of product revenue, \$1,039 in research and development and \$2,174 in sales, general and administrative for the three months ended December 30, 2007.

(b) Amortization expense of \$4,062 for the three months ended December 28, 2008 and \$4,048 for the three months ended December 30, 2007 recognized on intangible assets resulting from acquisitions.

(c) Estimated tax effects of non-cash stock-based compensation expense and amortization related to acquisition related intangible assets based upon the Company's effective tax rate for the given period.

(d) Reversal of \$682 in personal property assessment related to settling the audits of the Company's 2002 through 2007 property tax returns with the County of Durham, NC.

(e) Estimated tax effects of non-cash stock-based compensation expense, amortization related to acquisition related intangible assets and the reversal of a portion of the amount accrued related to our personal property tax assessments based upon the Company's overall consolidated effective tax rate for the given period.