

**CREE, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	3/26/2006 (Unaudited)	3/27/2005 (Unaudited)	3/26/2006 (Unaudited)	3/27/2005 (Unaudited)
Product revenue	\$ 100,378	\$ 90,279	\$ 295,382	\$ 269,084
Contract revenue	<u>7,326</u>	<u>5,475</u>	<u>20,864</u>	<u>17,191</u>
Total revenue	<u>107,704</u>	<u>95,754</u>	<u>316,246</u>	<u>286,275</u>
Cost of product revenue	50,946	38,567	145,634	114,652
Cost of contract revenue	<u>5,423</u>	<u>4,260</u>	<u>14,880</u>	<u>13,604</u>
Total cost of revenue	<u>56,369</u>	<u>42,827</u>	<u>160,514</u>	<u>128,256</u>
Gross profit	51,335	52,927	155,732	158,019
Operating expenses:				
Research and development	13,333	10,893	40,910	30,788
Sales, general and administrative	11,826	8,367	33,395	22,324
Loss on disposal of property and equipment	<u>208</u>	<u>277</u>	<u>908</u>	<u>603</u>
Operating expenses	<u>25,367</u>	<u>19,537</u>	<u>75,213</u>	<u>53,715</u>
Income from operations	25,968	33,390	80,519	104,304
Non-operating income:				
Gain on investments in securities	-	2,808	583	935
Other non-operating income	38	-	45	4
Interest income, net	<u>3,482</u>	<u>1,403</u>	<u>8,777</u>	<u>3,691</u>
Income from continuing operations before income taxes	<u>29,488</u>	<u>37,601</u>	<u>89,924</u>	<u>108,934</u>
Income tax expense	<u>5,194</u>	<u>14,801</u>	<u>22,342</u>	<u>32,457</u>
Net income from continuing operations	<u>24,294</u>	<u>22,800</u>	<u>67,582</u>	<u>76,477</u>
(Loss) from discontinued operations, net of related tax benefit	<u>(294)</u>	<u>(2,117)</u>	<u>(4,152)</u>	<u>(6,345)</u>
Net income	<u>\$ 24,000</u>	<u>\$ 20,683</u>	<u>\$ 63,430</u>	<u>\$ 70,132</u>
Earnings per share:				
Diluted				
Income from continuing operations	\$ 0.31	\$ 0.29	\$ 0.87	\$ 0.99
(Loss) from discontinued operations	<u>\$ -</u>	<u>\$ (0.02)</u>	<u>\$ (0.06)</u>	<u>\$ (0.08)</u>
Net income	<u>\$ 0.31</u>	<u>\$ 0.27</u>	<u>\$ 0.81</u>	<u>\$ 0.91</u>
Weighted average shares of common stock outstanding, basic	76,464	75,694	76,011	74,860
Weighted average shares of common stock outstanding, diluted	78,471	77,428	77,943	77,256