

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

	Three Months Ended		Six Months Ended	
	December 28, 2008	December 30, 2007	December 28, 2008	December 30, 2007
	(Unaudited)		(Unaudited)	
Product revenue	\$ 137,595	\$ 111,341	\$ 272,288	\$ 217,304
Contract revenue	4,446	7,658	10,131	15,081
Up-front license fees	5,582	-	5,582	-
Total revenue	<u>147,623</u>	<u>118,999</u>	<u>288,001</u>	<u>232,385</u>
Cost of product revenue	86,831	71,251	173,475	143,831
Cost of contract revenue	3,790	5,952	8,161	12,018
Up-front license fees	506	-	506	-
Total cost of revenue	<u>91,127</u>	<u>77,203</u>	<u>182,142</u>	<u>155,849</u>
Gross profit	56,496	41,796	105,859	76,536
Gross margin percentage	38.3%	35.1%	36.8%	32.9%
Operating expenses:				
Research and development	18,441	14,901	35,716	27,678
Sales, general and administrative	21,843	18,211	44,761	36,373
Amortization of acquisition related intangibles	4,062	4,048	8,124	8,096
Loss on disposal and impairment of long-lived assets	645	474	1,050	1,209
Total operating expenses	<u>44,991</u>	<u>37,634</u>	<u>89,651</u>	<u>73,356</u>
Operating income	11,505	4,162	16,208	3,180
Operating income percentage	7.8%	3.5%	5.6%	1.4%
Non-operating income:				
Gain on sale of investments, net	53	-	65	14,117
Interest and other non-operating income, net	2,507	4,582	5,484	8,309
Income from continuing operations before income taxes	<u>14,065</u>	<u>8,744</u>	<u>21,757</u>	<u>25,606</u>
Income tax expense	3,218	2,104	4,972	6,098
Net income from continuing operations	<u>10,847</u>	<u>6,640</u>	<u>16,785</u>	<u>19,508</u>
Loss from discontinued operations, net of related tax effect	(151)	(20)	(170)	(174)
Net income	<u>\$ 10,696</u>	<u>\$ 6,620</u>	<u>\$ 16,615</u>	<u>\$ 19,334</u>
Diluted earnings per share:				
Income from continuing operations	\$ 0.12	\$ 0.08	\$ 0.19	\$ 0.22
Loss from discontinued operations	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Net income	<u>\$ 0.12</u>	<u>\$ 0.08</u>	<u>\$ 0.19</u>	<u>\$ 0.22</u>
Weighted average shares of common stock outstanding, basic	<u>88,057</u>	<u>85,190</u>	<u>87,954</u>	<u>84,936</u>
Weighted average shares of common stock outstanding, diluted	<u>88,511</u>	<u>86,848</u>	<u>88,619</u>	<u>86,713</u>