

**CREE, INC.**  
**FINANCIAL RESULTS BY OPERATING SEGMENT**  
(in thousands, except percentages)  
(unaudited)

The following table reflects the results of the Company's reportable segments as reviewed by the Company's Chief Executive Officer, its Chief Operating Decision Maker or CODM, for the three months and year ended June 26, 2016 and the three months and year ended June 28, 2015. The CODM does not review inter-segment transactions when evaluating segment performance and allocating resources to each segment. As such, total segment revenue is equal to the Company's consolidated revenue.

	<b>Three Months Ended</b>			
	<b>June 26, 2016</b>	<b>June 28, 2015</b>	<b>Change</b>	
Lighting Products revenue	\$ 198,418	\$ 229,139	\$ (30,721)	(13)%
<i>Lighting Products percent of revenue</i>	51%	60%		
LED Products revenue	159,076	122,231	36,845	30 %
<i>LED Products percent of revenue</i>	41%	32%		
Power and RF Products revenue	30,919	30,787	132	— %
<i>Power and RF Products percent of revenue</i>	8%	8%		
Total revenue	<u>\$ 388,413</u>	<u>\$ 382,157</u>	<u>\$ 6,256</u>	<u>2 %</u>

	<b>Year Ended</b>			
	<b>June 26, 2016</b>	<b>June 28, 2015</b>	<b>Change</b>	
Lighting Products revenue	\$ 889,133	\$ 906,502	\$ (17,369)	(2)%
<i>Lighting Products percent of revenue</i>	55%	56%		
LED Products revenue	610,835	602,082	8,753	1 %
<i>LED Products percent of revenue</i>	38%	37%		
Power and RF Products revenue	116,659	123,921	(7,262)	(6)%
<i>Power and RF Products percent of revenue</i>	7%	7%		
Total revenue	<u>\$ 1,616,627</u>	<u>\$ 1,632,505</u>	<u>\$ (15,878)</u>	<u>(1)%</u>

	<b>Three Months Ended</b>			
	<b>June 26, 2016</b>	<b>June 28, 2015</b>	<b>Change</b>	
Lighting Products gross profit	\$ 51,168	\$ 56,934	\$ (5,766)	(10)%
<i>Lighting Products gross margin</i>	25.8%	24.8%		
LED Products gross profit	55,878	8,506	47,372	557 %
<i>LED Products gross margin</i>	35.1%	7.0%		
Power and RF Products gross profit	13,923	16,163	(2,240)	(14)%
<i>Power and RF Products gross margin</i>	45.0%	52.5%		
Contract manufacturer dispute related expenses	(2,108)	—	(2,108)	
T8 product recall charges	(1,349)	—	(1,349)	
Unallocated costs	(4,489)	(4,913)	424	9 %
Consolidated gross profit	<u>\$ 113,023</u>	<u>\$ 76,690</u>	<u>\$ 36,333</u>	<u>47 %</u>
<i>Consolidated gross margin</i>	29.1%	20.1%		

	<b>Year Ended</b>				
	<b>June 26, 2016</b>	<b>June 28, 2015</b>	<b>Change</b>		
Lighting Products gross profit	\$ 241,699	\$ 235,542	\$ 6,157	3 %	
<i>Lighting Products gross margin</i>	27.2%	26.0%			
LED Products gross profit	212,367	190,912	21,455	11 %	
<i>LED Products gross margin</i>	34.8%	31.7%			
Power and RF Products gross profit	56,069	67,764	(11,695)	(17)%	
<i>Power and RF Products gross margin</i>	48.1%	54.7%			
Contract manufacturer dispute related expenses	(2,108)	—	(2,108)		
T8 product recall charges	(1,349)	—	(1,349)		
Unallocated costs	(19,604)	(20,299)	695	3 %	
Consolidated gross profit	<u>\$ 487,074</u>	<u>\$ 473,919</u>	<u>\$ 13,155</u>	3 %	
<i>Consolidated gross margin</i>	30.1%	29.0%			

### **Reportable Segments Description**

The Company's Lighting Products segment primarily consists of LED lighting systems and bulbs. The Company's LED Products segment includes LED components, LED chips, and silicon carbide materials. The Company's Power and RF Products segment includes power devices and RF devices.

### **Financial Results by Reportable Segment**

The Company's CODM reviews gross profit as the lowest and only level of segment profit. As such, all items below gross profit in the consolidated statements of income must be included to reconcile the consolidated gross profit presented in the preceding table to the Company's consolidated income before taxes.

The Company allocates direct costs and indirect costs to each segment's cost of revenue. The allocation methodology is based on a reasonable measure of utilization considering the specific facts and circumstances of the cost being allocated.

Certain costs are not allocated when evaluating segment performance. These unallocated costs consist primarily of manufacturing employees' stock-based compensation, expenses for profit sharing and quarterly or annual incentive plans and matching contributions under the Company 401(k) Plan.