

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

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 ended September 25, 2016 and the three months ended September 27, 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.

	Three Months Ended		Change	
	September 25, 2016	September 27, 2015		
Lighting Products revenue	\$183,836	\$248,031	(\$64,195)	(26)%
<i>Percent of revenue</i>	57%	65%		
LED Products revenue	137,493	133,518	3,975	3 %
<i>Percent of revenue</i>	43%	35%		
Total revenue	\$321,329	\$381,549	(\$60,220)	(16)%

	Three Months Ended		Change	
	September 25, 2016	September 27, 2015		
Lighting Products gross profit	\$49,290	\$69,081	(\$19,791)	(29)%
<i>Lighting Products gross margin</i>	26.8%	27.9%		
LED Products gross profit	41,770	41,869	(99)	— %
<i>LED Products gross margin</i>	30.4%	31.4%		
Unallocated costs	(4,719)	(3,758)	(961)	26 %
Consolidated gross profit	\$86,341	\$107,192	(\$20,851)	(19)%
<i>Consolidated gross margin</i>	26.9%	28.1%		

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 chips and LED components.

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 (loss) 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's 401(k) Plan.