

JAZZ US HOLDINGS INC.

QUARTERLY REPORT

Period Ended September 30, 2016

EXPLANATORY NOTE

This quarterly report is being provided to the trustee and any record Holder of the Jazz US Holdings Inc. notes due December 2018 under Section 4.03 of the Indenture governing the notes. Since the Securities and Exchange Commission does not accept filings from voluntary filers such as Jazz US Holdings Inc. who have not previously filed a registration statement under either the Securities Act of 1933 or the Securities Exchange Act of 1934, this report is not filed with the Securities and Exchange Commission but is publicly accessible at <http://ir.towerjazz.com> under the “Financial Statements” tab. For the sake of convenience and comparison with reports from prior periods, the information in this report is presented using the item numbers and other presentation styles of a Quarterly Report on Form 10-Q.

JAZZ US HOLDINGS INC.

QUARTERLY REPORT

Period Ended September 30, 2016

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Jazz US Holdings Inc. and Subsidiaries

Consolidated Balance Sheets
(in thousands)

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
	<u>(unaudited)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,446	\$ 23,488
Receivables:		
Trade receivables, net of allowance for doubtful accounts	32,965	27,399
Other receivables	1,173	1,503
Inventories	33,729	29,915
Deferred tax asset	2,847	3,642
Other current assets	1,955	3,121
Total current assets	85,115	89,068
Property, plant and equipment, net	102,171	95,699
Intangible assets, net	17,011	20,048
Goodwill	7,000	7,000
Other assets	21,497	22,385
Total assets	\$ 232,794	\$ 234,200
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	19,334	18,233
Accrued compensation and benefits	5,433	6,560
Deferred revenues and customers' advances	1,200	6,371
Other current liabilities	15,836	18,221
Total current liabilities	41,803	49,385
Long term liabilities:		
Long-term bank debt	--	19,100
Notes	48,117	45,497
Deferred tax liability	7,230	4,771
Employee related liabilities	1,577	2,102
Total liabilities	98,727	120,855
Stockholders' equity:		
Ordinary shares of \$0.001 par value;		
Authorized: 1,000 shares;		
Issued: 100 shares;		
Outstanding: 100 shares;		
Additional paid-in capital	74,986	74,986
Cumulative stock based compensation	6,426	4,971
Accumulated other comprehensive loss	(724)	(327)
Retained earnings	53,379	33,715
Total stockholders' equity	134,067	113,345
Total liabilities and stockholders' equity	\$ 232,794	\$ 234,200

See accompanying notes.

Jazz US Holdings Inc. and Subsidiaries

Unaudited Consolidated Statements of Operations
(in thousands)

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenues	\$ 67,616	\$ 69,387	\$ 205,984	\$ 201,243
Cost of revenues	45,489	51,030	140,536	148,183
Gross profit	<u>22,127</u>	<u>18,357</u>	<u>65,448</u>	<u>53,060</u>
Operating expenses:				
Research and development	6,541	4,360	15,610	13,076
Selling, general and administrative	5,755	5,261	15,305	14,507
Total operating expenses	<u>12,296</u>	<u>9,621</u>	<u>30,915</u>	<u>27,583</u>
Operating profit	9,831	8,736	34,533	25,477
Interest expenses, net	(1,235)	(1,303)	(3,804)	(3,934)
Other financing expense, net	(932)	(783)	(2,943)	(2,209)
Other expense, net	--	(271)	--	(271)
Profit before income taxes	<u>7,664</u>	<u>6,379</u>	<u>27,786</u>	<u>19,063</u>
Income tax benefit (expense)	<u>(2,053)</u>	<u>(423)</u>	<u>(8,001)</u>	<u>6,569</u>
Net profit	<u>\$ 5,611</u>	<u>\$ 5,956</u>	<u>\$ 19,785</u>	<u>\$ 25,632</u>

See accompanying notes.

Jazz US Holdings Inc. and Subsidiaries

**Unaudited Consolidated Statements of Comprehensive Income
(Loss)
(in thousands)**

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income	\$ 5,611	\$ 5,956	\$ 19,785	\$ 25,632
Change in employees plan assets and benefit obligations	(132)	(300)	(397)	(900)
Comprehensive income	\$ 5,479	\$ 5,656	\$ 19,388	\$ 24,732

See accompanying notes.

Jazz US Holdings Inc. and Subsidiaries
Unaudited Consolidated Statements of Cash Flows
(in thousands)

	Nine months ended	
	September 30, 2016	September 30, 2015
Operating activities:		
Net income	\$ 19,785	\$ 25,632
Adjustments to reconcile net profit for the period to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	25,080	28,651
Notes accretion and amortization of deferred financing costs	2,859	2,265
Stock based compensation expense	1,334	1,107
Changes in operating assets and liabilities:		
Trade receivables	(5,623)	(1,702)
Inventories	(3,814)	(4,619)
Other receivables and other current assets	1,509	(16)
Accounts payable	(35)	(3,890)
Due to related parties, net	(972)	13,740
Accrued compensation and benefits	(1,127)	(606)
Deferred revenue and customers' advances	(5,171)	2,576
Other current liabilities	1,087	2,387
Deferred tax liability, net	3,253	(436)
Employee related liabilities and long-term liabilities	(922)	(13,714)
Net cash provided by operating activities	<u>37,243</u>	<u>51,375</u>
Investing activities:		
Purchases of property and equipment	(29,810)	(37,405)
Proceeds related to property and equipment	625	394
Advance payment to related party	--	(21,000)
Net cash used in investing activities	<u>(29,185)</u>	<u>(58,011)</u>
Financing activities:		
Debt repayment	(19,100)	(44,683)
Net cash used in financing activities	<u>(19,100)</u>	<u>(44,683)</u>
Net decrease in cash and cash equivalents	(11,042)	(51,319)
Cash and cash equivalents at beginning of the period	23,488	73,387
Cash and cash equivalents at end of the period	<u>\$ 12,446</u>	<u>\$ 22,068</u>

Non-cash activities:

	Nine months ended	
	September 30, 2016	September 30, 2015
Investments in property, plant and equipment	\$ 1,509	\$ 8,857

Supplemental disclosure of cash flow information:

	Nine months ended	
	September 30, 2016	September 30, 2015
Cash paid during the period for interest	\$ 5,132	\$ 5,186
Cash paid during the period for income taxes	\$ 2,158	\$ 2,329

See accompanying notes.

Jazz US Holdings Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

Note 1: Business and Formation

The Company

Jazz US Holdings Inc. (“the Company”) is based in Newport Beach, California and through its direct and indirect wholly-owned subsidiaries Jazz Semiconductor, Inc. and Newport Fab LLC, is an independent semiconductor foundry focused on specialty process technologies for the manufacture of analog intensive mixed-signal semiconductor devices. The Company’s specialty process technologies include advanced analog, radio frequency, high voltage, bipolar and silicon germanium bipolar complementary metal oxide (“SiGe”) semiconductor processes, for the manufacture of analog and mixed-signal semiconductors. Its customers' analog and mixed-signal semiconductor devices are used in cellular phones, wireless local area networking devices, digital TVs, set-top boxes, gaming devices, switches, routers and broadband modems.

In 2008, Tower Semiconductor Ltd. (“Tower”) acquired all of the shares of Jazz Technologies, Inc.

In November 2015, Jazz Technologies, Inc. transferred all of its liabilities and all of its assets, including its ownership of all of the shares of Jazz Semiconductor Inc., to Jazz US Holdings Inc., a newly established company registered under the laws of Delaware and fully owned by Jazz Technologies, Inc. (now known as Tower US Holdings Inc.) which is wholly owned by Tower. The transaction had the effect of establishing Jazz US Holdings as an intermediate holding company, holding all of the shares of Jazz Semiconductor.

On December 22, 2015, pursuant to a supplemental indenture entered into among Tower US Holdings Inc., the Company and the trustee for the notes due December 2018, the Company replaced Jazz Technologies, Inc. as obligor under these notes.

Because the November 2015 reorganization involved companies under common control, the financial statements of the Company and its subsidiaries are presented as if the reorganization had occurred on the first day of the earliest year presented.

As used in this quarterly report, “we,” “us,” “our,” “Jazz,” the “Company” and words of similar import refer to Jazz Technologies, Inc., including its subsidiaries, for the period preceding November 23, 2015, and Jazz US Holdings Inc., including its subsidiaries, following such date. “Jazz Semiconductor” refers solely to Jazz Semiconductor, Inc.

Since the Securities and Exchange Commission (SEC) does not accept filings from voluntary filers such as the Company who have not previously filed a registration statement under either the Securities Act of 1933 or the Securities Exchange Act of 1934, this quarterly report is not filed with the SEC, but is provided directly to the trustee and any record holder of the notes in accordance with Section 4.03 of the Indenture governing the them and is also publicly available at <http://ir.towerjazz.com>. To view the historical Company filings with the SEC prior to December 31, 2015, go to www.sec.gov, and search for filings made by Jazz Technologies, Inc.

Note 2: Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The Company prepares its consolidated financial statements in accordance with U.S. generally accepted accounting principles (“US GAAP”) requirements and includes all adjustments of a recurring nature that are necessary to fairly present its condensed consolidated results of operations, financial position, and cash flows for all periods presented. The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Interim period results are not necessarily indicative of full year results. This quarterly report should be read in conjunction with the Company’s most recent annual report.

The condensed consolidated financial statements included herein are unaudited; however, they contain all recurring adjustments that, in the opinion of management, are necessary to present fairly the Company’s consolidated financial position on September 30, 2016 and December 31, 2015, and the consolidated results of its operations and cash flows for the nine months ended September 30, 2016 and September 30, 2015. All intercompany accounts and transactions have been eliminated. Certain amounts have been reclassified in order to conform to 2016 presentation.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires the Company to make estimates and

assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amount of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates.

Fair Value of Financial Instruments

The Company measures its financial assets and liabilities in accordance with US GAAP. For financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to their short maturities.

Concentrations

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash, cash equivalents and trade accounts receivable.

The Company generally does not require collateral for insurance of receivables. An allowance for doubtful accounts is determined with respect to those amounts that were determined to be doubtful of collection. The Company performs ongoing credit evaluations of its customers.

Accounts receivable representing 10% or more of net accounts receivable balance consist of one customer that accounted for 40% as of September 30, 2016 and 42% as of December 31, 2015.

Net revenues from significant customers representing 10% or more of net revenues consist of one customer that accounted for 37% and 39% for the three months ended September 30, 2016 and September 30, 2015, respectively, and accounted for 37% and 39% for the nine months ended September 30, 2016 and September 30, 2015, respectively.

As a result of the Company's concentration of its customer base, loss or cancellation of business from, or significant changes in scheduled deliveries of products sold to, these customers, or a change in their financial position, could materially and adversely affect the Company's consolidated financial position, results of operations and cash flows.

The Company operates a single manufacturing facility located in Newport Beach, California. A major interruption in the manufacturing operations at this facility would have a material adverse affect on the consolidated financial position and results of operations of the Company.

Initial Adoption of New Standards

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This guidance changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as an interest expense.

The requirement to present debt issuance costs as a direct reduction of the related debt liability (rather than as an asset) is consistent with the presentation of debt discounts under US GAAP. In addition, it aligns the guidance in US GAAP with that in IFRS, under which transaction costs that are directly attributable to the issuance of a financial liability are treated as an adjustment to the initial carrying amount of the liability.

As a result of the retrospective adoption of ASU 2015-03 effective January 1, 2016, deferred financing costs of approximately \$0.3 million previously classified within long-term assets were reclassified to reduce the related debt liabilities as of December 31, 2015.

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, Compensation - Stock Compensation (Topic 718). This guidance identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. This guidance is effective for the annual reporting period beginning after December 15, 2016, including interim periods within that reporting period, with early adoption permitted. The Company has early adopted the update with the most significant area of change is the accounting for forfeitures, where, as of January 1, 2016, we account for on a gross basis and recognize actual forfeitures as they occur. The update requires that the adoption related to forfeitures be accounted for using the modified retrospective method where the effect of the change relating to previous years was recognized as an adjustment to the opening balance of retained earnings. The amount of the adjustment related to previous years is approximately \$0.1 million.

Note 3: Other Balance Sheet Details

Inventories

Inventories, net of reserves, consist of the following on September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Raw material	\$ 4,740	\$ 5,970
Work in process	26,019	22,058
Finished goods	2,970	1,887
	<u>\$ 33,729</u>	<u>\$ 29,915</u>

Property, plant and equipment

Property, plant and equipment consist of the following on September 30, 2016 and December 31, 2015 (in thousands):

	Useful life (In years)	September 30, 2016	December 31, 2015
Building (including facility infrastructure)	10-19	\$ 40,445	\$ 38,449
Machinery and equipment	3-15	302,769	275,421
		343,214	313,870
Accumulated depreciation		(241,043)	(218,171)
		<u>\$ 102,171</u>	<u>\$ 95,699</u>

Intangible Assets

Intangible assets consist of the following on September 30, 2016 (in thousands):

	Weighted Average Life (years)	Cost	Accumulated Amortization	Net
Technology	4;9	\$ 3,300	\$ 3,114	\$ 186
Patents and other core technology rights	9	15,100	13,484	1,616
In process research and development	--	1,800	1,800	--
Customer relationships	15	2,600	1,393	1,207
Trade name	9	5,200	4,643	557
Facilities lease	19	33,500	20,055	13,445
Total identifiable intangible assets		<u>\$ 61,500</u>	<u>\$ 44,489</u>	<u>\$ 17,011</u>

Intangible assets consist of the following on December 31, 2015 (in thousands):

	Weighted Average Life (years)	Cost	Accumulated Amortization	Net
Technology	4;9	\$ 3,300	\$ 2,865	\$ 435
Patents and other core technology rights	9	15,100	12,225	2,875
In process research and development	--	1,800	1,800	--
Customer relationships	15	2,600	1,263	1,337
Trade name	9	5,200	4,210	990
Facilities lease	19	33,500	19,089	14,411
Total identifiable intangible assets		<u>\$ 61,500</u>	<u>\$ 41,452</u>	<u>\$ 20,048</u>

The amortization related to technology, patents and other core technology rights, and facilities' lease is charged to cost of revenues. The amortization related to customer relationships and trade name is charged to operating expenses.

Note 4: Wells Fargo Asset-Based Revolving Credit Line

In December 2013, the Company entered into an agreement with Wells Fargo Capital Finance, part of Wells Fargo & Company (“Wells Fargo”), for a five-year secured asset-based revolving credit line in the total amount of up to \$70 million maturing in December 2018 (the “Credit Line Agreement”). The applicable interest on the loans under the Credit Line Agreement is at a rate equal to, at the lender’s option, either the lender’s prime rate plus a margin ranging from 0.25% to 0.75% or the LIBOR rate plus a margin ranging from 1.5% to 2.0% per annum.

The outstanding borrowing availability varies from time to time based on the levels of the Company's eligible accounts receivable, eligible equipment, eligible inventories and other terms and conditions described in the Credit Line Agreement. The obligations under the Credit Line Agreement are secured by a security interest on all the assets of the Company. The Credit Line Agreement contains customary covenants and other terms, as well as customary events of default. If any event of default occurs, Wells Fargo may declare all borrowings under the facility due immediately and foreclose on the collateral. Furthermore, an event of default under the Credit Line Agreement would result in an increase in the interest rate on any amounts outstanding. The Company's obligations pursuant to the Credit Line Agreement are not guaranteed by Tower.

Borrowing availability under the Credit Line Agreement as of September 30, 2016 was approximately \$63 million.

As of September 30, 2016, the Company was in compliance with all of the covenants under this facility.

Note 5: Notes

Introduction

As of September 30, 2016 and December 31, 2015, the Company had approximately \$58 million principal amount of notes outstanding due December 2018.

Jazz 2010 Notes redeemed during January 2015

In July 2010, the Company issued notes in the principal amount of approximately \$94 million due June 2015 (the “2010 Notes”). Interest on the 2010 Notes at a rate of 8% per annum was payable semiannually.

During the first quarter of 2015, the 2010 Notes had been fully redeemed mainly through: (i) an early redemption of approximately \$45 million outstanding amount, as permitted by the terms of the indenture governing the 2010 Notes, completed in January 2015; and (ii) the 2014 Exchange Agreement (as defined and discussed below).

As a result, no outstanding amount is due towards the 2010 Notes.

Jazz 2014 Notes Exchange Agreement

In March 2014, the Company, certain of its domestic subsidiaries and Tower entered into an exchange agreement (the “2014 Exchange Agreement”) with certain 2010 Notes holders (the “2014 Participating Holders”) according to which the Company issued new unsecured convertible senior notes due December 2018 (the “2014 Notes”) in exchange for approximately \$45 million in aggregate principal amount of 2010 Notes.

In addition, in March 2014, the Company, Tower and certain of the 2014 Participating Holders (the “Purchasers”) entered into a purchase agreement (the “Purchase Agreement”) pursuant to which the Purchasers purchased \$10 million aggregate principal amount of 2014 Notes for cash consideration.

Holder of the 2014 Notes may submit a conversion request with respect to their 2014 Notes to be settled through cash or ordinary shares of Tower, in which event the conversion price is set to \$10.07 per share, reflecting a 20 percent premium over the average closing price for Tower’s ordinary shares for the five trading days ending on the day prior to the signing date of the 2014 Exchange Agreement and Purchase Agreement. Interest on the 2014 Notes at a rate of 8% per annum is payable semiannually.

The 2014 Notes are unsecured senior obligations of the Company, rank equally with all other existing and future unsecured senior indebtedness of the Company, and are effectively subordinated to all existing and future secured indebtedness of the Company, including the Company’s secured Credit Line Agreement with Wells Fargo (see Note 4 above), to the extent of the value of the collateral securing such indebtedness. The 2014 Notes rank senior to all existing and future subordinated debt. The 2014 Notes are not guaranteed by Tower.

Holder of the 2014 Notes are entitled, subject to certain conditions and restrictions, to require the Company to repurchase the 2014 Notes at par plus accrued interest and a 1% redemption premium in the event of certain change of control transactions as set forth in the Indenture governing the 2014 Notes.

The Indenture contains certain customary covenants, including covenants restricting the Company's ability and the ability of its subsidiaries to, among other things, incur additional debt, incur additional liens, make specified payments and make certain asset sales.

Jazz's obligations under the 2014 Notes are guaranteed by Jazz's wholly owned domestic subsidiaries. The Company has not provided condensed consolidated financial information for such subsidiaries because the subsidiaries have no independent assets or operations, the subsidiary guarantees are full and unconditional and joint and several and the subsidiaries of the Company, other than the subsidiary guarantors, are minor.

As of September 30, 2016, approximately \$58 million principal amount of 2014 Notes was outstanding.

Note 6: Income Taxes

The statute of limitations with respect to tax year 2010, which expired during the first quarter of 2015, resulted in a tax benefit for such period in the amount of approximately \$11 million.

During 2016, the U.S. tax authorities commenced a regulatory audit of the Company's tax returns for the years 2011 through 2014. There is no indication to date whether the Company will be required to pay any additional taxes pursuant to said audit.

Note 7: Employee Benefit Plans

The pension and other post-retirement benefit plans for the three months and nine months ended September 30, 2015 amounted to \$0.2 million and \$0.6 million income, net, respectively. No such benefit, net, was recorded for the three months or nine months ended September 30, 2016.

Note 8: Stockholders' Equity

During the three months ended September 30, 2016, 3,000 restricted share units ("RSUs") were awarded to employees.

The Company recorded \$0.43 million and \$0.51 million, respectively, of compensation expenses relating to options and RSU's granted to employees for the three months ended September 30, 2016 and 2015.

The Company recorded \$1.33 million and \$1.11 million, respectively, of compensation expenses relating to options and RSU's granted to employees for the nine months ended September 30, 2016 and 2015.

Note 9: Related Party Transactions

Related party transactions consist of the following on September 30, 2016 and December 31, 2015 (in thousands):

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Due from related parties (included in the accompanying balance sheets)	\$ 22,303	\$ 22,997
Less: Due to related parties (included in the accompanying balance sheets)	(11,456)	(13,986)
Net balance due from related parties	<u>\$ 10,847</u>	<u>\$ 9,011</u>

Related parties' balances are with Tower and its subsidiaries and are mainly for purchases from, and payments made on behalf of, the other party, purchase and sale of tools, lease of tools, service charges, business development services, procurement services and other services. In addition, as described in Note 5 above, in March 2014, the Company issued to its 2014 Participating Holders and Purchasers an aggregate of approximately \$58 million of 2014 Notes, which are convertible into an aggregate of up to approximately 5.8 million ordinary shares of Tower at a conversion price of \$10.07 per share, the value of which as of March 2014 was determined to be approximately \$4.50 for each Tower share underlying the 2014 Notes. This value was given by Tower to the Company and was settled through a monetary deposit advance payment on account of future conversions and is presented under Other Assets in the balance sheet. See also Note 9 to the Company's consolidated financial statements for the year ended December 31, 2015.

Note 10: Commitments and Contingencies

Leases

Our headquarters and manufacturing facility are located in Newport Beach, California. The Company leases its fabrication facility and offices under lease contracts that the Company can extend until 2027. In 2015, the Company exercised its option to extend the lease term from 2017 to 2022, while maintaining the option to extend the lease term at its sole discretion from 2022 to 2027. Under our amended leases, the Company's rental payments consist of fixed base rent and fixed management fees and our pro rata share of certain expenses incurred by the landlord in the ownership of these buildings, including property taxes, building insurance and common area maintenance. These lease expenses are included in operating expenses in the accompanying unaudited consolidated statements of operations. The Company and the landlord further amended the lease to setting forth certain obligations of the Company and the landlord, including certain noise abatement actions at the fabrication facility.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the financial statements and related notes contained elsewhere in this report. See our Annual Report for the fiscal year ended December 31, 2015 and subsequent quarterly reports for information regarding certain risk factors known to us that could cause reported financial information not to be necessarily indicative of future results.

FORWARD LOOKING STATEMENTS

This report may contain "forward-looking statements" within the meaning of the federal securities laws made pursuant to the safe harbor provisions of the Private Securities Litigation Report Act of 1995. These statements, which represent our expectations or beliefs concerning various future events, may contain words such as "may," "will," "expects," "anticipates," "intends," "plans," "believes," "estimates," or other words indicating future results. Such statements may include but are not limited to statements concerning the following:

- anticipated trends in revenues;
- growth opportunities in domestic and international markets;
- new and enhanced channels of distribution;
- customer acceptance of, and satisfaction with, our products;
- expected trends in operating and other expenses;
- purchase of raw materials at levels to meet forecasted demand;
- ability to timely fulfill customers' demand;
- anticipated cash and intentions regarding usage of cash;
- changes in effective tax rates; and
- anticipated product enhancements or releases.

This report, including these forward-looking statements, is subject to risks and uncertainties, including those risks and uncertainties described in our Annual Report for the fiscal year ended December 31, 2015 and subsequent quarterly reports, that could cause actual results to differ materially from those anticipated as of the date of this report. We assume no obligation to update any forward-looking statements to reflect events or circumstances arising after the date of this report.

RESULTS OF OPERATIONS

For the nine months ended September 30, 2016, we had net profit of \$19.8 million compared to net profit of \$25.6 million for the nine months ended September 30, 2015.

The following table sets forth certain statement of operations data as a percentage of total revenues for the periods indicated.

	Nine Months Ended	
	September 30, 2016	September 30, 2015
Revenue	100%	100%
Cost of revenue	68.2	73.6

Gross profit	31.8	26.4
Operating expenses:		
Research and development	7.6	6.5
Selling, general and administrative	7.4	7.2
Total operating expenses	15.0	13.7
Operating profit	16.8	12.7
Interest expenses, net	(1.8)	(2.0)
Other financing expense, net	(1.4)	(1.1)
Other expense, net	--	(0.1)
Income tax benefit (expense)	(3.9)	3.2
Net profit	9.7%	12.7%

Comparison of Nine Months Ended September 30, 2016 and September 30, 2015

Revenue

Our net revenue for the nine months ended September 30, 2016 amounted to \$206.0 million, as compared to \$201.2 million for the corresponding period in 2015.

Cost of Revenue

Cost of revenue amounted to \$140.5 million for the nine months ended September 30, 2016, as compared to \$148.2 million for the corresponding period in 2015. As described in Note 3 to the Company's consolidated financial statements for the year ended December 31, 2015, during the second quarter of 2015 the estimated useful lives of property and equipment was extended from 7 years to 15 years. For the nine-month period ended September 30, 2016, the impact of these extended estimated useful lives was approximately \$2.0 million of reduced depreciation expenses as compared to the nine month period ended September 30, 2015.

Gross Profit

Gross profit was \$65.4 million in the nine months ended September 30, 2016, as compared to \$53.1 million in the corresponding period in 2015, a \$12.3 million improvement that resulted from the components described above.

Operating Expenses

Operating expenses for the nine months ended September 30, 2016 amounted to \$30.9 million, as compared to \$27.6 million in the nine months ended September 30, 2015, reflecting approximately 15% and 14% of revenue for the nine months ended September 30, 2016 and the nine months ended September 30, 2015, respectively.

Interest Expenses, Net, Other Financing Expenses, Net and Other Expenses, Net

Interest expenses, net, other financing expenses, net and other expenses, net for the nine months ended September 30, 2016 amounted to \$6.7 million, as compared to \$6.4 million in the corresponding period in 2015.

Income Tax Benefit (Expense)

Income tax expense amounted to \$8.0 million in the nine months ended September 30, 2016, as compared to income tax benefit of \$6.6 million in the nine months ended September 30, 2015. The statute of limitations with respect to tax year 2010, which expired during the nine months ended September 30, 2015, resulted in a tax benefit for such period in the amount of approximately \$11 million.

Net Profit

Net profit for the nine months ended September 30, 2016 amounted to \$19.8 million as compared to net profit of \$25.6 million in the nine months ended September 30, 2015. The change in the net profit is mainly due to the following items described above: higher tax expense of \$14.6 million which was partially offset by \$9.0 million higher operating profit.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Based on the evaluation as of the end of the period covered by this report, our principal executive officer and chief financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective as of the end of the period covered by this report.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and our principal executive officer and our principal financial officer have concluded that these controls and procedures are effective at the “reasonable assurance” level. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings, other than ordinary routine litigation incidental to our business, to which we are a party or any of our property is subject.

Item 1A. Risk Factors

In addition to the other information contained in this report, you should carefully consider the risk factors associated with our business previously disclosed in Item 1A to Part I of our Annual Report for the fiscal year ended December 31, 2015. Our business, financial condition and/or results of operations could be materially adversely affected by any of these risks. Additional risks not presently known to us or that we currently deem immaterial may also impair our business and operations.