# JAZZ US HOLDINGS INC.

# QUARTERLY REPORT

## Period Ended June 30, 2017

## 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 being 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 June 30, 2017**

**TABLE OF CONTENTS**

## PART I — FINANCIAL INFORMATION

### Item 1. Financial Statements

**Jazz US Holdings Inc. and Subsidiaries**

**Consolidated Balance Sheets**
**(in thousands, except share data)**

| | June 30, 2017 (unaudited) | December 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 38,513 | $ 20,261 |
| Receivables: | | |
| Trade receivables | 33,395 | 31,741 |
| Other receivables | 811 | 942 |
| Inventories | 30,952 | 33,897 |
| Deferred tax asset | -- | 2,746 |
| Other current assets | 1,170 | 1,700 |
| Total current assets | 104,841 | 91,287 |
| Long-term investments | 549 | 199 |
| Property, plant and equipment, net | 103,847 | 102,489 |
| Intangible assets, net | 14,068 | 15,999 |
| Goodwill | 7,000 | 7,000 |
| Other assets | 21,394 | 21,282 |
| Total assets | $ 251,699 | $ 238,256 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Trade accounts payable | 19,524 | 15,217 |
| Employee related liabilities | 7,226 | 7,182 |
| Deferred revenues and customers' advances | 1,294 | 1,364 |
| Other current liabilities | 14,986 | 17,700 |
| Total current liabilities | 43,030 | 41,463 |
| Long term liabilities: | | |
| Notes | 51,093 | 49,068 |
| Deferred tax liability | 2,644 | 5,001 |
| Employee related liabilities | 1,513 | 1,796 |
| Long term customers' advances | 2,000 | -- |
| Other long-term liabilities | 4,454 | 3,066 |
| Total liabilities | 104,734 | 100,394 |
| 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 | 7,347 | 6,824 |
| Accumulated other comprehensive loss | (1,188) | (873) |
| Retained earnings | 65,820 | 56,925 |
| Total stockholders' equity | 146,965 | 137,862 |
| Total liabilities and stockholders' equity | $ 251,699 | $ 238,256 |

**See accompanying notes.**

**Jazz US Holdings Inc. and Subsidiaries**

**Unaudited Consolidated Statements of Operations**
**(in thousands)**

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| Revenues | $ 73,008 | $ 69,703 | $ 143,091 | $ 138,368 |
| Cost of revenues | 53,370 | 47,038 | 105,195 | 95,047 |
| Gross profit | 19,638 | 22,665 | 37,896 | 43,321 |
| Operating expenses: | | | | |
| Research and development | 6,039 | 4,727 | 11,234 | 9,069 |
| Selling, general and administrative | 5,160 | 4,673 | 10,452 | 9,550 |
| Total operating expenses | 11,199 | 9,400 | 21,686 | 18,619 |
| Operating profit | 8,439 | 13,265 | 16,210 | 24,702 |
| Interest expenses, net | (1,154) | (1,242) | (2,323) | (2,569) |
| Other financing expense, net | (1,059) | (1,111) | (2,077) | (2,011) |
| Other income, net | 14 | -- | 61 | -- |
| Profit before income tax expense | 6,240 | 10,912 | 11,871 | 20,122 |
| Income tax expense | (1,654) | (3,112) | (2,976) | (5,948) |
| Net profit | $ 4,586 | $ 7,800 | $ 8,895 | $ 14,174 |

**See accompanying notes.**

**Jazz US Holdings Inc. and Subsidiaries**

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

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 30, 2017** | **June 30, 2016** | **June 30, 2017** | **June 30, 2016** |
| Net income | $ 4,586 | $ 7,800 | $ 8,895 | $ 14,174 |
| Change in employees plan assets and benefit obligations | (157) | (133) | (315) | (265) |
| Comprehensive income | $ 4,429 | $ 7,667 | $ 8,580 | $ 13,909 |

**See accompanying notes.**

**Jazz US Holdings Inc. and Subsidiaries**

**Unaudited Consolidated Statements of Cash Flows**
**(in thousands)**

| | Six months ended June 30, 2017 | Six months ended June 30, 2016 |
|---|---|---|
| **Operating activities:** | | |
| Net profit | $ 8,896 | $ 14,174 |
| Adjustments to reconcile net profit for the period to net cash provided by operating activities: | | |
| Depreciation and amortization of intangible assets | 18,526 | 17,076 |
| Notes accretion and amortization of deferred financing costs | 2,025 | 1,948 |
| Stock based compensation expense | 523 | 906 |
| Other income, net | (61) | -- |
| Changes in operating assets and liabilities: | | |
| Trade receivables | (1,634) | (3,666) |
| Inventories | 2,945 | (405) |
| Other receivables and other current assets | 508 | 2,269 |
| Trade accounts payable | (574) | (1,886) |
| Related parties, net | (2,400) | (3,557) |
| Employee related liabilities | (904) | (766) |
| Deferred revenue and customers' advances | 1,930 | (4,787) |
| Other current liabilities | 676 | 1,396 |
| Deferred tax liability, net | 389 | 2,210 |
| Net cash provided by operating activities | 30,845 | 24,912 |
| **Investing activities:** | | |
| Purchases of property and equipment | (13,028) | (19,794) |
| Proceeds related to property and equipment | 435 | 414 |
| Net cash used in investing activities | (12,593) | (19,380) |
| **Net increase in cash and cash equivalents** | 18,252 | 5,532 |
| Cash and cash equivalents at the beginning of the year | 20,261 | 23,488 |
| Cash and cash equivalents at the end of the year | $ 38,513 | $ 29,020 |

Non-cash activities:

| | Six months ended June 30, 2017 | Six months ended June 30, 2016 |
|---|---|---|
| Investments in property, plant and equipment | $ 6,674 | $ 3,034 |

Supplemental disclosure of cash flow information:

| | Six months ended June 30, 2017 | Six months ended June 30, 2016 |
|---|---|---|
| Cash paid during the period for interest | $ 2,320 | $ 2,668 |
| Cash paid during the period for income taxes | $ 1,126 | $ 1,812 |

**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. 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. Its 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, as part of a corporate restructure, 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 established Jazz US Holdings as an intermediate holding company, holding all of the shares of Jazz Semiconductor. The restructuring was accounted for as restructuring under common control using the historical carrying values.

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

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 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 that has 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 being filed with the SEC, but is being provided directly to the trustee of the notes due December 2018 and any record holder of the notes in accordance with Section 4.03 of the Indenture governing them and is also publicly available at http://ir.towerjazz.com under the "Financial Statements" tab. 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.

The condensed consolidated financial statements included herein are unaudited; however, they contain all recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly the Company's consolidated financial position on June 30, 2017 and December 31, 2016, and the consolidated results of its operations and cash flows for the six months ended June 30, 2017 and June 30, 2016. All intercompany accounts and transactions have been eliminated. Certain amounts have been reclassified in order to conform to 2017 presentation.

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.

#### *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**.**

Trade accounts receivable representing 10% or more of net accounts receivable balance consist of one customer that accounted for 47% as of June 30, 2017 and 43% as of December 31, 2016.

Revenues from significant customers representing 10% or more of net revenues consist of one customer that accounted for 41% and 35% for the three months ended June 30, 2017 and June 30, 2016, respectively, and accounted for 41% and 36% for the six months ended June 30, 2017 and June 30, 2016, 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 may have a material adverse affect on the consolidated financial position and results of operations of the Company.

***Initial Adoption of New Standards***

*In November 2015, the FASB issued ASU 2015-17 "Balance Sheet Classification of Deferred Taxes".* ASU 2015-17 simplifies the presentation of deferred income taxes and requires that deferred tax assets and liabilities, as well as any related valuation allowance, be classified as noncurrent in a classified statement of financial position. The update applies to the Company as of the first quarter of 2017. The update was applied prospectively to all deferred tax liabilities and assets and prior periods were not retrospectively adjusted. The update did not have a material effect on the Company's consolidated financial statements.

**Note 3: Balance Sheet Details**

***Inventories***

Inventories, net of reserves, consist of the following on June 30, 2017 and December 31, 2016 (in thousands):

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Raw material | $ 5,551 | $ 4,383 |
| Work in process | 24,201 | 27,105 |
| Finished goods | 1,200 | 2,409 |
| | $ 30,952 | $ 33,897 |

***Property, plant and equipment***

Property, plant and equipment consist of the following on June 30, 2017 and December 31, 2016 (in thousands):

| | Useful life (In years) | June 30, 2017 | December 31, 2016 |
|---|---|---|---|
| Building (including facility infrastructure) | 10-19 | $ 43,484 | $ 41,396 |
| Machinery and equipment | 3-15 | 324,012 | 308,235 |

| | | |
|---|---|---|
| | 367,496 | 349,631 |
| Accumulated depreciation | (263,649) | (247,142) |
| | $ 103,847 | $ 102,489 |

***Intangible Assets***

Intangible assets consist of the following on June 30, 2017 (in thousands):

| | Weighted Average Life (years) | Cost | Accumulated Amortization | Net |
|---|---|---|---|---|
| Technology | 4;9 | $ 3,300 | $ 3,269 | $ 31 |
| Patents and other core technology rights | 9 | 15,100 | 14,742 | 358 |
| In process research and development | -- | 1,800 | 1,800 | -- |
| Customer relationships | 15 | 2,600 | 1,523 | 1,077 |
| Trade name | 9 | 5,200 | 5,077 | 123 |
| Facilities' lease | 19 | 33,500 | 21,021 | 12,479 |
| Total identifiable intangible assets | | $ 61,500 | $ 47,432 | $ 14,068 |

Intangible assets consist of the following on December 31, 2016 (in thousands):

| | Weighted Average Life (years) | Cost | Accumulated Amortization | Net |
|---|---|---|---|---|
| Technology | 4;9 | $ 3,300 | $ 3,197 | $ 103 |
| Patents and other core technology rights | 9 | 15,100 | 13,903 | 1,197 |
| In process research and development | -- | 1,800 | 1,800 | -- |
| Customer relationships | 15 | 2,600 | 1,436 | 1,164 |
| Trade name | 9 | 5,200 | 4,788 | 412 |
| Facilities' lease | 19 | 33,500 | 20,377 | 13,123 |
| Total identifiable intangible assets | | $ 61,500 | $ 45,501 | $ 15,999 |

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 for the period following February 2016 is at a rate equal to, at 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 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 June 30, 2017 was approximately $60 million, of which approximately $1 million had been utilized as letters of credit as of such date. As of June 30, 2017 and December 31, 2016, there were no outstanding loans drawn under the Jazz Credit Line Agreement.

As of June 30, 2017, the Company was in compliance with all of the covenants under the Credit Line Agreement.

**Note 5: Notes**

***Introduction***

As of June 30, 2017 and December 31, 2016, the Company had $58 million principal amount of notes outstanding due December 2018.

Description and composition are as follows:

***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.

By the end of 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.

Holders 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). The 2014 Notes rank senior to all existing and future subordinated debt. The 2014 Notes are not guaranteed by Tower.

Holders 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 June 30, 2017, approximately $58 million principal amount of 2014 Notes was outstanding.

**Note 6: Income Taxes**

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 as for the expected results of such audit, if any.

**Note 7: Stockholders' Equity**

The Company recorded $0.5 million and $0.9 million, respectively, of compensation expenses relating to options and RSU's granted to employees for the six-month periods ended June 30, 2017 and June 30, 2016.

**Note 8: Related Party Transactions**

Related party transactions consist of the following on June 30, 2017 and December 31, 2016 (in thousands):

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Due from related parties (included in the accompanying balance sheets) | $ 22,023 | $ 22,045 |
| Less: Due to related parties (included in the accompanying balance sheets) | (11,144) | (13,689) |
| Net balance due from related parties | $ 10,879 | $ 8,356 |

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, the Company issued to its 2014 Participating Holders and Purchasers an aggregate of approximately $58.3 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, as described in Note 9 to the Company's consolidated financial statements included in the Company's Annual Report for the year ended December 31, 2016.

**Note 9: Commitments and Contingencies**

**Leases**

Our headquarters and manufacturing facility are located in Newport Beach, California. The Company leases its fabrication facility and offices under a lease contract 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 set 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, 2016 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, 2016 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 six months ended June 30, 2017, we had net profit of $8.9 million compared to net profit of $14.2 million for the six months ended June 30, 2016.

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

| | Six Months Ended | |
|---|---|---|
| | **June 30, 2017** | **June 30, 2016** |
| Revenue | 100% | 100% |
| Cost of revenue | 73.5 | 68.7 |
| Gross profit | 26.5 | 31.3 |
| Operating expenses: | | |
| Research and development | 7.9 | 6.6 |
| Selling, general and administrative | 7.3 | 6.9 |
| Total operating expenses | 15.2 | 13.5 |
| Operating profit | 11.3 | 17.8 |
| Interest expenses, net | (1.6) | (1.8) |
| Other financing expense, net | (1.5) | (1.5) |
| Other income, net | 0.1 | -- |
| Income tax expense | (2.1) | (4.3) |
| Net profit | 6.2% | 10.2% |

**Comparison of Six Months Ended June 30, 2017 and June 30, 2016**

***Revenue***

Our revenue for the six months ended June 30, 2017 increased to $143.1 million, as compared to $138.4 million for the corresponding period in 2016, mainly due to an increase in the average selling price per wafer.

***Cost of Revenue***

Cost of revenue amounted to $105.2 million for the six months ended June 30, 2017, as compared to $95.0 million for the corresponding period in 2016.

***Gross Profit***

Gross profit was $37.9 million in the six months ended June 30, 2017, as compared to $43.3 million in the corresponding period in 2016.

***Operating Expenses***

Operating expenses for the six months ended June 30, 2017 amounted to $21.7 million, as compared to $18.6 million in the six months ended June 30, 2016.

***Interest Expense, Net, Other Financing Expense, Net and Other Income, Net***

Interest expense, net, other financing expense, net and other income, net for the six months ended June 30, 2017 amounted to $4.3 million, as compared to $4.6 million in the corresponding period in 2016.

***Income Tax Expense***

Income tax expense decreased to $3.0 million in the six months ended June 30, 2017, as compared to income tax expense of $5.9 million in the six months ended June 30, 2016, mainly due to lower profit before tax.

***Net Profit***

Net profit for the six months ended June 30, 2017 decreased to $8.9 million as compared to net profit of $14.2 million in the six months ended June 30, 2016, mainly due to the $5.4 million reduced gross profit and the increased $3.1 million operating expenses described above.

## 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 control 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 control 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, 2016. 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.