JAZZ US HOLDINGS INC.

QUARTERLY REPORT

Period Ended March 31, 2018

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 March 31, 2018

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Jazz US Holdings Inc. and Subsidiaries

Consolidated Balance Sheets
(in thousands, except share data)

	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 58,304	$ 44,745
Receivables:		
Trade receivables	26,398	32,932
Other receivables	726	271
Inventories	35,283	28,125
Other current assets	1,126	1,565
Total current assets	121,837	107,638
Long-term investments	2,781	2,606
Property, plant and equipment, net	110,493	107,177
Intangible assets, net	12,460	12,825
Goodwill	7,000	7,000
Other assets	21,335	21,336
Total assets	$ 275,906	$ 258,582
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of debentures	$ 54,471	$ 53,297
Trade accounts payable	24,544	15,418
Employee related liabilities	6,684	7,797
Deferred revenues and customers' advances	2,223	1,557
Other current liabilities	16,101	16,197
Total current liabilities	104,023	94,266
Long term liabilities:		
Deferred tax liability	1,837	1,051
Employee related liabilities	1,878	1,878
Long term customers' advances	3,210	2,910
Other long-term liabilities	4,179	4,305
Total liabilities	115,127	104,410
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	8,516	8,130
Accumulated other comprehensive loss	(579)	(362)
Retained earnings	77,856	71,418
Total stockholders' equity	160,779	154,172
Total liabilities and stockholders' equity	$ 275,906	$ 258,582

See accompanying notes.

Jazz US Holdings Inc. and Subsidiaries

Unaudited Consolidated Statements of Operations
(in thousands)

	Three months ended	
	March 31, 2018	**March 31, 2017**
Revenues	$ 63,029	$ 70,083
Cost of revenues	41,886	51,825
Gross profit	21,143	18,258
Operating expenses:		
Research and development	6,695	5,195
Selling, general and administrative	4,277	5,292
Total operating expenses	10,972	10,487
Operating profit	10,171	7,771
Interest expense, net	(1,195)	(1,169)
Other financing expense, net	(1,206)	(1,018)
Other income, net	75	47
Profit before income tax expense	7,845	5,631
Income tax expense	(1,408)	(1,322)
Net profit	$ 6,437	$ 4,309

See accompanying notes.

Jazz US Holdings Inc. and Subsidiaries

Unaudited Consolidated Statements of Comprehensive Income
(in thousands)

	Three months ended	
	March 31, 2018	**March 31, 2017**
Net profit	$ 6,437	$ 4,309
Change in employees plan assets and benefit obligations	(217)	(157)
Comprehensive income	$ 6,220	$ 4,152

See accompanying notes.

Jazz US Holdings Inc. and Subsidiaries

Unaudited Consolidated Statements of Cash Flows
(in thousands)

	Three months ended	
	March 31, 2018	**March 31, 2017**
Operating activities:		
Net profit	$ 6,437	$ 4,309
Adjustments to reconcile net profit for the period to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	8,719	8,561
Notes accretion and amortization of deferred financing costs	1,174	991
Stock based compensation expense	387	306
Other income, net	(75)	(47)
Changes in operating assets and liabilities:		
Trade receivables	6,534	(206)
Inventories	(7,158)	(787)
Other receivables and other current assets	397	165
Trade accounts payable	5,126	1,930
Related parties, net	804	(3,324)
Employee related liabilities	(1,505)	(1,255)
Deferred revenue and customers' advances	966	1,020
Other current liabilities	(972)	218
Deferred tax liability, net	786	(405)
Net cash provided by operating activities	21,620	11,476
Investing activities:		
Purchases of property and equipment	(8,061)	(4,937)
Proceeds related to property and equipment	--	216
Net cash used in investing activities	(8,061)	(4,721)
Net increase in cash and cash equivalents	13,559	6,755
Cash and cash equivalents at the beginning of the period	44,745	20,261
Cash and cash equivalents at the end of the period	$ 58,304	$ 27,016

Non-cash activities:

	Three months ended	
	March 31, 2018	**March 31, 2017**
Investments in property, plant and equipment	$ 9,884	$ 3,740

Supplemental disclosure of cash flow information:

	Three months ended	
	March 31, 2018	**March 31, 2017**
Cash paid during the period for interest	$ 2,346	$ 2,356
Cash paid during the period for income taxes	$ 11	$ 21

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., based in Newport Beach, California and, operating through its direct and indirect wholly-owned subsidiaries Jazz Semiconductor, Inc. and Newport Fab, LLC ("the Company"), 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, 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, Inc., as an intermediate holding company, holding all of the shares of Jazz Semiconductor, Inc.

As a result of the restructure, which involved companies under common control, the financial statements of Jazz US Holdings, Inc., and subsidiaries are presented as if the restructure had occurred on the first day of earliest year presented.

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.

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 (the "Exchange Act"), this quarterly report is not being filed with the SEC, but is being provided directly to the trustee of the notes 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. 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 accompanying consolidated financial statements include the accounts of Jazz US Holdings, Inc., and its wholly-owned subsidiaries. They contain all accruals and adjustments that, in the opinion of management, are necessary to present fairly the Company's consolidated balance sheet as of March 31, 2018 and December 31, 2017, and the consolidated results of its operations and cash flows for the three months ended March 31, 2018 and March 31, 2017. All intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("US GAAP") requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts 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. With regards to cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to their nature and 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; however, in certain circumstances, the Company obtains credit insurance or may require advance payments. An allowance for doubtful accounts is determined with respect to those amounts whose collection is determined to be doubtful. The Company performs ongoing credit evaluations of its customers.

Trade accounts receivables representing 10% or more of net trade accounts receivable balance consist of two customers that accounted for 23% and 13% as of March 31, 2018, and one customer that accounted for 34% as of December 31, 2017.

Net revenues from significant customers representing 10% or more of net revenues consist of one customer that accounted for 28% for the three months March 31, 2018, and two customers that accounted for 41% and 11%, respectively, for the three months ended March 31, 2017.

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 May 2014, the Financial Accounting Standards Board ("FASB") amended the existing accounting standards for revenue recognition in Accounting Standards Update ("ASU") 2014-09 "Revenue from Contracts with Customers", which amendment has been further amended several times. This standard is based on the principle that revenue should be recognized to depict the value of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services if sold at the end of the calendar quarter.

ASU 2014-09 is effective January 1, 2018. The amendment may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application.

The Company's assessment did not identify a change in revenue recognition timing on most material revenues streams (mainly wafer production), for which recognition will be at a point in time upon control being transferred to the customers. The Company considered whether control over wafers in production is transferred over time, and reached to conclusion that recognition should be only at a point in time upon completion of production and delivery to customers.

The Company provides its customers with other services that are immaterial in scope and/or amount. The Company does not expect any change in the recognition of such services, compared with current standards.

The standard is adopted in fiscal year 2018. The Company elected the modified retrospective approach as the transition method and have no transition adjustment to its retained earning upon adoption.

In January 2016, the FASB issued ASU 2016-01 to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The standard requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income. The provisions under this amendment are effective January 1, 2018, and for interim periods within that year. The Company evaluated the effect of ASU 2016-01 on its consolidated financial statements but it did not have a material impact on its financial results.

In February 2016, the FASB issued ASU 2016-02 "Leases (Topic 842)", which primarily changes the leases accounting for operating leases by requiring recognition of lease right-of-use assets and lease liabilities. The amendments are effective January 1, 2019, and for interim periods within that year, with early adoption permitted. The Company is evaluating the effect of ASU 2016-02 on its consolidated financial statements but expects it would not have a material impact on its financial results.

In June 2016, the FASB issued ASU 2016-13 "Financial Instruments Credit Losses". This update requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The update is effective January 1, 2020, and for interim periods within that year. Early adoption is permitted only after January 1, 2019. The Company has previously incurred immaterial amount of bad debt and expecting no material impact from adopting this guidance on its consolidated financial statements and disclosures.

In October 2016 the FASB issued ASU 2016-16 to require the recognition of the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party, the amendments in this Update eliminate the exception for an intra-entity transfer of an asset other than inventory. The amendments are effective January 1, 2018, and for interim periods within that year. The Company adopted ASU 2016-16 in fiscal year 2018. The adoption did not have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18 to require amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments are effective January 1, 2018, and for interim periods within that year. The Company adopted ASU 2016-18 in fiscal year 2018. The adoption did not have a material impact on its consolidated statement of cash flows and disclosures.

In January 2017, the FASB issued ASU 2017-04 which clarified its guidance to simplify the measurement of goodwill by eliminating the Step 2 impairment test. The new guidance requires companies to perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The amendment will be effective beginning in its first quarter of fiscal year 2020. The amendment is required to be adopted prospectively. Early adoption is permitted. The Company does not expect that the adoption of this guidance will have a material impact on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09 which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The guidance is effective beginning in the first quarter of fiscal year 2018. The Company adopted ASU 2017-09 in fiscal year 2018. The adoption did not have a material impact on its consolidated financial statements.

In August 2017, the FASB issued Accounting Standard Update ("ASU") 2017-12 which targets improvements to accounting for hedging activities which amends and simplifies existing guidance in order to allow companies to more accurately present the economic effects of risk management activities in the financial statements. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company early adopted this guidance with no impact on its consolidated financial statements.

Note 3: Balance Sheet Details

Inventories

Inventories, net of reserves, consist of the following at March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Raw material	$ 10,258	$ 6,658
Work in process	24,506	21,072
Finished goods	519	395
	$ 35,283	$ 28,125

Property, plant and equipment

Property, plant and equipment consist of the following at March 31, 2018 and December 31, 2017 (in thousands):

	Useful life (In years)	March 31, 2018	December 31, 2017
Building (including facility infrastructure)	10-19	$ 48,417	$ 47,018
Machinery and equipment	3-15	348,989	339,992
		397,406	387,010
Accumulated depreciation		(286,913)	(279,833)
		$ 110,493	$ 107,177

The following is the composition of the leased equipment under capital lease agreements included under "Machinery and equipment" above (in thousands):

	March 31, 2018	December 31, 2017
Original cost - Machinery and equipment	$ 7,658	$ 3,696
Accumulated depreciation - Machinery and equipment	(405)	(250)
	$ 7,253	$ 3,446

Intangible Assets

Intangible assets consist of the following at March 31, 2018 (in thousands):

	Weighted Average Life (years)	Cost	Accumulated Amortization	Net
Technology	4;9	$ 3,300	$ 3,300	$ --
Patents and other core technology rights	9	15,100	15,100	--
In process research and development	--	1,800	1,800	--
Customer relationships	15	2,600	1,653	947
Trade name	9	5,200	5,200	--
Facilities' lease	19	33,500	21,987	11,513
Total identifiable intangible assets		$ 61,500	$ 49,040	$ 12,460

Intangible assets consist of the following at December 31, 2017 (in thousands):

	Weighted Average Life (years)	Cost	Accumulated Amortization	Net
Technology	4;9	$ 3,300	$ 3,300	$ --
Patents and other core technology rights	9	15,100	15,100	--
In process research and development	--	1,800	1,800	--
Customer relationships	15	2,600	1,610	990
Trade name	9	5,200	5,200	--
Facilities lease	19	33,500	21,665	11,835
Total identifiable intangible assets		$ 61,500	$ 48,675	$ 12,825

The amortization related to technology, patents and other core technologies' 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

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 with a total amount of up to $70 million maturing in December 2018. In February 2018, the Company and Wells Fargo signed an amendment to the credit line agreement according to which the amended secured asset-based revolving credit line was extended for five years maturing in February 19, 2023, with a total amount of up to $70 million (the "Credit Line Agreement"). The applicable interest on loans under the Credit Line Agreement is at a rate equal to, at lender's option, either the lender's prime rate plus a margin ranging from 0.0% to 0.5% or the LIBOR rate plus a margin ranging from 1.25% to 1.75% 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 will occur, 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 March 31, 2018 was approximately $70 million, of which approximately $1 million had been utilized as letters of credit as of such date.

As of March 31, 2018 and December 31, 2017, no loan amounts were outstanding.

As of March 31, 2018, the Company was in compliance with all of the covenants under the Credit Line Agreement.

Note 5: Notes

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.

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 outstanding 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.

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 March 31, 2018 and December 31, 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. The audit results have not been finalized as of the financial statements date.

For details with regards to the US tax reform, see Note 6 to the financial statements for the year ended December 31, 2017.

Note 7: Stockholders' Equity

During the three months ended March 31, 2018, 900 restricted share units ("RSUs") of Tower were awarded to the Company's employees.

The Company recorded $0.4 million and $0.3 million, respectively, of compensation expenses relating to options and RSU's granted to employees for the three-month periods ended March 31, 2018, and March 31, 2017.

Note 8: Related Party Transactions

	March 31, 2018	December 31, 2017
Due from related parties (included in the accompanying balance sheets)	$ 21,852	$ 21,443
Less: Due to related parties (included in the accompanying balance sheets)	(13,644)	(12,431)
Net balance due from (to) related parties	$ 8,208	$ 9,012

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, mask-related 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 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, 2017.

Note 9: Commitments and Contingencies

Leases

Our headquarters and fabrication 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 to 2022, while maintaining the option to extend the lease term at its sole discretion from 2022 to 2027. Under our amended lease, 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 consolidated statements of operations. The Company and the landlord have further amended the lease, setting forth certain obligations of the Company and the landlord, including certain noise abatement actions at the fabrication facility. The landlord has claimed that the Company's noise abatement efforts are not adequate under the terms of the amended lease. The Company does not agree and is disputing these claims.

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, 2017, 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 Reform 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.

These forward-looking statements are subject to risks and uncertainties, including those risks and uncertainties described in our Annual Report for the fiscal year ended December 31, 2017, 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 three months ended March 31, 2018, we had net profit of \$6.4 million compared to net profit of \$4.3 million for the three months ended March 31, 2017.

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

	Three Months Ended	
	March 31, 2018	March 31, 2017
Revenue	100%	100%
Cost of revenue	66.5	73.9
Gross profit	33.5	26.1
Operating expenses:		
Research and development	10.6	7.4
Selling, general and administrative	6.8	7.6
Total operating expenses	17.4	15.0
Operating profit	16.1	11.1
Interest expenses, net	(1.9)	(1.7)
Other financing expense, net	(1.9)	(1.5)
Other income, net	0.1	0.1
Income tax expense	(2.2)	(1.9)
Net profit	10.2%	6.1%

Comparison of Three Months Ended March 31, 2018 and March 31, 2017

Revenue

Revenue for the three months ended March 31, 2018 was $63.0 million, as compared to $70.1 million for the corresponding period in 2017, reflecting mainly a reduction in the volume of wafer shipments.

Cost of Revenue

Cost of revenue was $41.9 million for the three months ended March 31, 2018, as compared to $51.8 million for the corresponding period in 2017.

Gross Profit

Gross profit was $21.1 million in the three months ended March 31, 2018, as compared to $18.3 million in the corresponding period in 2017.

Operating Expenses

Operating expenses for the three months ended March 31, 2018 were $11.0 million, as compared to $10.5 million for the corresponding period in 2017.

Interest Expense, Net, Other Financing Expense, Net and Other Expense, Net

Interest expense, net, other financing expense, net and other expense, net for the three months ended March 31, 2018, amounted to $2.3 million, as compared to $2.1 million for the corresponding period in 2017.

Income Tax Expense

Income tax expense amounted to $1.4 million for the three months ended March 31, 2018, as compared to income tax expense of $1.3 million in the three months ended March 31, 2017. The slight increase in income tax expense reflects our increased profit before tax offset by income tax rate reduction under the US tax reform, as detailed in Note 6 to the financial statements for the year ended December 31, 2017.

Net Profit

Net profit for the three months ended March 31, 2018 was $6.4 million, as compared to $4.3 million for the three months ended March 31, 2017. The increase in net profit is mainly attributable to the $9.9 million lower cost of goods, which exceeded the $7.1 million revenue reduction.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Based on their 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 chief executive officer and our chief 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 our most recent fiscal quarter 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

From time to time, we may be party to a variety of legal, administrative, regulatory and/or government proceedings, claims and inquiries arising in the normal course of business. While the results of any such proceedings, claims and inquiries cannot be predicted with certainty, management believes that the total liabilities to the Company that may arise as a result of such matters currently pending will not have a material adverse effect on the Company.

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, 2017. 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.