

**JAZZ US HOLDINGS INC.**

**ANNUAL REPORT**

**Year Ended December 31, 2017**

## **EXPLANATORY NOTE**

This annual 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 an Annual Report on Form 10-K.

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**ANNUAL REPORT**

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## FORWARD-LOOKING STATEMENTS

Some of the information contained or incorporated by reference in this annual report constitutes forward-looking statements within the definition of the Private Securities Litigation Reform Act of 1995. You can identify these statements by forward-looking words such as “may,” “expect,” “anticipate,” “contemplate,” “believe,” “estimate,” “intends,” and “continue” or similar words. You should read statements that contain these words carefully because they:

- discuss future expectations;
- contain projections of future results of operations or financial condition; or
- state other “forward-looking” information.

We believe it is important to communicate our expectations to our shareholders. There may be events in the future that we are not able to predict accurately or over which we have no control. The risk factors and cautionary language discussed or incorporated by reference in this annual report provide examples of risks, uncertainties and events that may cause actual results to differ materially from the expectations described by us in such forward-looking statements, including among other things:

- outcomes of government reviews, inquiries, investigations and related litigation;
- continued compliance with government regulations;
- legislation or regulatory environments, requirements or changes adversely affecting the business in which we are engaged;
- fluctuations in customer demand;
- management of business growth; and
- general economic conditions.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this annual report.

All forward-looking statements included or incorporated herein attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable laws and regulations, we undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this annual report.

You should be aware that the occurrence of the events described in the “Risk Factors” portion of this annual report or the documents incorporated herein could have a material adverse effect on our business, prospects, financial condition and operating results.

## Part I

### Item 1. Business

#### Overview

Jazz US Holdings, Inc. (the “Company”) through its wholly owned subsidiaries, is an independent pure-play semiconductor foundry focused on specialty process technologies for the manufacture of analog and mixed-signal semiconductor devices. Typically, pure-play foundries do not offer products of their own, but focus on producing integrated circuits, or ICs, based on the design specifications of their customers. We manufacture semiconductors for our customers primarily based on third party designs and our process technology and engineering support. We also provide design support and complementary technical services. ICs manufactured by us are incorporated into a wide range of products in diverse markets, including cellular phones, wireless local area networking devices, digital TVs, set-top boxes, gaming devices, switches, routers and broadband modems.

#### Organization

In 2008 Tower Semiconductor Ltd. (“Tower”) acquired all the shares of Jazz Technologies, Inc., the holder of all the shares of Jazz Semiconductor, Inc. As part of a corporate restructuring in November 2015, Jazz Technologies Inc. changed its name to Tower US Holdings, Inc. and transferred all of its assets and liabilities, including its ownership of all of the shares of Jazz Semiconductor Inc., to Jazz US Holdings, Inc., a newly established company incorporated under the laws of Delaware and wholly owned by 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, Inc.

As a result of the November 2015 corporate restructuring which involved companies under common control, the financial statements of the Company and subsidiaries are presented as if the restructure had occurred on the first day of the earliest year presented.

As used in this annual 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 annual 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](http://www.sec.gov), and search for filings made by Jazz Technologies, Inc.

#### Jazz’s Solution

Jazz is an independent semiconductor foundry, providing specialty process technologies, design solutions and application knowledge for the manufacture of analog and mixed-signal semiconductors. Key elements of its solution are as follows:

- ***Jazz offers an independent and focused source for the manufacture of semiconductors using specialty process technologies.*** Most other independent foundries focus on standard process technologies, rather than specialty process technologies. Some vertically integrated semiconductor companies who internally design, fabricate, package, test and market their own semiconductors, known as integrated device manufacturers, or IDMs, offer specialty process foundry services but also manufacture their own semiconductor products, which may be competitive with the products of their potential customers who seek these services. Jazz combines the benefits of independence with a focus on specialty process technologies.
- ***Jazz offers a specialized design platform for analog and mixed-signal semiconductors.*** Jazz’s design engineering support team assists its customers with their advanced designs by leveraging Jazz’s application knowledge and experience to help guide their technology selection and design implementation. Jazz’s sophisticated design tools and services are specifically tailored to meet analog and mixed-signal design needs, and include specialized device modeling and characterization features that allow simulation of a variety of real world situations, including different temperatures, power levels and speeds.
- ***Jazz offers a broad range of specialty process technologies.*** Jazz’s specialty process technology portfolio includes advanced analog CMOS, RF CMOS, RF SOI, high voltage CMOS, BiCMOS and SiGe BiCMOS

processes. The breadth of Jazz's portfolio allows it to offer its customers a wide range of solutions to address their high-performance, high-density, low-power and low-noise requirements for analog and mixed-signal semiconductors.

- ***Jazz is a leader in high-performance SiGe process technologies.*** Jazz offers high performance 240 GHz 0.18 micron SiGe BiCMOS technology, which Jazz believes is one of the most advanced SiGe process technologies in production today. Analog and mixed-signal semiconductors manufactured with SiGe BiCMOS process technologies can be smaller, require less power and provide higher performance than those manufactured with standard CMOS processes. Moreover, SiGe BiCMOS process technologies allow for higher levels of integration of analog and digital functions on the same mixed-signal semiconductor device.

## **Jazz's Strategy**

Key elements of Jazz's strategy are as follows:

- ***Further strengthen Jazz's position in specialty process technologies for the manufacture of analog and mixed-signal semiconductors.*** Jazz continues to invest in its portfolio of specialty process technologies to address the key product attributes that make its customers' products more competitive.
- ***Target large, growing and diversified end markets.*** Jazz targets end markets characterized by high growth and high performance for which it believes its specialty process technologies have a high value proposition, including the wireless and high-speed wireline communications, consumer electronics, automotive and industrial markets. For example, Jazz believes that its specialty process technologies can provide performance and cost advantages over current GaAs and CMOS solutions in the realization of switches and power amplifiers for wireless handsets.
- ***Continue to diversify Jazz's customer base.*** Jazz continues to grow and diversify its business by attracting new customers and expanding its customer base.
- ***Maintain capital efficiency by leveraging its capacity and manufacturing model.*** Jazz seeks to maximize the utilization of its Newport Beach, California manufacturing facility to maintain cost-effective manufacturing. Jazz can adjust its specialty process technology capacity and meet its customer performance requirements using adapted semiconductor process equipment sets that are typically one or two generations behind leading-edge digital CMOS process equipment. The acquisition of lower-cost semiconductor process equipment allows Jazz to maintain cost efficiency in the operation of its Newport Beach, California fab.

## ***Jazz's Specialty Process Technologies***

Jazz specialty process technologies include its advanced analog CMOS, RF CMOS, RF SOI, high voltage CMOS, BiCMOS, SiGe BiCMOS and BCD process technologies. Most of Jazz's specialty process technologies are based on CMOS processes with added features to enable improved size, performance and cost characteristics for analog and mixed-signal semiconductors. Products made with Jazz's specialty process technologies are typically more complex to manufacture than products made using standard process technologies employing similar line widths. Generally, customers who use Jazz's specialty process technologies cannot easily move designs to another foundry because the analog characteristics of the design are dependent upon the specific process technology used for manufacturing. The relatively small engineering community with specialty process know-how has also limited the number of foundries capable of offering specialty process technologies. In addition, the specialty process design infrastructure is complex and includes design kits and device models that are specific to the foundry in which the process is implemented and to the process technology itself.

Jazz's advanced analog CMOS process technologies have more features than standard analog CMOS process technologies and are well suited for higher performance or more highly integrated analog and mixed-signal semiconductors, such as high-speed analog-to-digital or digital-to-analog converters and mixed-signal semiconductors with integrated data converters. These process technologies generally incorporate higher density passive components, such as capacitors and resistors, as well as improved active components, such as native or low voltage devices, and improved isolation techniques, into standard analog CMOS process technologies. Jazz currently has advanced analog CMOS process technologies in 0.5 micron, 0.35 micron, 0.25 micron, 0.18 micron and 0.13 micron. These advanced analog CMOS processes form the baseline for Jazz's other specialty process technologies.

Jazz's RF CMOS process technologies have more features than advanced analog CMOS process technologies and are well suited for wireless semiconductors, such as highly integrated wireless transceivers, power amplifiers, and television tuners. These process technologies generally incorporate integrated inductors, high performance variable capacitors, or varactors, and RF laterally diffused metal oxide semiconductors into an advanced analog CMOS process technology. In

addition to the process features, Jazz's RF offering includes design kits with RF models, device simulation and physical layouts tailored specifically for RF performance. Jazz currently has RF CMOS process technologies in 0.25 micron, 0.18 micron and 0.13 micron. These RF CMOS process technologies form the baseline for some of Jazz's other specialty process technologies.

Jazz's RF SOI CMOS process technologies make many of the features of Jazz's RF CMOS process available on Silicon-on-Insulator (SOI) substrates. The devices on Jazz's RF SOI CMOS process are further optimized to work with the SOI substrate and deliver higher performance and improved isolation relative to the devices of Jazz's RF CMOS process. Jazz currently has RF SOI CMOS process technologies in the 0.18 micron and 0.13 micron lithography nodes.

Jazz's high voltage CMOS and BCD process technologies have more features than advanced analog CMOS processes and are well suited for power and driver semiconductors such as voltage regulators, battery chargers, power management products and audio amplifiers. These process technologies generally incorporate higher voltage CMOS devices such as 5V, 8V, 12V and 40V devices, and, in the case of BCD, bipolar devices, into an advanced analog CMOS process. Jazz currently has high voltage CMOS or BCD offerings in 0.5 micron, 0.35 micron, 0.25 micron and 0.18 micron.

Jazz's BiCMOS process technologies have more features than RF CMOS process technologies and are well suited for RF semiconductors such as wireless transceivers and television tuners. These process technologies generally incorporate high-speed bipolar transistors into an RF CMOS process. The equipment requirements for BiCMOS manufacturing are specialized and require enhanced tool capabilities to achieve high yield manufacturing. Jazz currently has BiCMOS process technologies in 0.35 micron.

Jazz's SiGe BiCMOS process technologies have more features than BiCMOS processes and are well suited for more advanced RF semiconductors such as high-speed, low noise, wireless transceivers, fiber-optic components, television tuners, power amplifiers and low-noise amplifiers. These process technologies generally incorporate a silicon germanium bipolar transistor, which is formed by the deposition of a thin layer of silicon germanium within a bipolar transistor. It is also possible to achieve higher speeds using SiGe BiCMOS process technologies equivalent to those demonstrated in standard CMOS processes that are two process generations smaller in line-width. For example, a 0.18 micron SiGe BiCMOS process is able to achieve speeds comparable to a 90 nanometer RF CMOS process. As a result, SiGe BiCMOS makes it possible to create analog products using a larger geometry process technology at a lower cost while achieving similar or superior performance to that achieved using a smaller geometry standard CMOS process technology. The equipment requirements for SiGe BiCMOS manufacturing are similar to the specialized equipment requirements for BiCMOS. We have developed enhanced tool capabilities in conjunction with large semiconductor tool suppliers to achieve high yield SiGe manufacturing. Jazz believes this equipment and related process expertise makes Jazz one of the few silicon manufacturers with demonstrated ability to deliver SiGe BiCMOS products. Jazz currently has SiGe BiCMOS process technologies at 0.35 micron, 0.18 micron and 0.13 micron SiGe BiCMOS process.

Jazz also has technologies that integrate micro-electro-mechanical-system (MEMS) devices with CMOS.

Jazz continues to invest in technology that helps improve the performance and integration level and reduce the cost of analog and mixed-signal products. This includes improving the density of passive elements such as capacitors and inductors, improving the analog performance and voltage handling capability of active devices, and integrating advanced features in Jazz's specialty CMOS processes that are currently not readily available.

## **Manufacturing**

We have placed significant emphasis on achieving and maintaining a high standard of manufacturing quality. Jazz seeks to enhance its production capacity for its high-demand specialty process technologies and to design and implement manufacturing processes that produce consistently at high manufacturing yields. Jazz's production capacity in each of its specialty process technologies enables Jazz to provide its customers with volume production, flexibility and quick-to-market manufacturing services. Jazz's process research and development is performed in its manufacturing facility in Newport Beach, California and in Tower's design center in Netanya, Israel.

### ***General***

Jazz currently has the capability in its Newport Beach, California fab to manufacture standard CMOS as well as specialty eight-inch wafers. We have the ability to rapidly change the mix of production processes in use in order to respond to changing customer needs and maximize utilization of the fab.

### ***Raw Materials***

Jazz's manufacturing processes use highly specialized materials, including semiconductor wafers, chemicals, gases and photomasks. These raw materials are generally available from several suppliers. However, Jazz often selects one vendor

to provide it with a particular type of material in order to obtain preferred pricing. In those cases, Jazz generally also seeks to identify, and in some cases qualify, alternative sources of supply.

We have agreements with several key material suppliers under which they hold certain levels of inventory at Jazz's warehouse and fab. Jazz is not under any obligation under these agreements to purchase raw material inventory that is held by its vendors at its site until Jazz actually uses it, unless Jazz holds the inventory beyond specified time limits.

## **Jazz's Services**

Jazz primarily manufactures semiconductor wafers for its customers.

Generally, the processes required to manufacture semiconductor devices from raw silicon wafers include mask making, wafer fabrication, probe, assembly and test. Jazz offers manufacturing services and related technical, engineering and other support services. Assembly and test are generally performed independently by our customers through third parties.

### ***Sales Contracts***

A few of Jazz's major customers purchase services and products from us by contract. Most other customers make such purchases from Jazz through purchase orders. Jazz prices its products for these customers on a per-wafer or per-die basis, taking into account the complexity of the technology, the prevailing market conditions, volume forecasts, the strength and history of its relationship with the customer and its current capacity utilization.

Most of our customers usually place their orders only two to six months before shipment; however a few of our major customers are obligated to provide Jazz with longer forecasts of their wafer needs and/or certain purchase commitments.

## **Jazz Semiconductor Trusted Foundry (JSTF)**

In connection with the Company's aerospace and defense business, its facility security clearance and trusted foundry status, the Company created a wholly owned subsidiary named Jazz Semiconductor Trusted Foundry ("JSTF") in 2013 and has limited the possession of all classified information solely to JSTF. To mitigate any concern of foreign ownership, control or influence over the operations of Jazz specifically relating to protection of classified information and prevention of potential unauthorized access thereto, Tower and Jazz have further agreed to operate JSTF under a special security agreement signed with the Defense Security Service ("DSS").

## **Customers, Markets and Applications**

Jazz's customers use Jazz's processes to design and market a broad range of analog and mixed-signal semiconductors for diverse end markets including wireless and high-speed wireline communications, consumer electronics, automotive and industrial. Jazz manufactures products that are used for high-performance applications such as transceivers, switches, and power management for cellular phones; transceivers and power amplifiers for wireless local area networking products; power management, audio amplifiers and driver integrated circuits for consumer electronics; tuners for digital televisions and set-top boxes; modem chipsets for broadband access devices and gaming devices; serializer/deserializers, clock-data-recovery, trans-impedance amplifiers, and laser drivers for fiber optic transceivers; focal plane arrays for imaging applications; and wireline interfaces for switches and routers.

### ***Order Backlog***

Most customers do business with Jazz on a purchase order basis. Jazz's customers generally do not place purchase orders far in advance, partly due to the cyclical nature of the semiconductor industry. As a result, Jazz does not typically operate with any significant backlog.

## **Competition**

Jazz competes most directly in the specialty segment with foundries such as Vanguard Semiconductor, DongBu, X-Fab, and HH Semi. We also compete with the pure-play advanced technology node-driven foundry service providers such as Taiwan Semiconductor Manufacturing Company (TSMC), United Microelectronics Corporation, Semiconductor Manufacturing International Corporation (SMIC) and Global Foundries (GF). These four foundries primarily compete against one another and focus on 12-inch-deep-submicron CMOS processing, though they each also have some capacity for specialty process technologies. The rest of the foundry industry generally targets either industry standard 8-inch CMOS processing or specialty process technologies. It includes existing Chinese, Korean and Malaysian foundries. Jazz also competes with



integrated device manufacturers, that have internal semiconductor manufacturing capacity or foundry operations, such as ST, Intel, Samsung, and others that produce ICs for their own use and may allocate a portion of their manufacturing capacity to external foundry customers. Most of the foundries with which we compete are located in Asia-Pacific and benefit from their close proximity to companies involved in the design of ICs and to the Asian customer base.

As Jazz's competitors continue to increase their manufacturing capacity, there could be an increase in specialty semiconductor capacity during the next several years. As specialty capacity increases, there may be more competition and pricing pressure on Jazz's services, and underutilization of its capacity may result.

Additionally, some semiconductor companies have advanced their CMOS designs to 22 nanometers or smaller geometries. These smaller geometries may provide customers with performance and integration features that may be comparable to, or exceed, features offered by Jazz's specialty process technologies, and may be more cost-effective at higher production volumes for certain applications, such as when a large amount of digital content is required in a mixed-signal semiconductor and less analog content is required. Jazz's specialty process technologies will therefore compete with these advanced CMOS processes for customers and some of its potential and existing customers could elect to design their next generation products using these advanced CMOS processes. Jazz is not currently capable, and does not currently plan to become capable, of providing CMOS processes at these smaller geometries.

The principal elements of competition in the semiconductor wafer foundry market include:

- technical offering and future roadmap;
- product performance;
- system level technical expertise;
- research and development capabilities;
- access to intellectual property;
- customer technical support;
- design services;
- product development kits (PDKs);
- manufacturing operational performance;
- quality systems;
- product quality;
- manufacturing yields;
- customer support and service;
- pricing;
- management expertise;
- strategic customer relationships;
- capacity availability; and
- stability and reliability of supply.

Some of Jazz's competitors, notably the pure-play advanced technology node-driven foundry service providers, have greater manufacturing capacity, superior research and development capability, a better cost structure and greater financial, marketing and other resources. As a result, these companies may be able to compete more aggressively over a longer period of time than Jazz.

## **Research and Development**

The semiconductor industry is characterized by rapid changes in technology. As a result, effective research and development is essential to Jazz's success. Jazz plans to continue to invest significantly in research and development activities to develop advanced process technologies for new applications.

Jazz's research and development activities seek to upgrade and integrate manufacturing technologies and processes. Jazz maintains a central research and development team primarily responsible for developing cost-effective technologies that can serve the manufacturing needs of its customers. A substantial portion of Jazz's research and development activities are undertaken in cooperation with its customers and equipment vendors.

## **Intellectual Property**

Jazz's success depends in part on its ability to obtain patents, licenses and other intellectual property rights covering and relating to wafer manufacturing and production processes, semiconductor structures and other structures fabricated on wafers. To that end, we have acquired certain patents and patent licenses and intend to continue to seek patents. As of December 31, 2017, Jazz had 177 patents in force.

Jazz Semiconductor entered into a technology license agreement that grants it worldwide perpetual license rights from PolarFab regarding certain process technologies that may be incorporated into its BCD process technologies for the manufacture of wafers by Jazz for its customers and customers of PolarFab. Jazz also entered into an associated technology transfer agreement for such processes. Jazz is able to adapt, prepare derivatives based on, or otherwise exploit the licensed technology; however, Jazz is restricted from using certain licensed BCD process technologies with respect to motor controllers for hard disk drives. Jazz is also permitted to sublicense these process technologies to any of its future manufacturing suppliers to manufacture wafers using these process technologies for Jazz and its customers.

Jazz may choose to obtain additional patent licenses or enter into additional patent cross-licenses in the future. However, there can be no assurance as to whether future agreements will be reached or as to the terms of any agreement that is consummated.

In connection with Jazz Semiconductor's separation from Conexant, Conexant contributed to Jazz Semiconductor a substantial portion of its intellectual property, including software licenses, patents and intellectual property rights in know-how related to its business. Jazz Semiconductor agreed to license back to Conexant and its affiliates intellectual property rights relating to the intellectual property contributed to Jazz Semiconductor by Conexant. Conexant may use this license to have Conexant products produced by third-party manufacturers and to sell such products, but must obtain Jazz Semiconductor's prior consent to sublicense these rights.

Jazz's ability to compete depends on its ability to operate without infringing the proprietary rights of others. The semiconductor industry is generally characterized by frequent litigation regarding patent and other intellectual property rights. As is the case with many companies in the semiconductor industry, we have from time to time received communications from third parties asserting that their patents cover certain of Jazz's technologies or alleging infringement of their intellectual property rights. Jazz expects that it will receive similar communications in the future.

## **Environmental Matters**

Semiconductor manufacturing processes generate solid, gaseous, liquid and other industrial wastes in various stages of the manufacturing process. Jazz has installed various types of pollution control equipment in our fab to reduce, treat and, where feasible, recycle the wastes generated from our manufacturing process. Jazz's operations are subject to strict regulation and periodic monitoring by the United States Environmental Protection Agency along with several state and local environmental agencies.

Jazz has implemented an environmental management system that assists Jazz in identifying applicable environmental regulations, evaluating compliance status and establishing timely waste preventive measures. Jazz has also obtained certification for implementing the standard requirements of ISO 14001:2004. ISO 14001 consists of a set of standards that provide guidance on achieving an effective environmental management system.

Jazz has adopted measures to minimize pollution for the effective maintenance of environmental protection standards substantially consistent with U.S. federal, state and local environmental regulations. Jazz is in material compliance with applicable environmental laws and regulations.

## **Risk Management and Insurance**

As part of its risk management program, Jazz surveyed its buildings and fab for resistance to potential earthquake damage. As a result of this survey, Jazz implemented additional measures to minimize its fab's exposure to potential damage from future earthquakes and seismically qualified its fab for high magnitude earthquakes.

Jazz maintains risk insurance for its facility, equipment and inventories that covers physical damage and consequential losses from natural disasters and certain other risks up to the policy limits and except for exclusions as defined in the policies. Jazz also maintains public liability insurance for losses to others arising from its business operations and insurance for business interruption resulting from certain events, including certain cases in which its suppliers are unable to provide Jazz with supplies. Jazz believes that its insurance coverage is adequate and consistent with industry practice, though such insurance may not fully or reasonably cover any loss suffered by Jazz due to potential significant damage to any of its, or its suppliers', production facilities, whether as a result of fire or other causes.

## Properties

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 consolidated statements of operations.

The Company and the landlord have amended the lease to set forth certain obligations of the Company and the landlord, including certain noise abatement actions at the fabrication facility. The landlord has made claims that Jazz'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 1A. Risk Factors

***Demand for our foundry services is dependent on the demand in our customers' end markets. A material decrease in demand for products that contain semiconductors may decrease the demand for our services and products and a decrease in the selling prices of our customers' products may reduce our profitability and business.***

Our customers generally use the semiconductors produced in our fabs in a wide variety of applications. We derive a significant percentage of our operating revenues from customers who use our manufacturing services to make semiconductors for communication devices, consumer electronics, PCs and other electronic devices. Any significant decrease in the demand for these electronic devices or products may decrease the demand for our services and products. In addition, if the average selling prices of communication devices, consumer electronics, PCs or other electronic devices decline significantly, we may be pressured to reduce our selling prices, which may reduce our revenues and margins significantly. As demonstrated by downturns in demand for high technology products in the past, market conditions can change rapidly, without apparent warning or advance notice. In such instances, our customers may experience inventory buildup and/or difficulties in selling their products and, in turn, may reduce or cancel orders for wafers from us, which may harm our business and profitability. The timing, severity and recovery of these downturns cannot be predicted.

In order for demand for our wafer fabrication services to increase, the markets for the end products utilizing the integrated circuits that we manufacture must develop and expand. For example, the success of our SiGe technologies will depend, in part, on the growth of markets for certain SiGe product applications. Because our services may be used in many new applications, it is difficult to forecast demand. If demand is lower than expected, we may have excess capacity and our revenue may not be sufficient to cover all our costs and serve all our debt, which may adversely affect our financial results and financial position.

***Over-demand for our foundry services and/or products may result in a loss of customers and revenues, which may adversely affect our profitability and business.***

In periods during which demand for our foundry services exceeds our capacity and manufacturing capabilities, we may be (i) unable to fulfill customer demand in whole or in part, in a timely manner or at all; (ii) unable to assure production of customers' next generation of products; and/ or (iii) unable to provide additional capacity from any of our geographic facilities through transfer of process technologies, successful implementation and timely qualification. As a result, we could lose one or more of our current or potential customers, which may adversely affect our revenues, profitability and business.

***If we do not maintain our current customers and attract additional customers, our business and profitability may be adversely affected.***

Loss or cancellation of business from, or decreases in the sales volume or sales prices to, our significant customers, or our failure to replace lost business with new customers, may seriously harm our financial results, revenues and business.

Collectively, our top four customers accounted for 58% of our revenues in 2017, including one customer that accounted for 38% of our revenue in 2017. The loss or reduction in volume of any one of these customers, whether due to their insolvency or their unwillingness or inability to perform their obligations under their respective relationships with us, or if we are unable to renew our engagements with them on commercially reasonable terms, or attract additional customers to

replace such lost business, may materially negatively impact our overall business and our consolidated financial position.

***The production line of our manufacturing facility may stop for short or long periods of time due to high utilization in certain areas, bottlenecks, power outages, water leaks, chemical leaks or other issues, which may adversely affect our cycle time, yield, and on-schedule delivery. In addition, affected customers may elect to transfer their product orders to other fabs, thereby potentially causing an immediate loss of a material amount of revenues for the applicable period, which would adversely affect our revenue, profitability and financial position.***

There are many events that may occur which may adversely affect the manufacturing process running in a facility. From time to time, we experience high utilization rates in certain of our manufacturing lines and/or areas, which cause bottlenecks in the lines and/or specific areas and/or specific machines, power outages, water leaks, chemical leaks or other issues that may adversely affect our cycle time, yield and on-schedule delivery. We try to mitigate any potential damage caused by such events and have insurance coverage, which we believe to be sufficient. However, we cannot ensure that such events will not have a negative effect on the Company, such as late deliveries, which may cause customers to elect to transfer their product orders to other fabs, thereby potentially causing an immediate loss of revenues for the applicable period, which may adversely affect our revenue, profitability and financial position.

***Our operating results may fluctuate from quarter to quarter, which makes it difficult to predict our future performance, and such fluctuations may ultimately negatively affect our financial position.***

Our revenues, expenses and operating results have varied significantly in the past and may fluctuate significantly from quarter to quarter in the future due to a number of factors, a portion of which are beyond our control. These factors include, among others:

- The cyclical nature of the semiconductor industry and the volatility of the markets served by our customers;
- Changes in the economic conditions of geographical regions where our customers and their markets are located;
- Shifts by integrated device manufacturers and customers between internal and outsourced production;
- Inventory and supply chain management of our customers;
- The loss of a key customer, not attracting new designs from key customers, postponement of an order from a key customer or the rescheduling or cancellation of large orders;
- The occurrence of accounts receivable write-offs, failure of a key customer to pay accounts receivable in a timely manner or the financial condition of our customers;
- The occurrence of an unexpected event, such as environmental events or industrial accidents such as fire or explosions, electricity outage or misprocess, affecting the manufacturing process and our ability to recover the lost or damaged products and provide quality and timely production to our customers without charging them significant additional costs;
- Completing capacity expansion and recruitment of personnel in a timely manner to address product demands by our customers;
- Mergers and acquisitions in the semiconductor industry and their effect on our market share;
- Our ability to satisfy our customers' demand for quality and timely production;
- The timing and volume of orders relative to our available production capacity;
- Our ability to obtain raw materials and equipment on a timely and cost-effective basis;
- Price erosion in the industry and our ability to negotiate prices with our current and new customers;
- Our susceptibility to intellectual property rights' disputes;
- Our dependency on export licenses and other permits required for our operations and the sale of our products;

- Our ability to maintain existing partners and to enter into new partnerships and technology and supply alliances on mutually beneficial terms;
- Interest, price index and currency rate fluctuations that were not hedged;
- Technological changes and short product life cycles;
- Timing for the design and qualification of new products; and
- Changes in accounting rules affecting our results.

Due to the factors noted above and other risks discussed in this section, a portion of which are beyond our control, it may be difficult to predict our future performance and any such fluctuations may ultimately negatively affect our operating results and our financial position.

***Our financial position and operations may be affected as a result of our debt.***

Our debt as of December 31, 2017 consisted of approximately \$58 million outstanding principal amount of convertible notes payable in December 2018, unless converted earlier (the “2014 Notes”). No amounts were withdrawn under the Wells Fargo line of credit. Carrying such amount of debt may have significant negative consequences on our business, including:

- limiting our ability to fulfill our debt obligations and other liabilities;
- requiring the use of a substantial portion of our cash to service our indebtedness rather than investing our cash flows to fund our strategic growth opportunities and plans, working capital and capital expenditures;
- increasing our vulnerability to adverse economic and industry conditions;
- limiting our ability to obtain additional financing; limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete;
- placing us at a competitive disadvantage with respect to less-leveraged competitors and competitors that have better access to capital resources; and/or
- potential enforcement by the lenders under the Wells Fargo line of credit of their liens against our assets if an event of default occurs.

In order to service our debt and other liabilities and obligations and/or improve its terms and conditions and/or to invest in strategic opportunities for growth and/or business development activities, in addition to our cash on hand and expected cash flow generation from operating activities, we may decide to obtain funds from additional sources including debt vehicles and/or debt refinancing, sale of new securities, sale of intellectual property and/or intellectual property licensing, as well as additional financing alternatives. However, there is no assurance that we will be able to obtain sufficient funding, if at all, from the financing sources detailed above or other sources in a timely manner (or on commercially reasonable terms) in order to allow us to fund our growth plans and/or cover, in a timely manner, all our costs, capital expenditure investments and our scheduled debt detailed above, liabilities and obligations, which may adversely affect our financial position and operations.

***If we are unable to manage fluctuations in cash flow, our business and financial position may be adversely affected.***

Our working capital requirements and cash flows are subject to quarterly and yearly fluctuations, depending on a number of factors. If we are unable to manage fluctuations in cash flow, our business, operating results and financial condition may be materially adversely affected. Factors which may lead us to suffer cash flow fluctuations include:

- fluctuations in the level of revenues from our operating activities;
- fluctuations in the collection of receivables;
- the timing and size of payables;
- the timing and size of capital expenditures; and
- the repayment schedules of our debt service obligations.

***A global recession, unfavorable economic conditions and/or credit crisis may adversely affect our results and our ability to fulfill our debt obligations and other liabilities.***

The effects of a downturn or a weakness in the semiconductor industry and/or in the global economy may include global decreased demand, downward price pressure, excess inventory and unutilized capacity worldwide, which may negatively impact consumer and customer demand for the Company's products and the end products of the Company's customers. Such a downturn or a weakness may adversely affect the Company's customer base and/or customers' products base by adversely affecting the Company's ability to attract new customers and new business to its fab as well as maintain current customers. Such a downturn or weakness may also adversely affect the Company's ability to increase the utilization rates in its manufacturing facility and maintain it at a high level that would suffice to cover its substantial fixed costs, maintain commercial relationships with its customers, suppliers, and creditors, including its lenders, and continue its capacity growth. In addition, such a downturn or weakness may negatively impact the Company's ability to improve the Company's future financial results and position, including its ability to raise funds in the capital markets, fulfill its debt obligations, comprised mainly of convertible notes in the outstanding amount of \$58 million, and possible drawdowns of up to \$70 million under our Wells Fargo credit line, and other liabilities, refinance its debt and other liabilities, and/or pay them in a timely manner. There is no assurance that such downturn will not occur. In addition, such a downturn may depress the market price of Tower Semiconductor's stock, into which our 2014 Notes are convertible at \$10.07. As a result, our 2014 Notes may not be able to be converted, and we may need to repay the full amount of \$58 million to the noteholders, which would negatively affect our financial position and may require us to raise funds or seek refinancing alternatives, which may not be available at that time.

***The lack of a significant backlog resulting from our customers not placing purchase orders far in advance makes it difficult for us to forecast our revenues in future periods.***

Our customers generally do not place purchase orders far in advance, partly due to the cyclical nature of the semiconductor industry. As a result, we do not typically operate with any significant backlog. The lack of a significant backlog makes it difficult for us to forecast our revenues in future periods. Moreover, since our expense levels are based in part on our expectations of future revenues, we may be unable to adjust costs in a timely manner to compensate for revenue shortfalls caused by cancellations, rescheduling of orders or lower actual orders than quantities forecasted. Some purchase orders may be cancelled by the customer without penalty. Jazz also may elect to permit cancellation of orders without penalty where management believes it is in its best interest to do so. Rescheduling may relate to quantities or delivery dates, and sometimes relates to the specifications of the products it is shipping. Consequently, we cannot be certain that orders on backlog will be shipped when expected or at all.

We expect that in the future, our revenues in any quarter will continue to be substantially dependent upon purchase orders received in that quarter and in the immediately preceding quarter. We cannot assure you that any of our customers will continue to place orders with us in the future at the same levels as in prior periods. For these reasons, our backlog at any given date may not be a reliable indicator of our future revenues.

***We may manufacture wafers based on forecasted demand, rather than actual orders from customers. If our forecasted demand exceeds actual demand, we may have obsolete inventory, which may have a negative impact on our financial results.***

We target manufacturing wafers in an amount matching each customer's specific purchase order. On occasion, we may produce wafers in excess of a customer's orders based on forecasted customer demand, because we may forecast future excess demand or because of future capacity constraints. If we manufacture more wafers than are actually ordered by customers, we may be left with excess inventory that may ultimately become obsolete and must be scrapped or sold at a significant discount. Significant amounts of obsolete inventory may have a negative impact on our financial results.

***Our financial results may be adversely affected if we are unable to operate our facility at utilization rates that are high enough to reach revenue levels that would cover our costs and result in operating and net profits.***

As is common in our industry, a large portion of our total costs is comprised of fixed costs, associated mainly with our manufacturing facility, while our variable costs are relatively small. Therefore, during periods when our facility manufactures at high utilization rates, we are able to cover our costs. However, at times when the utilization rate is low, the reduced revenues may not cover all of the costs since a large portion of them are fixed costs that remain constant, irrespective of the fact that fewer wafers were manufactured. In addition, our depreciation costs and capital expenditure investments, as common in our industry, are high. If customer demand for our products is not sufficient to enable us to operate our facility consistently at high utilization rates, we may not be able to reach revenue levels that would cover all of our costs and result in

operating and net profits.

***Our sales cycles are typically long and orders ultimately received may not meet our expectations, which may adversely affect our operating results.***

Our sales cycles, which we measure from first contact with a customer to first shipment of a product ordered by the customer, vary substantially and may last as long as two years or more, particularly for new technologies. In addition, even after we make initial shipments of prototype products, it may take several more months to reach full production of the product. As a result of these long sales cycles, we may be required to invest substantial time and incur significant expenses before receiving any product order and related revenue. If orders ultimately received are significantly lower than our expectations, we will have excess capacity that we may not be able to fill within a short period of time, resulting in lower utilization of our facility. This may adversely affect our operating results and financial condition considering that in addition to the revenues loss, we may be unable to adjust our costs in a timely manner to align with the lower revenue, since a large portion of our cost is fixed cost, which remains constant irrespective of the number of wafers actually manufactured.

***The cyclical nature of the semiconductor industry and any resulting periodic overcapacity may lead to erosion of sale prices, may make our business and operating results particularly vulnerable to economic downturns, and may reduce our revenues, earnings and margins.***

The semiconductor industry has historically been highly cyclical and subject to significant and often rapid increases and decreases in product demand. Traditionally, companies in the semiconductor industry have expanded aggressively during periods of decreased demand in order to have the capacity needed to meet expected demand in future upturns. If actual demand does not increase or declines, or if companies in the industry expand too aggressively, the industry may experience a period in which industry-wide capacity exceeds demand. This could result in overcapacity and excess inventories, potentially leading to rapid erosion of average sale prices. The prices that we can charge our customers for our services are significantly related to the overall worldwide supply of integrated circuits and semiconductor products. The overall supply of semiconductor products is based in part on the capacity of other companies, which is outside of our control. In periods of overcapacity, despite the fact that we utilize niche technologies and manufacture specialty products, we may have to lower the prices we charge our customers for our services which may reduce our margins and weaken our financial condition and results of operations. In addition, we cannot give assurance that an increase in the demand for foundry services in the future will not lead to under-capacity, which could result in the loss of customers and materially adversely affect our revenues, earnings and margins. Analysts believe that such patterns may repeat in the future. The overcapacity, under-utilization and downward price pressure characteristic of a downturn in the semiconductor market and/or in the global economy, as experienced several times in the past, may negatively impact consumer and customer demand for the Company's products, the end products of the Company's customers and the financial markets, which may adversely affect our business and financial position.

***If we do not maintain and develop our technology processes and services, we may lose customers and may be unable to attract new ones.***

The semiconductor market is characterized by rapid change, including the following:

- rapid technological developments;
- evolving industry standards;
- changes in customer and product end-user requirements;
- frequent new product introductions and enhancements; and
- short product life cycles with declining prices as products mature.

Our ability to maintain our current customer base and attract new customers is dependent in part on our ability to continuously develop and introduce to production advanced specialized manufacturing process technologies and purchase the appropriate equipment. If we are unable to successfully develop and introduce these processes to production in a timely manner or at all, or if we are unable to purchase the appropriate equipment required for such processes, we may be unable to maintain our current customer base and may be unable to attract new customers.

***The semiconductor foundry business is highly competitive; our competitors may have competitive advantages over us and our financial results may be adversely affected if we do not successfully compete in the industry.***

The semiconductor foundry industry is highly competitive. We compete most directly in the specialty segments with certain independent dedicated foundries. We also compete with the pure play advanced technology node driven foundry service providers as they each have some capacity for specialty process technologies, and with IDMs that allocate a portion of their manufacturing capacity to foundry operations.

As our competitors continue to expand their manufacturing capacity, there could be an increase in specialty semiconductor capacity. As specialty capacity increases, there may be more competition and pricing pressure on our services, which may result in underutilization of our capacity, decrease of our profit margins, reduced earnings or increased losses.

In addition, some semiconductor companies have advanced their CMOS designs to 22 nanometer or smaller process geometries. The smaller process geometries may provide customers with performance and integration features that may be comparable to, or exceed, features offered by our specialty process technologies. The smaller process geometries may also be more cost-effective at higher production volumes for certain applications, such as when a large amount of digital content is required in a mixed-signal semiconductor and less analog content is then required. Our specialty processes will therefore compete with these more advanced CMOS processes and some of our potential and existing customers could elect to design these advanced CMOS processes into their next generation products. We are not currently capable, and do not currently plan to become capable, of providing CMOS processes at these smaller geometries. If our potential or existing customers choose to design their products in a manner whereby the percentage of digital content in specialty designs increases significantly and requires these advanced CMOS processes, our business may be negatively impacted.

In addition, many of our competitors may have one or more of the following competitive advantages over us:

- greater manufacturing capacity and /or availability of same;
- a more diverse and established customer base;
- greater financial, sales, marketing, distribution and other resources;
- governmental funding or support;
- a better cost structure; and/or
- better operational performance, including cycle time and yields.

If we do not compete successfully, our business and financial results may be adversely affected.

***If we experience difficulty in achieving acceptable device yields, product performance and delivery times as a result of manufacturing problems, our business may be adversely harmed.***

The process technology for the manufacture of semiconductor wafers is highly complex, requires advanced and costly equipment and is constantly being modified in an effort to improve device yields, product performance and delivery times. Microscopic impurities such as dust and other contaminants, difficulties in the production process, defects in the key materials and tools used to manufacture wafers and other factors can cause wafers to be rejected or individual semiconductors on specific wafers to be non-functional. We may experience difficulty achieving acceptable device yields, product performance and product delivery times in the future as a result of manufacturing problems. Although we continuously enhance our manufacturing capabilities and efficiency, from time to time we have experienced production difficulties that have caused delivery delays and quality control problems. Manufacturing issues we may face include the following:

- difficulties in upgrading or expanding existing facilities;
- unexpected breakdowns in our manufacturing equipment and/or related facility systems;
- unexpected events, such as an electricity outage or misprocess, affecting the manufacturing process;
- difficulties in changing or upgrading our process technologies;
- raw materials shortages and impurities;
- delays in delivery and shortages of spare parts; and
- difficulties in maintenance and upgrade of our equipment.

Should such problems occur to a material degree, we may suffer delays in delivery, loss of reputation and/or a loss of customers, any of which may adversely impact our business, revenues and financial condition.

***If we are unable to purchase equipment and raw materials, we may not be able to manufacture our products in a timely fashion, which may result in a loss of existing and potential new customers and may have an adverse effect on our business and financial results.***

To increase the production capability and maintain the quality of production in our facility, we must procure additional equipment. In periods of high market demand, the lead times from order to delivery of manufacturing equipment



could be as long as 12 to 18 months. We also procure used equipment which can take a long time to qualify to the manufacturing process, hence potentially delaying the manufacture of our products. In addition, our manufacturing processes use many raw materials, including silicon wafers, chemicals, gases and various metals, and require large amounts of fresh water and electricity. Manufacturing equipment and raw materials generally are available from several suppliers. In several instances, however, we purchase equipment and raw materials from a single source. Shortages in supplies of manufacturing equipment and raw materials could occur due to an interruption of supply or increased industry demand. Any such shortages could result in production delays that may result in a loss of existing and potential new customers, which may have a material adverse effect on our business and financial results.

***We depend on intellectual property to succeed in our business including intellectual property owned by us as well as intellectual property of third parties. Failure to enforce our intellectual property rights as well as failure to maintain or acquire licenses to intellectual property of third parties may harm our business.***

We depend on intellectual property in order for us to provide certain foundry services and design support to our customers. As of December 31, 2017, we held 177 patents in force. We intend to continue to file patent applications when appropriate. The process of applying for patents to obtain patent protection may take a long time and can be expensive. We cannot assure you that patents will be issued from pending or future applications or that, if patents are issued, they will not be challenged, invalidated or circumvented or that the rights granted under the patents will provide us with meaningful protection or any commercial advantage. In addition, we cannot assure you that other countries in which we market our services and products will respect our intellectual property rights to the same extent as the United States. Effective intellectual property enforcement may be unavailable or limited in some countries. We cannot assure you that we will, at all times, enforce our patents or other intellectual property rights and it may be difficult for us to protect our intellectual property from misuse or infringement by other companies in certain countries. Further, we cannot assure you that courts will uphold our intellectual property rights or enforce the contractual arrangements that we have entered into to protect our proprietary technology, which may reduce our opportunities to generate revenues. In the event that we are unable to enforce our intellectual property rights, our business may be harmed.

In addition, with respect to third-party intellectual property that is required for the manufacture of our products, if problems or delays arise with respect to the timely development, quality and provision thereof to us, the design and production of our customers' products may be delayed, resulting in underutilization of our capacity. If any of our intellectual property vendors goes out of business, liquidates, merges with, or is acquired by, another company that discontinues the vendor's previous line of business, or if we fail to maintain or acquire licenses to such intellectual property for any other reason, our business may be adversely affected.

***From time to time, we are a party to litigation which may require management time and effort, and may adversely affect us by harming our business, image and financials.***

From time to time, we are a party to litigation incidental to the conduct of our ongoing business, including class actions, disputes with customers, suppliers, landlords, or other third parties. Litigation usually requires a certain amount of management time and effort which may adversely affect our business by diverting management focus from business needs and development of future strategic opportunities.

In addition, our ability to compete successfully depends in part on our ability to operate without infringing on the proprietary rights of others and defending our intellectual property rights. Because of the complexity of the technologies used and the multitude of patents, copyrights and other overlapping intellectual property rights, it is often difficult for semiconductor companies to determine infringement. Therefore, the semiconductor industry is characterized by frequent litigation regarding patents, trade secrets and other intellectual property rights. We have been subject to intellectual property claims from time to time, some of which have been resolved through license agreements, the terms of which have not had a material effect on our business.

We may also be a party to infringement claims in the future. In the event any third party were to assert infringement claims against us or our customers, we may have to consider alternatives including, but not limited to:

- negotiating cross-license agreements;
- acquiring licenses to the allegedly infringed patents, which may not be available on commercially reasonable terms, if at all;
- discontinuing use of certain process technologies, architectures, or designs, which could cause us to stop manufacturing certain integrated circuits if we were unable to design around the allegedly-infringed patents;

- litigating the matter in court, incurring substantial legal fees and paying substantial monetary damages in the event we lose; or
- developing non-infringing technologies, which may not be feasible.

Any one or several of these alternatives could place substantial financial and other burdens on us and hinder our business. Litigation, which could result in substantial costs to us and diversion of our resources, may be necessary to enforce our patents or other intellectual property rights or to defend us or our customers against claimed infringement. If we fail to obtain certain licenses or if we are involved in litigation relating to alleged patent infringement or other intellectual property matters, it may prevent us from manufacturing particular products or using particular technologies, which may adversely impact our business and revenues.

***We could be seriously harmed by failure to comply with environmental regulations.***

Our business is subject to a variety of federal, state and local laws, and governmental regulations relating to the use, discharge and disposal of toxic or otherwise hazardous materials used in our production processes. If we fail to use, discharge or dispose of hazardous materials appropriately, or if applicable environmental laws or regulations change in the future, we may be subject to substantial liability or may be required to suspend or significantly modify our manufacturing operations.

***We are subject to the risk of loss due to fire because the materials we use in our manufacturing processes are highly flammable.***

We use highly flammable materials such as silane and hydrogen in our manufacturing processes and are therefore subject to the risk of loss arising from fires. The risk of fire associated with these materials cannot be completely eliminated. Although we maintain insurance policies to reduce potential losses that may be caused by fire, including business interruption insurance, our insurance coverage may not be sufficient to cover all of our potential losses due to a fire. If our fab were to be damaged and/or cease operations for a certain period of time as a result of a fire, and if our insurance proves to be inadequate, it may reduce our manufacturing capacity and revenues. In addition, a power outage, even of very limited duration, caused by a fire or otherwise, may result in a loss of wafers in production, deterioration in our fab yield, substantial downtime to reset equipment before resuming production and an adverse effect on our revenue and profits.

***Possible product returns could harm our business.***

Products manufactured by us may be returned within specified periods if they are defective or otherwise fail to meet customers' prior agreed-upon specifications. Future product returns may have an adverse effect on our business and financial results.

***We are subject to risks related to our international operations.***

We generate certain revenues from customers located in Asia-Pacific and in Europe. Because of our international operations, we are vulnerable to the following risks:

- we price our products primarily in US dollars; if the Euro, Yen or other currencies weaken relative to the US dollar, our products may be relatively more expensive in these regions which may affect our ability to be competitive compared to the local manufacturers in these regions and may result in a decrease in our revenue;
- the burdens and costs of compliance with foreign government regulation, as well as compliance with a variety of foreign laws;
- impact of potential new legislation under the Trump administration;
- general geopolitical risks such as political and economic instability, international terrorism, potential hostilities and changes in diplomatic and trade relationships;
- natural disasters affecting the countries in which we conduct our business;
- imposition of regulatory requirements, tariffs, import and export restrictions and other trade barriers and restrictions including the timing and availability of export licenses and permits;
- adverse foreign and international tax rules and regulations, such as withholding taxes deducted from amounts due to us may not be refunded to us by the tax authorities;
- weak protection of our intellectual property rights in certain foreign countries;
- delays in product shipments due to local customs restrictions;

- laws and business practices favoring local companies;
- difficulties in collecting accounts receivable; and
- difficulties and costs of staffing and managing foreign operations.

In addition, the United States and foreign countries may implement quotas, duties, taxes or other charges or restrictions upon the import or export of our products, leading to a reduction in sales and profitability in certain countries. The geographical distance between the United States, Asia and Europe also creates a number of logistical and communication challenges. We cannot assure you that we will be able to sufficiently mitigate all the risks related to our international operations.

***Our business could suffer if we are unable to retain and recruit qualified personnel.***

We depend on the continued services of our senior executive officers, senior managers and skilled technical and other personnel. Our business could suffer if we lose the services of some of these personnel due to resignation, medical absence, illness or other reasons, and cannot find and integrate adequate replacement personnel into our senior management, business or operations in a timely manner. We seek to recruit highly qualified personnel and there is intense competition for the services of these personnel in the semiconductor industry. Competition for personnel may increase significantly in the future as new fabless semiconductor companies as well as new semiconductor manufacturing facilities are established. Our ability to retain existing personnel and attract new personnel is in part dependent on the compensation packages we offer. As demand for qualified personnel increases, we may be forced to increase the compensation levels and to adjust the cash, equity and other components of compensation we offer our personnel.

***Our business forecasts are premised on the increasing use of outsourced foundry services by both fabless semiconductor companies and integrated device manufacturers. Our business may not meet our forecasts if this trend does not continue to develop in the manner we expect, which may adversely affect our business and financial results.***

We operate as an independent semiconductor foundry focused primarily on specialty process technologies. Our business model assumes that demand for these processes within the semiconductor industry will grow and follow the broader trend towards outsourcing foundry operations. If the broader trend to outsourced foundry services does not prove applicable to the specialty process technologies that we are focused on, our business and financial results may not meet our forecasts, which may adversely affect our business and financial results.

***If we are unable to collaborate successfully with electronic design automation vendors and third-party design service companies to meet our customers' design needs, our business may be harmed.***

We have established relationships with electronic design automation vendors and third-party design service companies. We work together with these vendors to develop complete design kits that our customers can use to meet their design needs using our process technologies. Our ability to meet our customers' design needs successfully, including their schedule and budget requirements, depends on the availability and quality of the relevant services, tools and intellectual property provided by electronic design automation vendors and design service providers. Difficulties or delays in these areas may adversely affect our ability to meet our customers' needs, and thereby harm our business.

***Failure to comply with existing or future governmental regulations could reduce our sales or increase our manufacturing costs.***

The export of semiconductors that we manufacture may be subject to U.S. export control and other regulations implemented by the U.S. and/or other countries. Failure to comply with existing or evolving U.S. or foreign governmental regulation or to obtain timely domestic or foreign regulatory approvals or certificates may materially harm our business by reducing our sales, requiring extensive modifications to processes that we use in our product manufacturing, or requiring extensive modifications to our customers' products. We may not export products using or incorporating controlled technology without obtaining an export license. These restrictions may make foreign competitors facing less stringent controls on the export of their products more competitive in the global market. The U.S. government may not approve any pending or future export license requests. In addition, the list of products and countries for which export approval is required, and the regulatory policies with respect thereto, may be modified from time to time.

***A significant portion of our workforce is unionized, and our operations may be adversely affected by work stoppages, strikes or other collective actions which may disrupt our production and adversely affect the yield of our fab.***

A significant portion of our employees at our Newport Beach, California fab are represented by a union and covered by a collective bargaining agreement, which was renewed for three additional years, effective as of July 1, 2015. We cannot predict the effect that continued union representation or future organizational activities will have on our business. We cannot assure you that we will not experience a material work stoppage, strike or other collective action in the future, or incur increased costs in connection with the renewal of this bargaining agreement which may disrupt our production and adversely affect our customer relations and operational and financial results.

***If certain integrated circuits we manufacture are defective and integrated into products, we may be subject to product liability claims or other claims which could damage our reputation and harm our business.***

Our customers integrate our custom integrated circuits into their products which they then sell to end users. If these products are defective or malfunction, we may be subject to product liability claims as well as possible recalls, safety alerts or advisory notices relating to the product. We cannot assure you that our insurance policies will be adequate to satisfy claims that may be made against us. In addition, we may be unable to obtain insurance in the future at satisfactory rates, with adequate coverage, or at all. Product liability claims or product recalls in the future, regardless of their ultimate outcome, may have a material adverse effect on our business, reputation, financial condition and on our ability to attract and retain customers.

***Our production yields and business could be significantly harmed by natural disasters, particularly earthquakes.***

Our Newport Beach, California fab is located in southern California, a region known for seismic activity. Due to the complex and delicate nature of our manufacturing processes, our facility is particularly sensitive to the effects of vibrations associated with even minor earthquakes. Our business operations depend on our ability to maintain and protect our facility, computer systems and personnel. We cannot be certain that precautions we have taken to seismically upgrade our fab will be adequate to protect our facility in the event of an earthquake. Earthquakes may lead to fire in the fab or other material damage, and any resulting damage could seriously disrupt production and result in reduced revenues. Although we maintain insurance policies to reduce potential losses that may be caused by earthquakes and other natural disasters, including business interruption insurance, our insurance coverage may not be sufficient to cover all of our potential losses. If our fab was to be damaged or cease operations for a certain period of time as a result thereof, and if our insurance proves to be inadequate, it may reduce our manufacturing capacity and revenues and may expose us to third party claims. A power outage, even of very limited duration, caused by an earthquake or other natural disaster may result in a loss of wafers in production, deterioration of our fab yield, substantial downtime to reset equipment before resuming production, and a material adverse effect on our business, revenue and profits.

***Climate change may negatively affect our business.***

There is increasing concern regarding climate change and its potential dramatic effects on human activity if no aggressive remediation steps are taken. Legislative developments with respect to reductions in greenhouse gas emissions may result in increased energy, transportation and raw material costs.

Scientific examination of, political attention to, and rules and regulations on, issues surrounding the existence and extent of climate change may result in increased production costs due to increase in the prices of energy and introduction of energy or carbon tax. A variety of regulatory developments have been introduced that focus on restricting or managing emissions of carbon dioxide, methane and other greenhouse gases. Enterprises may need to purchase new equipment at higher costs or raw materials with lower carbon footprints. These developments and further legislation that is likely to be enacted may adversely affect our operations. Changes in environmental regulations, such as those on the use of per fluorinated compounds, may increase our production costs, which may adversely affect our results of operation and financial condition.

In addition, more frequent droughts and floods, extreme weather conditions and rising sea levels may occur due to climate change. For example, transportation suspension caused by extreme weather conditions may harm the distribution of our products. We cannot predict the economic impact, if any, of disasters resulting from climate change.

***Compliance with the US Conflict Minerals Law may affect our ability or the ability of our suppliers to purchase raw materials at an effective cost.***

Many industries rely on materials which are subject to regulation concerning certain minerals sourced from the Democratic Republic of Congo ("DRC") or adjoining countries, which include Sudan, Uganda, Rwanda, Burundi, United Republic of Tanzania, Zambia, Angola, Congo, and Central African Republic. These minerals are commonly referred to as conflict minerals. Conflict minerals which may be used in our industry or by our suppliers include Columbite-tantalite (derivative of tantalum [Ta]), Cassiterite (derivative of tin [Sn]), gold [Au], Wolframite (derivative of tungsten [W]), and Cobalt [Co]. We comply with the annual disclosure and reporting requirements adopted by the SEC with respect to use of

conflict minerals mined from the DRC and adjoining countries. There may be costs associated with complying with these disclosure requirements, including for diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. Although we expect that we and our vendors will be able to continue to comply with these requirements, there can be no guarantee that we will be able to gather all the information required from our vendors. Although we believe our suppliers do not rely on such conflict materials, either because the suppliers are located outside of the DRC and adjoining countries, or because our suppliers have been certified as “conflict-free” by an internationally-recognized validation scheme, there can be no guarantee that we will continue to be able to obtain adequate supplies of materials needed in our production from such suppliers. A failure to obtain necessary information or to maintain adequate supplies of materials from supply chains outside the DRC and adjoining countries or that have been certified as “conflict-free” by an internationally-recognized validation scheme, may delay our production, increasing the risk of losing customers and business.

***Risks relating to construction activities adjacent to our fabrication facility and our lease.***

We lease our fabrication facility and offices under lease contracts that we can extend until 2027, through the exercise of an option at our sole discretion to extend the lease period from 2022 to 2027. A few years ago, our landlord began a construction project adjacent to the fabrication facility several years ago. It is possible that said project may adversely impact our operations, including that construction activities adjacent to our fabrication facility may result in temporary reductions or interruptions in the supply of utilities to the property and that a portion or all of the fabrication facility may need to be idled temporarily during development. If construction activities limit or interrupt the supply of water, gas or electricity to our fabrication facility or cause significant vibrations or other disruptions, it could limit or delay our production, which may adversely affect our business and operating results. In addition, an unplanned power outage caused by construction activities, even of very limited duration, may result in a loss of wafers in production, deterioration in our fab yield and on schedule delivery, and substantial downtime to reset equipment before resuming production. These may cause customer dissatisfaction and cause customers to contemplate transferring their product orders to other fabs, which may adversely affect our revenues and financial results. In addition, the lease sets forth certain obligations of the Company and our landlord, including certain noise abatement actions at the fabrication facility. Our landlord has made claims that our noise abatement efforts are not adequate under the terms of the amended lease. We do not agree and are disputing these claims.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Included above under “Item 1. Business – Properties.”

**Item 3. 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 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

As a result of the November 2015 restructure, Tower US Holdings, Inc., a wholly-owned subsidiary of Tower, is now the only registered holder of record of the Company's common stock.

#### Dividends

We have not paid any dividends on our common stock to date. The payment of dividends, if and when paid, will be within the discretion of the board of directors and will be contingent upon our revenues and earnings, if any, capital requirements, the terms of the Credit Line Agreement with Wells Fargo, the indentures underlying our notes, and our general financial condition.

### Item 6. Selected Financial Data

Omitted pursuant to General Instruction I (1) (a) and (b) of Form 10-K.

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis of the financial condition and results of operations of the Company for the years ended December 31, 2017 and December 31, 2016, should be read in conjunction with the consolidated financial statements and related notes as well as other information contained in this Annual Report, including the information in the section of this report entitled "Risk Factors".*

## FORWARD LOOKING STATEMENTS

This annual 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 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 this annual report 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 year ended December 31, 2017, we had a net profit of \$14.5 million compared to a net profit of \$23.3 million for the year ended December 31, 2016.

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

	<b>Year Ended</b>	
	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Revenue	100%	100%
Cost of revenue	75.9	69.8
Gross profit	24.1	30.2
Operating expenses:		
Research and development	8.8	7.9
Selling, general and administrative	7.0	7.7
Total operating expenses	15.8	15.6
Operating profit	8.3	14.6
Interest expenses, net	(1.6)	(1.8)
Other financing expense, net	(1.5)	(1.4)
Other income, net	0.1	--
Income tax expense	(0.1)	(3.0)
Net profit	5.2%	8.4%

### **Comparison of Years Ended December 31, 2017 and December 31, 2016**

#### ***Revenue***

Our revenue for the year ended December 31, 2017 increased to \$282.5 million, as compared to \$276.7 million for the year ended December 31, 2016, an increase of 2% in revenue, reflecting mainly average price per product increase.

#### ***Cost of Revenue***

Cost of revenue increased to \$214.4 million for the year ended December 31, 2017, as compared to \$193.1 million for the year ended December 31, 2016.

#### **Gross Profit**

Gross profit was \$68.1 million for the year ended December 31, 2017, as compared to \$83.6 million for the year ended December 31, 2016.

#### **Operating Expenses**

Operating expenses for the year ended December 31, 2017 amounted to \$44.6 million, as compared to \$43.1 million for the year ended December 31, 2016.

#### **Interest Expenses, Net, Other Financing Expense, Net and Other Expense, Net**

Interest expenses, net, other financing expense, net and other expense, net for the year ended December 31, 2017 amounted to \$8.6 million, as compared to \$9.0 million for the year ended December 31, 2016.

#### **Income Tax Expense**

Income tax expense amounted to \$0.4 million for the year ended December 31, 2017, as compared to income tax expense of \$8.3 million for the year ended December 31, 2016. The reduction in income tax expense is mainly attributable to the \$16.7 million lower profit before tax for the year ended December 31, 2017 and \$2.4 million income tax benefit with regards to 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 year ended December 31, 2017 was \$14.5 million, as compared to \$23.3 million for the year ended December 31, 2016. The reduction in net profit is mainly attributable to the \$16.7 million lower profit before tax for the year ended December 31, 2017, offset by \$8.7 million lower tax expenses.



## **Changes in Financial Condition**

### **Liquidity and Capital Resources**

Cash and cash equivalents were \$44.7 million as of December 31, 2017, as compared to \$20.3 million as of December 31, 2016. The main cash activities during the year ended December 31, 2017 were approximately \$57 million cash generated from operating activities and approximately \$33 million investment in fixed assets, net.

### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

In the normal course of business, we are exposed to market risk from changes in interest rates, certain foreign currency exchange rate fluctuations, and certain commodity prices. Our sales and expenses are primarily denominated in U.S. dollars, and our exposure to foreign currency rate fluctuations is not significant to our financial condition and results of operations. We have not used derivative financial instruments to manage foreign currency exchange risk exposure or interest rate exposure.

We estimate that a 1.0% increase in interest rates would have an insignificant impact on our financial statements due to the structure of our investment portfolio.

As of December 31, 2017 and December 31, 2016, we did not have any relationships with unconsolidated entities or financial partners, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

**Item 8. Financial Statements and supplementary data**

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**JAZZ US HOLDINGS, INC.**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholder and Board of Directors of Jazz US Holdings Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Jazz US Holdings Inc. and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Brightman Almagor Zohar & Co.  
Certified Public Accountants  
A Member of Deloitte Touche Tohmatsu Limited

Tel Aviv, Israel  
March 6, 2018

We have served as the Company's auditor since 2008.

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**Jazz US Holdings Inc. and Subsidiaries**

**Consolidated Balance Sheets**  
(in thousands)

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 44,745	\$ 20,261
Receivables:		
Trade receivables	32,932	31,741
Other receivables	271	942
Inventories	28,125	33,897
Deferred tax asset	--	2,746
Other current assets	1,565	1,700
Total current assets	107,638	91,287
Long-term investments	2,606	199
Property, plant and equipment, net	107,177	102,489
Intangible assets, net	12,825	15,999
Goodwill	7,000	7,000
Other assets	21,336	21,282
Total assets	\$ 258,582	\$ 238,256
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of debentures	\$ 53,297	\$ --
Trade accounts payable	15,418	15,217
Employee related liabilities	7,797	7,182
Deferred revenues and customers' advances	1,557	1,364
Other current liabilities	14,730	17,700
Total current liabilities	92,799	41,463
Long term liabilities:		
Debentures	--	49,068
Deferred tax liability	1,051	5,001
Employee related liabilities	1,878	1,796
Long term customers' advances	2,910	--
Other long-term liabilities	5,772	3,066
Total liabilities	104,410	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	8,130	6,824
Accumulated other comprehensive loss	(362)	(873)
Retained earnings	71,418	56,925
Total stockholders' equity	154,172	137,862
Total liabilities and stockholders' equity	\$ 258,582	\$ 238,256

See accompanying notes.

**Jazz US Holdings Inc. and Subsidiaries**

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

	Year ended December 31,		
	2017	2016	2015
Revenues	\$ 282,503	\$ 276,743	\$ 271,493
Cost of revenues	214,416	193,116	200,246
Gross profit	68,087	83,627	71,247
Operating expenses:			
Research and development	24,891	21,791	17,306
Selling, general and administrative	19,701	21,298	19,470
Total operating expenses	44,592	43,089	36,776
Operating profit	23,495	40,538	34,471
Interest expenses, net	(4,631)	(5,029)	(5,019)
Other financing expense, net	(4,330)	(3,931)	(3,258)
Other income (expense), net	339	--	(271)
Profit before income tax benefit (expense)	14,873	31,578	25,923
Income tax benefit (expense)	(380)	(8,247)	4,360
Net profit	\$ 14,493	\$ 23,331	\$ 30,283

See accompanying notes.

**Jazz US Holdings Inc. and Subsidiaries**

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

	<b>Year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net profit	\$ 14,493	\$ 23,331	\$ 30,283
Change in employees plan assets and benefit obligations ,net of taxes \$171, \$184 and \$97 for the years ended December 31, 2017, 2016 and 2015, respectively	511	(546)	176
Comprehensive income	<u>\$ 15,004</u>	<u>\$ 22,785</u>	<u>\$ 30,459</u>

**See accompanying notes.**

**Jazz US Holdings Inc. and Subsidiaries**  
**Consolidated Statements of Stockholders' Equity**  
(in thousands, except share data)

	Common Stock		Additional paid-in capital and cumulative stock based compensation	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholders' equity
	Shares	Amount				
Balance at December 31, 2014	100	\$ --	\$ 77,788	\$ (503)	\$ 3,432	\$ 80,717
Stock compensation expense	--	--	1,591	--	--	1,591
Tax expense relating to stock based compensation	--	--	578	--	--	578
Other comprehensive income	--	--	--	176	--	176
Net profit	--	--	--	--	30,283	30,283
Balance at December 31, 2015	100	\$ --	\$ 79,957	\$ (327)	\$ 33,715	\$ 113,345
Stock compensation expense	--	--	1,732	--	--	1,732
Accumulated amount due to adoption of ASU No. 2016-09, Stock Compensation (Topic 718)	--	--	121	--	(121)	--
Other comprehensive income	--	--	--	(546)	--	(546)
Net profit	--	--	--	--	23,331	23,331
Balance at December 31, 2016	100	\$ --	\$ 81,810	\$ (873)	\$ 56,925	\$ 137,862
Stock compensation expense	--	--	1,306	--	--	1,306
Other comprehensive income	--	--	--	511	--	511
Net profit	--	--	--	--	14,493	14,493
Balance at December 31, 2017	100	\$ --	\$ 83,116	\$ (362)	\$ 71,418	\$ 154,172

**Jazz US Holdings Inc. and Subsidiaries**

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

	Year ended December 31,		
	2017	2016	2015
<b>Operating activities:</b>			
Net profit	\$ 14,493	\$ 23,331	\$ 30,283
Adjustments to reconcile net profit for the period to net cash provided by operating activities:			
Depreciation and amortization of intangible assets	36,200	33,048	37,139
Notes accretion and amortization of deferred financing costs	4,230	3,809	3,136
Stock based compensation expense	1,306	1,732	1,591
Other income, net	(339)	--	271
Changes in operating assets and liabilities:			
Trade receivables	(1,191)	(4,418)	2,685
Inventories	5,772	(3,982)	879
Other receivables and other current assets	187	2,009	(835)
Trade accounts payable	(3,307)	(2,605)	(10,896)
Related parties, net	(1,127)	747	11,645
Employee related liabilities	(1,028)	(613)	(1,800)
Deferred revenue and customers' advances	3,103	(5,007)	4,151
Other current liabilities	419	386	86
Deferred tax liability, net	(1,313)	4,376	(8,860)
Net cash provided by operating activities	57,405	52,813	69,475
<b>Investing activities:</b>			
Purchases of property and equipment	(33,950)	(37,778)	(54,489)
Proceeds related to property and equipment	1,029	838	798
Advance payment to related party	--	--	(21,000)
Net cash used in investing activities	(32,921)	(36,940)	(74,691)
<b>Financing activities:</b>			
Debt repayment	--	(19,100)	(44,683)
Net cash provided by (used in) financing activities	--	(19,100)	(44,683)
<b>Net increase (decrease) in cash and cash equivalents</b>	24,484	(3,227)	(49,899)
Cash and cash equivalents at the beginning of the year	20,261	23,488	73,387
Cash and cash equivalents at the end of the year	\$ 44,745	\$ 20,261	\$ 23,488

Non-cash activities:

	Year ended December 31,		
	2017	2016	2015
Investments in property, plant and equipment	\$ 4,678	\$ 4,699	\$ 6,929

Supplemental disclosure of cash flow information:

	Year ended December 31,		
	2017	2016	2015
Cash paid during the period for interest	\$ 4,581	\$ 5,217	\$ 5,333
Cash paid during the period for income taxes	\$ 1,499	\$ 2,757	\$ 3,330

See accompanying notes.



## **Jazz US Holdings Inc. and Subsidiaries**

### **Notes to 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 (“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 as an intermediate holding company, holding all of the shares of Jazz Semiconductor.

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 annual 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 annual 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](http://www.sec.gov), and search for filings made by Jazz Technologies, Inc.

#### **Note 2: Summary of Significant Accounting Policies**

##### *Basis of Presentation*

The accompanying consolidated financial statements include the accounts of the Company 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 financial position at December 31, 2017 and December 31, 2016, and the consolidated results of its operations and cash flows for the years ended December 31, 2017, December 31, 2016 and December 31, 2015. All intercompany accounts and transactions have been eliminated.

##### *Reclassifications*

Certain amounts in prior years’ financial statements have been reclassified in order to conform to 2017 presentation.

##### *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.

### ***Revenue Recognition***

The Company's revenues are generated principally from sales of semiconductor wafers. The Company also derives revenues from design support and other technical and support services incidental to the sale of semiconductor wafers.

In accordance with ASC Topic 605 "Revenue Recognition", the Company recognizes revenues from sale of products when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered, (iii) the price to the customer is fixed or determinable; and (iv) collection of the resulting receivable is reasonably assured. Generally, delivery occurs after products meet all of the customer's acceptance criteria based on pre-shipment electronic, functional and quality tests.

The Company provides for sales returns allowance relating to specified yield or quality commitments as a reduction of revenues based on past experience and specific identification of events necessitating an allowance.

### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash, banks deposits and short-term investments with original maturities of three months or less.

### ***Allowance for Doubtful Accounts***

The allowance for doubtful accounts is computed mainly on the specific identification basis for accounts whose collectability, in the Company's estimation, is uncertain. As of December 31, 2017 and 2016, the amounts in the allowance for doubtful accounts are immaterial.

### ***Fair Value of Financial Instruments***

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

### ***Functional Currency***

The Company uses the U.S. Dollar as its functional currency. All of the Company's sales and a substantial majority of its costs are transacted in U.S. Dollars.

### ***Inventories***

The Company applies Accounting Standards Update ("ASU") No. 2015-11 as of January 1, 2017, by which inventories are stated at the lower of cost and net realizable value. Inventories as of December 31, 2016 are stated at lower of cost or market. The adoption of the update had no effect on the consolidated financial position, results of operations or cash flows. Cost of raw materials is determined mainly on the basis of the weighted average moving price per unit.

### ***Property, Plant and Equipment***

The Company accounts for property and equipment in accordance with Accounting Standards Codification ("ASC") No. 360, "Accounting for the Property, Plant, and Equipment" ("ASC 360"). Property, plant and equipment are presented at cost, including capitalizable costs. Capitalizable costs include only those costs that are identifiable with, and related to, the property and equipment and are incurred prior to their initial operation. Identifiable incremental, direct costs include costs associated with constructing, establishing and installing property and equipment, and costs directly related to pre-production test runs of property and equipment necessary for preparing such property and equipment for their intended use. Maintenance and repairs are charged to expenses as they are incurred. Property and equipment are presented net of accumulated depreciation.

Depreciation is calculated based on the straight-line method over the estimated economic lives commonly used in the industry of the assets or terms of the related leases, and range from 3 to 19 years. Leasehold improvements are amortized over the life of the asset or term of the lease, whichever is shorter. For impairment of assets tests see below.

The Company determines lease classification based on the criteria established in ASC 840, "Leases". When the

Company determines, based on the criteria, that a lease should be classified as capital lease, an asset and corresponding liability is recognized. Each capital lease is recorded as an asset and an obligation in an amount that is equal to the present value of the minimum lease payments over the lease term. Assets under capital lease are part of property plant and equipment.

### ***Intangible Assets***

Intangible assets include mainly the valuation amount attributed to the intangible assets as part of the acquisition of Jazz's shares by Tower. The amounts attributed to intangible assets are amortized over the expected estimated economic life of the intangible assets and as commonly used in the industry.

### ***Impairment of Assets***

The Company reviews long-lived assets and intangible assets on a periodic basis, as well as when such a review is required based upon relevant circumstances, to determine whether events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable, considering the undiscounted cash flows expected from it. Impairment loss, if required is recognized based upon the difference between the carrying amount and the fair value of such assets, in accordance with ASC 360-10, "Property, Plant and Equipment".

### ***Impairment of Goodwill***

Goodwill is subject to an impairment test performed at least on an annual basis or upon the occurrence of certain events or circumstances. The first step of goodwill impairment test is an initial qualitative assessment for the likelihood of impairment. If this assessment does not result in a more-likely-than-not indication of impairment, no further impairment testing is required. If it does result in a more-likely-than-not indication of impairment, the impairment test is performed. In 2017 the qualitative test did not result in a more likely than not indication and no further steps were required.

Goodwill impairment is assessed based on a comparison of the fair value of the unit, to which the goodwill is ascribed, and the underlying carrying value of its net assets, including goodwill. If the carrying amount of the unit exceeds its fair value, the implied fair value of the goodwill is compared with its carrying amount to measure the amount of impairment loss, if any.

If quantitative steps are required, the Company uses the income approach methodology of valuation that includes discounted cash flows to determine the fair value of the unit. Significant management judgment is required in the forecasts of future operating results used for this methodology.

### ***Accounting for Income Taxes***

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". This topic prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities. Deferred taxes are computed based on the tax rates anticipated (under applicable law as of the balance sheet date) to be in effect when the deferred taxes are expected to be paid or realized.

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 such 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 Company adopted the ASU as of the first quarter of 2017. The Company adopted the ASU prospectively such that previous years' balances were not reclassified.

The Company evaluates the realizability of deferred tax assets and establishes valuation allowances when it is more likely than not that all or a portion of our deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. The Company considers all available positive and negative evidence in making this assessment, including, but not limited to, the scheduled reversal of deferred tax liabilities and projected future taxable income. In circumstances where there is sufficient negative evidence indicating that deferred tax assets are not more-likely-than-not realizable, the Company establishes a valuation allowance.

The future utilization of the Company's net operating loss carry forwards to offset future taxable income is subject to an annual limitation as a result of ownership changes that have occurred or that could occur in the future. The Company has had two "change in ownership" events that limit the utilization of net operating loss carry forwards. The second "change in ownership" event occurred on September 19, 2008, the date of the Company's merger with Tower.

ASC 740-10 prescribes a two-step approach for recognizing and measuring uncertain tax positions. The first step is

to evaluate tax positions taken or expected to be taken in a tax return by assessing whether they are more-likely-than-not sustainable, based solely on their technical merits, upon examination and including resolution of any related appeals or litigation process. The second step is to measure the associated tax benefit of each position as the largest amount that the Company believes is more-likely-than-not realizable. Differences between the amount of tax benefits taken or expected to be taken in its income tax returns and the amount of tax benefits recognized in its financial statements, represent the Company's unrecognized income tax benefits. The Company's policy is to include interest and penalties related to unrecognized income tax benefits as a component of income tax expense.

### ***Comprehensive Income***

In accordance with ASC Topic 220, "Comprehensive Income", comprehensive income represents the change in shareholders' equity during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a reporting period except those resulting from investments by owners and distributions to owners. Other comprehensive income represents gains and losses that are included in comprehensive income but excluded from net profit.

### ***Stock Based Compensation***

The Company applies the provisions of ASC 718 "Compensation - Stock Compensation", under which employee share-based equity awards are accounted for under the fair value method. Accordingly, stock-based compensation to employees and directors is measured at the grant date, based on the fair value of the award. The Company uses the straight-line attribution method to recognize stock-based compensation costs over the vesting period of the grant, except for grants that involve performance criteria, for which an accelerated method is used.

### ***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 which their collection 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 one customer that accounted for 34% as of December 31, 2017 and 43% as of December 31, 2016.

Net revenues from significant customers representing 10% or more of net revenues consist of one customer that accounted for 38% for the year ended December 31, 2017, 36% for the year ended December 31, 2016 and 39% for the year ended December 31, 2015.

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.

### ***Recently Issued Accounting Pronouncements***

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. Early adoption is permitted but not before January 1, 2017. 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 will be adopted in fiscal year 2018. The Company elected the modified retrospective approach as the transition method and expects no transition adjustment to its retained earnings 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. Early adoption is not permitted. The Company is evaluating the effect of ASU 2016-01 on its consolidated financial statements but expects it would 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. 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 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. Early adoption is permitted. The Company is evaluating the impact of the amendments 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. 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 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: Other Balance Sheet Details

#### *Inventories*

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

	December 31, 2017	December 31, 2016
Raw material	\$ 6,658	\$ 4,383
Work in process	21,072	27,105
Finished goods	395	2,409
	<u>\$ 28,125</u>	<u>\$ 33,897</u>

#### *Property, plant and equipment*

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

	Useful life (In years)	December 31, 2017	December 31, 2016
Building (including facility infrastructure)	10-19	\$ 47,018	\$ 41,396
Machinery and equipment	3-15	339,992	308,235
		387,010	349,631
Accumulated depreciation		(279,833)	(247,142)
		<u>\$ 107,177</u>	<u>\$ 102,489</u>

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

	As of December 31,	
	2017	2016
Original cost - Machinery and equipment	\$ 3,696	\$ --
Accumulated depreciation - Machinery and equipment	(250)	--
	<u>\$ 3,446</u>	<u>\$ --</u>

#### *Intangible Assets*

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		<u>\$ 61,500</u>	<u>\$ 48,675</u>	<u>\$ 12,825</u>

Intangible assets consist of the following at 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		<u>\$ 61,500</u>	<u>\$ 45,501</u>	<u>\$ 15,999</u>

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 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 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 December 31, 2017 was approximately \$58 million, of which approximately \$1 million had been utilized as letters of credit as of such date.

As of December 31, 2016 and 2017, no loan amounts were outstanding.

As of December 31, 2017, the Company was in compliance with all of the covenants under the Credit Line Agreement.

In February 2018, The Company and Wells Fargo signed an amendment to the Jazz Credit Line Agreement for a five years extension to the Jazz Credit Line Agreement to mature in 2023, in the total amount of up to \$70,000. The applicable interest on the loans 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.

#### **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 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.

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 December 31, 2017 and December 31, 2016, approximately \$58 million principal amount of 2014 Notes was outstanding.

The Credit Line Agreement imposes certain limitations on the ability to repay the notes and/or to incur additional indebtedness without Wells Fargo's consent. Any default on payment of the notes or any default on a permitted refinancing of the notes prior to said notes maturity would trigger a cross default under the Credit Line Agreement, which would permit the lenders to accelerate the obligations thereunder, potentially requiring the Company to repay or refinance the Credit Line Agreement. As of December 31, 2017, there are no outstanding loan drawdowns under the Wells Fargo Credit Line.

For disclosure purposes, the fair value of the 2014 Notes as of December 31, 2017 was approximately \$203 million. Such fair value is determined by taking in consideration the market approach, using the last quotations of the notes.

## Note 6: Income Taxes

In December 2017, the Tax Cut and Jobs Act (the "Act") was signed into law, which enacts significant changes to U.S. federal corporate tax and related laws. Some of the provisions of the Act affecting corporations include, but are not limited to: (i) a reduction of the U.S. federal corporate income tax rate from 35% to 21%; (ii) limiting the interest expense deduction; (iii) expensing of cost of acquired qualified property; and (iv) elimination of the domestic production activities deduction. The Company is currently evaluating the impact the Act will have on the future financial condition and results of operations and believes the Act will have a beneficial positive net impact.

The reduction in the U.S. federal corporate income tax rate reduced the Company's deferred tax liabilities, net by \$2.4 million which is recorded in the income tax benefit (expense) in the statement of operations for the twelve months ended December 31, 2017. The Company believes this is a reasonable estimate of the reform tax effect; however, it is still analyzing certain aspects of the Act and may refine its calculations as additional guidance is issued by the IRS or other standard-setting entities.

The SEC staff issued Staff Accounting Bulletin ("SAB") 118, which provides guidance on accounting for the tax effects of the Act, for which the accounting under ASC 740, Income Taxes, is incomplete but is able to determine a reasonable estimate. The SAB afforded a measurement period in which refinement of the calculations to the estimated tax effects will be included in the period in which it was determined.

The Company's effective tax rate differs from the statutory rate as follows (in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Tax expense computed at the federal statutory rate	\$ 5,196	\$ 11,053	\$ 9,073
State tax, net of federal provision	(1,209)	90	14
Research Credits	430	(789)	(1,932)
Unrecognized tax expense (benefit)	244	261	(11,153)



	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Domestic production deduction	(142)	(694)	(395)
Stock Based Compensation	(1,338)	(1,388)	--
Effect of tax rate change on deferred tax liabilities, net (*)	(2,429)	--	--
Permanent items & others	(372)	(286)	33
Income tax expense (benefit)	<u>\$ 380</u>	<u>\$ 8,247</u>	<u>\$ (4,360)</u>

(\*) Reduction in tax rates due to the U.S. Tax Reform.

The Company's income tax expense (benefit) is as follows (in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
<b>Current tax expense (benefit):</b>			
Federal (*)	\$ 1,778	\$ 4,660	\$ (8,563)
State	(2)	118	16
Foreign	31	7	2
Total current	<u>1,807</u>	<u>4,785</u>	<u>(8,545)</u>
<b>Deferred tax expense (benefit):</b>			
Federal	(1,305)	3,462	4,185
State	(122)	--	--
Total deferred	<u>(1,427)</u>	<u>3,462</u>	<u>4,185</u>
Income tax expense (benefit)	<u>\$ 380</u>	<u>\$ 8,247</u>	<u>\$ (4,360)</u>

(\*) Includes changes in unrecognized tax benefit, see below.

The Company establishes a valuation allowance for deferred tax assets, when it is unable to conclude that it is more likely than not that such deferred tax assets will be realized. In making this determination the Company evaluates both positive and negative evidence. The state deferred tax assets exceed the reversal of taxable temporary differences. Without other significant positive evidence, the Company has determined that the state deferred tax assets are not more likely than not to be realized.

Significant components of the Company's deferred tax assets and liabilities from federal and state income taxes are as follows (in thousands):

	Year ended December 31, 2017	Year ended December 31, 2016
<b>Deferred tax assets - current:</b>		
Net operating loss carryforwards	\$ --	\$ 797
Employees benefits and compensation	--	1,274
Accruals, reserves and others	--	2,351
Total deferred tax assets	<u>--</u>	<u>4,422</u>
Valuation allowance	--	(1,676)
Total current deferred tax assets (*)	<u>\$ --</u>	<u>\$ 2,746</u>
<b>Deferred tax assets (liabilities) - long-term:</b>		
<b>Deferred tax assets:</b>		
Net operating loss carry forward	\$ 3,621	\$ 10,633
Employees benefits and compensation	720	1,445
Tax credits	5,810	--
Accruals, reserves and others	3,084	--
	<u>13,235</u>	<u>12,078</u>
Valuation allowance	(5,807)	(5,468)
Total long term deferred tax assets	<u>7,428</u>	<u>6,610</u>
<b>Deferred tax liabilities - long-term:</b>		
property, plant and equipment	(5,558)	(5,595)
Intangible assets	(2,046)	(4,039)

Debt discount	(780)	(2,363)
Other	(95)	386
Total long term deferred tax liabilities, net	<u>(1,051)</u>	<u>(5,001)</u>
Total deferred tax asset (liability), net	<u>\$ (1,051)</u>	<u>\$ (2,255)</u>

(\*) In 2017, the Company adopted ASU 2015-17 regarding classification of deferred taxes, prospectively, following which, effective 2017, deferred taxes are not presented as current assets.

The future utilization of the Company's net operating loss carry forwards to offset future taxable income is subject to an annual limitation as a result of ownership changes that have occurred. Additional limitations could apply if ownership changes occur in the future. The Company has had two "change in ownership" events that limit the utilization of net operating loss carry forwards. The first "change in ownership" event occurred in February 2007 upon our acquisition of Jazz Semiconductor. The second "change in ownership" event occurred on September 19, 2008, the date of the Company's merger with Tower. The Company concluded that the net operating loss limitation for the change in ownership which occurred in September 2008 will be an annual utilization of \$2.1 million in its tax return. The Company had at December 31, 2017 federal net operating loss carry forwards of approximately \$25 million that will begin to expire in 2022 unless previously utilized.

The Company made a Water's Edge election to file its 2016 California return and the next six years of California returns on this basis. As such, the Company will not be filing on a world-wide basis for the foreseeable future. As a result of making the election, the Company has re-computed the net operating loss carryforward for California as if it had been filing on a Water's Edge basis. This resulted in a reduction in the amount of California net operating loss carryforward of approximately \$107 million. There was no impact to the tax expense since the Company previously maintained a full valuation allowance on its California net deferred tax assets.

As of December 31, 2017, the Company had state net operating loss carryforward of approximately \$22 million. The state tax loss carry forward begins to expire in 2028, unless previously utilized.

As of December 31, 2017, the Company combined federal and state alternative minimum tax credits is \$1.1 million. As part of the Tax Cuts and Job Act, the federal alternative minimum tax credits, are allowable to be fully refundable by 2022, if not previously utilized against regular tax liability. The California alternative minimum tax credits do not expire.

As of December 31, 2017, the Company had approximately \$1.8 million of Federal and \$7.2 million of California R&D credits. The federal credits begin to expire in 2035. The California R&D credits do no expire. However, as the Company generates each year more credits than it uses each year, the Company maintains a valuation allowance against the deferred tax assets balances for its California R&D credits.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Unrecognized tax benefits (in thousands)	
Balance at January 1, 2017	\$	8,968
Additions for tax positions of current year		520
Reduction for tax positions of prior years		(2,436)
Balance at December 31, 2017	\$	<u>7,052</u>
	Unrecognized tax benefits (in thousands)	
Balance at January 1, 2016	\$	8,032
Additions for tax positions of current year		157
Additions for tax positions of prior years		779
Balance at December 31, 2016	\$	<u>8,968</u>
	Unrecognized tax benefits (in thousands)	
Balance at January 1, 2015	\$	19,413
Reductions for tax positions of current year		(623)
Additions for tax positions of prior years		390
Expiration of statute of limitation of prior years		(11,148)
Balance at December 31, 2015	\$	<u>8,032</u>

The Company accounts for its uncertain tax provisions in accordance with ASC 740. The Company's policy is to

recognize interest and penalties that would be assessed in relation to the settlement value of unrecognized tax benefits as a component of income tax expense. At December 31, 2017, the Company had unrecognized tax benefits of approximately \$7.1 million. The amount of unrecognized tax benefit that, if recognized and realized, would affect the effective tax rate is \$6.5 million as of December 31, 2017.

The statute of limitations with respect to tax year 2010 expired in March 2015. As a result, the Company recorded in the twelve months ended December 31, 2015 a tax benefit 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. The audit results have not been finalized as of the financial statements date.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax in multiple states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal income tax examinations for 2010 and before, state and local income tax examinations for 2012 and before and foreign income tax examinations for 2013 and before. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss carry forward amount.

## Note 7: Employee Benefit Plans

The following information provided recognizes the changes in 2017, 2016 and 2015 periodic expenses and benefit obligations due to the bargaining agreement effective December 19, 2009 entered into by the Company with its collective bargaining unit employees.

### *Postretirement Medical Plan*

The components of the net periodic benefit cost and other amounts recognized in other comprehensive income (loss) for the Company's postretirement medical plan expense are as follows (in thousands, except percentages):

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
<b>Net periodic benefit cost</b>			
Service cost	\$ 9	\$ 12	\$ 29
Interest cost	69	85	126
Amortization of prior service costs	--	(12)	(973)
Amortization of net (gain) or loss	(361)	(333)	(115)
Total net periodic benefit cost	<u>\$ (283)</u>	<u>\$ (248)</u>	<u>\$ (933)</u>
<b>Other changes in plan assets and benefits obligations recognized in other comprehensive income</b>			
Prior service cost for the period	\$ --	\$ --	\$ --
Net (gain) or loss for the period	317	(316)	(1,333)
Amortization of prior service costs	--	12	973
Amortization of net gain or (loss)	361	333	115
Total recognized in other comprehensive income	<u>\$ 678</u>	<u>\$ 29</u>	<u>\$ (245)</u>
<b>Total recognized in net periodic benefit cost and other comprehensive income</b>	<u>\$ 395</u>	<u>\$ (219)</u>	<u>\$ (1,178)</u>
<b>Weighted average assumptions used:</b>			
Discount rate	4.50%	4.80%	4.30%
Expected return on plan assets	N/A	N/A	N/A
Rate of compensation increases	N/A	N/A	N/A
<b>Assumed health care cost trend rates:</b>			
Health care cost trend rate assumed for current year (Pre-65/Post-65)	7.20%/10.00%	6.75%/10.00%	7.00%/20.00%
Ultimate rate (Pre-65/Post-65)	4.50%/4.50%	4.50%/5.00%	4.50%/5.00%
Year the ultimate rate is reached (Pre-65/Post-65)	2025/2025	2025/2022	2025/2022
Measurement date	December 31, 2017	December 31, 2016	December 31, 2015

**Impact of one-percentage point change in assumed health care cost trend rates as of December 31, 2017:**

	<u>Increase</u>	<u>Decrease</u>
Effect on service cost and interest cost	\$ 4	\$ (3)
Effect on postretirement benefit obligation	\$ 78	\$ (61)

The components of the change in benefit obligation; change in plan assets and funded status for the Company's postretirement medical plan are as follows (in thousands):

	<u>Year Ended December 31, 2017</u>	<u>Year Ended December 31, 2016</u>	<u>Year Ended December 31, 2015</u>
<b>Change in medical plan related benefit obligation:</b>			
Medical plan related benefit obligation at beginning of period	\$ 1,550	\$ 1,781	\$ 2,977
Service cost	9	12	29
Interest cost	69	85	126
Benefits paid	(9)	(12)	(18)
Change in plan provisions	--	--	--
Actuarial loss (gain)	317	(316)	(1,333)
Benefit medical plan related obligation end of period	<u>\$ 1,936</u>	<u>\$ 1,550</u>	<u>\$ 1,781</u>
<b>Change in plan assets:</b>			
Fair value of plan assets at beginning of period	\$ --	\$ --	\$ --
Employer contribution	9	12	18
Benefits paid	(9)	(12)	(18)
Fair value of plan assets at end of period	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
<b>Medical plan related net funding</b>	<u>\$ (1,936)</u>	<u>\$ (1,550)</u>	<u>\$ (1,781)</u>
Amounts recognized in statement of financial position:			
Current liabilities	(58)	(37)	(40)
Non-current liabilities	<u>(1,878)</u>	<u>(1,513)</u>	<u>(1,741)</u>
Net amount recognized	<u>\$ (1,936)</u>	<u>\$ (1,550)</u>	<u>\$ (1,781)</u>
<b>Weighted average assumptions used:</b>			
Discount rate	3.80%	4.50%	4.80%
Rate of compensation increases	N/A	N/A	N/A
<b>Assumed health care cost trend rates:</b>			
Health care cost trend rate assumed for next year (Pre 65/Post 65)	8.30%/11.10%	7.20%/10.00%	6.75%/10.00%
Ultimate rate (Pre 65/ Post 65)	4.50%/4.50%	4.50%/4.50%	4.50%/5.00%
Year the ultimate rate is reached (Pre 65/ Post 65)	2027/2027	2025/2025	2025/2022

The following benefit payments are expected to be paid in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter (in thousands):

<u>Fiscal Year</u>	<u>Other Benefits (\$)</u>
2018	\$ 59
2019	73
2020	71
2021	74
2022	77
2023-2027	\$ 404

The Company adopted several changes to the postretirement medical plan in 2012 that cumulatively reduced obligations by approximately \$3.9 million. The changes in the plan were implemented through 2015 and included the phase out of spousal coverage, introduction of an employer-paid cap, and acceleration of increases in retiree contribution rates.

***Pension Plan***

The Company has a pension plan that provides for monthly pension payments to eligible employees upon retirement. The pension benefits are based on years of service and specified benefit amounts. The Company uses a December 31 measurement date. The Company's funding policy is to make contributions that satisfy at least the minimum required contribution for IRS qualified plans.

The components of the change in benefit obligation, the change in plan assets and funded status for the Company's pension plan are as follows (in thousands, except percentages):

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
<b>Net periodic benefit cost</b>			
Interest cost	\$ 831	\$ 841	\$ 798
Expected return on plan assets	(1,236)	(1,154)	(1,130)
Amortization of prior service costs	3	3	3
Amortization of net (gain) or loss	55	34	31
Total net periodic benefit cost	<u>\$ (347)</u>	<u>\$ (276)</u>	<u>\$ (298)</u>
<b>Other changes in plan assets and benefits obligations recognized in other comprehensive income</b>			
Prior service cost for the period	\$ --	\$ --	\$ --
Net (gain) or loss for the period	(1,303)	736	6
Amortization of prior service costs	(3)	(3)	(3)
Amortization of net gain or (loss)	(55)	(34)	(31)
Total recognized in other comprehensive income	<u>\$ (1,361)</u>	<u>\$ 699</u>	<u>\$ (28)</u>
<b>Total recognized in net periodic benefit cost and other comprehensive income</b>	<u>\$ (1,708)</u>	<u>\$ 423</u>	<u>\$ (326)</u>
<b>Weighted average assumptions used:</b>			
Discount rate	4.30%	4.60%	4.20%
Expected return on plan assets	6.20%	6.20%	6.20%
Rate of compensation increases	N/A	N/A	N/A
<b>Estimated amounts that will be amortized from accumulated other comprehensive income in the next fiscal year:</b>			
Prior service cost	3	3	3
Net actuarial (gain) or loss	\$ 0	\$ 55	\$ 33

The components of the change in benefit obligation; change in plan assets and funded status for the Company's pension plan are as follows (in thousands, except percentages):

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
<b>Change in benefit obligation:</b>			
Benefit obligation at beginning of period	\$ 19,672	\$ 18,605	\$ 19,304
Interest cost	831	841	798
Benefits paid	(548)	(496)	(451)
Change in plan provisions	--	--	--
Actuarial loss (gain)	674	722	(1,046)
Benefit obligation end of period	<u>\$ 20,629</u>	<u>\$ 19,672</u>	<u>\$ 18,605</u>
<b>Change in plan assets</b>			
Fair value of plan assets at beginning of period	\$ 19,871	\$ 18,526	\$ 18,134
Actual return on plan assets	3,212	1,141	78
Employer contribution	700	700	765
Benefits paid	(548)	(496)	(451)
Fair value of plan assets at end of period	<u>\$ 23,235</u>	<u>\$ 19,871</u>	<u>\$ 18,526</u>
<b>Funded status</b>	<u>\$ 2,606</u>	<u>\$ 199</u>	<u>\$ (79)</u>
<b>Amounts recognized in statement of financial position:</b>			
Non-current assets	\$ 2,606	\$ 199	\$ --
Non-current liabilities	--	--	(79)
Net amount recognized	<u>\$ 2,606</u>	<u>\$ 199</u>	<u>\$ (79)</u>
<b>Weighted average assumptions used</b>			
Discount rate	3.70%	4.30%	4.60%
Rate of compensation increases	N/A	N/A	N/A

The following benefit payments are expected to be paid in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter (in thousands):

Fiscal Year	Other Benefits
2018	\$ 764
2019	850
2020	935
2021	998
2022	1,058
2023-2027	\$ 5,865

The Plan's assets measured at fair value on a recurring basis consisted of the following as of December 31, 2017:

	Level 1	Level 2	Level 3
Investments in mutual funds	\$ --	\$ 23,235	\$ --
Total plan assets at fair value	\$ --	\$ 23,235	\$ --

The Plan's assets measured at fair value on a recurring basis consisted of the following as of December 31, 2016:

	Level 1	Level 2	Level 3
Investments in mutual funds	\$ --	\$ 19,871	\$ --
Total plan assets at fair value	\$ --	\$ 19,871	\$ --

The Company's pension plan weighted average asset allocations at December 31, 2017 by asset category are as follows:

Asset Category:	December 31, 2017	Target allocation 2018
Equity securities	61%	60%
Debt securities	39%	40%
Total	100%	100%

The Company's primary policy goals regarding plan assets are cost-effective diversification of plan assets, competitive returns on investment, and preservation of capital. Plan assets are currently invested in mutual funds with various debt and equity investment objectives. The target asset allocation for the plan assets is 40% debt, or fixed income securities, and 60% equity securities. Individual funds are evaluated periodically based on comparisons to benchmark indices and peer group funds and investment decisions are made in accordance with the policy goals. Actual allocation to each asset category fluctuate and may not be within the target specified above due to changes in market conditions.

The estimated expected return on assets of the plan is based on assumptions derived from, among other things, the historical return on assets of the plan, the current and expected investment allocation of assets held by the plan and the current and expected future rates of return in the debt and equity markets for investments held by the plan. The obligations under the plan could differ from the obligation currently recorded if management's estimates are not consistent with actual investment performance.

## Note 8: Stockholders' Equity

### *Common Stock*

As of December 31, 2017, the Company had 1,000 authorized shares.

The number of outstanding shares of the Company's common stock at December 31, 2017 was 100, all of which are owned by Tower US Holdings Inc.

### *Equity Incentive Plans*

**Tower's 2013 Share Incentive Plan (the "2013 Plan")** - In 2013, the Company adopted a share incentive plan for directors, officers and employees of the Company. Options to be granted under the plan will bear an exercise price which equals an average of the closing market price of Tower's ordinary shares in the thirty trading days immediately prior to the date of grant, provided that the exercise price will not be lower than the nominal value of the Tower's ordinary shares. Options under said plan shall vest over up to a three year period and are not exercisable beyond seven years from the grant date.

Under the 2013 plan, in 2017 and in 2016 the Company granted 106,095 and 10,000 Restricted Stock Units

("RSU"), respectively, to its employees vesting over up to a three year period. The Company measures compensation expense for the RSUs based on the closing market price of Tower's ordinary shares immediately prior to the date of grant, expensing it through the applicable vesting period.

As of December 31, 2017, 169,296 non-qualified stock options and 209,395 RSU's were outstanding under the 2013 plan. As of December 31, 2016, 351,446 non-qualified stock options and 218,200 RSU's were outstanding under the 2013 plan. Further grants may be approved by the board of directors of Tower.

**Tower's Old Share Incentive Plan (the "Old Plan")** - Pursuant to the merger with Tower in 2008, the Company's outstanding options, immediately prior to the effective time of the merger, were converted to options to purchase Tower's ordinary shares on the same terms and conditions as were applicable to such options under the predecessor Company's plan with adjusted exercise prices and quantity of shares to reflect the exchange ratio of the stock. As of December 31, 2017 and 2016, 18,013 and 100,692 options, respectively were outstanding under the Old Plan.

Stock-based compensation expense was recognized in the following line items in the statement of operations (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Component of income before provision for income taxes:			
Cost of revenue	\$ 735	\$ 895	\$ 766
Research and development, net	522	746	743
Selling, general and administrative	49	91	82
Stock-based compensation expense	<u>\$ 1,306</u>	<u>\$ 1,732</u>	<u>\$ 1,591</u>

The following tables summarize the share incentive plan's activity:

**Share options awards:**

	2017		2016		2015	
	Number of share options (in thousands)	Weighted average exercise price	Number of share options (in thousands)	Weighted average exercise price	Number of share options (in thousands)	Weighted average exercise price
Outstanding as of beginning of year	452	\$ 9.11	910	\$ 7.28	1,130	\$ 6.89
Granted	--	--	--	--	--	--
Exercised	(221)	9.22	(442)	5.45	(196)	4.96
Terminated	(38)	26.40	(1)	4.35	--	--
Forfeited	(6)	6.63	(15)	5.76	(24)	8.21
Outstanding as of end of year	<u>187</u>	<u>5.57</u>	<u>452</u>	<u>9.11</u>	<u>910</u>	<u>7.28</u>
Options exercisable as of end of year	<u>187</u>	<u>\$ 5.57</u>	<u>390</u>	<u>\$ 8.83</u>	<u>385</u>	<u>\$ 9.00</u>

**RSU awards:**

	2017		2016		2015	
	Number of RSU (in thousands)	Weighted average Fair Value	Number of RSU (in thousands)	Weighted average Fair Value	Number of RSU (in thousands)	Weighted average Fair Value
Outstanding as of beginning of year	218	\$ 15.03	213	\$ 15.15	--	\$ --
Granted	106	26.25	10	12.47	214	15.15
Exercised	(103)	15.15	--	--	--	--
Forfeited	(12)	14.67	(5)	15.15	(1)	15.15
Outstanding as of end of year	<u>209</u>	<u>20.67</u>	<u>218</u>	<u>15.03</u>	<u>213</u>	<u>15.15</u>
RSU's exercisable as of end of year	<u>--</u>	<u>\$ --</u>	<u>--</u>	<u>\$ --</u>	<u>--</u>	<u>\$ --</u>



The following tables summarize information about employees' share options outstanding and exercisable as of December 31, 2017:

Outstanding as of December 31, 2017				Exercisable as of December 31, 2017		
Range of exercise prices	Number outstanding (in thousands)	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number outstanding (in thousands)	Weighted average exercise price	
\$ 4.42-21.30	187	2.64	\$ 5.57	187	\$ 5.57	

The following table summarizes key data points for exercised options (in thousands):

	Year Ended December 31,		
	2017	2016	2015
The intrinsic value of options exercised	\$ 4,067	\$ 4,905	\$ 2,080
The tax benefit realized from stock options exercised	1,430	1,772	776
The fair value of options exercised	\$ 831	\$ 1,123	\$ 492

The following table summarizes key data points for exercised RSU's (in thousands):

	Year Ended December 31,		
	2017	2016	2015
The intrinsic value of RSU's exercised	\$ 2,295	\$ --	\$ --
The tax benefit realized from RSU's exercised	804	--	--
The fair value of RSU's exercised	\$ 1,599	\$ --	\$ --

#### Note 9: Related Party Transactions

	December 31, 2017	December 31, 2016
Due from related parties (included in the accompanying balance sheets)	\$ 21,443	\$ 22,045
Less: Due to related parties (included in the accompanying balance sheets)	(12,431)	(13,689)
Net balance due from (to) related parties	\$ 9,012	\$ 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 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 10: Segment and Geographic Information

ASC Topic 280 "Segment Reporting", requires the determination of reportable business segments (i.e., the management approach). This approach requires that business segment information used by the chief operating decision maker to assess performance and manage company resources be the source for segment information disclosure. The Company operates in one business segment: the manufacturing of semiconductor wafers and related technical services and support.

Revenues are derived principally from customers located within the United States.

Long-lived assets consisting of property, plant and equipment are primarily located within the United States.

#### Note 11: 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 consolidated statements of operations. The Company and the landlord have amended the lease to set forth certain obligations of the Company and the landlord, including certain noise abatement actions at the fabrication facility. The landlord has made claims 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.

Aggregate rental expense under operating leases was approximately \$2.8 million, \$2.8 million and \$3.0 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Future minimum payments under non-cancelable building operating leases are approximately \$2.8 million for each of the years 2018 through 2019, approximately \$2.4 million for each of the years 2020 through 2021 and approximately \$0.5 million thereafter.

### ***Environmental Matters***

The Company's operations are regulated under a number of federal, state and local environmental laws and regulations, which govern, among other things, the discharge of hazardous materials into the air and water as well as the handling, storage and disposal of such materials. Compliance with environmental law is a major consideration for all semiconductor manufacturers because hazardous materials are used in the manufacturing process. In addition, because the Company is a generator of hazardous waste, the Company, along with any other person with whom it arranges for the disposal of such waste, may be subject to potential financial exposure for costs associated with an investigation and remediation of sites at which it has arranged for the disposal of hazardous waste, if such sites become contaminated. This is true even if the Company fully complies with applicable environmental laws. In addition, it is possible that in the future, new or more stringent requirements could be imposed. Management believes it has materially complied with all material environmental laws and regulations. There have been no material claims asserted nor is management aware of any material unasserted claims for environmental matters.

### ***Indemnification***

The Company has entered into contracts with certain customers in which the Company provides certain indemnification to the customer in the event of claims of patent or other intellectual property infringement that arise from the Company's manufacturing process. The Company has not recorded a liability for potential obligations under these indemnification provisions and would not record such a liability unless the Company believed that the likelihood of a material obligation was probable and estimable.

### **Note 12: Valuation Account**

The Company recorded an allowance for doubtful accounts of approximately \$48 thousands and \$0 as of December 31, 2017 and December 31, 2016, respectively.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

### **Item 9A. Controls and Procedures**

#### **Evaluation of 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.

#### **Management’s Annual Report on Internal Control Over Financial Reporting**

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting. A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

The Company’s management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in Internal Control - Integrated Framework (2013). Based on its assessment using those criteria, management concluded that, as of December 31, 2017, the Company’s internal control over financial reporting is effective.

#### **Changes in internal controls 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.

### **Item 9B. Other Information**

Not Applicable.