

# **Tower Semiconductor Announces Record Sales of \$51.5M for Third Quarter 2006**

## **Third sequential quarter of record sales, a 2.5 times year to year increase Q3'06 vs Q3'05 with further growth guided for Q4'06**

MIGDAL HAEMEK, Israel — November 7, 2006 — Tower Semiconductor Ltd. (NASDAQ: TSEM; TASE: TSEM), a pure-play independent specialty foundry, today announced third quarter 2006 results.

### **Highlights:**

- Achieved record sales of \$51.5 million, a 2.5X year to year increase, as compared with third quarter 2005
- Achieved fourth consecutive quarter of positive EBITDA and EBITDA growth
- Announced expansion of 0.13-micron manufacturing capacity with volume production purchase commitment by SanDisk Corporation
- Signed long-term foundry agreement with International Rectifier for volume manufacturing
- Selected by Atheros Communications to produce its latest RF on standard digital CMOS, wireless LAN 802.11g chip
- Announced image sensor volume agreement with SuperPix, Tower's first volume agreement in China.

The Company reported total sales of \$51.5 million, representing a 2.5 times increase as compared with the \$20.6 million reported in the third quarter of 2005 and an increase of 15% over the \$44.6 million reported in the second quarter of 2006. The 2006 third quarter net income was \$39.5 million, or \$0.46 per share, which included a one-time gain of \$80.1 million, resulting from the recently announced closing of the bank restructuring deal, and depreciation and amortization expenses of \$38.2 million. Loss for the third quarter of 2006, excluding the above described one-time gain of \$80.1 million, would have been \$40.6 million, or (\$0.48) per shares, including depreciation and amortization expenses of \$38.2 million, as compared with loss for the third quarter of 2005 which was \$55.4 million, or (\$0.83) per share, including \$36.9 million depreciation and amortization expenses.

"We continue to execute on our business plan, as represented by achieving a significant milestone of higher than \$50 million in quarterly sales", said Russell Ellwanger, chief executive officer, Tower Semiconductor. "We are encouraged that our business model and diversified customer base has enabled us to guide for continued growth for the fourth quarter of 2006. Building upon the several major agreements signed and announced during the third quarter, we are optimistic about further growth throughout 2007."

### **Business Outlook:**

Tower expects continued growth in the fourth quarter of 2006 and forecasts sales of \$53 to \$57 million.

### **Third Quarter 2006 Financial Results Conference Call and Web Cast**

Tower will host a conference call to discuss these results on Tuesday, November 7, 2006, at 11:00 a.m. Eastern Daylight Time / 6 p.m. Israel time. To participate, please call: 1-866-527-8676 (U.S. toll-free number) or 972-3-918-0609

(international) and mention ID code: TOWER. Callers in Israel are invited to call locally 03-918-0609. The conference call will also be web cast live at <http://www.earnings.com> and at [www.towersemi.com](http://www.towersemi.com) and will be available thereafter on both websites for replay for 90 days, starting at 2:00 p.m. Eastern Daylight Time on the day of the call.

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As used in this release, the term EBITDA consists of loss, according to GAAP (Generally Accepted Accounting Principles), excluding interest and financing expenses (net), tax and depreciation and amortization expenses. EBITDA is not a required GAAP financial measure and may not be comparable to a similarly titled measure employed by other companies. EBITDA should not be considered in isolation or as a substitute for operating income, net income or loss, cash flows provided by operating, investing and financing activities, or other income or cash flow statement data prepared in accordance with GAAP.

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**About Tower Semiconductor Ltd.**

Tower Semiconductor Ltd. is a pure-play independent specialty wafer foundry established in 1993. The company manufactures integrated circuits with geometries ranging from 1.0 to 0.13-micron; it also provides complementary technical services and design support. In addition to digital CMOS process technology, Tower offers advanced non-volatile memory solutions, mixed-signal & RF-CMOS, and CMOS image-sensor technologies. To provide world-class customer service, the company maintains two manufacturing facilities: Fab 1 has process technologies from 1.0 to 0.35 micron and can produce up to 16,000 150mm wafers per month. Fab 2 features 0.18 and 0.13-micron, standard and specialized process technologies, and has the current capacity of up to 15,000 200mm wafers per month. Tower's Web site is located at <http://www.towersemi.com>.

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**Safe Harbor**

This press release includes forward-looking statements, which are subject to risks and uncertainties. Actual results may vary from those projected or implied by such forward-looking statements. Potential risks and uncertainties include, without limitation, risks and uncertainties associated with: (i) the completion of the equipment installation, technology transfer and ramp-up of production in Fab 2, (ii) having sufficient funds to operate the company in the short-term and raising the funds required to implement the current ramp up plan and complete Fab 2, (iii) the cyclical nature of the semiconductor industry and the resulting periodic overcapacity, fluctuations in operating results, future average selling price erosion that may be more severe than our expectations, (iv) operating our facilities at satisfactory utilization rates which is critical in order to cover the high

level of fixed costs associated with operating a foundry, (v) our ability to satisfy certain of the covenants stipulated in our amended facility agreement, (vi) our ability to capitalize on increases in demand for foundry services, (vii) meeting the conditions to receive Israeli government grants and tax benefits approved for Fab 2 and obtaining the approval of the Israeli Investment Center for a new expansion program, (viii) attracting additional customers, (ix) not receiving orders from our wafer partners, customers and technology providers, (x) failing to maintain and develop our technology processes and services, (xi) competing effectively, (xii) our large amount of debt and our ability to repay our debt on a timely basis, (xiii) achieving acceptable device yields, product performance and delivery times, (xiv) the timely development, internal qualification and customer acceptance of new processes and products and (xv) business interruption due to terror attacks, including the current effect of the military situation, earthquakes, and other acts of God.

A more complete discussion of risks and uncertainties that may affect the accuracy of forward-looking statements included in this press release or which may otherwise affect our business is included under the heading "Risk Factors" in our most recent filings on Forms 20-F, F-1, F-3 and 6-K, as were filed with the Securities and Exchange Commission and the Israel Securities Authority. Future results may differ materially from those previously reported. We do not intend to update, and expressly disclaim any obligation to update, the information contained in this release.

**TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(dollars in thousands)

	<b>September 30,</b>	<b>December 31,</b>
	<b>2006</b>	<b>2005</b>
<b>A S S E T S</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 61,746	\$ 7,337
Designated cash and short-term interest-bearing deposits	--	31,661
Trade accounts receivable	25,636	16,776
Other receivables	12,807	9,043
Inventories	38,519	24,376
Other current assets	1,737	1,048
Total current assets	140,445	90,241
PROPERTY AND EQUIPMENT, NET	522,018	510,645
OTHER ASSETS, NET	50,748	77,800
<b>TOTAL ASSETS</b>	<b>\$ 713,211</b>	<b>\$ 678,686</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ --	\$ 21,103
Current maturities of convertible debentures	6,522	6,453
Trade accounts payable	59,687	59,741
Other current liabilities	15,354	8,972
Total current liabilities	81,563	96,269
LONG-TERM DEBT	355,138	497,000
CONVERTIBLE DEBENTURES	61,657	19,358
LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES	50,004	59,621
OTHER LONG-TERM LIABILITIES	15,547	11,012
Total liabilities	563,909	683,260
CONVERTIBLE DEBENTURES	--	25,493
SHAREHOLDERS' EQUITY (DEFICIT)	149,302	(30,067)
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 713,211</b>	<b>\$ 678,686</b>

**TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(dollars in thousands, except share data and per share data)

	Nine months ended September 30,		Three months ended September 30,	
	2006	2005	2006	2005
<b>REVENUES</b>				
Sales	\$ 131,933	\$ 62,928	\$ 51,503	\$ 20,553
Revenues related to a joint development agreement	--	8,000	--	--
	<u>131,933</u>	<u>70,928</u>	<u>51,503</u>	<u>20,553</u>
<b>COST OF SALES</b>	<u>194,666</u>	<u>179,598</u>	<u>68,244</u>	<u>57,130</u>
<b>GROSS LOSS</b>	.....(62,733)	.....(108,670)	.....(16,741)	.....(36,577)
<b>OPERATING COSTS AND EXPENSES</b>				
Research and development	11,107	12,849	4,179	4,200
Marketing, general and administrative	<u>18,106</u>	<u>13,481</u>	<u>7,308</u>	<u>4,715</u>
	<u>29,213</u>	<u>26,330</u>	<u>11,487</u>	<u>8,915</u>
<b>OPERATING LOSS</b>	(91,946)	(135,000)	(28,228)	(45,492)
<b>FINANCING EXPENSE, NET</b>	(37,957)	(25,428)	(12,382)	(9,900)
<b>GAIN ON DEBT RESTRUCTURING</b>	80,071	--	80,071	--
<b>OTHER INCOME, NET</b>	<u>597</u>	<u>2,518</u>	<u>6</u>	<u>42</u>
<b>INCOME (LOSS) FOR THE PERIOD</b>	<u>\$ (49,235)</u>	<u>\$ (157,910)</u>	<u>\$ 39,467</u>	<u>\$ (55,350)</u>
<b>BASIC EARNING (LOSS) PER ORDINARY SHARE</b>				
Earning (loss) per share (*)	<u>\$ (0.63)</u>	<u>\$ (2.39)</u>	<u>\$ 0.46</u>	<u>\$ (0.83)</u>
Income (loss) used to compute basic earning (loss) per share	<u>(49,235)</u>	<u>(157,910)</u>	<u>39,467</u>	<u>(55,350)</u>
Weighted average number of ordinary shares outstanding - in thousands	<u>78,607</u>	<u>66,190</u>	<u>85,087</u>	<u>66,671</u>
<b>DILUTED EARNING (LOSS) PER ORDINARY SHARE</b>				
Earning (loss) per share (*)	<u>\$ (0.63)</u>	<u>\$ (2.39)</u>	<u>\$ 0.30</u>	<u>\$ (0.83)</u>
Income (loss) used to compute diluted earning (loss) per share	<u>(49,235)</u>	<u>(157,910)</u>	<u>41,433</u>	<u>(55,350)</u>
Weighted average number of ordinary shares outstanding - in thousands	<u>78,607</u>	<u>66,190</u>	<u>139,214</u>	<u>66,671</u>

(\*) Basic and diluted loss per share in accordance with U.S. GAAP for the nine and three months periods ended September 30, 2006 are \$1.67 and \$0.52, respectively, and are the same as the Isr. GAAP data for the nine and three months periods ended September 30, 2005.