As filed with the Securities and Exchange Commission on December 8 , 2005

Registration No. 333-126909

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 5
ON FORM F-1
TO
FORM F-2

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

TOWER SEMICONDUCTOR LTD.

(Exact name of Registrant as specified in its charter)

Israel	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

P.O. Box 619
Migdal Haemek, Israel, 23105
972-4-650-6611
(Address and telephone number of Registrant's principal executive offices)

Tower Semiconductor USA
4300 Stevens Creek Blvd., Suite 175
San Jose, California 95129
Tel: 408-551-6500
Facsimile: 408-551-6509
(Name, address and telephone number of agent for service)

Copies of all Correspondence to:

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SHELDON KRAUSE, ESQ.
Eilenberg & Krause LLP
11 East 44th Street
New York, NY 10017
Tel: 212-986-9700

Approximate date of commencement of proposed sale to the public**:** From time to time after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box: x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

Calculation of Registration Fee

Title of Class of Securities to be Registered	**Amount to be Registered(1)**	**Proposed Maximum Offering Price Per Unit**	**Proposed Maximum Aggregate Offering Price(1)(2)**	**Amount of Registration Fee (3)**
Rights to purchase convertible debentures, convertible debentures and ordinary shares issuable upon conversion of convertible debentures			$18,645,000.00	$2,194.52

(1) Pursuant to Rule 416 under the Securities Act of 1933, this registration statement also includes an indeterminate number of shares that may be issued upon conversion of the convertible debentures under the terms thereof. No additional consideration will be received for any shares of common stock issued upon conversion of the convertible notes, and therefore no registration fee is required pursuant to Rule 457(i) of the Securities Act of 1933.

(2) Estimated solely for the purpose of calculating the registration fee, which is calculated in accordance with Rule 457(o) of the rules and regulations under the Securities Act of 1933. The dollar value of the securities being registered represents the proposed maximum aggregate offering price of the convertible debentures obtainable upon exercise of all the rights being offered to the registrant's shareholders and eligible option holders other than Israel Corp., SanDisk Corporation, Alliance Semiconductor Corporation, Macronix International Co. Ltd. and Quicklogic Corporation. In no event will the aggregate maximum offering price of all securities issued pursuant to this Registration Statement exceed $18,645,000.

(3) Previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

PROSPECTUS

Preliminary Prospectus
Subject to Completion, Dated December 8 , 2005

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

DISTRIBUTION OF RIGHTS TO PURCHASE DEBENTURES CONVERTIBLE INTO ORDINARY SHARES

We are distributing transferable rights to purchase up to $50 million of U.S. dollar denominated debentures that are convertible into up to 44,247,787 of our ordinary shares to those persons that, as of 5:00 p.m., New York City time (midnight, Israel time) on the record date of _____, 2005 (four Nasdaq trading days after the date of this prospectus) were either shareholders of our company or eligible employees holding options to purchase our ordinary shares under our share option plans that entitle option holders to participate in a rights offering. You will receive one right for each 138.98 ordinary shares and/or eligible employee options that you hold on the record date. If you hold 138 or fewer ordinary shares and/or eligible options on the record date, you will not receive any rights. Your rights will be aggregated for all the shares (and/or eligible employee options, as the case may be) that you own on the record date and then rounded down to the nearest whole number, so that you will not receive fractional rights. For example, if you own 139 shares on the record date, you will receive one right, and if you own 100,000 shares on the record date, you will receive 719 rights. Each right will entitle you to purchase, at a subscription price of $100.00, 100 U.S. dollar denominated debentures. The debentures will be convertible into our ordinary shares at a rate of one ordinary share per $1.13 aggregate principal amount of debentures. Each debenture is of $1.00 in principal amount, and bears annual interest at the rate of 5%. Principal, together with accrued interest, is payable in one installment on _____, 2011. The rights are exercisable during a 23-day period, beginning after 5:00 p.m., New York City time (midnight, Israel time) on _____ __, 2005 (the record date) and ending on _____ __, 2005 at 5:00 p.m., New York City time (midnight, Israel time)

The payment of the principal of and interest on the debentures is subordinated to the prior payment of all amounts payable by us to Bank Hapoalim B.M. and Bank Leumi Le-Israel Ltd. under our credit facility agreement with them. The debentures are also effectively subordinated to amounts which we might owe to the Investment Center of the Israeli Ministry of Industry, Trade and Labor and to Siliconix Technology C.V., one of our customers.

Commencing on the first trading day on the Tel Aviv Stock Exchange after the date on which the debentures are listed for trading on the Tel Aviv Stock Exchange and until _____ __, 2011, the debentures are convertible into our ordinary shares at a conversion price of one ordinary share per $1.13 aggregate principal amount of debentures. The conversion price is subject to adjustment and the debentures will be subject to mandatory redemption by us in certain circumstances. For a detailed description of the debentures, see "Description of the Debentures."

Four of our major shareholders – Israel Corp., SanDisk Corporation, Alliance Semiconductor Corporation and Macronix International Co. Ltd. – have committed and are obligated to purchase an aggregate of $25.5 million of the $50 million principal amount of convertible debentures issuable upon exercise of the rights being distributed. The rights to be distributed to these major shareholders and to Quicklogic Corporation, the convertible debentures issuable upon exercise of such rights and our ordinary shares issuable upon the conversion of such debentures are not covered by the registration statement filed with the Securities and Exchange Commission of which this prospectus is a part, and are being issued in transactions pursuant to an exemption from the registration requirements of the Securities Act of 1933. These securities will be restricted securities and will not be transferable absent registration or an applicable exemption. We have agreed to register the resale of such securities by these major shareholders following the effective date of the registration statement of which this prospectus is a part.

Our ordinary shares trade on the NASDAQ National Market under the symbol "TSEM" and on the Tel Aviv Stock Exchange in Israel under the symbol "TSEM." The debentures will be listed on the NASDAQ Capital Market under the symbol "TSEMG" and the Tel Aviv Stock Exchange under the symbol "TSEM.C2" and may be identified on the Tel Aviv Stock Exchange as Debentures (Series B). On December 7, 2005, the last reported sale price of our ordinary shares on the NASDAQ National Market was $1.62 per share and on the Tel Aviv Stock Exchange was NIS 7.695 per share.

The rights are transferable and will be listed for trading for a single day on the NASDAQ Capital Market under the symbol "TSEMR" and on the Tel Aviv Stock Exchange under the symbol "TSEM.R2". The trading day will be _____ __, 2005 (21 days after the record date). If you hold your rights through an Israeli brokerage company that holds the rights through the nominee company of the Tel Aviv Stock Exchange, you will be considered to have instructed your broker to sell all your rights on the Tel Aviv Stock Exchange with no price limit, if you fail to give your broker instructions regarding the exercise, non-exercise or sale of the rights prior to _____ __, 2005 (21 days after the record date).

The offering is not secured by an underwriting commitment.

This is a preliminary prospectus and is subject to change. As such, all pricing terms, including the aggregate principal amount of the convertible debentures, the rate of interest and the conversion price are subject to change.

The securities offered hereby involve a high degree of risk. See "Risk Factors" beginning on page 10.

None of the U.S. Securities and Exchange Commission, the Israeli Securities Authority or any state securities commission have approved or disapproved of these securities or passed upon the adequacy, completeness or accuracy of this prospectus. Any representation to the contrary is a criminal offense under the laws of the United States and the laws of the State of Israel.

The date of this prospectus is _____ __, 2005

TABLE OF CONTENTS

References to "Israel Corporation" or "Israel Corp." include its wholly-owned subsidiary Israel Corporation Technologies (ICTech) Ltd. ("ICTech").

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SUMMARY

This section answers in summary form some questions you may have about us and this rights offering. You should read the entire prospectus carefully.

QUESTIONS AND ANSWERS ABOUT TOWER SEMICONDUCTOR LTD.

What do we do?

We are a pure-play independent wafer foundry dedicated to the manufacture of semiconductors, strategically focused on embedded non-volatile memory, complementary metal oxide semiconductor (CMOS) image sensor, mixed signal and radio frequency CMOS (RFCMOS) technologies. 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 using advanced production processes for our customers primarily based on third party designs and our own proprietary designs. We currently offer the manufacture of ICs with geometries ranging from 1.0 to 0.18-micron, while our 0.13-micron technology is expected to be ready for production by the end of 2005. We also provide complementary technical services and design support. ICs manufactured by us are incorporated into a wide range of products in diverse markets, including consumer electronics, personal computers, communications, automotive, industrial and medical device products.

In January 2001, we commenced construction of a new, state-of-the-art wafer fabrication facility, which we refer to as Fab 2, located in Migdal Haemek, Israel and adjacent to our first facility, Fab 1. Depending on the process technology and product mix, as of September 30, 2005, Fab 1 is able to achieve capacity levels of approximately 16,000 wafers per month. In 2003, we completed the infrastructure of Fab 2 and commenced production wafer shipments from this Fab. Fab 2 is designed to operate in geometries of 0.18-micron and below, using advanced materials and advanced CMOS technology licensed from Freescale and Toshiba and other technologies that we developed and will develop independently or with development partners. Production capacity at the end of September 2005 was 14,600 wafers per month. We currently expect to have production capacity of 15,400 wafers per month by the end of 2005, of which approximately 800

wafers per month are expected to be in 0.13-micron. Depending on the process technology and product mix, when fully ramped-up we estimate that Fab 2 will be able to achieve capacity levels of up to 36,000 wafers per month.

Manufacturing or production capacity refers to installed equipment capacity in our facilities and is a function of the process technology and product mix being manufactured because certain processes require more processing steps than others. All information herein with respect to the wafer capacity of our manufacturing facilities is based upon our estimate of the effectiveness of the manufacturing equipment and processes in use or expected to be in use during a period and the actual or expected process technology mix for such period. Unless otherwise specifically stated, all references herein to "wafers" in the context of capacity in Fab 1 are to 150-mm wafers and in Fab 2 are to 200-mm wafers.

Where are we located?

Our manufacturing facilities and executive offices are located in the Ramat Gavriel Industrial Park, Post Office Box 619, Migdal Haemek, 23105 Israel, and our telephone number is 972-4-650-6611.

Where can you find more information about us?

Additional information about us and our operations may be found at our web site: www.towersemi.com. Information on our website is not incorporated by reference in this prospectus.

QUESTIONS AND ANSWERS ABOUT THE RIGHTS OFFERING

What is an offering of rights to purchase convertible debentures?

An offering of rights to purchase convertible debentures is an opportunity for our shareholders to purchase debentures convertible into our ordinary shares in an amount proportional to each shareholder's existing interest in our ordinary shares. We are also distributing rights to our eligible employees who hold options under our share option plans that entitle option holders to participate in this offering.

What securities may be purchased under each right?

Each right entitles the holder to purchase, at a price of $100.00, one hundred U.S. dollar denominated debentures. Each debenture is of $1.00 in principal amount. The debentures will be convertible into our ordinary shares at a rate of one ordinary share per $1.13 aggregate principal amount of debentures.

How many rights will you receive?

Each person who, at the close of business at 5:00 p.m., New York City time (midnight, Israel time), on _____ __, 2005 (the record date), owns our ordinary shares and/or options under our employee share option plans that entitle option holders to participate in this offering will receive, at no charge, one right for each 138.98 ordinary shares and/or eligible options owned on the record date. The 138.98 ratio was derived by dividing the sum of the total number of our issued and outstanding ordinary shares and the number of options that entitle their holders to participate in the rights offering by the dollar amount being offered in the rights offering, multiplied by the subscription price. If you hold 138 or fewer ordinary shares and/or eligible options on the record date, you will not receive any rights. Your rights will be aggregated for all the shares (and/or eligible employee options, as the case may be) that you own on the record date and then rounded down to the nearest whole number, so that you will not receive fractional rights. For example, if you own 139 shares on the record date, you will receive one right, and if you own 100,000 shares on the record date, you will receive 719 rights. When you exercise a right, you choose to purchase the number of debentures that the right entitles you to purchase.

How many securities are being offered upon exercise of the rights?

One right entitles its holder to purchase, at a price of $100.00, one hundred debentures convertible into our ordinary shares. Each debenture is of $1.00 in principal amount. The debentures will be convertible into our ordinary shares at a rate of one ordinary share per $1.13 aggregate principal amount of debentures. When you exercise a right, you choose to purchase the number of debentures that the right entitles you to purchase. You may exercise all of your rights or a portion of your total rights, or you may choose not to exercise any of your rights. In addition, you may sell the rights on either the NASDAQ Capital Market or the Tel Aviv Stock Exchange, during one single trading day, on _____, 2005 (21 days after the record date). You may pay us the subscription price either in U.S. dollars, or if you are an Israeli resident, in New Israeli Shekels according to the U.S. dollar/NIS representative exchange rate published by the Bank of Israel on the day before payment of the subscription price.

How will principal and interest be paid?

The debentures will bear interest at the rate per annum of 5%. Principal of the debentures is payable, together with accrued interest, in one installment on _____, 2011. On _____, 2011, the cumulative interest rate on the debentures will be 34.0096%. Instruments representing the debentures will be issued in denominations of $1.00 and integral multiples thereof.

Interest will initially accrue from the date following the last day rights may be exercised (_____, 2005), and will be computed on the basis of a 365-day year.

Accrued interest will not be payable upon conversion of the debentures into our ordinary shares and you will lose your right to any accrued interest upon conversion of the debentures into our ordinary shares.

The payment of interest on and principal of the debentures may be postponed (with interest continuing to accrue at the rate of 5% per annum) under the terms of our bank credit facility agreement (See "Description of the Debentures – Subordination of Debentures").

How may the debentures be converted?

Commencing on the first Tel Aviv Stock Exchange trading day after the date on which the debentures are listed for trading on the Tel Aviv Stock Exchange and until _____ __, 2011 (inclusive) (16 days prior to the maturity date of the debentures, but if such date is not a trading day on the Tel Aviv Stock Exchange, then the last date to convert the debentures will be the first trading day on the Tel Aviv Stock Exchange after such date), the debentures are convertible into our ordinary shares at a conversion price of one ordinary share per $1.13 aggregate principal amount of debentures. We will not issue fractional shares upon conversion of the debentures. We will round down the number of shares issuable upon conversion of the debentures to the nearest whole number and will not pay any cash adjustment in lieu of fractional shares.

Under what circumstances will I not be able to convert the debentures?

The debentures will no longer be convertible under the circumstances described under “Description of the Debentures - Conversion of Debentures - Election Not to Adjust Conversion Price Following a Future Financing”.

Could the conversion price be adjusted and under what circumstances?

Yes. The conversion price will be adjusted if either of the two scenarios described under “Description of the Debentures – Conversion of Debentures – Adjustment to Conversion Price Following a Future Financing” occurs. We may, in certain circumstances, elect not to make an otherwise required adjustment to the conversion price, in which event the debentures would be subject to redemption by us under certain circumstances as described under “Description of the Debentures - Early Redemption of Debentures - Mandatory Redemption by the Company”.

The conversion price is also subject to customary adjustments following certain events such as the issuance of our capital stock as a dividend (bonus shares), subdivisions, combinations and reclassifications of our ordinary shares and future rights offerings.

Must I convert the debentures I hold into ordinary shares?

No. However, accrued interest will not be payable by us upon the conversion of the debentures into our ordinary shares and you will lose your right to any accrued interest upon conversion of the debentures into our ordinary shares.

Can the debentures be mandatorily redeemed prior to their maturity date?

Yes. We will redeem all of the outstanding debentures under the conditions described under “Description of the Debentures - Early Redemption of Debentures - Mandatory Redemption by the Company”. In addition, we may at our option announce the early redemption of the debentures or part thereof, subject to the conditions described under “Description of the Debentures – Optional Early Redemption of Debentures - Early Redemption at the Discretion of the Company.”

Will the debentures be listed for trading?

Yes. The debentures will be listed on the NASDAQ Capital Market under the symbol “TSEMG” and the Tel Aviv Stock Exchange under the symbol “TSEM.C2” and may be identified on the Tel Aviv Stock Exchange as Debentures (Series B).

Are the debentures subordinated to our current indebtedness?

Yes. The payment of the principal of and interest on the debentures is subordinated to the prior payment of all amounts payable by us to Bank Hapoalim B.M and Bank Leumi Le-Israel Ltd. under our credit facility agreement with them. Our indebtedness to our banks was $510.4 million as of September 30, 2005, and $518.1 million as of October 31, 2005. Payment of the principal and interest on the debentures is also effectively subordinated to our current and potential obligations to two secured creditors: the Investment Center of the Israeli Ministry of Industry, Trade and Labor, to whom we may have obligations related to $156.7 million in grants received through September 30, 2005 under the “Approved Enterprise” program, and Siliconix Technology C.V., one of our customers, which has a first ranking charge on a bank account into which Siliconix deposited in 2004, $20 million for the purchase of equipment and other expenses in connection with the performance of our obligations under our agreement with Siliconix (of which as of September 30, 2005, there is a balance of approximately $10 million) and over the equipment which has been or which may be subsequently purchased with such funds. As a result, upon any distribution to our creditors in liquidation or reorganization or similar proceedings, these senior and secured creditors will be entitled to be paid in full before any payment may be made with respect to the debentures. There may not be sufficient assets remaining to pay amounts due on any or all of the debentures then outstanding. In addition, if on a payment date of principal or interest on the debentures there exists an “Event of Default” under the facility agreement, the dates for payment of interest and principal on the debentures may be postponed, depending on various scenarios under the facility agreement. If, in such event, we reach an agreement with the banks (with respect to rescheduling our debt to the banks), the debenture holders may be bound thereby. The terms of the Indenture permit the Co-Trustees to initiate legal proceedings against us only in a limited number of cases, and always provided that advance notice is given to us and to the banks. (See “Description of the Debentures – Subordination of Debentures”).

Although we are limited by the covenants in the facility agreement, we could enter into certain transactions that would increase the amount of our outstanding senior indebtedness. It is possible that all or part of these borrowings would be senior to the debentures.

Why are we engaging in a rights offering?

In July 2005, we entered into an amendment to the credit facility agreement with our banks. The amendment provides, among other things, for financing from our banks in the amount of up to an additional approximately $30 million under our credit facility agreement, subject to a similar amount being raised by us from investors through the issuance of shares or convertible debentures. Our four major shareholders have committed to invest an aggregate of $25.5 million in a rights offering towards this funding requirement through the purchase of debentures convertible into our ordinary shares. We are engaging in this rights offering in order to afford all of our shareholders (and eligible employees) the opportunity to purchase our securities on the same terms as our four major shareholders. We

are also engaging in this rights offering to provide our company with an opportunity to raise funds towards our other fundraising obligation to our banks to raise an additional $26 million by June 30, 2006, and to provide us with an opportunity to raise additional capital for the ramp up and operations of Fab 2.

How were the subscription price, the conversion price and the minimum denomination of the debentures set?

Based on the guidelines of this rights offering that were approved by the audit committee of our board of directors, our board of directors set all of the terms and conditions of the rights offering, including the subscription price, conversion price and the minimum denomination of the debentures. Our board of directors' objective in establishing the subscription price, conversion price and the minimum denomination of the debentures was to reflect recent trading prices of our ordinary shares, raise the targeted proceeds and provide all of our shareholders with a reasonable opportunity to make an additional investment in our company. The audit committee of our board of directors consulted with a financial advisor in order to assist in the determination of the commercial terms. In establishing the commercial terms, including the subscription price, the conversion price and the minimum denomination of the debentures, our board of directors and its audit committee considered the following factors: the strategic alternatives available to us for raising capital, the market price of our ordinary shares, the pro rata nature of the offering, pricing and terms of similar transactions, the advice of the financial advisor, our business prospects and general conditions in the securities markets. The subscription price, conversion price and minimum denomination of the debentures, however, do not necessarily bear any relationship to our past or expected future results of operations, cash flows, current financial condition, or any other established criteria for value. Our board of directors believes that the minimum denomination of the debentures presents you with the ability to manage your investment in us following the exercise of your rights. For example, you may convert a relatively small portion of your aggregate investment into our shares, sell another relatively small portion of your debentures and continue to hold debentures.

How long will the rights offering last?

You will be able to exercise your rights only during a limited period. The rights are exercisable during a 23-day period, beginning after 5:00 p.m. New York City time (midnight, Israel time) on _____ __, 2005 (the record date) and ending at 5:00 p.m. New York City time (midnight, Israel time) on _____ __, 2005 (the second or third trading on the Tel Aviv Stock Exchange following the rights trading day) (the rights expiration date). If you hold your shares through a broker, dealer or other nominee (including through members of the Tel Aviv Stock Exchange), you will be required to comply with the procedural requirements of such nominee, including the procedures relating to the last time by which you may be required to provide notice of your intention to exercise your rights (which may be earlier than the final expiration date of the rights), as well as other procedural requirements described under the heading "The Rights Offering." If you do not exercise your rights by the date and in accordance with the procedures applicable to you, your ability to exercise the rights and purchase the debentures will expire.

How do you exercise your rights?

Promptly after the date of this prospectus, we will send a rights certificate to each holder of our ordinary shares that is registered on our shareholder registry maintained at American Stock Transfer & Trust Co., the transfer agent for our ordinary shares. The rights certificate will evidence the number of rights applicable to each holder and will be accompanied by a copy of this prospectus.

If you are a record holder of our ordinary shares and you wish to exercise your rights, you should complete the exercise form on the back of the rights certificate and send the certificate (or a notice of guaranteed delivery), accompanied by the subscription price following the record date, to the offices of American Stock Transfer & Trust Co., as our Rights Agent, to the attention of: Reorganization Department, to be received no later than the expiration date of the rights. The rights will expire on _____ __, 2005, at 5:00 p.m. New York time, (midnight, Israel time). You may make your payment to American Stock Transfer by wire transfer or cashier's check or a money order drawn on a bank located in the United States payable to the order of "American Stock Transfer & Trust Co., as Rights Agent." Payment made to American Stock Transfer & Trust Co. must be in U.S. dollars. We may agree to accept other forms of payment if requested and agreed to by us prior to payment.

If you are a record holder of rights that resides in Israel, you may exercise your rights by delivering the completed exercise form on the back of the rights certificate to our offices in Migdal Haemek, Israel, following the record date, accompanied by evidence of a wire transfer or a cashier's check or a money order drawn on a bank located in Israel payable to Tower Semiconductor Ltd. Payment to us must be either in New Israeli Shekels in accordance with the representative exchange rate published by the Bank of Israel on the day before payment of the subscription price. The completed exercise form and payment must be delivered to us by midnight Israel time on _____ __, 2005 (the rights expiration date). Israeli record holders of rights may pay us in U.S. dollars if requested and we agree to such payment.

If you are a beneficial owner of our ordinary shares and hold them through a broker, dealer or other nominee (including a member of the Tel Aviv Stock Exchange), see "What should you do if you want to participate in this rights offering, but your shares are held in the name of your broker, dealer or other nominee?" If you are a holder of eligible employee options that entitle you to receive rights, see "What should you do if you are entitled to participate in this rights offering as holder of employee options?"

How do you transfer your rights?

If you are a record holder of our ordinary shares and wish to transfer your rights to another person, you may do so by completing the transfer form on the back of your certificate and submitting it to American Stock Transfer & Trust Co., as Rights Agent, prior to _____ __, 2005 (3 New York business days prior to the rights expiration date). If you wish to sell your rights on the NASDAQ Capital Market or the Tel Aviv Stock Exchange, you should independently engage a broker to execute this sale on your behalf. The rights will be listed for trading on these exchanges during their regular trading hours for one day only on _____, 2005. In connection with our September 2002 rights offering which was conducted simultaneously on NASDAQ and the Tel Aviv Stock Exchange, in which we offered shares and warrants to purchase our shares, the rights were listed for trading on NASDAQ, although no bid or asked prices were ever quoted by any market makers and there was no trading.

After you exercise your rights, can you change your mind?

No. You cannot revoke the exercise of your rights, even if you later learn information about us that you consider to be unfavorable. You should not send the completed exercise form on the back of the rights certificate unless you are certain that you wish to purchase the debentures.

Is exercising your rights risky?

Yes. The exercise of your rights involves substantial risks. Exercising your rights means buying additional securities, and you should carefully consider this purchase as you would do with respect to any other debt or equity investments. Among other things, you should carefully consider the risks described under "Risk Factors."

Do you have to exercise your rights?

No. However, if you do not exercise your rights and other shareholders do and then convert their debentures into ordinary shares, the percentage of our ordinary shares that you own will diminish, and your voting and other rights will be diluted.

Can you sell or give away your rights?

Yes. You may transfer or sell, at any time prior to the expiration date (_____ __, 2005, at 5:00 p.m. New York time, midnight, Israel time), all or a portion of the rights. You are responsible for all commissions, fees and other expenses, including brokerage commissions and transfer taxes, incurred in connection with the purchase or sale of rights. The unexercised rights will be listed for trading on the NASDAQ Capital Market and on the Tel Aviv Stock Exchange for one day only on _____ __, 2005. For further details regarding trading in our rights, please see "The Rights Offering—Transferability of Rights."

Some of the tax consequences of selling your rights for certain U.S. and Israeli shareholders are described herein under the heading "Material Income Tax Considerations." You are, however, advised to seek specific tax advice from your personal tax advisor, as this prospectus does not summarize all tax consequences arising under U.S. state tax laws, tax laws outside of the U.S. and Israel or any tax laws relating to special tax circumstances or particular types of taxpayers.

What are the federal income tax and Israeli income tax consequences of exercising your rights?

The receipt and exercise of your rights are intended to be nontaxable; however, no ruling from the U.S. Internal Revenue Service or the Israeli Income Tax Authority will be sought. Therefore, you should seek specific tax advice from your personal tax advisor.

Either the receipt of rights under our employee share option plans or the sale and exercise of rights received under our employee share option plans will be taxable in the U.S. (see "Material Income Tax Considerations–United States Tax Considerations").The receipt of rights under our employee share option plans is not taxable in Israel, however, the sale and exercise of rights received under our employee share option plans are taxable in Israel (see "Material Income Tax Considerations–Israeli Tax Considerations"). We have requested a ruling from the Israeli Tax Authority providing that the exercise of rights received under our employee share option plans will not be taxed and that the employee will only be taxed upon the sale of the debentures or the sale of the shares issued pursuant to the conversion of the debentures. We cannot assure you that we will receive a favorable ruling from the Israeli Tax Authority or whether such ruling will be provided in a timely manner.

Disclosure of the material income tax consequences in the United States resulting from the distribution of the rights to a U.S. holder, and related transactions by the U.S. holder, including the exercise or expiration of rights, the conversion of debentures and the disposition of rights, debentures or ordinary shares issuable upon conversion of the debentures is included under "Material Income Tax Considerations–United States Tax Considerations". We have received an opinion of special U.S. tax counsel, Roberts & Holland LLP, regarding the material federal income tax consequences. This prospectus does not conclusively summarize tax consequences arising under U.S. state tax laws, tax laws outside of the U.S. and Israel or any tax laws relating to special tax circumstances or particular types of taxpayers.

What happens if you choose not to exercise your rights?

You will retain your current number of ordinary shares even if you do not exercise your rights. However, if you do not exercise your rights and other shareholders and/or eligible employee option holders who receive rights do and then convert their debentures into ordinary shares, the percentage of our ordinary shares that you own will diminish, and your voting and other rights will be diluted. For example, if only our major shareholders – Israel Corp., SanDisk Corporation, Alliance Semiconductor Corporation and Macronix International Co. Ltd., – exercise rights which they have committed to exercise for the purchase of an aggregate of $25.5 million principal amount of convertible debentures, and assuming the conversion of the $25.5 million principal amount of debentures purchased by these shareholders into our ordinary shares at a conversion price of $1.13 per share, the percentage of our ordinary shares held collectively by these major shareholders will increase from approximately 63% to approximately 72.4% (the percentage of our ordinary shares held by Israel Corp. will increase from approximately 21.3% to approximately 35.7%), and the percentage of our ordinary shares held by our other shareholders will decrease from approximately 37% to approximately 27.6%. None of these major shareholders have indicated whether or not they intend to convert the debentures purchased by them in this rights offering.

If you hold our shares through the nominee company of the Tel Aviv Stock Exchange (*Hevra Le-Rishumim of Bank Leumi Le-Israel Ltd.*) and you do not provide notice of your exercise of the rights or give any other instructions by the time determined by your broker on ____ __, 2005 (the rights trading day), under the rules of the Tel Aviv Stock Exchange, you will be considered to have provided an instruction to sell all your rights on the Tel Aviv Stock Exchange with no price limit.

Has our board of directors made a recommendation regarding this offering?

No. Our board of directors makes no recommendation to you about whether you should exercise any rights.

What should you do if you want to participate in this rights offering, but your shares are held in the name of your broker, dealer or other nominee?

If you are a beneficial owner of our ordinary shares and hold them through a broker, dealer or other nominee (including a member of the Tel Aviv Stock Exchange), you should expect your broker, dealer or other nominee to notify you of this rights offering and the procedures for exercising or transferring your rights. If you wish to exercise your rights, you will need to have your broker, dealer or other nominee act for you. To indicate your decision with respect to your rights, you should complete and return to your broker, dealer or other nominee the form provided to you accompanied by the subscription payment payable to

your broker, dealer or other nominee. You should receive this form from your broker, custodian bank or other nominee. If you are a beneficial owner of our ordinary shares and hold them through a broker, dealer or other nominee (including a member of the Tel Aviv Stock Exchange), you should NOT return your exercise form or transfer the subscription payment directly to us. Your broker, dealer or other nominee will execute the exercise of your rights through the appropriate facilities. However, if you own your shares through a member of the Tel Aviv Stock Exchange, the rules of the Tel Aviv Stock Exchange provide that if no contrary instructions have been received from you by the time determined by your broker on ____ __, 2005 (the rights trading day), you will be considered to have instructed your broker to sell all your rights on the Tel Aviv Stock Exchange with no price limit.

What should you do if you are entitled to participate in this rights offering as a holder of eligible employee options?

If you are a holder of employee options that entitle you to receive rights, you may receive upon request a copy of this prospectus from our Human Resources Department. The transfer and exercise of the rights granted to you by virtue of our employee share option plans are taxable (see "Material Income Tax Considerations–Israeli Tax Considerations"). As we are required to withhold the taxes that may apply to you if you exercise or transfer your rights, you must adhere to the procedures described under "The Rights Offering – Employee Option Holders."

What fees or charges apply if you exercise your rights?

We are not charging any fee or sales commission to issue rights to you and we are not charging any fee or sales commission, other than the subscription price, to issue the debentures if you exercise your rights. If you exercise your rights through a broker, dealer or other nominee, you are responsible for paying any fees that may be charged thereby.

How will this rights offering affect the price of our ordinary shares on the Tel Aviv Stock Exchange and on NASDAQ?

NASDAQ will not reduce the opening price of the ordinary shares at the opening of trading on the NASDAQ Ex-day, which is the first day that our ordinary shares will trade on NASDAQ without entitlement to receive the rights. The NASDAQ Ex-day will be the first trading day on NASDAQ following the record date; the NASDAQ Ex-day for the rights offering will, therefore, be _____ __, 2005. In accordance with the rules of the Tel Aviv Stock Exchange, the Tel Aviv Stock Exchange will not reduce the opening price of the ordinary shares at the opening of trading on the Tel Aviv Stock Exchange Ex-day, which is the first day that our ordinary shares will trade on the Tel Aviv Stock Exchange following the record date; the Tel Aviv Stock Exchange Ex-day for the rights offering will, therefore, be ____ ___, 2005.

When will you receive your new securities?

If you exercise your rights in this rights offering and the Rights Agent has received your duly completed exercise form and your payment has cleared, your purchase of debentures will be effected at 5:00 p.m., New York City time (midnight, Israel time) on _____ __, 2005 (the rights expiration date), and you will receive certificates representing the debentures purchased upon exercise of the rights as soon as practicable thereafter. Brokers may be unwilling to sell your debentures until you have received certificates representing your debentures. Trading in the debentures on the Tel Aviv Stock Exchange and NASDAQ will commence as soon as practicable after the rights expiration date (_____ __, 2005) in accordance with their respective rules.

Can we withdraw the rights offering?

Yes. Our board of directors may withdraw the rights offering in its sole discretion at any time prior to 5:00 p.m. New York City time (midnight, Israel time) on _____ __, 2005 (the record date), for any reason (including, without limitation, a change in the market price of our ordinary shares).

How much money will we receive from the rights offering?

The amount of gross proceeds from the rights offering depends on the number of rights that are exercised and, consequently, on the number of debentures convertible into our ordinary shares that are purchased. We will receive gross proceeds of $25.5 million from the purchase of convertible debentures by our four major shareholders as described under "The Rights Offering – Committed Purchases." If all the rights are exercised, we will receive gross proceeds of $50 million.

Members of our management have not provided us with any indication as to whether they will exercise rights to be granted to them.

How will we use the proceeds from the rights offering?

We will use the proceeds generated from the exercise of rights in this rights offering towards the further ramp-up and deployment of Fab 2 and for marketing expenses for the sale of our products and services as well as for general corporate purposes, including working capital.

How many shares will be outstanding after the rights offering if all the debentures are converted?

As of the date of this prospectus, 66,932,056, of our ordinary shares were issued and outstanding. The issuance of debentures under this rights offering will not directly affect the number of our outstanding ordinary shares. However, the number of ordinary shares that will be outstanding after the conversion of the debentures depends on the number of rights that are exercised, as well as the conversion price. If all the rights are exercised in full, and assuming that all of the debentures are converted into ordinary shares at a conversion price of one ordinary share per each $1.13 of outstanding principal of debentures, 111,179,843 of our ordinary shares will be outstanding.

If no debentures are purchased other than the $25.5 million of debentures which our four major shareholders have committed to purchase and all such debentures are converted into ordinary shares at a conversion price of $1.13 per share, 89,498,427 of our ordinary shares will be outstanding.

The above numbers do not take into account any adjustment to the conversion price or the exercise or conversion of other outstanding options, warrants or other rights to purchase our ordinary shares.

RECENT DEVELOPMENTS

In July 2005, we entered into an amendment to the credit facility agreement with our banks, which closed in August 2005. The amendment provides for financing from our banks in the amount of up to approximately $30 million, subject to a similar amount being raised by us from investors through the issuance of shares or convertible debentures. In connection with the amendment, our four major shareholders have agreed to invest an aggregate of $25.5 million towards this funding requirement in a rights offering.

The amendment to the credit facility agreement contains the following material terms:

— We may draw down up to $23.5 million through the end of March 2006, $21.1 million of which has been drawn down to date.

— We were obligated to raise at least $23.5 million through the issuance of shares or convertible debentures by October 31, 2005, which we are raising through this offering. In subsequent amendments to the credit facility agreement, this date was extended to December 31, 2005. In order for us to draw down up to an aggregate of approximately $30 million through the end of March 2006, which includes the $23.5 million currently available to us as mentioned above, we must raise an additional $6.5 million through the issuance of shares or convertible debentures by March 31, 2006.

— Loans under the amendment are to be repaid within 12 to 15 months from the date the loan is received by us; our banks have agreed to discuss (but without any obligation on their part to agree) longer repayment schedules.

— The loans under the amendment bear interest at an annual rate of three-month Libor plus 2.5%.

— We issued warrants to our banks exercisable for 8,264,464 ordinary shares with an exercise price of $1.21 per share, one-half of which are exercisable only if and when our banks agree to reschedule the repayment dates of the loans under this amendment.

— Our obligation to raise $26 million from specified sources, in addition to the $30 million described above, was postponed from December 31, 2005 to June 30, 2006 (See “Description of Debentures – Subordination of Debentures – Events of Default under the Facility Agreement”).

— If Israel Corp. invests at least $14 million through the purchase of the convertible debentures or equity, its undertaking in favor of our banks to purchase securities from us in the event we fail to raise the $26 million from specified sources by June 30, 2006 will terminate (See “Description of Debentures – Subordination of Debentures –Events of Default under the Facility Agreement”).

— Israel Corp.‘s undertaking in favor of our banks to purchase securities from us in the event we fail to raise the $26 million from specified sources by June 30, 2006 was extended from June 30, 2006 to December 31, 2006.

— We must comply with updated financial ratios and covenants through September 30, 2006, which relate to periodic sales and periodic earnings before interest, taxes, depreciation and amortization (EBITDA).

RISK FACTORS

An investment in our securities is speculative and involves a high degree of risk. Therefore, you should not invest in our securities unless you are able to bear a loss of your entire investment. You should carefully consider the following factors as well as the other information contained in this prospectus before deciding to invest in our debentures that are convertible into our ordinary shares. This prospectus and statements that we may make from time to time may contain forward-looking information. There can be no assurance that actual results will not differ materially from our expectations, statements or projections. Factors that could cause actual results to differ from our expectations, statements or projections include the risks and uncertainties relating to our business described below. The information in this prospectus is complete and accurate as of this date, but the information may change after the date of this prospectus.

Risks Affecting Our Business

If we do not raise the funds required by the amendment to our credit facility agreement, we may not be able to maintain our operations.

In accordance with the July 2005 amendment to our credit facility agreement, which was subsequently further amended, in addition to $26 million which we are required to raise by the end of June 2006, we are required to raise $23.5 million by December 31, 2005, and an additional $6.5 million by March 31, 2006 through sales of equity or convertible debentures. If we are unable to raise the $23.5 million amount described above, we do not expect to have adequate liquidity to meet our short-term activities and liabilities during the next two to four months and may have to cease our operations. If we raise the $23.5 million and the $6.5 million amounts in accordance with our amended facility agreement, we will still need to raise additional funds in order to finance our short-term activities and liabilities in 2006, at least until we achieve positive cash flows from our operations. (For a description of the material terms of the July 2005 amendment to our credit facility agreement, see “Recent Developments” above.)

If we do not complete the equipment installation, technology transfer and ramp-up of production in Fab 2, our business will be materially adversely affected.

Fab 2 production capacity at the end of September 2005 was 14,600 200-mm wafers per month and we currently expect to have production capacity of 15,400 wafers per month by the end of 2005. Depending on the process technology and product mix, when fully ramped-up we estimate that Fab 2 will be able to achieve capacity levels of up to 36,000 wafers per month. We have not completed the acquisition, installation, equipping and financing necessary in order for production at our Fab 2 facility to reach such levels. Our determination as to the timing of the increase in Fab 2's production levels is dependent on prevailing and forecasted market conditions and our ability to fund these increases. We need to complete the qualification process of the 0.13-micron technology transferred from Freescale Semiconductor, Inc. (formerly Motorola, Inc.) to Fab 2 and develop new process technologies for Fab 2 in order to suit our customers' needs. The ramp-up of Fab 2 is a substantial and complex project. We have and may in the future experience difficulties that are customary in the installation, functionality and operation of equipment during manufacturing. Failures or delays in obtaining and installing the necessary equipment, technology and other resources may delay the completion of the ramp-up of Fab 2 and add to its cost, which would have a material adverse effect on our business and results of operations.

If we do not have sufficient funds to fully equip Fab 2, our business will be materially adversely affected.

Fab 2's cost is estimated to be approximately $1.5 billion, including costs of construction, equipment, installation, libraries, intellectual property, technology transfers and other related ramp-up and pre-operation costs. However, the actual total cost of Fab 2 may exceed our estimates. If we cannot successfully raise sufficient funding to complete the ramp-up and to fund other related costs, we will be required to scale back our equipment purchases and capacity forecasts, and, as a result, we will not fully utilize the substantial investment made in constructing Fab 2, which will adversely affect our financial results.

If the Investment Center will not approve our request for a new expansion program, we would be required to seek alternative financing sources to complete the ramp-up of Fab 2, which may not be available. Our expected failure not to complete investments in the amount of $1.25 billion by the end of 2005, may result in the Investment Center requiring us to repay all or a portion of the grants already received, and if we are unable to refund such grants, we may have to close our operations.

In connection with Fab 2, we received approval for grants and tax benefits from the Investment Center of the government of Israel under its Approved Enterprise Program. Under the terms of the approval, we are eligible to receive grants of 20% of up to $1.25 billion invested in Fab 2 plant and equipment, or an aggregate of up to $250 million. As of September 30, 2005, we received $156.7 million in grants from the Investment Center. Our eligibility to receive grants is with respect to investments in Fab 2 plant and equipment made by the end of 2005. We do not expect to complete investments in the amount of $1.25 billion by the end of 2005, since we reduced our rate of annual investments as a result of our decision to slow-down the ramp-up of our Fab 2 facility in order to align our capital investments with market conditions in the semiconductor industry. Israeli law limits the ability of the Investment Center to extend this time limitation, unless approved through an expansion plan. Any failure by us to meet the conditions of our grants may result in the cancellation of all or a portion of our grants to be received and tax benefits and in the Investment Center requiring us to repay all or a portion of grants already received. Under Israeli law, our not completing investments in an amount of $1.25 billion by the end of 2005 may permit the Investment Center to require us to repay all or a portion of grants already received. We have been holding discussions with the Investment Center to achieve satisfactory arrangements to approve a new expansion program to commence on January 1, 2006. In 2005, at the Investment Center's request, we submitted a revised business plan to the Investment Center for the period commencing on January 1, 2006. Currently, we cannot estimate when the Investment Center will conclude its review of our revised business plan, when we will receive a formal response to our request for a new expansion program to commence on January 1, 2006 or if the Investment Center will approve our request. If the Investment Center will not approve our request for a new expansion program, we would be required to seek alternative financing sources to complete the ramp-up of Fab 2, which may not be available. While there can be no assurance that we will obtain the Investment Center's approval for the new expansion program, we believe that it is improbable that the Investment Center would demand that we repay all or a portion of grants already received due to our not completing investments in an amount of $1.25 billion by the end of 2005. If we would have to repay the Investment Center all or a portion of grants already received, we would need to seek alternative financing sources to refund the grants we received and if we do not succeed in finding such alternative financing sources, we may have to close our operations.

If our future operations do not increase or if we fail to raise additional funding, we may be unable to repay our debt on a timely basis.

We may from time to time lack liquidity to finance our ramp up of Fab 2. Accordingly, there is no assurance that our future operations will increase or that we will succeed in raising the additional funding required for the completion of the ramp up of Fab 2. As a result, we may be unable to repay on time or repay at all our short-term and long-term debt consisting mainly of trade accounts payable, bank debt and convertible debentures. If we foresee that we will be unable to secure additional financing, we may have to revise our anticipated operations, or even cease our operations. We cannot assure you we will be successful at negotiating price reductions and arrangements to slow down or postpone payments to our suppliers and service providers when we have liquidity problems and any postponement of payments may delay our ramp-up of Fab 2 and therefore significantly harm our financial results.

The cyclical nature of the semiconductor industry and the resulting periodic overcapacity have adversely affected our business in the past, resulting in a history of losses; downward price pressure may seriously harm our business.

The semiconductor industry has historically been highly cyclical. Historically, companies in the semiconductor industry have expanded aggressively during periods of increased demand. This expansion has frequently resulted in overcapacity and excess inventories, leading to rapid erosion of average sale prices. We expect this pattern to repeat itself in the future. The overcapacity and downward price pressures characteristic of a prolonged downturn in the semiconductor market may not allow us to operate at a profit, even at full utilization, and could seriously harm our financial results and business.

We have a history of operating losses and expect to operate at a loss for the foreseeable future; our facilities must operate at high utilization rates for us to be profitable.

We have operated at a loss for the last number of years. Because fixed costs represent a substantial portion of the operating costs of semiconductor manufacturing operations, we must operate our facilities at high utilization rates for us to be profitable. We began construction of Fab 2 in 2001 and Fab 2 operations began in 2003. Our losses since 2003 are due primarily to significant depreciation and amortization expenses related mainly to Fab 2, as well as financing and operating expenses which have not yet been offset by a sufficient increase in the level of our sales. If we do not succeed in operating our facilities at high utilization rates, we expect to operate at a loss for the foreseeable future, which may adversely affect our business and company.

Our operating results fluctuate from quarter to quarter which makes it difficult to predict our future performance.

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, many of which are beyond our control. These factors include, among others:

— The cyclical nature of both the semiconductor industry and 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 (IDMs) and customers between internal and outsourced production;

— Inventory and supply chain management of our customers;

— The loss of a key customer, postponement of an order from a key customer, failure of a key customer to pay accounts receivables in a timely manner or the financial condition of our customers;

— The occurrence of accounts receivables write-offs;

— The rescheduling or cancellation of large orders or planned capital expenditures;

— Our ability to satisfy our customers' demand of 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;

— Environmental events or industrial accidents such as fires or explosions;

— Our susceptibility to intellectual property rights disputes;

— Our ability to continue with existing and to enter into new partnerships and technology and supply alliances on mutually beneficial terms;

— Actual capital expenditures exceeding planned capital expenditures;

— Interest and currency rate fluctuations that may not be adequately hedged;

— Technological changes and short product life cycles; and

— Timing for designing and the qualification of new products.

Due to the factors noted above and other risks discussed in this section, many of which are beyond our control, you should not rely on quarter to quarter comparisons to predict our future performance. Unfavorable changes in any of the above factors may seriously harm our company.

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. 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.

Our sales cycles may be long and, as a result, orders received may not meet our expectations which may adversely affect our operating results.

Our sales cycles, which measure the time between our first contact with a customer and the first shipment of product orders to 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 in advance of the receipt of any product order and related revenue. If orders ultimately received differ from our expectations with respect to the product, volume, price or other items, our operating results may be adversely affected.

Demand for our foundry services is dependent on the demand in our customers’ end markets.

We are ramping-up Fab 2 based on our expectations of customer demand and our financial resources. In order for demand for our wafer fabrication services to increase, the markets for the end products using these services must develop and expand. For example, the success of our imaging process technologies will depend, in part, on the growth of markets for certain image sensor 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, which may adversely affect our financial results. If demand is higher than expected, we may be unable to fill all of the orders we receive, which may result in the loss of customers and revenues.

If we do not attract additional customers, our business may be adversely affected.

For the nine months ended September 30, 2005, approximately 56% of our business was generated by five significant customers that contributed 23%, 12%, 11%, 5%, and 5% of our revenues, respectively. We expect to continue to receive a significant portion of our revenue from a limited number of customers in 2005. Loss or cancellation of business from, or decreases in, the sales volume or sales prices to our significant customers, could seriously harm our financial results and business. Since the sales cycle for our services typically exceeds one year, if our customers order significantly fewer wafers than forecasted, we will have excess capacity that we may not be able to sell in a short period of time, resulting in lower utilization of our facilities. We may have to reduce prices in order to try to sell the excess capacity. In addition to the revenue loss that could result from unused capacity or lower sales prices, we might have difficulty adjusting our costs to reflect the lower revenues in a timely manner, which could harm our financial results.

We depend on a small number of products for a significant portion of our revenues.

From time to time, a significant portion of our revenue is generated from a small number of very high volume products that are shipped to volatile consumer-oriented markets. The volume of orders of such products may adversely change or demand for such products may be abruptly discontinued. We expect that in the foreseeable future we will continue to be dependent upon a relatively limited number of products for a significant portion of our revenue due to the nature of our business. We cannot assure you that revenue generated from these products, individually or in the aggregate, will reach or exceed historical levels in any future period. A decrease in the price of, or demand for, any of these products could negatively impact our financial results.

If we do not receive orders from our wafer partners we may have excess capacity.

We have committed a portion of our Fab 2 capacity for future orders. During the ramp-up of Fab 2, our capacity commitments to our wafer partners, which are SanDisk Corporation, Alliance Semiconductor Corporation, Macronix International Co. Ltd. and Quicklogic Corporation, are limited to approximately 50% of our Fab 2 capacity. Parties to whom we have committed capacity are generally not obligated to utilize or pay for all or any portion of their allocated capacity, and generally provide and confirm their orders to us less than one month before the production start date. If these parties do not place orders with us, and if we are unable to fill such unutilized capacity, our financial results may be adversely affected.

If we do not maintain and develop our technology processes and services, we will lose customers and may not be able 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.

In order to maintain our current customer base and attract new customers, we must continue to advance our manufacturing process technologies. We are developing and introducing to production specialized process technologies. Our ability to achieve and maintain profitable operations depends on the successful development and introduction to production of these processes, which we may not achieve at all or in a timely manner.

If we do not compete effectively, we will lose business to our competitors.

The semiconductor foundry industry is highly competitive. We compete with more than ten independent dedicated foundries, the majority of which are located in Asia-Pacific, including new foundries based in Taiwan, China, Korea and Malaysia, and with over 20 integrated semiconductor and end-product manufacturers that allocate a portion of their manufacturing capacity to foundry operations. The foundries with which we compete benefit from their close proximity to other companies involved in the design and manufacture of integrated circuits, or ICs. Many of our competitors may have one or more of the following competitive advantages over us:

— greater manufacturing capacity;

— multiple and more advanced manufacturing facilities;

— more advanced technological capabilities;

— a more diverse and established customer base;

— greater financial, marketing, distribution and other resources;

— a better cost structure; and/or

— better operational performance in cycle time and yields.

We have a large amount of debt which could have significant negative consequences.

We have a large amount of long-term debt, which could have significant negative consequences. As of October 31, 2005, we had $518.1 million of bank debt and approximately $25.7 million of debt in connection with our issuance of convertible debentures in January 2002. In addition, the debentures that may be issued in connection with this rights offering will increase our amount of long-term debt. Our current and future indebtedness could have significant negative consequences, including:

— requiring the dedication of a substantial portion of our expected cash flow from operations to service our indebtedness;

— increasing our vulnerability to general 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 to less leveraged competitors and competitors that have better access to capital resources; and

— affecting our ability to make interest payments and other required debt service on our indebtedness.

If we fail to satisfy the covenants set forth in our amended credit facility, our banks will be able to call our loans.

Our credit facility, under which we have drawn down $518.1 million to date, requires that we comply with certain financial, capital raising and production milestone covenants. In the July 2005 amendment to our credit facility agreement, our banks agreed to amend our financial ratios and covenants through the third quarter of 2006. (For a description of the material terms of the July 2005 amendment to our credit facility agreement, see “Recent Developments” above.) Should we fail to comply with our revised covenants, and our banks do not waive our non-compliance, pursuant to the terms of the credit facility agreement, our banks may require us to immediately repay all loans made by them to us, plus penalties, and they would be entitled to exercise the remedies available to them under the credit facility, including enforcement of their lien against all our assets. This would have a material adverse effect on our company.

Israeli banking laws may impose restrictions on the total debt that we may borrow from our banks.

Pursuant to an amendment to a directive published by the Israel Supervisor of Banks, effective March 31, 2004, we may be deemed part of a group of borrowers comprised of the Ofer Brothers Group, Israel Corp., and other companies which are also included in such group of borrowers pursuant to the directive, including companies under the control or deemed control of these entities. The directive provides for limits on amounts that banks may lend to borrowers or groups of borrowers. Should our banks exceed these limitations, they may limit our ability to borrow other money in the future and may require us to return some or all of our outstanding borrowings (which were $518.1 million as of October 31, 2005), which may have a material adverse effect on our business, financial condition and results of operations.

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

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 a wafer and other factors can cause wafers to be rejected or individual semiconductors on specific wafers to be non-functional. We have from time to time experienced production difficulties that have caused delivery delays or returns and lower than expected device yields. We may also experience difficulty achieving acceptable device yields, product performance and product delivery times in the future as a result of manufacturing problems. Any of these problems could seriously harm our financial results and business.

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.

To complete the ramp-up of our Fab 2 facility and to maintain the quality of production in our facilities, we must procure new 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. 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 many 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 could have a material adverse effect on our business and financial condition.

Our exposure to currency exchange and interest rate fluctuations may increase our cost of operations.

Almost all of our cash generated from operations and from our financing and investing activities is denominated in U.S. dollars and New Israeli Shekels, or NIS. Our expenses and costs are denominated in NIS, U.S. dollars, Japanese Yen and Euros. We are, therefore, exposed to the risk of currency exchange rate fluctuations.

Our borrowings under our Fab 2 credit facility provide for interest based on a floating LIBOR rate, thereby exposing us to interest rate fluctuations. Furthermore, if our banks incur increased costs in financing our Fab 2 credit facility due to changes in law or the unavailability of foreign currency, our banks may exercise their right to increase the interest rate on our Fab 2 credit facility as provided for in the credit facility agreement.

We regularly engage in various hedging strategies to reduce our exposure to some, but not all, of these risks and intend to continue to do so in the future. However, despite any such hedging activity, we are likely to remain exposed to interest rate and exchange rate fluctuations, which may increase the cost of our operating and financing activities.

We depend on intellectual property rights of third parties and failure to maintain or acquire licenses could harm our business.

We depend on third party intellectual property in order for us to provide foundry and design services to our clients. If problems or delays arise with respect to the timely development, quality and provision of such intellectual property to us, our customers’ design and production could be delayed, resulting in

underutilization of our capacity. If any of our third party intellectual property right vendors go out of business, liquidate, merge with, or are 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. In addition, license fees and royalties payable under these agreements may impact our margins and operating results.

Failure to comply with the intellectual property rights of third parties or defend our intellectual property rights could harm our business.

Our ability to compete successfully depends on our ability to operate without infringing on the proprietary rights of others and defend 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 patent, trade secret and other intellectual property rights. There are no lawsuits currently pending against us regarding the infringement of patents or intellectual property rights of others nor are we currently a plaintiff in any such action against other parties. However, we have been subject to such claims in the past, all of which have been resolved through license agreements, the terms of which have not had a material effect on our business. One of these agreements expires at the end of 2005, and if we are unable to extend or renew it on similar terms, we may have to agree to less favorable terms or consider other alternatives, including designing around certain processes.

Because of the nature of the industry, we may continue to 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;

— seeking to acquire 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;

— fighting the matter in court and paying substantial monetary damages in the event we lose; or

— seeking to develop non-infringing technologies, which may not be feasible.

Any one or several of these developments could place substantial financial and administrative burdens on us and hinder our business. Litigation, which could result in substantial costs to us and diversion of our resources, may also be necessary to enforce our patents or other intellectual property rights or to defend us or our customers against claimed infringement of the rights of others. If we fail to obtain certain licenses and if litigation relating to alleged patent infringement or other intellectual property matters occurs, it could prevent us from manufacturing particular products or applying particular technologies, which could reduce our opportunities to generate revenues.

As of September 30, 2005, we held 54 patents worldwide. We intend to continue to file patent applications when appropriate. The process of seeking patent protection may take a long time and 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 will protect our intellectual property rights to the same extent as the United States. Further, we cannot assure you that we will at all times enforce our patents or other intellectual property rights or that courts will uphold our intellectual property rights, or enforce the contractual arrangements that we have entered into to protect our proprietary technology, which could reduce our opportunities to generate revenues.

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

Our business is subject to a variety of laws and governmental regulations in Israel 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 could be subject to substantial liability or could be required to suspend or adversely 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. We maintain insurance policies to reduce losses caused by fire, including business interruption insurance. If any of our fabs were to be damaged or cease operations as a result of a fire, or if our insurance proves to be inadequate, it would reduce our manufacturing capacity and revenues.

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. Product returns in excess of established provisions may have an adverse effect on our business and financial condition.

We may be required to repay grants to the Israel Investment Center that we received in connection with Fab 1.

We received grants and tax benefits for Fab 1 under the government of Israel Approved Enterprise program. As of December 31, 2001, we completed our investments under our Fab 1 program and are no longer entitled to any further investment grants for future capital investments in Fab 1. We have agreed that if we do not achieve Fab 1 revenues of $90 million for 2003 and $100 million for 2004 and maintain at Fab 1 at least 600 employees for 2003 and 625 employees for 2004, subject to prevailing market conditions, we will, if demanded by the Investment Center, be required to repay the Investment Center up to approximately $2.5 million. Since our actual level of Fab 1 revenues and employees for 2003 and 2004 were not in compliance with the above mentioned levels, we may be required to repay the Investment Center up to approximately $2.5 million.

We are subject to risks related to our international operations.

Since 2003, we have made substantial sales to 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 U.S. dollars; if the Euro, Yen or other currencies weaken relative to the U.S. dollar, our products may be relatively more expensive in these regions, which could result in a decrease in our sales;

— the need to comply with foreign government regulation;

— general geopolitical risks such as political and economic instability, potential hostilities and changes in diplomatic and trade relationships;

— natural disasters affecting the countries in which we conduct our business, such as the earthquakes experienced in China, Japan and Taiwan;

— reduced sales to our customers or interruption in our manufacturing processes in Asia Pacific that may arise from regional issues in Asia;

— imposition of regulatory requirements, tariffs, import and export restrictions and other barriers and restrictions;

— adverse tax rules and regulations;

— weak protection of our intellectual property rights; and

— delays in product shipments due to local customs restrictions.

If our new executive officers are unable to fully transition into their new positions, our company may be adversely affected.

We have made several changes to our senior management team in recent months. If our new executive officers are unable to fully transition into their new positions, or if such transition is significantly delayed, our company may be adversely affected.

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

We depend on the continued services of our executive officers, senior managers and skilled technical and other personnel. Our business could suffer if we lose the services of some of these personnel and we cannot find and adequately integrate replacement personnel into our 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. We may need to review employee compensation competitiveness with the purpose of retaining our existing officers and employees and attracting and retaining additional personnel.

Risks Related to Our Ordinary Shares

Our stock price may be volatile in the future.

The stock market, in general, has experienced extreme volatility that often has been unrelated to the operating performance of particular companies. In particular, the stock prices for many companies in the semiconductor industry have experienced wide fluctuations, which have often been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the market price of our ordinary shares, regardless of our actual operating performance.

In addition, it is possible that in some future periods our operating results may be below the expectations of public market analysts and investors. In this event, the price of our securities may under perform or fall.

Issuance of additional shares pursuant to our Fab 2 financing arrangements and options granted to our Fab 2 building contractor, employees and directors may dilute the interest of our shareholders.

In connection with Fab 2, we have issued as of October 31, 2005, 54,638,047 ordinary shares to our wafer and equity partners and other shareholders. In January 2001, we issued warrants to our banks exercisable into 400,000 ordinary shares with an exercise price of $6.20. In December 2003, we issued to our banks and to one of our shareholders warrants exercisable into 896,596 and 58,906 ordinary shares, respectively, with an exercise price of $6.17. In addition, in connection with the July 2005 amendment to our credit facility agreement, we issued warrants to our banks exercisable into 8,264,464 ordinary shares with an exercise price of $1.21, one-half of which shall only be exercisable if our banks agree to reschedule the repayment dates of the loans to be made available to us under the July 2005 amendment. Up to approximately 8.5 million additional ordinary shares may be issued upon the conversion of our outstanding convertible debentures and upon exercise of warrants held by some of our shareholders and others, our debenture holders and our Fab 2 contractor.

In addition, as of September 30, 2005, we had outstanding employee and directors options to purchase up to approximately 13.2 million shares at a weighted average exercise price of $4.19. We have also entered into a number of agreements which may result in our issuing large numbers of shares, particularly if we complete the transactions contemplated by these agreements at a time when our share price is low. For example, we have agreed that our three major wafer partners may elect to convert, on a quarterly basis through 2006, wafer credits we have issued to them into our ordinary shares rather than use these credits to reduce their cash payments for wafers manufactured in Fab 2, based on the average trading price of our ordinary shares during the 15 consecutive trading days preceding the relevant quarter. As of October 31, 2005, we had issued 1,286,574 of our ordinary shares to SanDisk Corporation and 62,849 ordinary shares to

Alliance Semiconductor upon conversion of $2.33 million of wafer credits. As of October 31, 2005, an aggregate of $37.8 million of credits issued to our three major wafer partners were outstanding.

In addition, we need to raise significant additional funds from other sources to finance our short-term activities and liabilities and negative cash flows from operations, as well as to complete the ramp-up of Fab 2. We are regularly engaged in discussions with potential investors in order to attract them to make investments in our company. No understandings have been reached with respect to the amount of any investment or the terms of any investment and there can be no assurance that any investment will be made. These investments may be for shares or for securities convertible into shares, which would materially dilute the holdings of our current shareholders.

Market sales of large amounts of our shares eligible for future sale may lower the price of our ordinary shares.

Of our 66,932,056 outstanding ordinary shares as of October 31, 2005, 24,589,143 are freely tradable and held by non-affiliates, and an additional 108,951 shares held by non-affiliates are eligible for sale pursuant to Rule 144 under the Securities Act of 1933, subject to the time, volume and manner of sale limitations of Rule 144. In addition, certain of our affiliates (Israel Corp., SanDisk Corporation, Alliance Semiconductor, and Macronix International) hold 42,233,962 of our shares, of which 4,086,037 are registered for resale and are therefore freely tradable and 36,915,665 are currently eligible for sale subject to the time, volume and manner of sale limitations of Rule 144. On December 2, 2005, Alliance Semiconductor filed a Form 144 with the Securities and Exchange Commission to sell 662,860 of our shares. An additional 1,232,260 shares held by SanDisk Corporation will become eligible for sale subject to the time, volume and manner of sale limitations of Rule 144 during 2005 and 2006. Shares held by these affiliates are subject to the share transfer restrictions set forth in the shareholders agreement to which they are a party and which remain in effect through January 2008. The sales of large amounts of our ordinary shares (or the potential for those sales even if they do not actually occur) may depress the market price of our ordinary shares. This could also impair our ability to raise capital through the sale of our equity securities.

Our principal shareholders collectively own a controlling interest in us and will be able to exercise their interest in ways which may be adverse to your interests.

Our wafer partners and Israel Corp. collectively own approximately 63% of our outstanding shares. Under our articles of association, two shareholders holding together 33% of our outstanding shares constitute a quorum for conducting a shareholders meeting. Our wafer partners and Israel Corp. could constitute a quorum for purposes of conducting a shareholders meeting. While we have always solicited proxies from our shareholders prior to our shareholders meetings, we would have a sufficient quorum with two large shareholders even if none of our other shareholders were to participate in our shareholders meetings. If only two large shareholders, owning collectively at least 33% of our shares, were to participate in one of our shareholders meetings, these shareholders would determine the outcome of our shareholders meeting without the benefit of the participation of our other shareholders. In addition, even if our other shareholders were to participate in our shareholders meetings in person or by proxy, our wafer partners and Israel Corp. collectively control our company and may exercise this control in a manner adverse to the interests of our other shareholders.

Risks Related to the Rights Offering

If you do not exercise all of your rights, you may suffer significant dilution of your percentage ownership of our ordinary shares.

This rights offering is designed to enable us to raise capital while allowing all shareholders on the record date to invest in our company. The interests of all shareholders, including those who exercise all of the rights we are distributing will be diluted to the extent that the eligible employee option holders exercise the rights being granted to them and convert the debentures purchased thereunder into our ordinary shares. In connection with the July 2005 amendment to our credit facility agreement, two of our major shareholders have committed and are obligated to exercise all or some of the rights distributed to them. Israel Corp., which as of the date of this prospectus owns approximately 21.3% of our outstanding share capital on a non-diluted basis, has committed and is obligated to exercise 100% of its rights for the purchase of approximately $10.26 million of debentures. SanDisk Corporation, which as of the date of this prospectus owns approximately 15.3% of our outstanding share capital on a non-diluted basis, has committed and is obligated to exercise approximately 47.6% of its rights for the purchase of $3.5 million of debentures. In addition, Alliance Semiconductor and Macronix International Co. Ltd., which as of the date of this prospectus own approximately 13.4% and 13.1%, respectively, of our outstanding share capital on a non-diluted basis, have committed to exercise approximately 15.5% and 15.8%, respectively, of their rights, for the purchase of $1 million each of debentures. If, prior to the record date, Alliance Semiconductor were to sell 662,860 of our shares further to its filing of a Form 144 with the Securities and Exchange Commission on December 2, 2005 for the sale of 662,860 shares, it will own approximately 12.4% of our outstanding share capital as of the record date, and its commitment to purchase $1 million of debentures would reflect an exercise of approximately 16.7% of its total rights. In addition, SanDisk Corporation, Alliance Semiconductor, Macronix International Co. Ltd. and Quicklogic Corporation have agreed to transfer to Israel Corp. a portion of their unexercised rights, which Israel Corp. has committed and is obligated to exercise, such that Israel Corp. will purchase an aggregate of $20 million in debentures (including the $10.26 million referred to above). To the extent that you do not exercise your rights, but rights are exercised by other shareholders and/or eligible employee option holders who receive rights in this rights offering and the debentures purchased thereunder are converted into our ordinary shares, your percentage ownership of our expanded equity and voting rights will be diluted.

The payment of principal of and interest on the debentures is subordinated to our indebtedness to our banks and obligations to secured creditors.

The payment of the principal of and interest on the debentures is subordinated to the prior payment of all amounts payable by us to Bank Hapoalim B.M and Bank Leumi Le-Israel Ltd. under our credit facility agreement with them, to any obligations to the Investment Center of the Israeli Ministry of Industry, Trade and Labor related to $156.7 million in grants received through September 30, 2005 under the Investment Center's "Approved Enterprise" program, and to a first ranking charge in favor of Siliconix Technology C.V., on one of our bank accounts in which Siliconix Technology C.V. deposited in 2004 $20 million for the purchase of equipment and other expenses in connection with the performance of our obligations under our agreement with Siliconix (of which as of September 30, 2005, there is a balance of approximately $10 million) and over the equipment which has been or which may be subsequently purchased with such funds. As a result, upon any distribution to our creditors in liquidation or reorganization or similar proceedings, these secured creditors will be entitled to be paid in full before any payment may be made with respect to the debentures issuable under this prospectus. In any of these circumstances, we may not have sufficient assets remaining to pay amounts due on any or all of the debentures then outstanding. In addition, if on a payment date of the principal of or interest on the debentures, an "Event of Default" exists under our facility agreement, the dates for payment of interest and principal on the debentures may be postponed, depending on various scenarios under the facility agreement. If, in such event, we reach an agreement with the banks (with respect to rescheduling our debt to the banks), the debenture holders may be bound thereby. The terms of the Indenture permit the Co-Trustees to initiate legal proceedings against us only in a limited number of cases, and always provided that an advance notice is given to us and to the banks (see "Description of the Debentures – Subordination of Debentures").

We may incur additional indebtedness, including indebtedness that would be senior to our debentures.

Although we are limited by the covenants in the facility agreement, we could enter into certain transactions that would increase the amount of our outstanding senior indebtedness. It is possible that all or part of these borrowings would be senior to the debentures. If new indebtedness is added to our current indebtedness levels, the related risks that we now face could intensify.

The price of our ordinary shares may decline after debentures are converted into our ordinary shares.

We cannot assure you that the public trading market price of our ordinary shares will not decline after you elect to convert your debentures. If the prevailing market price were to decline below the conversion price of our debentures then you may not be able to sell your ordinary shares at a price equal to or greater than the conversion price.

Once you exercise your rights, you may not revoke the exercise.

Once you exercise your rights, you may not revoke the exercise, even if less than all of the rights that we are offering are actually exercised.

Neither the subscription price nor the conversion price of the debentures is an indication of our present or future value.

Our board of directors set all of the terms and conditions of the rights offering, including the subscription price and conversion price. Our company's objective in establishing the subscription price and conversion price was to reflect recent trading prices, raise the targeted proceeds and provide all of our shareholders with a reasonable opportunity to make an additional investment in our company. We consulted with a financial advisor in order to assist in the determination of the commercial terms. In establishing the commercial terms, including the subscription price and conversion price, our board of directors and its audit committee considered the following factors: the strategic alternatives available to us for raising capital, the market price of our ordinary shares, the pro rata nature of the offering, pricing of similar transactions, the advice of the financial advisor, our business prospects and general conditions in the securities markets. The subscription price and conversion price, however, do not necessarily bear any relationship to our past or expected future results of operations, cash flows, current financial condition, or any other established criteria for value.

Neither the subscription price nor the conversion price necessarily bears any relationship to the book value of our assets, past operations, cash flow, losses or financial condition. You should not consider either the subscription price for the rights nor the conversion price of the debentures as an indication of our present or future value.

Risks Related to Our Operations in Israel

Instability in Israel may harm our business.

All of our manufacturing facilities and our corporate and some of our sales offices are located in Israel. Accordingly, political, economic and military conditions in Israel may directly affect our business.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, as well as incidents of civil unrest. In addition, Israel and companies doing business with Israel have, in the past, been the subject of an economic boycott. Although Israel has entered into various agreements with Egypt, Jordan and the Palestinian Authority, Israel has been subject to civil unrest and terrorist activity, with varying levels of severity. Parties with whom we do business have sometimes declined to travel to Israel during periods of heightened unrest or tension, forcing us to make alternative arrangements where necessary. In addition, the political and security situation in Israel may result in parties with whom we have agreements claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions. We can give no assurance that security and political conditions will have no impact on our business in the future. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could adversely affect our operations and could make it more difficult for us to raise capital. Furthermore, our manufacturing facilities are located exclusively in Israel, which has been experiencing civil unrest, terrorist activity and military action. We could experience serious disruption of our manufacturing if acts associated with this conflict result in any serious damage to our manufacturing facilities. In addition, our business interruption insurance may not adequately compensate us for losses that may occur, and any losses or damages incurred by us could have a material adverse effect on our business.

Our operations may be negatively affected by the obligations of our personnel to perform military service.

In the event of severe unrest or other conflict, individuals could be required to serve in the military for extended periods of time. In response to increases in terrorist activity, there have been periods of significant call-ups of military reservists, and it is possible that there will be additional call-ups in the future. A large part of male Israeli citizens, including our employees, are subject to compulsory military reserve service through middle age. Our operations could be disrupted by the absence for a significant period of time of one or more of our key employees or a significant number of our other employees due to military service. Such disruption could harm our operations.

Our operations may be affected by negative economic conditions in Israel.

In recent years, Israel has experienced periods of recession in economic activity, resulting in low growth rates and growing unemployment. Our operations could be adversely affected if the economic conditions in Israel deteriorate. In addition, due to significant economic measures proposed by the Israeli government, there have been several general strikes and work stoppages in 2003 and 2004, affecting all banks, airports and ports. These strikes have had an adverse effect on the Israeli economy and on business, including our ability to deliver products to our customers or to receive raw materials from our suppliers in a timely manner. From time to time, the Israeli trade unions threaten strikes or work-stoppages, which may, if carried out, have a material adverse effect on the Israeli economy and our business.

If the exemption allowing us to operate our manufacturing facilities seven days a week is not renewed, our business will be adversely affected.

We operate our manufacturing facilities seven days a week pursuant to an exemption from the law that requires businesses in Israel to be closed from sundown on Friday through sundown on Saturday. This exemption expires on December 31, 2005. In addition, a significant increase in the number of employees permitted to work under this exemption will be needed as we ramp-up production at Fab 2. If the exemption is not renewed and we are forced to close any or all of the facilities for this period each week, our financial results and business will be harmed.

If we are considered to be a passive foreign investment company, either presently or in the future, U.S. Holders will be subject to adverse U.S. tax consequences.

We will be a passive foreign investment company, or PFIC, if 75% or more of our gross income in a taxable year, including our pro rata share of the gross income of any company, U.S. or foreign, in which we are considered to own, directly or indirectly, 25% or more of the shares by value, is passive income. Alternatively, we will be considered to be a PFIC if at least 50% of our assets in a taxable year, averaged over the year and ordinarily determined based on fair market value, including our pro rata share of the assets of any company in which we are considered to own, directly or indirectly, 25% or more of the shares by value, are held for the production of, or produce, passive income. If we were to be a PFIC, and a U.S. Holder does not make an election to treat us as a "qualified electing fund," or QEF, or a "mark to market" election, "excess distributions" to a U.S. Holder, and any gain recognized by a U.S. Holder on a disposition or our ordinary shares, would be taxed in an unfavorable way. Among other consequences, our dividends would be taxed at the regular rates applicable to ordinary income, rather than the 15% maximum rate applicable to certain dividends received by an individual from a qualified foreign corporation. The tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of future income and assets, which are relevant to the determination of PFIC status. In addition, under the applicable statutory and regulatory provisions, it is unclear whether we would be permitted to use a gross loss from sales (sales less cost of goods sold) to offset our passive income in the calculation of gross income. In light of the uncertainties described above, we have not obtained an opinion of counsel with respect to our PFIC status and no assurance can be given that we will not be a PFIC in any year. If we determine that we have become a PFIC, we will then notify our U.S. Holders and provide them with the information necessary to comply with the QEF rules. If the IRS determines that we are a PFIC for a year with respect to which we have determined that we were not a PFIC, however, it might be too late for a U.S. Holder to make a timely QEF election, unless the U.S. Holder qualifies under the applicable Treasury regulations to make a retroactive (late) election. U.S. Holders who hold ordinary shares during a period when we are a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC in subsequent years, subject to exceptions for U.S. Holders who made a timely QEF or mark-to-market election.

It may be difficult to enforce a U.S. judgment against us, our officers and directors and some of the experts named in this prospectus or to assert U.S. securities law claims in Israel.

We are incorporated in Israel. Most of our executive officers and directors and our Israeli accountants and attorneys are nonresidents of the United States, and a majority of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult to enforce a judgment obtained in the United States, against us or any of these persons, in U.S. or Israeli courts based on the civil liability provisions of the U.S. Federal securities laws. Additionally, it may be difficult for you to enforce civil liabilities under U.S. Federal securities laws in original actions instituted in Israel.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

The statements incorporated by reference or contained in this prospectus discuss our future expectations, contain projections of our results of operations or financial condition, and include other forward-looking information within the meaning of Section 27A of the Securities Act of 1933, as amended. Our actual results may differ materially from those expressed in forward-looking statements made or incorporated by reference in this prospectus. Forward-looking statements that express our beliefs, plans, objectives, assumptions or future events or performance may involve estimates, assumptions, risks and uncertainties. Therefore, our actual results and performance may differ materially from those expressed in the forward-looking statements. Forward-looking statements often, although not always, include words or phrases such as the following: "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "intends," "plans," "projection" and "outlook."

You should not unduly rely on forward-looking statements contained or incorporated by reference in this prospectus. Various factors discussed in this prospectus, including, but not limited to, all the risks discussed in "Risk Factors," and in our other SEC filings may cause actual results or outcomes to differ materially from those expressed in forward-looking statements. You should read and interpret any forward-looking statements together with these documents.

Any forward-looking statement speaks only as of the date on which that statement is made. We will not update any forward-looking statement to reflect events or circumstances that occur after the date on which such statement is made.

RATIO OF EARNINGS TO FIXED CHARGES

Our ratio of earnings to fixed charges in accordance with Israeli GAAP for the periods presented are as follows:

	Nine Months Ended September 30, 2005 (Unaudited)	Year Ended December 31,				
		2004	2003	2002	2001	2000
Ratio of earnings to fixed charges	__(1)	__(2)	__(3)	__(4)	__(5)	__(6)

(1) Earnings as adjusted were inadequate to cover fixed charges by $154.8 million for the nine months ended September 30, 2005.
(2) Earnings as adjusted were inadequate to cover fixed charges by $134.2 million in 2004.
(3) Earnings as adjusted were inadequate to cover fixed charges by $127.3 million in 2003.

(4) Earnings as adjusted were inadequate to cover fixed charges by $63.7 million in 2002.
(5) Earnings as adjusted were inadequate to cover fixed charges by $49.5 million in 2001.
(6) Earnings as adjusted were inadequate to cover fixed charges by $3.5 million in 2000.

CAPITALIZATION

The following table sets forth our long-term debt, convertible debentures and capitalization as of September 30, 2005 on an actual basis, on an as adjusted basis to reflect the issuance of the debentures that are convertible into our ordinary shares issuable upon exercise of the rights we are distributing (excluding the conversion of the debentures) and on an adjusted basis to reflect only the issuance of the debentures that are convertible into our ordinary shares to our four largest shareholders pursuant to their commitments to purchase an aggregate of $25.5 million principal amount of convertible debentures (excluding the conversion of the debentures).

	September 30, 2005		
	Actual*	As Adjusted(1)	As Adjusted(2)
	(U.S. dollars in thousands)		
Current maturities of existing convertibles debentures	$ 6,397	$ 6,397	$ 6,397
Long-term debt (3)	510,360	510,360	510,360
Convertible debentures (existing)	19,192	19,192	19,192
Convertible debentures offered in this rights offering	--	50,000	25,500
Long-term liability in respect of customer advances	60,577	60,577	60,577
Shareholders' equity:			
Ordinary Shares, NIS 1.00 par value per share; 250,000,000 authorized shares ***, 68,007,609 issued shares**; 66,707,609 outstanding shares	16,499	16,499	16,499
Additional paid-in capital	521,489	521,489	521,489
Shareholders receivables	(26)	(26)	(26)
Accumulated deficit	(514,582)	(514,582)	(514,582)
Treasury stock, 1,300,000 shares	(9,072)	(9,072)	(9,072)
Total shareholders' equity	14,308	14,308	14,308
Total capitalization	$ 688,727	$ 739,694	$ 715,194

* This financial data is derived from unaudited condensed interim consolidated financial statements.
** Includes 1,300,000 treasury shares.
*** In July 2005, our board of directors approved increasing our authorized share capital to 500 million ordinary shares, par value NIS 1.00 per share. This increase was approved by our shareholders in October 2005.
(1) As adjusted to reflect our issuance of $50,000,000 in principal amount of debentures convertible into our ordinary shares, assuming the exercise in full of all the rights distributed in this rights offering. The amounts as adjusted reflect the gross proceeds to be received from this rights offering.
(2) As adjusted to reflect the sale of $25,500,000 in principal amount of debentures convertible into our ordinary shares that Israel Corp., SanDisk Corporation, Alliance Semiconductor and Macronix International Co. Ltd. have committed to purchase. The amounts, as adjusted, reflect the gross proceeds to be received from this rights offering.

(3) The indebtedness represented by long-term debt is secured by specific and floating liens on all of our assets.

The information set forth on an actual basis in the foregoing table excludes 224,447 ordinary shares that we issued in October, 2005. The information excludes as of September 30, 2005: (i) 13,200,849 ordinary shares issuable upon exercise of options granted to employees and directors at a weighted average exercise price of $4.19; (ii) up to 2,697,068 ordinary shares issuable upon conversion of unsecured, subordinated convertible debentures, net that we issued in January 2002 in the amount of NIS 117.4 million (or $25.6 million, as of September 30, 2005), which are convertible through December 31, 2008; (iii) 2,211,596 ordinary shares issuable upon exercise of options exercisable through January 20, 2006 at an exercise price of NIS 42.0, linked to the Israeli Consumer Price Index (or $9.1, as of September 30, 2005); (iv) 3,594,070 ordinary shares issuable upon exercise of warrants with an exercise price of $7.50; (v) 400,000 and 896,596 ordinary shares issuable upon the exercise of warrants issued to our banks in connection with our credit facility with exercise prices of $6.20 and $6.17 per share, respectively; (vi) 58,906 ordinary shares issuable upon exercise of warrants issued to Israel Corp. in connection with the November 2003 amendment to our facility agreement with an exercise price of $6.17 per share and exercisable until December 2008; (vii) 8,264,464 ordinary shares issuable upon exercise of the warrants we issued to our banks with an exercise price of $1.21 in connection with the July 2005 amendment to our facility agreement; and (viii) $7.7 million we borrowed under our credit facility agreement in October 2005.

This information does not take into account the following potential dilutive issuances of securities pursuant to our credit facility agreement and agreements with our major wafer partners and with Israel Corp. which cannot be calculated as of the date of this prospectus since the number of shares issuable will depend upon future transactions in which we may engage: (i) ordinary shares issuable upon conversion of up to $38.2 million in wafer prepayment credits (as of September 30, 2005) which we have issued our major wafer partners; (ii) ordinary shares issuable upon exercise of warrants issued to Israel Corp. and our banks in the event that we are required by our banks to complete a rights offering in connection with the arrangements agreed to in the November 2003 amendment to

our facility agreement; and (iii) ordinary shares issuable upon conversion of securities we may be required to issue in connection with a rights offering and outside investor provisions agreed to in the November 2003 amendment to our facility agreement.

DILUTION; EFFECT OF THE RIGHTS OFFERING ON OUR OUTSTANDING SHARES, OPTIONS, WARRANTS AND CONVERTIBLE SECURITIES

Dilution

Assuming that all of the rights we are distributing are exercised and that all the debentures are converted into our ordinary shares at a conversion price of one ordinary share per each $1.13 amount of outstanding principal, we will issue an additional 44,247,787 of our ordinary shares. This would represent an approximate 66% increase over our 66,932,056 issued and outstanding ordinary shares as of October 31, 2005, excluding: (i) adjustments to the conversion price, (ii) shares issuable upon exercise of our outstanding options or warrants, (iii) the conversion by our wafer partners of their wafer credits into our ordinary shares, and (iv) the conversion of our convertible debentures already traded on the TASE, including all changes in the exercise price/conversion price of such securities as a result of this rights offering. As of September 30, 2005, we had 13,200,849 outstanding options under our employee and directors share option plans, of which 2,556,148 are options that entitle their holders to receive rights in this offering. If all the rights we are distributing to our eligible employees under our employee share option plans are exercised and all the debentures are converted into our ordinary shares at a conversion price of one ordinary share per each $1.13 amount of outstanding principal, we will issue approximately 1,610,000 of our ordinary shares to our eligible employees, which represents approximately 2.4% of our issued and outstanding shares.

If you do not exercise your rights or if you exercise your rights but thereafter do not convert the debentures, the percentage of ordinary shares that you hold will decrease upon the conversion of the debentures issued in this rights offering into our ordinary shares by other shareholders and eligible employees.

Effect of This Rights Offering on Our Convertible Securities

Employee Share Option Plans. Under our employee share option plans that were adopted prior to July 1, 2002, in the event of a rights offering, we are required to grant similar rights to all employees holding options on the record date (including unvested options). Accordingly, we are offering those employees holding options under these employee share option plans, one right for each 138.98 employee options held by them on the record date. Each right will entitle these persons to purchase one hundred debentures at a subscription price of $100.00. Each debenture is of $1.00 in principal amount. The debentures will be convertible into our ordinary shares at a rate of one ordinary share per $1.13 aggregate principal amount of debentures.

Our employee share option plans adopted after July 1, 2002 provide that in the event of a rights offering, new option holders will be entitled to an adjustment to the number of shares into which the options are exercisable based on the element of economic benefit of the rights offering, as such element is calculated by the Tel-Aviv Stock Exchange in accordance with its rules, (as is represented by the ratio between the price per share on the closing of trade on the Tel Aviv Stock Exchange on the record date and the Ex price determined by the Tel Aviv Stock Exchange to be the opening price on the subsequent trading day). In accordance with the rules of the Tel Aviv Stock Exchange, the Tel Aviv Stock Exchange will not set an Ex Price with respect to a rights offering of a new series of convertible debentures. Therefore, there will be no adjustment in the number of shares issuable upon exercise of the employee options as a result of this rights offering. As of September 30, 2005, we issued 10,293,425 options to our employees under these revised option plans.

As of September 30, 2005, we had 13,200,849 outstanding options under our employee and directors share option plans, out of which 2,556,148 are options that entitle their holders to receive rights in this offering. If all the rights we are distributing to our eligible employees under our employee share option plans are exercised and all the debentures are converted into our ordinary shares at a conversion price of one ordinary share per each $1.13 amount of outstanding principal, we will issue approximately 1,610,000 of our ordinary shares to our eligible employees, which represents approximately 2.4% of our issued and outstanding shares.

Convertible debentures and Options (Series 1). We have a principal amount of NIS 110,579,800 ($24,049,543 as of September 30, 2005) in outstanding convertible debentures, which are convertible into 2,697,068 ordinary shares and 2,211,596 outstanding Options (Series 1). Both securities were issued under a prospectus published in Israel on January 15, 2002 and are traded on the Tel Aviv Stock Exchange. The debentures are convertible into our ordinary shares at a conversion price of one ordinary share per each NIS 41 principal amount of the debentures linked to the CPI. Each Option (Series 1) is exercisable into one ordinary share for an exercise price linked to the Israeli Consumer Price Index (as of September 30, 2005 NIS 42.0; $9.1). Under the terms of their issuance, in the event of a rights offering, the number of shares issuable upon conversion of the convertible debentures and upon exercise of the Options (Series 1) will be adjusted to reflect the economic benefit component in the rights offering (as is represented by the ratio between the price per share on the closing of trade on the Tel Aviv Stock Exchange on the record date and the Ex price determined by the Tel Aviv Stock Exchange to be the opening price on the subsequent trading day). In accordance with the rules of the Tel Aviv Stock Exchange, the Tel Aviv Stock Exchange will not set an Ex price with respect to a rights offering of a new series of convertible debentures. Therefore there will be no adjustment in the number of shares issuable upon exercise of the Options (Series 1) and in the number of ordinary shares issuable upon the conversion of the convertible debentures.

USE OF PROCEEDS

We intend to use the net proceeds from this rights offering towards the further ramp-up and deployment of Fab 2 and for marketing expenses for the sale of our products and services as well as for general corporate purposes, including working capital. Our gross proceeds from the rights offering will depend on the number of rights that are exercised. Four of our major shareholders – Israel Corp., SanDisk Corporation, Alliance Semiconductor Corporation and Macronix International Co. Ltd – have committed and are obligated to purchase an aggregate of $25.5 million in principal amount of debentures. Other than pursuant to these commitments, there can be no assurance that any of the rights will be exercised. If all of the rights are exercised, then we will receive immediate proceeds from the sale of our debentures of $50 million, before deducting estimated expenses payable by us of approximately $1 million.

THE RIGHTS OFFERING

Before exercising any rights, you should read carefully the information set forth under "Risk Factors." For a description of the debentures issuable in this rights offering, see "Description of the Debentures" below.

The Rights

We are distributing transferable rights to shareholders who own our ordinary shares and to eligible employees who hold options to purchase our ordinary shares, granted under certain of our share option plans, at 5:00 p.m., New York time (midnight, Israel time) on _____ __, 2005, the record date, at no cost to the shareholders and eligible employees. We will distribute to you one right for each 138.98 ordinary shares and/or employee options that you own at 5:00 p.m. New York time (midnight, Israel time) on the record date, _____ __, 2005. If you hold 138 or fewer ordinary shares and/or eligible options on the record date, you will not receive any rights. Your rights will be aggregated for all the shares (and/or eligible employee options, as the case may be) that you own on the record date and then rounded down to the nearest whole number, so that you will not receive fractional rights. For example, if you own 139 shares on the record date, you will receive one right, and if you own 100,000 shares on the record date, you will receive 719 rights. Each right will entitle you to purchase, at a subscription price of $100.00, one hundred U.S. dollar denominated debentures. Each debenture is of $1.00 in principal amount. The debentures will be convertible into our ordinary shares at a rate of one ordinary share per $1.13 aggregate principal amount of debentures.

The subscription price must be paid to American Stock Transfer & Trust Co., as Rights Agent, or directly to us under the procedures described herein. If you hold your shares through the nominee company of the Tel Aviv Stock Exchange (*Hevra Le-Rishumim of Bank Leumi Le-Israel Ltd.*), the subscription price is to be paid in New Israeli Shekels according to the representative exchange rate that will be published by the Bank of Israel on the day before payment of the subscription price.

The rights are exercisable during a 23-day period, beginning after 5:00 p.m. New York City time (midnight, Israel time) on _____ __, 2005 (the record date) and ending at 5:00 p.m. New York City time (midnight, Israel time) on _____ __, 2005. We will issue to you certificates representing the debentures convertible into our ordinary shares purchased in this offering as soon as practicable after the rights expiration date (_____ __, 2005), provided that the Rights Agent has received your duly completed exercise form and your payment has cleared. If you hold your shares through a broker, dealer or other nominee (including through members of the Tel Aviv Stock Exchange), your time to exercise will be subject to the timing requirements of your broker, dealer or other nominee (which may be earlier than the final expiration date of the rights), in addition to other procedural requirements of your broker, dealer or other nominee, as described below.

No Fractional Entitlements

The rights will be aggregated for all of the ordinary shares and eligible employee options you own on the record date and then rounded down to the nearest whole number. We will neither issue fractional rights nor pay cash in lieu thereof. Subscriptions will be accepted for a whole number of rights only.

Committed Purchases

Four of our major shareholders – Israel Corp., SanDisk Corporation, Alliance Semiconductor Corporation and Macronix International Co. Ltd – have committed and are obligated to exercise all or some of their rights to purchase debentures. Israel Corp., which as of the date of this prospectus owns approximately 21.3% of our outstanding share capital on a non-diluted basis, and SanDisk Corporation, which as of the date of this prospectus owns approximately 15.3% of our outstanding share capital on a non-diluted basis, have committed, in connection with the July 2005 amendment to our credit facility agreement, and are obligated to exercise 100% and approximately 47.6%, of their rights, respectively, for the purchase of approximately $10.26 million and $3.5 million in debentures, respectively. In addition, Alliance and Macronix, which as of the date of this prospectus owned approximately 13.4% and 13.1%, respectively, of our outstanding share capital on a non-diluted basis, have committed to exercise approximately 15.5% and 15.8%, respectively, of their rights for the purchase by each of them of $1 million principal amount of debentures. If, prior to the record date, Alliance Semiconductor were to sell 662,860 of our shares further to its filing of a Form 144 with the Securities and Exchange Commission on December 2, 2005 for the sale of 662,860 shares, it will own approximately 12.4% of our outstanding share capital as of the record date, and its commitment to purchase $1 million of debentures would reflect an exercise of approximately 16.7% of its total rights. In addition, SanDisk, Alliance, Macronix and Quicklogic Corporation have agreed to transfer to Israel Corp. a portion of their unexercised rights, which Israel Corp. has committed and is obligated to exercise, such that Israel Corp. will purchase an aggregate of $20 million in debentures ($10.26 million by the exercise of its own rights and approximately $9.74 million by the exercise of the rights transferred to it). Our four major shareholders together have committed and are obligated to purchase an aggregate of $25.5 million principal amount of convertible debentures. The purchase of debentures by these major shareholders will be effected at the same time as purchases of debentures which are covered by the registration statement filed with the Securities and Exchange Commission of which this prospectus is a part, and they will receive certificates representing the debentures purchased upon exercise of their rights as soon as practicable after _____ __, 2005.

The rights to be distributed to these major shareholders and to Quicklogic Corporation, the convertible debentures issuable upon exercise of such rights and our ordinary shares issuable upon the conversion of such debentures are not covered by the registration statement filed with the Securities and Exchange Commission of which this prospectus is a part, and are being issued in transactions pursuant to an exemption from the registration requirements of the Securities Act of 1933. These securities will be restricted securities and will not be transferable absent registration or an applicable exemption. We have agreed to register the resale of such securities by Israel Corp., SanDisk Corporation, Alliance Semiconductor Corporation and Macronix International Co. Ltd. following the effective date of the registration statement of which this prospectus is a part and intend to file a registration statement therefor within 30 days from the rights expiration date.

In addition to the securities obtainable upon exercise of the rights being distributed to Israel Corp., SanDisk Corporation, Alliance Semiconductor Corporation, Macronix International Co. Ltd. and Quicklogic Corporation, these major shareholders may purchase from other rights holders, either in the open market or in private transactions, securities covered by the registration statement filed with the Securities and Exchange Commission of which this prospectus is a part. The resale of any securities so purchased by the major shareholders would require either a separate resale registration or compliance with the provisions of applicable securities laws relating to the sale of a company's securities by its affiliates. Neither the major shareholders nor Quicklogic Corporation have an arrangement in the nature of a standby or any other arrangement with us or anyone else to purchase any of the securities covered by the registration statement.

No Recommendation to Rights Holders

We are not making any recommendations as to whether or not you should exercise your rights. You should make your decision based on your own assessment of your best interests after reading this prospectus.

As of September 30, 2005, our officers and directors as a group held an aggregate of 1,052 of our ordinary shares, held options exercisable for the purchase of 4,332,714 of our ordinary shares, (including a grant of options to our chief executive officer to purchase up to 1,325,724 shares approved by our board of directors and subsequently approved in October 2005 by our shareholders) of which 235,416 options entitle their holders to receive rights in this offering. If all the rights we are distributing to our officers and directors under this rights offering are exercised and all their debentures are converted into our ordinary shares at a conversion price of one ordinary share per each $1.13 amount of outstanding principal, we will issue approximately 150,353 of our ordinary shares to our officers and directors.

Withdrawal Right

Our board of directors may withdraw the rights offering in its sole discretion at any time prior to 5:00 p.m., New York City time (midnight, Israel time), on _____ __, 2005 (the record date) for any reason (including, without limitation, a change in the market price of our ordinary shares).

Determination of Subscription Price

Based on the guidelines of this rights offering that were approved by the audit committee of our board of directors, our board of directors set all of the terms and conditions of the rights offering, including the subscription price. Our company's objective in establishing the subscription price was to reflect recent trading prices, raise the targeted proceeds and provide all of our shareholders with a reasonable opportunity to make an additional investment in our company. The audit committee of our board of directors consulted with a financial advisor in order to assist in the determination of the commercial terms. In establishing the commercial terms, including the subscription price, our board of directors and its audit committee considered the following factors: the strategic alternatives available to us for raising capital, the market price of our ordinary shares, the pro rata nature of the offering, pricing and terms of similar transactions, the advice of the financial advisor, our business prospects and general conditions in the securities markets. The subscription price, however, does not necessarily bear any relationship to our past or expected future results of operations, cash flows, current financial condition, or any other established criteria for value.

The subscription price should not be considered an indication of our actual value, or the actual value of our ordinary shares or our debentures. We cannot assure you that the market price of our ordinary shares will not decline during the rights offering or that the market price of our ordinary shares or the debentures will not decline after the rights offering. We also cannot assure you that you will be able to sell the ordinary shares issuable upon conversion of the debentures at a price equal to or greater than the conversion price at which your debentures may be converted. On December 7, 2005, the last reported sale price of our ordinary shares on the NASDAQ National Market was $1.62 per share and on the Tel Aviv Stock Exchange was NIS 7.695 per share. We urge you to obtain a current quote for our ordinary shares before exercising your rights or converting your debentures.

Our Decision Will be Binding on You

All questions concerning the timeliness, validity, form and eligibility of any exercise of rights will be determined by us in accordance with the terms of this prospectus, and our determinations will be final and binding. In our sole discretion, we may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as we may determine, or reject the purported exercise of any right by reason of any defect or irregularity in such exercise. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as we determine in our sole discretion. In determining whether to waive any defect or irregularity regarding the exercise of the rights, we will consider the materiality of the defect or irregularity. If we determine that any such defect or irregularity is material then the subscription will not be deemed to have been received or accepted until such defect or irregularity is cured within such time as we determine in our sole discretion. We will not be under any duty to notify you of any defect or irregularity in connection with the exercise of your rights or incur any liability for failure to give such notification. However, liabilities under the U.S. federal securities laws and Israeli securities laws cannot be waived.

No Revocation of Exercise of Rights

After you have exercised your rights, **you may not revoke that exercise**. You should not exercise your rights unless you are certain that you wish to purchase our debentures.

Method of Exercise of Rights for Record Holders

Shortly after the date of this prospectus, we will send by registered mail or personal delivery to each holder of our ordinary shares that is registered on our shareholder registry maintained at American Stock Transfer & Trust Co. a rights certificate conferring the number of rights applicable to each holder. The rights certificate will be accompanied by a copy of this prospectus, and on the back of the rights certificate will be a rights exercise form and a rights transfer form.

During the subscription period ending on _____ __, 2005, if you are a record owner of our ordinary shares, you may exercise your rights by delivering a signed exercise form on the back of your rights certificate or a notice of guaranteed delivery to American Stock Transfer & Trust Co., our Rights Agent, at the address noted below together with payment in full of the subscription price for each right being exercised, by 5:00 p.m., New York City time (midnight Israel time), on _____ __, 2005. This rights offering will not be extended beyond the subscription period ending on _____ __, 2005, except as disclosed in this prospectus. We may agree to accept the exercise of rights by record owners who reside outside of Israel by delivery to us of a signed exercise form, together with payment in full of the subscription price in United States dollars or New Israeli Shekels, if requested and agreed to by us.

If you are a record owner and reside in Israel, you may also exercise your rights by delivering a signed exercise form on the back of your rights certificate to us at the address noted below, together with payment in full of the subscription price in New Israeli Shekels for each right being exercised, by midnight, Israel time, on _____ __, 2005. If you are a record owner who resides in Israel, we may agree to accept payments in U.S. dollars if requested and agreed to by us.

We and American Stock Transfer & Trust Co., our Rights Agent, as applicable, may refuse to accept improperly completed or delivered or unexecuted exercise forms. We and American Stock Transfer & Trust Co., our Rights Agent, as applicable, must receive payment in full of the subscription price for each right being exercised together with the exercise form (or notice of guaranteed delivery).

If you are delivering your completed exercise form (or notice of guaranteed delivery) and payment for the exercise of your rights to American Stock Transfer & Trust Co., our Rights Agent, please do so by mail, overnight or hand delivery to one of the following addresses:

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038
Attention: Reorganization Department

American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn, New York 11219
Attention: Reorganization Department

Record owners who reside in Israel, and who wish to deliver their completed exercise form and subscription payment in New Israeli Shekels for the exercise of their rights directly to us, must do so by mail, overnight courier or by hand, as follows:

Tower Semiconductor Ltd.
Ramat Gavriel Industrial Park
P.O. Box 619
Migdal Haemek 23150 Israel
Attention: Ms. Nati Somekh Gilboa

Any payments to American Stock Transfer & Trust Co., as Rights Agent, must be made in U.S. dollars by check drawn on a bank located in the United States and payable to "American Stock Transfer & Trust Co., as Rights Agent," or by wire transfer of funds to the account maintained by American Stock Transfer & Trust Co., our Rights Agent, for this rights offering at JP Morgan Chase, 55 Water Street, New York, New York 10005, ABA No.021000021, Account No. 323-836933, reference Tower Semiconductor Ltd, Attention: Reorganization Department.

Any payments to us shall be made in New Israeli Shekels according to the representative exchange rate published by the Bank of Israel on the day before payment of the subscription price and shall be by wire transfer or by check drawn on a bank located in Israel, and payable to "Tower Semiconductor Ltd." Any wire transfer to us should be made to Bank Leumi Le Israel, Haifa Main Branch, 21 Jaffa St., Haifa, Israel, Branch # 876, Account # 130300/62, Swift Code: LUMIILITTLV. You will choose the method of delivery of exercise forms and payment of the subscription price and will bear the risk of such election. We may agree to accept other forms of payment or payments in U.S. dollars if requested and agreed to by us.

IF YOU SEND YOUR COMPLETED EXERCISE FORM AND PAYMENTS BY MAIL, WE URGE YOU TO USE REGISTERED MAIL, PROPERLY INSURED, WITH RETURN RECEIPT REQUESTED, AND TO ALLOW A SUFFICIENT NUMBER OF DAYS TO ENSURE DELIVERY AND CLEARANCE OF PAYMENT PRIOR TO THE EXPIRATION DATE. WE STRONGLY URGE YOU TO PAY, OR ARRANGE FOR PAYMENT, BY MEANS OF A CHECK DRAWN ON A BANK LOCATED IN THE UNITED STATES OR IN ISRAEL. We will not consider any payment by check, other than a cashier's check or a money order, to have been made until the check clears through the account of American Stock Transfer & Trust Co., our Rights Agent, or to our account, as applicable, before the expiration date.

Payments for the exercise of your rights made to American Stock Transfer & Trust Co., our Rights Agent, will be held in a segregated interest bearing money market account, and will be sent to us in accordance with our written instructions.

Guaranteed Delivery Procedures in the United States

If you want to exercise your rights, but time will not permit your rights certificate to reach American Stock Transfer & Trust Co., our Rights Agent, prior to 5:00 p.m., New York City time (midnight, Israel time), on _____ __, 2005, you may exercise your subscription rights if you send, and the Rights Agent receives, (1) payment in full for each right being exercised, (2) a notice of guaranteed delivery, substantially in the form provided to you with your rights certificate, from a member firm of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States, and (3) your properly completed and duly executed rights certificate, including any required signature guarantees, within three NASDAQ trading days following the date of your notice of guaranteed delivery. The notice of guaranteed delivery may be delivered to the Rights Agent in the same manner as your rights certificate as set forth herein, or may be transmitted to the Rights Agent by facsimile transmission, to facsimile number 718-234-5001. You can obtain additional copies of the form of notice of guaranteed delivery by requesting them from the Rights Agent.

Transferability of Rights

The rights are transferable. You may sell or otherwise transfer them to others. The unexercised rights will be eligible for trading on the NASDAQ Capital Market and the Tel Aviv Stock Exchange for one day only on _____, 2005. If you are one of our affiliates, you may transfer your rights only if there is an effective registration statement or exemption covering such transfer under the United States securities laws.

Record holders wishing to transfer their rights to another person may do so by executing the rights transfer form on the back of the rights certificate and submitting it to American Stock Transfer & Trust Co. prior to _____ __, 2005 (3 New York business days prior to the rights expiration date) . Record holders wishing to sell their rights on the NASDAQ Capital Market or the Tel Aviv Stock Exchange, should independently engage a broker to execute this sale on their behalf.

If no contrary instructions have been received by _____ __, 2005 and your rights remain unexercised, your rights will expire. If you hold your shares through the nominee company of the Tel Aviv Stock Exchange (*Hevra Le-Rishumim of Bank Leumi Le-Israel Ltd.*), the rules of the Tel Aviv Stock Exchange provide that if no contrary instructions have been received from you by the time determined by your broker on _____, 2005, you will be considered to have instructed your broker to sell all your rights on the Tel Aviv Stock Exchange with no price limit.

You are responsible for all commissions, fees and other expenses, including brokerage commissions and transfer taxes, incurred in connection with the purchase, sale or exercise of rights.

Ambiguities in Exercise of Rights

If you do not specify the number of rights being exercised, or if your payment is not sufficient to pay the total subscription price for all of the debentures that you indicated you wished to purchase, you will be deemed to have exercised the maximum number of rights that could be exercised for the amount of the payment received from you. If your payment exceeds the total subscription price for all of the rights you have elected to exercise, we will promptly refund to you the balance with no interest.

Issuance of Debentures

We will issue to you notes evidencing the debentures issuable upon the exercise of the rights in this offering as soon as practicable after _____ __, 2005 provided that we or the American Stock Transfer & Trust Co., our Rights Agent, as applicable, has received your duly completed exercise form and your payment has cleared. Brokers may be unwilling to sell the debentures until these holders have received notes evidencing the debentures. Trading in the debentures on NASDAQ and the Tel Aviv Stock Exchange, respectively, will commence as soon as practicable after the rights expiration date (_____ __, 2005) in accordance with their respective rules.

Beneficial Owners Who Are Not Record Holders

If you are a beneficial owner of our ordinary shares and hold them through a broker, dealer or other nominee (including a member of the Tel Aviv Stock Exchange), you should expect your broker, dealer or other nominee to notify you of this rights offering and the procedures for exercising or transferring your rights. If you wish to exercise your rights, you will need to have your broker, dealer or other nominee act for you. To indicate your decision with respect to your rights, you should complete and return to your broker, dealer or other nominee the form provided to you accompanied by the subscription payment. You should receive this form from your broker, custodian bank or other nominee with the other rights offering materials. You should NOT return your subscription form or transfer the subscription payment directly to us.

Summarized below are the procedures for exercising your rights if you are a beneficial owner whose ordinary shares are held through the nominee company of the Tel Aviv Stock Exchange (*Hevra Le-Rishumim of Bank Leumi Le-Israel Ltd.*).

Procedures Applicable to Holders of Shares Through the Nominee Company of the Tel Aviv Stock Exchange.

If you hold your ordinary shares through the nominee company of the Tel Aviv Stock Exchange (*Hevra Le-Rishumim of Bank Leumi Le-Israel Ltd.*), you should expect to receive a letter regarding this rights offering from the member of the Tel Aviv Stock Exchange through which you hold your shares. In that letter, you will be requested to make ONE of the following three elections:

(1) Exercise your rights and subscribe for debentures that are convertible into our ordinary shares. If this alternative is elected, you may give a member of the Tel Aviv Stock Exchange through which you hold your shares an exercise notice commencing after 5:00 p.m., New York City time (midnight, Israel time), on _____ __, 2005 (the record date) and no later than the time determined by your broker on _____ __, 2005. You must attach the subscription payment to your notice. You will need to arrange with your broker the method of payment of your subscription payment. The subscription price is to be paid in New Israeli Shekels according to the representative exchange rate published by the Bank of Israel on the day before payment of the subscription price; or

(2) Sell the rights or any part of them on the Tel Aviv Stock Exchange. If you select this alternative, you may give your broker price limit instructions as to the sale of the rights; or

(3) Refrain from exercising your rights and from selling them.

Your notice should reach the member of the Tel Aviv Stock Exchange through which you hold your shares by no later than _____ __, 2005 (the rights trading day) at the time determined by your broker. If notice is not received from you by such time, you will be considered to have instructed your broker to sell your rights on the Tel Aviv Stock Exchange, with no price limit.

If you hold rights and wish to transfer them to another person, you may do so by executing the rights transfer form that will be made available to you by your broker.

The rights will trade on the Tel Aviv Stock Exchange for one trading day, _____ __, 2005. Pursuant to the Tel Aviv Stock Exchange rules, if the trading of our ordinary shares or the rights is halted for a period in excess of 45 minutes, and the trading does not resume for the remainder of that day upon which the rights are traded on the Tel Aviv Stock Exchange, an additional trading day for the rights will take place, and the last day to exercise the rights will be accordingly extended. If on the day upon which the rights are traded on the Tel Aviv Stock Exchange the trading of our ordinary shares is halted, yet the cessation of trade continues for fewer than five consecutive trading days, your instructions with respect to the rights delivered to your broker shall remain in effect unless contrary instructions have been received by your broker from you. If the trading of our ordinary shares on the day upon which the rights are traded on the Tel Aviv Stock Exchange is halted for a period of more than five consecutive trading days, all prior instructions received by your broker will be cancelled.

Holders of unexercised rights following the Tel Aviv Stock Exchange rights trading day may exercise them and subscribe for debentures that are convertible into our ordinary shares by notifying their broker and transferring the subscription payment. This notice must reach the broker by no later than _____ __, 2005 at the time determined by the broker. If this notice is not received on time, it will not be possible to exercise these rights.

Under the Tel Aviv Stock Exchange rules, Tel Aviv Stock Exchange members must submit to the Tel Aviv Stock Exchange Clearing House a written rights exercise (subscription) notice on behalf of all their clients wishing to exercise rights no later than 9:00 a.m. Israel time (2:00 a.m., New York City time) on

_____ __, 2005. The rights of holders of our ordinary shares through the nominee company of the Tel Aviv Stock Exchange will expire if the brokers of these holders do not provide an exercise notice as described above. The Tel Aviv Stock Exchange rules further require brokers to transfer, on the same date, to the Tel Aviv Stock Exchange Clearing House the subscription payments with respect to their clients' exercised rights, and the Tel Aviv Stock Exchange Clearing House thereafter will transfer these payments to us.

Employee Option Holders

If you are a holder of employee options that entitle you to receive rights, you will receive, upon request, a copy of this prospectus from our Human Resources Department. The transfer and exercise of the rights granted to you by virtue of our employee share option plans are taxable (see "Material Income Tax Considerations–Israeli Tax Considerations"). As we are required to withhold the taxes that may apply to you if you exercise or transfer your rights, you must adhere to the following procedures:

If you wish to exercise your rights (or any part thereof), you must do so through our corporate secretary at our offices and you may not do so through our Rights Agent.

If you wish to sell your rights, you may only do so in the framework of an organized selling arrangement that we are implementing for our employees. You do not have to notify us of your wish to sell your rights. If by 5:00 p.m. (Israel time) on _____ __, 2005 (18 days after the record date), we do not receive a notice from you that you wish to exercise your rights, you will be considered to have instructed us to sell your rights and we will include your rights in the organized selling arrangement. Under the organized selling arrangement, we will engage a broker to sell all the unexercised rights on the day upon which the unexercised rights will trade on the Tel Aviv Stock Exchange (_____ __, 2005). We will instruct the broker to use his discretion in selling the rights with the aim of maximizing the total consideration received for the rights, but we will not specify any price limits. If the broker succeeds in selling the employees' rights (or any part thereof), he will transfer to us the total consideration received from the sale (after deducting his fees as agreed with us). We will distribute this total consideration among the employees, pro-rata to the number of their unexercised rights. We will transfer your pro-rata share to you as soon as practicable together with your monthly salary and withhold from this amount all applicable taxes. All employees' rights that are not sold by the broker will expire.

Nominee Holders

If you are a broker, a trustee or a depositary for securities that holds our ordinary shares for the account of others as a nominee holder, you should notify the respective beneficial owners of such shares as soon as possible of the issuance of the rights to find out such beneficial owners' intentions. You should obtain instructions from the beneficial owner with respect to the rights, as set forth in the instructions we have provided to you for your distribution to beneficial owners. If the beneficial owner so instructs, you should complete the appropriate subscription certificates. A nominee holder that holds shares for the account(s) of more than one beneficial owner may exercise the number of rights to which all such beneficial owners in the aggregate otherwise would have been entitled if they had been direct record holders of our ordinary shares on the record date, so long as the nominee submits the appropriate subscription certificates and certifications and proper payment to us. If you are a member of the Tel Aviv Stock Exchange, you must comply with the rules of the Tel Aviv Stock Exchange with respect to providing notices to and receiving instructions from your clients.

Rights Agent

We have appointed American Stock Transfer & Trust Company as Rights Agent for the rights offering.

The Rights Agent's telephone number is 718-921-8200 and its facsimile number is 718-234-5001; Attention: Reorganization Department. We will pay the fees and specified expenses of the Rights Agent.

DESCRIPTION OF THE DEBENTURES

The debentures will be issued under an indenture to be dated as of December __, 2005 between us and The Bank of New York and Hermetic Trust (1975) Ltd., as co-trustees. The terms of the debentures include all the terms required to be made part of the indenture under the Israel Securities Law – 1968 and the Trust Indenture Act of 1939, as amended. The debentures are subject to all the terms of the indenture, and holders of the debentures are referred to the indenture for a statement thereof.

We have summarized selected provisions of the indenture below. This summary is not complete. The form of the indenture has been filed with the Israel Securities Authority, the Securities and Exchange Commission and the Israeli Registrar of Companies and will be available for review at our registered office. You should read the entire indenture for provisions that may be important to you.

General; Accrual of Interest

The debentures will be general unsecured obligations. The debentures will bear interest at the rate per annum of 5%. Principal of the debentures is payable, together with accrued interest, in one installment (in the aggregate maximum amount of approximately $67 million, assuming the exercise of all of the rights being distributed) on _____, 2011. On _____, 2011, the cumulative interest rate on the debentures will be 34.0096%. Instruments representing the debentures will be issued in denominations of $1.00 and integral multiples thereof.

Interest will initially accrue from the date following the last day rights may be exercised (_____, 2005), and will be computed on the basis of a 365-day year. Thereafter, interest will be computed on an annual compounded basis. Accrued interest will not be payable by us upon conversion of the debentures into our ordinary shares and you will lose your right to any accrued interest upon conversion of the debentures into our ordinary shares.

Conversion of Debentures

Commencing on the first trading day on the Tel Aviv Stock Exchange after the date on which the debentures are listed for trading on the Tel Aviv Stock Exchange and until _____ __, 2011 (inclusive) (16 days prior to the maturity date of the debentures, but if such date is not a trading day on the Tel Aviv Stock

Exchange, then the last date to convert the debentures will be the first trading day on the Tel Aviv Stock Exchange after such date), the debentures are convertible into our ordinary shares at a conversion price of one ordinary share per each $1.13 amount of outstanding principal of the debentures. Debentures may only be converted in integral multiples of $1.00 amounts. The debentures will not be convertible under the circumstances described below under "Election Not to Adjust the Conversion Price Following a Future Financing".

We will not issue fractional shares upon conversion of the debentures. We will round down the number of shares issuable upon conversion of the debentures to the nearest whole number and will not pay any cash adjustment in lieu of fractional shares.

Accrued interest will not be payable by us upon conversion of the debentures into our ordinary shares and you will lose your right to any accrued interest upon conversion of the debentures into our ordinary shares. Consequently, the effective conversion price applicable to your debentures would be increased to reflect the amount of interest being forfeited upon conversion. For example, if you convert your debentures on _____ __, 2011 (the last day on which debentures may be converted), the effective conversion price applicable to your debentures, assuming no adjustments are made to the conversion price, would be approximately $1.34.

Adjustment to Conversion Price Following a Future Financing

The conversion price will be adjusted if either of the following two scenarios occurs:

— In the event that by _____ __, 2006 (12 months after the record date), we consummate one or more financings (excluding this rights offering) in which we receive gross proceeds from each such financing of at least $5 million, the conversion price of the debentures will be adjusted to 90% of the lowest price per share (as calculated below) at which we sold securities in any one of these financings, if the lowest price per share at which we sold securities in any one of these financings would be lower than the original conversion price. We will issue a press release to announce the adjusted conversion price on the fifth Tel Aviv Stock Exchange trading day after_____ __, 2006 and the adjustment will take effect on the first Tel Aviv Stock Exchange trading day following the twenty first day after the date of the press release.

— In the event that by _____ __, 2006, we do not receive in any one financing (excluding this rights offering) gross proceeds of at least $5 million, but execute prior to _____ __, 2006 one or more agreements relating to transactions which have not closed, letters of intent, memorandums of understanding or similar agreements or understandings, for a proposed financing or financings, which have not been abandoned prior to _____ __, 2006, and we receive in any one of these financings gross proceeds of at least $5 million by _____ __, 2007 (18 months after the record date), then, the conversion price will be adjusted to 90% of the lowest price per share (as calculated below) at which we sold securities in any of these financings, if the lowest price per share at which we sold securities in any one of these financings would be lower than the original conversion price. We will issue a press release to announce the adjusted conversion price on the fifth Tel Aviv Stock Exchange trading day after _____ __, 2007 and the adjustment will take effect on the first Tel Aviv Stock Exchange trading day following the twenty first day after the date of the press release.

The adjusted conversion price to the debentures shall under no circumstances be lower than $0.01.

In addition, in the event that we execute prior to _____ __, 2006 one or more agreements, letters of intent, memorandums of understanding or similar agreements or understandings for a proposed $75 million financing that has not consummated prior to_____ __, 2006, even if we receive gross proceeds of at least $5 million in a financing by _____ __, 2006, then the conversion price will be subject to adjustment only following _____ __, 2007 (18 months after the record date) and if we consummate such $75 million financing by _____, 2007, the price per share in such financing will be taken into account for such purposes. However, we may elect not to adjust the conversion price if we consummate a financing or series of related financings in which we receive gross proceeds of at least $75 million as described below under "Election Not to Adjust Conversion Price Following a Future Financing."

A financing for purposes of adjustments to the conversion price means:

— the sale of our shares, warrants or additional convertible debentures, other than employee options, existing outstanding warrants, employee options convertible debentures or other rights; and

— the conversion of existing debt into equity, other than the conversion of existing wafer credits into our ordinary shares and existing convertible debentures.

We will calculate the price per share for the purposes of the adjustment to the conversion price as set forth below. The examples presented below are for illustration only and are not based on any forecasts, assumptions or actual calculations of economic values and should not be relied upon for any other purpose.

— If, in the financing or financings we issue only shares, the price per share for the purposes of calculating the adjustment will be the price per share in the financing or financings.

— If, in the financing or financings we issue only convertible debentures, the price per share for the purposes of calculating the adjustment will be the result of dividing the purchase price of the debentures issued in the financing or financings less the present value of the cumulative amount of interest payable prior to the last conversion date of the debentures issued in the financing or financings, by the number of shares issuable upon conversion of the debentures issued in the financing or financings.

  By way of illustration, if the purchase price of the debentures issued in the financing or financings is $1.10, the present value of the cumulative amount of interest payable prior to the last conversion date is $0.25 and the number of shares issuable upon conversion of the debentures issued in the financing or financings is 0.8 shares, the price per share would be ($1.10-$0.25)/0.8=$1.06.

— If, in the financing or financings we issue only warrants, the price per share for the purposes of calculating the adjustment will be

the purchase price of the warrants less the difference between the economic value of the warrants and the purchase price of the warrants, plus the present value of the exercise price of the warrants.

By way of illustration, if the purchase price per warrant is $0.60, the economic value per warrant is $0.70, and the present value of the exercise price per warrant is $0.50, then the price per share for the purposes of calculating the adjustment would be $0.60-($0.70-$0.60)+$0.50=$1.00.

— If, in the financing or financings we issue units consisting of shares and warrants, the price per share for the purposes of calculating the adjustment will be the result of dividing the purchase price per unit in the financing or financings, less the economic value of the warrants, by the number of shares in each unit (not including the number of shares issuable upon exercise of the warrants).

By way of illustration, if the purchase price of a unit is $2.00, the economic value per warrant is $0.70 and the number of shares in each unit was 1 share, the price per share for the purposes of calculating the adjustment would be ($2.00-$0.70)/1=$1.30.

— If, in the financing or financings we issue units consisting of convertible debentures and warrants, the price per share for the purposes of calculating the adjustment will be the result of dividing the price per unit in the financing or financings, less the present value of the cumulative amount of interest payable prior to the last conversion date of the debentures issued in the financing or financings and less the economic value of the warrants included in the units, by the number of shares in each unit issuable upon conversion of the debentures issued in the financing or financings, but not including the number of shares issuable upon exercise of the warrants.

By way of illustration, if the purchase price of the unit is $1.70, the present value of the cumulative amount of interest payable prior to the last conversion date is $0.25, the economic value per warrant is $0.70, and the number of shares issuable upon conversion of the debentures issued in the financing or financings is 0.8 shares, the price per share would be ($1.70-$0.25-$0.7)/0.8=$0.94.

— If, in the financing or financings we issue units consisting of shares and convertible debentures, the price per share for the purposes of calculating the adjustment will be the result of dividing the purchase price per unit in the financing or financings, less the present value of the cumulative amount of interest payable prior to the last conversion date of the debentures issued in the financing or financings, by the number of shares in each unit including the number of shares issuable upon conversion of the debentures issued in the financing or financings.

By way of illustration, if the purchase price of the unit is $2.10, the present value of the cumulative amount of interest payable prior to the last conversion date is $0.25 and the number of shares in each unit is 1 and the number of shares issuable upon conversion of the debentures issued in the financing or financings is 0.8 shares, the price per share would be ($2.10-$0.25)/(1+0.8)=$1.03.

— If, in the financing or financings we issue units consisting of shares, convertible debentures and warrants, the price per share for the purposes of calculating the adjustment will be the result of dividing the price per unit in the financing or financings, less the present value of the cumulative amount of interest payable prior to the last conversion date of the debentures issued in the financing or financings and less the economic value of the warrants included in the units, by the number of shares in each unit including the number of shares issuable upon conversion of the debentures issued in the financing or financings, but not including the number of shares issuable upon exercise of the warrants.

By way of illustration, if the purchase price of the unit is $2.80, the present value of the cumulative amount of interest payable prior to the last conversion date is $0.25, the economic value per warrant is $0.70, the number of shares in each unit is 1 and the number of shares issuable upon conversion of the debentures issued in the financing or financings is 0.8 shares, the price per share would be ($2.80-$0.25-$0.70)/(1+0.8)=$1.03.

For the purposes of the adjustments set forth above, the “economic value” of the warrants will be calculated according to the Black and Scholes model as set forth in the Tel Aviv Stock Exchange Rules for registered companies based on the average closing price of our ordinary shares on NASDAQ (or such other stock exchange or quotation system on which our ordinary shares are listed in the event that they cease to be traded on NASDAQ) during the 15 consecutive trading days immediately prior to the date on which the financing agreement is signed. The interest rate for this calculation will be the interest rate as published by the Tel Aviv Stock Exchange on the date of the relevant financing.

For the purposes of the adjustments set forth above, the “present value” will be calculated using the interest rate then applicable to the long term loans under our credit facility agreement. In the event that the financing or financings is denominated in a currency other than United States dollars, the amounts in the financing or financings will be converted to United States dollars according to the last known exchange rate on the date of the consummation of the relevant financing.

The adjusted conversion price to the debentures shall under no circumstances be lower than $0.01.

Election Not to Adjust the Conversion Price Following a Future Financing

In the event that by _____ __, 2006, or by _____ __, 2007 (in the event that we execute prior to _____ __, 2006 one or more agreements, letters of intent, memorandums of understanding or similar agreements or understandings for a proposed $75 million financing, as described above, even if we receive gross proceeds of at least $5 million in a financing by _____ __, 2006), we consummate a financing or series of related financings (excluding this rights offering) in which we receive gross proceeds of at least $75 million, we may, at our discretion, elect that the adjustment to the conversion price as described above under “Adjustment to Conversion Price Following a Future Financing”, will not apply and no longer be applicable. If we so elect to cancel the adjustment mechanism to the conversion price, then:

— if the closing price of our ordinary shares on NASDAQ (or such other stock exchange or quotation system on which our ordinary shares are listed in the event that they cease to be traded on NASDAQ) on the trading day immediately prior to the date on which the $75 million financing is consummated is greater than $1.30, then the original conversion price of one ordinary share per $1.13 aggregate principal amount of debentures will apply until their maturity date; or

— if the closing price of our ordinary shares on NASDAQ (or such other stock exchange or quotation system on which our ordinary shares are listed in the event that they cease to be traded on NASDAQ) on the trading day immediately prior to the date on which the $75 million financing is consummated is equal to or is lower than $1.30, then between twenty-one and thirty days following our announcement of the consummation of the $75 million financing, we will redeem the debentures as described below under "Early Redemption of Debentures - Mandatory Redemption by the Company". In addition, under the rules of the Tel Aviv Stock Exchange, the debentures may not be converted during the sixteen-day period prior to their redemption. For example, if the redemption date shall be on the twenty-first day following our announcement of the consummation of the $75 million financing, the debentures will only be convertible during the five-day period after our announcement.

Following the signing of an agreement for a financing or series of related financings in which we may receive gross proceeds of at least $75 million, we will announce our decision to cancel the adjustment mechanism to the conversion price, subject to the consummation of such financing, by filing a report on Form 6-K and in an immediate report in Israel, as well as a notice to be published in two Israeli newspapers. In addition, we will announce the consummation of the $75 million financing by filing a report on Form 6-K and in an immediate report in Israel, as well as a notice to be published in two Israeli newspapers.

However, in the event that we do not elect that the adjustment mechanism no longer apply, then the conversion price will be subject to adjustment as described above under "Adjustment to Conversion Price Following a Future Financing", following the 12 or 18 month period after the record date, as applicable.

A financing for these purposes shall have the same meaning set forth under "Adjustment to Conversion Price Following a Future Financing" above.

Adjustment to Conversion Price Following Issuance of Bonus Shares, Rights Offerings and Other Events

The conversion price is also subject to adjustment as set forth in the indenture in certain events, including the issuance of our capital stock as a dividend (bonus shares), subdivisions, combinations and reclassifications of our ordinary shares and rights offerings. In the event of the distribution of bonus shares, the number of our ordinary shares issuable upon the conversion of each debenture will be increased by such number of our ordinary shares that the debenture holder would have received if such debenture holder had converted his debentures on the record date fixed for the bonus share distribution. In the event of a rights offering to our shareholders of any type of our securities at any time from the date of this prospectus but prior to the conversion of the debentures, the number of our ordinary shares to be issued upon the conversion of the debentures shall be adjusted to take into account the element of economic benefit in the future rights offering as is represented by the ratio between the price per share of our ordinary shares on the effective date of the future rights offering and the opening price per share of our ordinary shares that is established by the Tel Aviv Stock Exchange on the following trading day. If the Tel Aviv Stock Exchange does not establish an opening price per share of our ordinary shares, no adjustment in the number of shares issuable upon conversion of the debentures will be made with respect to such future rights offering. In the event of our consolidation or merger as a result of which our company is not the surviving entity, we will provide notice to the Trustees prior to the date of consummation of such consolidation or merger. The successor entity shall assume the obligation to repay the principal of and interest on the debentures in accordance with their terms. Debentures which are not converted prior to the date of consummation of such consolidation or merger shall no longer be convertible.

Early Redemption of Debentures

Mandatory Redemption by the Company

In the event that (i) we elect to cancel the adjustment to the conversion price mechanism of the debentures as described above under "Conversion of Debentures - Election Not to Adjust Conversion Price Following a Future Financing", and (ii) the closing price of our ordinary shares on NASDAQ (or such other stock exchange or quotation system on which our ordinary shares are listed in the event that they cease to be traded on NASDAQ) on the trading day immediately prior to the date on which we consummate the $75 million financing described above is equal to or is lower than $1.30, then we will redeem the debentures outstanding (and which are not subsequently converted). We will announce this redemption and the redemption date by filing a report on Form 6-K and in an immediate report in Israel, as well as a notice to be published in two Israeli newspapers. The redemption date shall be between 21and 30 days after the date of announcement. Conversion of the debentures will not be permitted during the 16 days prior to the redemption date.

As soon as practicable on or after the redemption date, we will pay you an amount equal to the outstanding principal on your debentures, plus an early redemption premium in an amount equal to 15% of the amount of the outstanding principal on the debentures. Accrued interest will not be payable. For example, if the outstanding principal amount of the debentures that you hold on the redemption record date equals $10,000, as soon as practicable on or following the redemption date, we will pay you $11,500.

Early Redemption at the Discretion of the Company

We may at our option announce the early redemption of the debentures, provided that the outstanding aggregate balance of principal on account of the debentures is equal to or less than $500,000. In the event we choose to redeem the debentures, the minimum portion of the debentures we will redeem is 100% of the then outstanding debentures. We will provide the debenture holders with advance notice of at least 30 days prior to any such redemption. Upon such early redemption, we will pay to the holders of the debentures the amount of outstanding principal of their debentures and interest accrued as of the redemption date. A resolution to announce an early redemption of the debentures will be adopted by our board of directors and we will provide notice of such resolution on Form 6-K, and in an immediate report in Israel as well as a notice to be published in two Israeli newspapers. The date of the early redemption will be between 30 to 45 days after the date of our notification.

Under the facility agreement, we are not permitted to redeem debentures. Our banks have agreed that if we consummate a financing or series of related financings in which we receive gross proceeds of at least $75 million, we may redeem the debentures offered hereunder prior to their scheduled maturity date as described above, provided that if we issue convertible debentures in the financing or series of related financings, their terms and conditions are no less favorable to our banks than those of the debentures offered in this rights offering.

Subordination of Debentures

As described below, the payment of the principal of and interest on the debentures and the payment of any early redemption premium are subordinated to the prior payment of all amounts payable by us to the banks under the facility agreement, whether outstanding on the date of the indenture or thereafter created, incurred or assumed. Upon our dissolution, winding up, liquidation or reorganization, the banks will be entitled to receive payment in full of all amounts due to them under the facility agreement before the holders of debentures are entitled to receive any payment.

Possible Postponement of Payments under the Debentures

In addition to the subordination of the debentures to the amounts payable by us to the banks under the facility agreement, upon dissolution, winding up, liquidation or reorganization, the debentures and the indenture provide, in accordance with the requirements of the facility agreement, that the dates for payment of interest and principal on the debentures may be postponed (with interest continuing to accrue at regular rates), depending on various scenarios relating to our relations with the banks as detailed below. In the event of such postponement in payments on the debentures, we will extend the conversion period for the debentures. The terms of the indenture permit the Co-Trustees to initiate legal proceedings against us only in a limited number of cases, and always provided that advance notice is given to us and to our banks. The indenture provides that each debenture holder waives any right or claim against the Co-Trustees based on the grounds that they should have initiated any proceeding or act in any other way in spite of such provisions of the indenture while claiming that such provisions do not comply with applicable law.

Under the facility agreement, the payment dates of interest and principal to the banks fall on the last business day of each calendar quarter (a “Bank Payment Date”).

In the event of the existence of an Event of Default, as such term is defined below, on a Bank Payment Date, then, subject to the provisions below, no payment of principal or interest on the debentures shall be made and the debenture holders and any person or entity acting on their behalf (including the Co-Trustees) shall not be entitled to take any action against us in connection with such non-payment, unless such non-payment shall continue for a period of more than 6 (six) months commencing on the applicable Bank Payment Date (a “Six Month Period”). To illustrate, if September 30, 2011 is a Bank Payment Date and on such date an Event of Default exists, the Six Month Period applicable to the payment to be made on the debentures on _____, 2011 will be calculated beginning on September 30, 2011. For a description of additional events of default contained in our facility agreement, see “Events of Default under the Facility Agreement.”

The facility agreement further provides that after the conclusion of a Six Month Period, we may not make payments of principal and interest on the debentures unless we have either (i) paid the banks amounts then owing in full; or (ii) the holders of the debentures obtained a final judgment requiring us to make payment to them.

During the aforementioned Six Month Period, the following shall apply:

If during such period, we shall make any payment to the banks on account of interest or principal under the facility agreement, then, on the date of such payment to the banks, we shall make a payment on account of interest or principal (as the case may be) then due and payable in respect of the debentures, such payment to be made at the same percentage of the interest or principal then due and payable on the debentures proportionate to the portion of the payment actually made to the banks to the amount (interest or principal as the case may be) due and payable under the facility agreement as of the payment date;

In the event that during such Six Month Period the banks and us shall reach an agreement regarding a rescheduling of payments by us to the banks under the facility agreement, such rescheduling (whether of principal or interest) shall apply pro rata also to payments of principal and/or interest and/or any early redemption premium (see “Description of the Debentures - Early Redemption of Debentures - Mandatory Redemption by the Company”), as the case may be, in respect of the debentures and the holders of the debentures shall be bound by such rescheduling agreement. According to our facility agreement, such rescheduling agreement will apply only to payments (principal, interest and/or an early redemption premium) scheduled to be made on the debentures during the period of 12 (twelve) months beginning on the applicable Bank Payment Date, and shall postpone each payment on the debentures for no longer than 12 months. Pursuant to any such rescheduling agreement, we shall, in such 12 month period, pay to the holders of the debentures, such amounts on account of principal and/or interest and/or early redemption premium at the same percentage of the scheduled repayments of principal or interest, during such 12 period in respect of the debentures, proportionate to the portion of the payments to be made to the banks during such 12 month period under such rescheduling agreement to the scheduled repayments of principal or of interest to the banks pursuant to the facility agreement for such 12 month period. Alternatively, such rescheduling agreement may provide that payments of principal and/or interest and/or early redemption premium on account of the debentures shall, with effect from the termination of such Six Month Period, be made to the holders of the debentures in accordance with the original schedule under the terms of the debentures, provided that amounts not paid during such Six Month Period, or prior thereto shall be postponed to be paid pro rata to those payments not made to the banks during such Six Month Period or prior thereto and the holders of the debentures shall be bound by such an agreement. If during the rescheduling period another Event of Default under the facility agreement shall occur, the aforementioned provisions shall again apply. Notwithstanding the above, if, on a date scheduled for the payment of principal or interest or early redemption premium on the debentures, any of the below events occur, then no amount of whatsoever nature shall be payable by us in respect of the debentures (whether in respect of principal, interest or any other amount) until all amounts owed by us under the facility agreement shall have been paid in full. In the event that, contrary to the above, the holders of the debentures (or, as applicable, any person or entity acting on their behalf, including a trustee) shall receive, during a period under which there is an Event of Default, any payment, distribution or benefit, the recipient thereof shall be deemed to hold same on trust for the banks and shall forthwith pay or transfer to the banks any payment, distribution or benefit so received. The events are as follows: (A) The existence of any of the following events: (i) our inability or admission of our inability to pay our debts as they fall due, (ii) the commencement of winding-up proceedings against us (including the granting of an order of receivership or any similar order against or in respect of us or any of our assets), provided that such proceedings are not cancelled or withdrawn within 60 days, (iii) any execution, attachment or sequestration or other process arises out of any third party claim against us where the amount being the subject of the relevant proceeding is in excess of $2.5 million; (B) If the banks shall declare that all loans and/or other credits received under the facility agreement are immediately due and payable, (C) In the event that the holders of the debentures (or any person or entity acting on their behalf, including the Co-Trustees), shall institute any legal proceedings against us other than in connection with excluded proceedings, and in accordance with the terms of the debentures. Excluded proceedings mean (i) proceedings where the sole claim relates to our failure to make payments of principal or interest on the debentures for more than 14 business days from the date on which we are required to make them, as these dates may be postponed in accordance with the above provisions; or (ii) proceedings in connection with a claim of “misleading information” in this prospectus.

Subordination to Secured Obligations; Statutory Priorities

Under the laws of the State of Israel, the following have priority over general unsecured creditors: unpaid wages to a specified limit plus severance payments to a specified limit if not covered by national insurance; certain past due taxes to the government; past due rent for a maximum of one year; and secured indebtedness in which the security interest (which may be a floating charge) is registered as required under the laws of Israel. As of September 30, 2005, we estimate that these statutory priorities would amount to approximately $5.4 million. As of the date of this prospectus, in addition to the first ranking charge which we granted to the banks under the facility agreement (see "Risk Factors – Risks Related to the Rights Offering — The payment of principal and interest on the debentures is subordinated to our indebtedness to our banks and obligations to secured creditors."), our assets are subject to a second ranking floating charge in favor of the government of the State of Israel, which secures our compliance with the terms of our grants in connection with our government "Approved Enterprise" programs for Fab 1 and Fab 2 (approximately $262 million received and approximately $6.2 million receivables, as of September 30, 2005) and Siliconix Technology C.V., one of our customers, which has a first ranking charge on a bank account into which Siliconix deposited in 2004, $20 million for the purchase of equipment and other expenses in connection with the performance of our obligations under our agreement with Siliconix (of which as of September 30, 2005, there is a balance of approximately $10 million) and over the equipment which has been or which may be subsequently purchased with such funds. The indenture does not limit the amount of additional indebtedness which we can create, incur, assume or guarantee nor our ability to create any security to secure our obligations to any third party.

Events of Default under the Facility Agreement

The following constitute Events of Default under our facility agreement:

(i) *Failure to make a payment:* Our failure to pay any amount payable to our banks under the facility agreement within seven business days or ten days from the date of payment. Payments under the facility agreement include payments of principal and interest.

(ii) *Failure to meet production milestone*: Fab 2 must reach production capacity of 33,000 wafers per month by December 31, 2007.

(iii) *Failure to raise additional funding within the agreed timetable:*

We are obligated to raise $26 million by June 30, 2006 from specified sources. The sources of this $26 million of funding are limited to: (i) investments in our equity; (ii) investments in excess of the $23.5 million and $6.5 million which are to be made by December 31, 2005 and March 31, 2006, respectively, as described below; (iii) proceeds, net of taxes paid and related expenses, from the sale of securities we own in Azalea Microelectronics Corporation; and (iv) wafer prepayments under certain prepayment contracts.

If we fail to raise an aggregate of $26 million from the specified sources by June 30, 2006, our banks have the option to demand that we consummate a rights offering for convertible debentures for the amount that we failed to raise. If our banks exercise this option, Israel Corp., has undertaken to our banks to exercise all of the rights Israel Corp. receives in such rights offering. In addition, as part of Israel Corp.'s commitment, it will purchase from us additional securities in a private placement on the same terms as the rights offering, in an amount equal to 50/93 of the difference between what we actually raised towards the failed financing obligation and what was to be raised, less amounts raised in such rights offering, if any (and less any amounts invested in the rights offering in connection with Israel Corp.'s exercise of its own rights). An event of default under the facility agreement will occur if Israel Corp.'s undertaking shall cease to be in full force and effect, if steps are taken for its liquidation, winding up or similar events or if Israel Corp. repudiates its undertaking. In connection with the July 2005 amendment to our facility agreement, our banks agreed that if Israel Corp. invests at least $14 million in this rights offering, its undertaking described above will be deemed to have been fulfilled.

In addition, pursuant to the July 2005 amendment to the facility agreement, which was subsequently further amended, we are obligated to raise $23.5 million dollars by December 31, 2005 and an additional $6.5 million by March 31, 2006. In connection with the July 2005 amendment to our facility agreement, Israel Corp. and SanDisk Corporation have undertaken to invest $20 million and $3.5 million, respectively, in a rights offering. An event of default under the facility agreement will also occur if Israel Corp.'s or SanDisk's undertakings shall cease to be in full force and effect, if steps are taken for their liquidation, winding up or similar events or if they repudiate their respective undertaking.

(iv) *Investment Center Grants*. We must comply with the terms and conditions of the approval to receive grants for Fab 2 from the Investment Center of the Israeli Ministry of Industry, Trade and Labor and must receive these Fab 2 grants in accordance with the timetable set forth in the amended facility agreement. The facility agreement allows us to replace up to $50 million of the Fab 2 grants with paid in equity or wafer prepayments.

(v) *Failure to comply with certain financial ratios and covenants:* Under the terms of the amended facility agreement, we must meet certain financial ratios and covenants, including financial covenants relating to periodic sales, quarterly earnings before interest, taxes, depreciation and amortization (quarterly EBITDA), net cash flow as compared with total debt and equity as compared to total assets. In January 2005, we signed a waiver letter agreement with our banks according to which the banks waived our non-compliance with certain financial ratios and covenants for the fourth quarter of 2004 and which amended certain of the financial ratios and covenants for 2005. As of today, we are in full compliance with our financial ratios and covenants. Under the terms of the July 2005 amendment to our credit facility agreement, our banks agreed to amend our financial ratios and covenants through the third quarter of 2006. See "Risk Factors – If we fail to satisfy the covenants set forth in our amended credit facility, our banks will be able to call our loans."

(vi) *Changes to and compliance with material contracts:* We may not amend, cancel, terminate or waive any term of a material contract unless the aforementioned actions are not materially adverse to the interests of our banks. We also must materially comply with the terms of our material contracts. Subject to certain exceptions, certain of our material contracts must remain in full force and effect.

(vii) *Use of excess cash flow from Fab 2:* We must invest the operating cash flow derived from Fab 2 in the Fab 2 project.

(viii) *Creation of encumbrances:* We may not provide security interests in or otherwise encumber our assets, other than in favor of our banks or the government of the State of Israel in connection with grants from the Investment Center of the Ministry of Industry, Trade and Labor for Fab 1 and Fab 2 or unless approved by our banks, as was the case with the first ranking charges on certain of our Fab 1 assets in favor of Siliconix Technology C.V.

(ix) *Payment of dividends:* We are not permitted to undertake to declare or pay a dividend or any other distribution (as defined in the Companies Law – 1999) or to redeem any of our shares or convertible securities (including the debentures being offered herein) unless the facility agreement specifically grants us this right. The facility agreement provides that we may declare and pay a dividend on or in respect of our share capital provided that: (a) no such distribution shall

take place prior to January 1, 2008 and prior to any such distribution, we must have placed on deposit with our banks an amount equal to the debt service for the quarter in which the distribution is to be made and pledged such deposit in favor of our banks, and (b) we must have complied with certain financial ratios and covenants. In addition, we may only declare and pay a dividend provided that:

- the dividend is only paid from excess cash flow from Fab 2;
- there is no event of default outstanding under the facility agreement; and
- an event of default could not reasonably exist after such distribution.

(x) *Incurrence of financial indebtedness:* We may not incur any financial indebtedness, unless we are specifically permitted to do so under the facility agreement. Examples of financial indebtedness which we are permitted to incur according to the terms of the facility agreement are: an amount of up to $40 million in respect of a credit facility for Fab 1, an amount of up to $10 million in respect of operating leases relating to Fab 2, the debt we incurred in connection with the issuance of convertible debentures in September 2002 and the debt we are incurring in connection with the issuance of the debentures being offered herein.

(xi) *Purchase of shares or assets of another company:* We may not purchase any interest in the share capital or the business or assets constituting a separate business of another company unless the aggregate amount of all such investments or purchases does not exceed $5 million.

(xii) *Suspension or cancellation of approvals and permits*: We must obtain all of the permits, approvals or licenses necessary for the performance of the Fab 2 project and must ensure that they are not suspended, cancelled, revoked or lapse without our having obtained adequate replacements. In addition, we must comply with the terms of such permits, approvals or licenses and their terms cannot be modified in a material adverse respect.

(xiii) *A "change of ownership":* The facility agreement provides that certain events would be considered to be a change of our ownership of our company and would constitute an event of default. These events include limitations of the number of our shares that the Israel Corp. and our major wafer partners (SanDisk Corporation, Alliance Semiconductor Corporation and Macronix Co. Ltd.) may sell or hold and the composition of our board of directors including that:

- From December 16, 2003 through January 29, 2006, Israel Corp. must hold at least the higher of (i) eight million of our ordinary shares or (ii) 16.5% of our issued share capital less two million ordinary shares.

- During the three-year period beginning January 29, 2006, Israel Corp. may gradually sell between 25% to 100% of the shares held by it on December 16, 2003, less the amount of shares it was entitled to sell through January 29, 2006.

- Until January 29, 2006, SanDisk Corporation, Alliance Semiconductor Corporation and Macronix Co. Ltd. cannot sell more than 30% of the number of our shares held by them on January 29, 2004 which were purchased pursuant to the year 2000 investment agreements with us.

- At any time during the period between January 30, 2006, and at least 12 months from January 29, 2006, the aggregate shareholdings of SanDisk Corporation, Alliance Semiconductor Corporation and Macronix Co. Ltd. must equal at least 60% of the amount of their aggregate shareholdings on January 29, 2006 (which may be reduced under certain conditions) less an amount of shares equal to 30% of the number of our shares held by them on January 29, 2004.

- The maximum number of directors that Israel Corp. may nominate may not exceed the number of directors nominated by SanDisk Corporation, Alliance Semiconductor Corporation, Macronix Co. Ltd. For the purpose of this calculation external directors and our office holders that are also directors are not taken into account as members of our board of directors.

- Israel Corp. may not hold for more than 7 days ordinary shares that it acquires through the conversion of convertible debentures if, at such time, the number of our ordinary shares held by it exceeds the sum of the number of our ordinary shares held by it on January 18, 2001 (the date the facility agreement was signed) and the number of our ordinary shares purchased by Israel Corp. pursuant to its December 2000 investment agreements with us.

- SanDisk Corporation, Alliance Semiconductor Corporation, Macronix Co. Ltd., and Israel Corp., no longer nominate in excess of half of our directors. For the purpose of this calculation external directors and our office holders that are also directors are not taken into account as members of our board of directors.

(xiv) *Purpose of Credits:* We may not use the different forms of credits available under the facility agreement other than for the purposes permitted therefor, which generally relate to costs and expenses associated with the Fab 2 project.

(xv) *Ranking:* We may not create any obligations to any third party that rank senior in right and priority of payment to the banks or in priority of security to the banks, other than obligations which are mandatorily preferred by law applying to companies generally.

(xvi) *Insurance:* All of our properties and assets must be insured with reputable insurance companies or underwriters approved by the banks. We must also maintain insurance which is generally and customarily maintained by companies carrying on a business similar to ours. The proceeds payable under the insurance polices in the event of loss of Fab 2 or the Fab 2 project must equal at least 110% of the aggregate amount of debt we owe our banks under the facility agreement at any given time. In addition, the insurance policies are to be assigned by way of charge in favor of the banks and the banks are to be joined as an additional insured.

(xvii) *Construction Contract:* We may not terminate or exercise any right or suspension under our agreement with our Fab 2 contractor without the prior written consent of the banks. In addition, the suspension of performance under the agreement with our Fab 2 contractor for a continuous period of more than

ninety days or the abandonment of the Fab 2 project or a material part thereof are events of default.

(xviii) *Agreements providing for wafer order rights*: We must have binding agreements providing for a wafer order right providing for the sale of a minimum capacity in Fab 2 in aggregate of at least 15,733 wafer starts per month for the three year period commencing after Fab 2 reaches production capacity of 10,000 wafer starts per month. At the present time, this obligation is satisfied as a result of the foundry agreements with our wafer partners.

(xix) *Representation and warranties*: Prior to the closing of the facility agreement with the banks, we made certain representations and warranties to the banks and we were deemed to have been repeated certain of those representations and warranties to the banks each time we delivered a request to borrow money under the facility agreement. We also made certain representations and warranties to the banks in connection with the amendments to our facility agreement. When made, the representations and warranties must have been correct and not misleading in a material manner.

(xx) *Continuous legal validity of the facility agreement*: The facility agreement or any of its ancillary agreements shall not cease to be in full force and effect in any respect or fail to provide the intended perfected security over our assets in favor of our banks.

(xxi) *Liquidation; Insolvency*: Our becoming insolvent or admitting to being insolvent or our commencement of negotiations with any one or more of our creditors with a view to a general readjustment or rescheduling of our indebtedness. In addition, any steps taken for our liquidation, winding up or similar events, including our seeking protection from our creditors, and any proceedings or orders with respect thereto must be cancelled or withdrawn within sixty days.

(xxii) *Cross acceleration of other indebtedness*: We may not fail to make payments regarding any of our other financial indebtedness which aggregates $20 million or more. In addition, $20 million or more of our other financial indebtedness cannot become prematurely due and payable or be placed on demand.

(xxiii) *Breach of Convertible Debentures*. Our default under or breach of any of the terms and conditions of the convertible debentures we issued in September 2002 or the convertible debentures being offered hereunder or our making any payment in relation thereto which is not permitted under the facility agreement or the institution by the holders of the debentures (or anyone acting on their behalf, including a trustee) of proceedings against us.

(xxiv) *Execution, Attachment, Sequestration:* We may not permit any execution, attachment, sequestration or other similar process taken against us to subsist for more than 45 days.

(xxv) *Material adverse effect:* The existence of any litigation or other proceedings involving us, or any event or series of events, which is likely to have a material adverse effect on our company.

(xxvi) *Fab 2 being declared a total loss:* Fab 2 or a substantial portion thereof is rendered inoperable or declared by our insurers to be a total loss or a constructive total loss.

(xxvii) *Government action against us*: Any nationalization, seizure or expropriation of all or any substantial or material part of our assets, including our share capital by any governmental authority.

(xxviii) *Restrictions on the free exchange of NIS for United States dollars*: The imposition of restrictions by an Israeli governmental authority on the free exchange of NIS for United States dollars or United States dollars for NIS.

(xxix) *Claim that we defaulted under certain prepayment contracts:* The counter party to certain prepayment contracts makes a claim that we defaulted thereunder.

(xxxii) *Additional Restrictions:* Without the prior written consent of our banks or as permitted under the facility agreement, we are restricted from:

- altering the Fab 2 business plan;
- entering into or resolving to approve any merger, reorganization or transfer of any part our business;
- amending our articles of association in a manner which is materially adverse to the interests of our banks;
- making any payment or transferring our assets to our shareholders or their affiliates;
- disposing of our assets other than in the ordinary course of business or other than to replace such assets with comparable or superior assets;
- selling, transferring or licensing on an exclusive basis any of our intellectual property assets which are material to the Fab 2 project or over which the banks have received a fixed security interest; however, we may enter into exclusive license arrangements on arms' length bases which are in the ordinary course of business, provided that such arrangements do not adversely affect the interests of the banks or the conduct of the Fab 2 project;
- incurring any capital expenditures other than for the Fab 2 project or for Fab 1;
- delegating the management of the Fab 2 project to any other person;
- abandoning all or any part of the Fab 2 project; and
- maintaining any bank accounts other than the accounts with our banks and all payments related to the Fab 2 project shall be made from or to those accounts.

We must notify the banks of any event of default of which we are aware and report on the steps, if any, being taken by us to remedy such event of default. With respect to the majority of the aforementioned events of default, the facility agreement provides that if such event of default is capable of remedy, or if our failure to comply with other obligations under the facility agreement is capable of remedy, then such events will not entitle our banks to exercise their remedies under the facility agreement if we cure such breach within the period or time set forth in the facility agreement (generally 7 or 14 days).

Events of Default and Remedies Under the Debenture

An Event of Default under the debenture is:

- Any corporate action taken by us or other steps taken or proceedings started or consented to or any order made for our winding up, administration or re-organization (or for the suspension of payments generally or any process giving protection against creditors), or for the appointment of a liquidator, receiver, administrator, administrative receiver or similar officer for all or any part of our revenues or assets or such a person is appointed, which action, steps, proceedings or order are not cancelled or withdrawn within 60 days of the occurrence or the institution thereof.

- Our failure to pay an amount of principal or interest in respect of the debentures within 14 Business Days (as defined below) of the date we are required to make the payment under the debentures as such date may be postponed in accordance with the terms of the debentures.

In accordance with the terms of the facility agreement, the indenture provides that no action may be taken by the debenture holders and/or the Co-Trustees with respect to an Event of Default under the debentures unless we have not remedied such Event of Default within 39 days after the later of (i) the date of our receipt of a demand to cure such default, and (ii) the date of the receipt by our banks of the copy of a demand to cure such default, which must be sent to our banks that are or become a party to the facility agreement on the same day as we receive service.

A “Business Day” is a day on which the banks that are or become a party to the facility agreement are open for trading in Israel in US dollars and banks generally are open for trading in US dollars in London and New York.

Holders of the debentures and the Co-Trustees on their behalf may not enforce the indenture or the debentures except as provided in the indenture. Subject to certain limitations, the holders of a majority of the aggregate principal amount of the debentures may direct the Co-Trustees in their exercise of any trust or power under the indenture. In addition to other documents that we are required to deliver to the Co-trustees under the Securities Law, we undertook in the indenture to provide the Co-Trustees (i) annually a statement regarding compliance with the indenture, and (ii) upon becoming aware of any default or Event of Default under the indenture, with a statement specifying such default and further stating what action we have taken, are taking or propose to take with respect to such default.

Amendments to Indenture; Supplemental Indentures; Waiver of Defaults

Subject to certain exceptions, the indenture or the debentures may be amended or supplemented at a duly convened meeting of the debenture holders with the approval of (a) the holders of a majority of the aggregate principal amount of the debentures and (b) at least 75% of the debenture holders participating in such meeting. Subject to certain exceptions, an Event of Default under the indenture may be waived, by a duly convened meeting of the debenture holders, if (a) the holders of a majority of the aggregate principal amount of the debentures, and (b) at least 75% of the debenture holders participating in such meeting vote in favor of such waiver. We may not amend or modify any term, covenant or provisions of the Indenture which under the provisions of the Trust Indenture Act cannot be modified or amended without the consent of the holders of each or all debentures then outstanding or affected thereby, without the consent of the holder of each debenture so affected. We may not amend the conversion price, the manner in which the conversion rate may be adjusted, the number of shares issuable upon conversion of the debentures or the maturity date of the debentures, except as disclosed in this prospectus or by way of an arrangement pursuant to Section 350 and following of the Israeli Companies Law – 1999 or in the context of a statutory merger under the Companies Law.

DIVIDEND POLICY

Since 1998, we have not declared or paid cash dividends on any of our shares and we have no current intention of paying any cash dividends in the future. The facility agreement that we entered into with our banks, as amended, prohibits the payment of dividends prior to January 1, 2008, and before any such distribution, we must have placed on deposit with our banks in an amount equal to the debt service for the quarter in which the distribution is to be made and charged such deposit in favor of our banks, and we must have complied with financial ratios and covenants. In addition, we may only declare and pay a dividend provided that:

- the dividend is only paid from excess cash flow from Fab 2;

- there is no event of default outstanding under the credit facility agreement; and

- an event of default could not reasonably exist after such distribution.

The Companies Law also restricts our ability to declare dividends. We can only distribute dividends from profits (as defined in the law), provided that there is no reasonable suspicion that the dividend distribution will prevent us from meeting our existing and future expected obligations as they come due.

MATERIAL INCOME TAX CONSIDERATIONS

The following is a summary of the material tax consequences in Israel and the United States to individual and corporate residents of Israel and the United States resulting from the distribution of the rights we are distributing, the purchase of the debentures that are convertible into our ordinary shares issuable pursuant to the exercise of the rights we are distributing or the sale of these rights or debentures that are convertible into our ordinary shares or ordinary shares issuable pursuant to the conversion of the debentures. Since our bank credit facility prohibits the payment of dividends on our ordinary shares, this summary does not discuss the tax consequences in Israel or the United States that would result from the payment of dividends. To the extent that the discussion is based on tax

legislation that has not been subject to judicial or administrative interpretation, we cannot assure you that the tax authorities will accept the views expressed in this summary. This summary is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax consequences that may be relevant to each person's decision to exercise or sell the rights we are distributing, the convertible debentures to be issued once the rights are exercised, or the sale of our ordinary shares issued upon the conversion of the convertible debentures.

Prospective purchasers of our ordinary shares and other securities should consult their own tax advisors as to the United States, Israel or other tax consequences of the purchase, ownership and disposition of our securities, including, in particular, the effect of any foreign, state or local taxes.

In August 2005, the Israeli parliament approved an amendment to the Israeli tax regime, to become effective on January 1, 2006 ("the 2006 Tax Reform"). Some applicable provisions of the 2006 Tax Reform will be discussed below.

Israeli Tax Considerations

Israeli law imposes a capital gains tax on the sale of capital assets, including securities and debentures. In general, the distribution of the rights we are distributing, the exercise of the rights we are distributing and the conversion of the debentures into ordinary shares will not be subject to Israeli tax (different rules may apply to employees – see below).

A. Israeli Capital Gains Tax on Sales Before January 1, 2006

Before January 1, 2006, any gains from the sale of the rights we are distributing, the debentures convertible into ordinary shares issuable pursuant to the exercise of the rights and/or the ordinary shares issued pursuant to the conversion of the debentures are, in general, liable to capital gains tax of 15%. This will be the case so long as: our securities remain listed for trading on the Tel Aviv Stock Exchange or NASDAQ; the shareholder did not claim financial expenses related to the purchase of the securities; and these securities are not sold to a "relative" as defined under section 105k of the Israeli Income Tax Ordinance. In those cases where the 15% rate does not apply, the real capital gain from the sale of the securities will be subject to capital gains tax of 25%. Non-residents of Israel will be exempt from any capital gains tax from the sale of our securities, including those associated with this rights offering, so long as the gains are not derived through a permanent establishment that the non-resident maintains in Israel, and so long as our securities remain listed for trading as described above. A non-resident corporation will generally not enjoy this exemption if Israeli residents are: (1) its controlling shareholders, as defined for the purpose of section 105k of the Israeli Income Tax Ordinance, or (2) directly or indirectly eligible to receive or are beneficial owners of 25% or more of the income or the profits of the non-resident corporation.

These provisions dealing with capital gains are not applicable to an Israeli resident whose gains from selling or otherwise disposing of our securities are deemed to be business income or whose taxable income is determined pursuant to part B of the Israeli Income Tax Law (Inflationary Adjustments), 1985 or pursuant to the Income Tax Regulations (Rules on Bookkeeping by Foreign Invested Companies and Certain Partnership and Determination of their Chargeable Income), 1984 ("Dollar Regulations"). In such cases, a regular rate on capital gains will apply, as follows: for corporations – 34% and for individuals – a tax rate of up to 49%.

In any event, under the US-Israel Tax Treaty, a person who qualifies as a resident of the United States within the meaning of the Tax Treaty and who is entitled to claim benefits under the Treaty, may, in general, only be subject to Israeli capital gains tax on the sale of our ordinary shares (subject to the provisions of Israeli domestic law as described above) if that US treaty resident holds 10% or more of the voting power in our company.

In computing a capital gain derived from the sale of our shares originating from a converted debenture, the "purchase date" and "balance of its original cost" will be deemed as the convertible debenture purchase date and cost (plus any additional related costs), respectively.

B. Israeli Tax on Interest Income and on Original Issuance Discount Earned Before January 1, 2006

Interest and Original Issuance Discount (OID) earned before January 1, 2006 on our convertible debentures issued under this rights offering, will, in general, be subject to Israeli tax of up to 15% if received by an individual. This reduced rate of tax will not apply if the interest and OID are business income in the hands of the recipient, if the recipient is a controlling shareholder of our company, or if financing expenses related to the purchase of the debentures were deducted by the individual in the calculation of the individual's Israeli taxable income. In such cases the regular rate of tax on Interest and OID will apply – for corporations a rate of 34%and for individuals a tax rate of up to 49%.

Withholding tax at source from debenture interest and OID paid to resident individuals will, in general, be at a rate of 15%, and corporations will be subject to a rate of 35%. Withholding tax at source from debenture interest and OID paid to non-resident individuals or corporations will be at a rate of 25% or less, subject to any relevant tax treaty relating to their domicile country. In any event, under the US-Israel Tax Treaty, the maximum Israeli tax withheld on interest and OID paid on our convertible debentures to a US treaty resident (other than a US bank, savings institution or company) is 17.5%.

To the extent that payments upon early redemption are considered to be interest income and not proceeds of a capital nature, they will be subject to tax in the manner discussed above. In any case, interest accrued upon redemption or early redemption of the debentures will be deemed as part of the proceeds from the redemption and not as interest income, if the redemption resulted in a capital loss and it is not in the hands of a controlling shareholder or a holder of the debentures from allotment date and on – up to the ceiling of the capital loss.

C. The 2006 Tax Reform

The following are the major changes regarding an Israeli resident included in the 2006 Tax Reform which are applicable to the distribution of the rights we are distributing, the purchase of the debentures that are convertible into our ordinary shares issuable pursuant to the exercise of the rights we are distributing, or the sale of these rights or debentures that are convertible into our ordinary shares, or ordinary shares issuable pursuant to the conversion of the debentures. The 2006 Tax Reform will not derogate from the special provisions applicable to non-residents, under Israeli tax law and the US-Israel Tax Treaty, as described in

Parts A and B above. It should be presumed that the regulations governing amounts that may be required to be withheld at source as described in Parts A and B above will be amended to reflect the applicable tax rates pursuant to the 2006 Tax Reform. Unless presented with a certificate from the Israeli Income Tax Authority providing otherwise, the Tel Aviv Stock Exchange, on behalf of Tower, will withhold tax at source with respect to any early redemption premium as if such premium is considered as interest income and not as proceeds of a capital nature.

Individuals

According to the 2006 Tax Reform, an individual will be subject to a 20% tax on real capital gains and real interest, so long the individual is not a controlling shareholder (generally a shareholder with 10% or more in the right to profits, right to nominate a director and voting rights) in the company constituting the origin of this income. This implies a lower tax rate for individuals on income deriving from the sale of securities not traded on a stock exchange and a reduction in the tax rate to 20% (from 25%) on dividends, with a concurrent increase in the tax on the gains from publicly traded securities and on certain interest income as explained above from 15% to 20%.

A controlling shareholder will be subject to a tax of 25% in respect of real capital gains derived from the sale of securities issued by the controlled company. Interest received by an individual from such a company will be taxed based on the recipient's marginal tax rates which will be reduced gradually from the current 49% rate to 44% in 2010. The determination of whether the individual is a controlling shareholder will be made on the date the shares are sold. Nevertheless, the individual will be viewed as a controlling shareholder even if at any time during the 12 months preceding this date he had been a controlling shareholder. The 2006 Tax Reform does not specify the date in which a controlling shareholder should be determined as such if that controlling shareholder receives interest.

Despite the above, interest income in the hands of an individual will be taxed based on his marginal tax rate in the following instances: (i) the individual claimed interest expenses against this income; (ii) the interest income is business income in his hands or it is such that requires inclusion in the books; and (iii) special relations exist between the payer of the interest and its recipient (for example: that of supplier/customer/employee/relative).

Corporations

Corporations will be subject to corporate tax rates in respect of total income, including capital gains and interest, with the corporate tax rate reduced gradually from 34% in 2005 to 25% in 2010. However, between 2006 and 2009, taxable income that was taxed prior to the effective date of this Reform at a tax rate up to 25%, will be taxed at a rate of 25%.

D. Eligible Employees with Options Entitling Participation In This Rights Offering

Pursuant to the majority of our pre-2003 employees' share option plans, we are also offering rights to our employees who hold options under these plans. The following discussion applies to Israeli resident employees only.

Eligible employees who sell the rights received by virtue of their employee options issued to them under either section 102 or section 3(i) of the Israeli Income Tax Ordinance, will have taxable employment income equal to the consideration received from the sale of the rights. If the eligible employees exercise their rights, the amount by which the fair market value of the debentures convertible into ordinary shares received upon exercise of the rights exceeds the subscription price of the rights will be taxable employment income at the date in which such event occurs.

Any future sale of the debentures or the shares issued upon conversion of the debentures will be subject to capital gains tax, as discussed above. The cost basis of the debentures will then be equal to the amount which was considered, for tax purposes, the fair market value of the debentures received upon the exercise of the rights. With respect to future sales of shares deriving from the conversion of the debentures, the cost basis will include any expenses, if any, associated with the conversion of the debentures.

We advise our eligible employees to consult their own professional tax advisers with respect to the tax consequences of the exercise or sale of the rights relating to the particular circumstances of each eligible employee.

United States Tax Considerations

The discussion of material United States federal income tax considerations below (other than statements as to whether we are a "passive foreign investment company," statements regarding our earnings and profits, and statements regarding the likelihood that the debentures will or will not be redeemed prior to maturity) is based on an opinion of special U.S. tax counsel, Roberts & Holland LLP. Subject to the limitations described in the next paragraph, the following describes the material United States federal income tax consequences resulting from the distribution to a "U.S. Holder" and related transactions by the U.S. Holder, including the exercise or expiration of rights, the conversion of debentures and the disposition of rights, debentures or ordinary shares. For purposes of this discussion, a U.S. Holder means (1) any U.S. person who receives a distribution of rights pursuant to this rights offering and who holds such rights, debentures issued upon exercise of such rights, or ordinary shares issued upon the conversion of such debentures ("Initial U.S. Holder") and (2) any U.S. person other than an Initial U.S. Holder who acquires such rights, debentures issued upon exercise of such rights, or ordinary shares issued upon the conversion of such debentures from a prior holder ("Subsequent U.S. Holder"). For purposes of our discussion, a U.S. person is:

- a citizen or resident of the United States;
- a corporation created or organized in the United States or under the laws of the United States or any State;
- an estate, the income of which is includable in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or if the trust has validly elected to be treated as a U.S. person under applicable Treasury regulations.

The discussion is based on current provisions of the Internal Revenue Code of 1986, or the Code, as amended, current and proposed Treasury regulations promulgated thereunder, and administrative and judicial decisions as of the date hereof, all of which are subject to change, possibly on a retroactive basis. This discussion is not a representation of, nor does it address, all aspects of United States federal income taxation that may be relevant to any particular U.S. Holder based on such U.S. Holder's individual circumstances. In particular, this discussion considers only U.S. Holders that will own rights, debentures, or ordinary

shares as capital assets at all relevant times and does not address the potential application of the alternative minimum tax or U.S. federal income tax consequences to U.S. Holders that are subject to special treatment, including U.S. Holders that:

— are broker-dealers or insurance companies;
— have elected mark-to-market accounting;
— are financial institutions or financial services entities;

— hold rights, debentures, or ordinary shares as part of a straddle, hedge or conversion transaction with other investments;
— own directly, indirectly or by attribution at least 10% of our voting power; or
— have a functional currency that is not the U.S. dollar.

Additionally, the discussion does not consider the tax treatment of persons who hold rights, debentures, or ordinary shares through a partnership or other pass-through entity or the possible application of U.S. federal gift or estate tax.

Finally, this discussion does not address any aspect of state, local or non-U.S. tax laws.

Debt Characterization of the Debentures

Certain characteristics of the debentures that may be received upon exercise of the rights raise an issue of whether such debentures should be treated as debt or equity for U.S. income tax purposes. Such characteristics include subordination, the absence of interest payments prior to maturity, provisions for optional conversion into our ordinary shares, and the absence, in certain circumstances, of a fixed maturity date. Tower intend to take the position that the debentures are characterized as debt for U.S. income tax purposes, but we have not obtained an opinion of counsel and this conclusion is not free of doubt. Due to the fact-intensive nature of the issue, and in particular to the characteristics described in the second preceding sentence, counsel is unable to opine as to whether the debentures should be characterized as debt for U.S. income tax purposes.

In any case, if the debentures were determined to be characterized as equity for U.S. tax purposes, the U.S. income tax consequences to U.S. Holders generally should not be materially less favorable than those described herein. The consequences of the debentures being characterized as equity for U.S. tax purposes are addressed in greater detail below under the subheading "Tax Consequences if the Debentures Are Characterized as Equity."

The discussion below, other than under the subheading “Tax Consequences if the Debentures Are Characterized as Equity” assumes that the debentures are characterized as debt for U.S. income tax purposes.

Receipt of the Distribution; Allocation of Basis

The discussion under this subheading applies only to Initial U.S. Holders and is qualified by the special rules for “U.S. Option Holders,” described below.

A U.S. Holder will not be taxed on the distribution of rights, provided that Tower has no current or accumulated earnings and profits, as determined for U.S. income tax purposes, at any time during the taxable year in which the distribution is made, and provided that the U.S. Holder’s tax basis in the ordinary shares with respect to which the rights are distributed exceeds the fair market value of the rights. Tower considers it highly unlikely that it will have current or accumulated earnings and profits during the above-referenced period. If, contrary to our expectations, we were to have current or accumulated earnings and profits, then a U.S. Holder would recognize ordinary income (as a dividend) equal to the fair market value of the rights received (or, if less, the amount of such current and accumulated earnings and profits allocable to the distribution), unless the distribution is excluded from gross income under Section 305(a) of the Code. As discussed below, it is unclear whether the distribution will be excluded from gross income under Section 305(a).

If the fair market value of the rights received by a U.S. Holder exceeds the sum of the current and accumulated earnings and profits (if any) allocable to the distribution and the U.S. Holder’s tax basis in the ordinary shares with respect to which the rights are distributed, and Section 305(a) of the Code does not exclude the distribution from gross income, the U.S. Holder will recognize capital gain in an amount equal to such excess.

If the distribution is excluded from the gross income of each recipient under Section 305(a) of the Code, then a U.S. Holder’s tax basis in the rights so received will be zero unless (a) the fair market value of the rights distributed to the U.S. Holder is at least 15% of the fair market value of the ordinary shares with respect to which such rights are distributed or (b) the U.S. Holder elects to allocate the basis of the U.S. Holder’s ordinary shares between the ordinary shares and the rights in proportion to their relative fair market values on the date of distribution. Any allocation of basis under the preceding sentence will be given effect only if a U.S. Holder exercises or sells the rights. To make the election, a U.S. Holder must attach a statement to the U.S. Holder’s U.S. federal income tax return for the taxable year in which the rights are received. If the distribution is tax-free under Section 305(a), then the holding period of the rights received will include the holding period of the shares with respect which such rights were distributed.

If the distribution does not satisfy the requirements of Section 305(a) of the Code, then a U.S. Holder’s tax basis in any rights received in the distribution will be their fair market value on the date of distribution. In that event, the holding period of such rights will begin on the date of the distribution.

A distribution of stock or stock rights to shareholders with respect to their stock in a corporation generally is excluded from gross income under Section 305(a) of the Code. It is unclear, however, whether this exclusion will apply to rights received pursuant to this rights offering. First, it is uncertain whether such rights constitute stock rights for this purpose, since the rights permit a holder to purchase convertible debentures, not shares. If the rights are not considered stock rights for this purpose, then Section 305(a) will not apply.

In addition, Section 305(a) does not apply in the case of a distribution (or series of distributions) that has the result of a (1) the receipt of property by some shareholders and (2) an increase in the proportionate interests of other shareholders in the assets or earnings and profits of the corporation. This may be the effect here if, for example, some holders exercise their rights and retain their debentures while other holders exercise their rights and convert their debentures. Moreover, even if all holders who exercise their rights convert their debentures, we have other convertible debentures outstanding and, for certain purposes under

Section 305, holders of convertible debentures are treated as shareholders. As a result, the receipt of interest payments by holders of our outstanding convertible debentures satisfies condition (1) above. Therefore, the distribution will be ineligible for tax-free treatment under Section 305(a) if holders who receive a distribution of rights with respect to their ordinary shares pursuant to this rights offering are considered to have an increased proportionate interest in our assets or earnings and profits.

The applicable Treasury regulations provide that, if a corporation has convertible securities outstanding (such as our outstanding convertible debentures) and distributes stock or stock rights with respect to the stock into which such convertible securities may be converted (such as our ordinary shares), then the holders of such stock are considered to have an increased proportionate interest in the assets or earnings and profits of the corporation unless a “full adjustment” in the conversion ratio of the convertible securities is made. The Treasury regulations give examples of a qualifying “full adjustment” in conversion ratio but do not define this term. The anti-dilution provision of our outstanding convertible debentures differs from the formulas described in examples in the Treasury regulations, and it is therefore unclear whether the provision in our outstanding convertible debentures would qualify as providing for a “full adjustment” within the meaning of the Treasury regulations. There exists a similar concern with respect to outstanding rights to purchase our ordinary shares, such as the Options (Series 1). Thus, U.S. Holders who receive a distribution of rights with respect to their ordinary shares may be considered to have an increased proportionate interest in our assets or earnings and profits. In that event, Section 305(a) would not apply to the distribution.

Exercise or Expiration of Rights; Purchase of Debentures Convertible into Ordinary Shares

A U.S. Holder will not recognize gain or loss on the exercise of rights. If a U.S. Holder holds rights until expiration (without exercise), the U.S. Holder will recognize a capital loss upon the expiration of such rights in an amount equal to the U.S. Holder’s basis, if any, in such rights. The deductibility of capital losses is subject to limitations.

If a U.S. Holder exercises rights, the U.S. Holder’s basis in the convertible debentures received upon such exercise will be determined by adding the U.S. Holder’s basis (if any) in the rights to the purchase price paid upon exercise of the rights.

Conversion of Debentures

A U.S. Holder will not recognize gain or loss upon the conversion of the debentures (except with respect to any cash received in lieu of a fractional share). A U.S. Holder’s basis in the ordinary shares received upon conversion will equal the U.S. Holder’s basis in such debentures. A U.S. Holder's holding period for the ordinary shares received upon exercise of a debenture should include the U.S. Holder’s holding period for the debenture.

Disposition of Rights, Debentures, or Ordinary Shares Issued Upon the Conversion of Debentures

This discussion is qualified by the discussions below under the subheading “Tax Consequences if We Are a Passive Foreign Investment Company” and the subheading “Tax Consequences if the Debentures Are Characterized as Contingent Payment Debt Instruments.”

Upon the sale, exchange or other disposition (other than by means of exercise or expiration) of rights, debentures, or ordinary shares issued upon the conversion of debentures, a U.S. Holder generally will recognize capital gain or loss in an amount equal to the difference between the amount realized and such U.S. Holder’s basis in the rights, debentures, or ordinary shares. In the case of a Subsequent U.S. Holder who purchases a debenture at a market discount, however, any gain attributable to accrued market discount will be treated as ordinary income. See the discussion below under the subheading "Original Issue Discount, Acquisition Premium and Market Discount."

Capital gain from the sale, exchange or other disposition of rights, debentures, or ordinary shares for which the U.S. Holder has a holding period of more than one year will be long-term capital gain. In the case of a U.S. Holder that is an individual, estate or trust, long-term capital gains generally are eligible for taxation at reduced rates. For taxable years beginning before 2009, the maximum federal income tax rate for long-term capital gains earned by a noncorporate U.S. Holder is 15%. The deductibility of capital losses is subject to limitations.

Gains and losses recognized by a U.S. Holder on a sale, exchange or other disposition of rights, debentures, or ordinary shares generally will have a U.S. source for foreign tax credit purposes.

U.S. Option Holders

The U.S. federal income tax consequences to U.S. Holders who receive rights in their capacity as eligible employees holding compensatory stock options (“U.S. Option Holders”) differ from those of other U.S. Holders.

If the rights are considered to have a readily ascertainable fair market value at the time of grant, then a U.S. Option Holder will recognize ordinary income in the nature of compensation in an amount equal to the fair market value, if any, of the rights received. In that event, the U.S. Option Holder will have a tax basis in such rights equal to the amount of compensation included in ordinary income, and will not recognize income upon a subsequent exercise of the rights or conversion of the debentures.

If the rights are not considered to have a readily ascertainable fair market value at the time of grant, then a U.S. Option Holder will not recognize income upon receipt of the rights. In that event, a U.S. Option Holder’s subsequent exercise of the rights will cause the U.S. Option Holder to recognize ordinary income in the nature of compensation in an amount equal to the excess, if any, of the fair market value of the debentures over the purchase price paid for such debentures. No additional income or gain will be recognized upon a subsequent conversion of the debentures.

Under the applicable Treasury regulations, whether an option (such as the rights) has a readily ascertainable fair market value depends in part upon whether the option is actively traded on an established market; however, an option that is not actively traded nonetheless will generally have a readily ascertainable fair market value if all of the following conditions exist:

- The option is transferable by the optionee;
- The option is exercisable immediately in full by the optionee;
- The option or the property subject to the option is not subject to any restriction or condition (other than a lien or other condition to secure payment of the purchase price) that has a significant effect upon the fair market value of the option; and
- the fair market value of the option privilege is considered readily ascertainable.

The Treasury regulations provide that, in determining whether the fair market value of the option privilege is readily ascertainable, it is necessary to consider (1) whether the value of the property subject to the option can be ascertained, (2) the probability of any ascertainable value of such property increasing or decreasing, and (3) the length of the period during which the option can be exercised.

At present it is not possible to predict whether the rights will be actively traded or satisfy the alternative requirements set forth above for having a readily ascertainable fair market value. Inasmuch as the rights will trade for only one day, however, we consider it unlikely that the rights will be actively traded. It is not possible to predict whether the above-described alternative requirements for having a readily ascertainable fair market value will be satisfied with respect to the rights or the debentures, because the Treasury regulations provide insufficient guidance to determine whether the fair market value of the option privilege of either the rights or the debentures will be readily ascertainable.

Original Issue Discount, Acquisition Premium and Market Discount

A U.S. Holder of debentures will accrue original issue discount (“OID”), and include such OID in income on a current basis, regardless of the U.S. Holder’s regular method of accounting. The amount of OID accrued for each accrual period generally is determined by multiplying the debenture’s yield-to-maturity (adjusted for the length of the accrual period) by its adjusted issue price at the beginning of the accrual period. The amount of OID so determined will then be allocated on a ratable basis to each day in the accrual period on which the U.S. Holder holds the debenture. A U.S. Holder’s adjusted tax basis in the debenture will be increased by the amount of any OID included in income with respect thereto and decreased by any payments received thereon. The adjusted issue price of a debenture at the beginning of any accrual period is equal to the issue price of the debenture increased by the amount of OID accrued, and reduced by any interest paid, during all prior accrual periods.

Special rules will apply to a Subsequent U.S. Holder who purchases a debenture for an amount other than its adjusted issue price. If the purchase price paid by the Subsequent U.S. Holder exceeds the adjusted issue price of the debenture, the debenture is considered to have “acquisition premium,” and the amount of OID otherwise allocable to an accrual period is reduced by a portion of such acquisition premium. If the purchase price paid by the Subsequent U.S. Holder is less than the adjusted issue price of the debenture, the debenture is considered to have “market discount.” Any gain recognized by a Subsequent U.S. Holder upon the disposition of a debenture purchased at a market discount will be treated as ordinary income to the extent of the market discount accrued through the date of the disposition. Market discount generally accrues ratably, *i.e.*, with the same amount of discount allocable to each day during the holding period of the Subsequent U.S. Holder. Alternatively, a Subsequent U.S. Holder may elect to accrue market discount on the basis of a constant interest rate. Under this alternative method, market discount accrues under rules similar to the rules described above governing the accrual of OID. This election is irrevocable once made with respect to a debenture.

Constructive Dividends

As noted above, the conversion price of the debentures is subject to adjustment under certain circumstances. Under Section 305 of the Code and applicable Treasury regulations, an adjustment to the conversion price, or a failure to adjust the conversion price, may in certain circumstances result in a constructive distribution to a U.S. Holder if, and to the extent that, such adjustment to the conversion price, or failure to adjust the conversion price, increases the proportionate interest of a U.S. Holder in our earnings and profits or assets, whether or not such U.S. Holder ever converts his, her or its debentures into ordinary shares. In particular, the cancellation of a certain adjustment to the conversion price of our debentures, as described above under "Conversion of Debentures; Election Not to Adjust the Conversion Price Following a Future Financing," could give rise to a constructive distribution to a U.S. Holder of our ordinary shares (or, in general, any other equity interest in the Company other than the debentures received upon exercise of the rights distributed pursuant to this rights offering). Any such constructive distribution would be taxable to the U.S. Holder as a dividend to the extent of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, with any excess treated as a tax-free return of capital up to such U.S. Holder’s tax basis in his, her or its debentures, and then as capital gain.

Dividends generally are taxed as ordinary income. In the case of a noncorporate U.S. Holder, certain “qualified dividends” are taxable at the same reduced rates as are applicable to long-term capital gains for taxable years beginning before 2009. It is not clear whether a constructive dividend with respect to our ordinary shares would be treated as a qualified dividend eligible for such reduced rate. In addition, the reduced rate will not apply if we are treated as a passive foreign investment company in the year that a dividend (or constructive dividend) is paid or in the prior year. See the discussion below under the heading “Tax Consequences if We Are a Passive Foreign Investment Company.”

Tax Consequences of an Early Redemption

As discussed above under "Conversion of Debentures; Election Not to Adjust the Conversion Price Following a Future Financing," if we consummate a financing or series of financings in which we receive gross proceeds of at least $75 million (excluding the proceeds from this rights offering), we may elect to cancel a certain adjustment to the conversion price of the debentures. In that event, if the closing price of our ordinary shares on the trading day immediately prior to the date on which we consummate such $75 million financing(s) is lower than $1.30, then we will redeem all debentures, unless such debentures are converted into our ordinary shares during the period (which may be as few as five days but no more than fourteen days) following such announcement that the debentures remain convertible. As discussed above under "Early Redemption of Debentures; Mandatory Redemption by the Company," a holder who does not convert our debentures into ordinary shares during such period will receive an amount equal to the outstanding principal amount of such debentures, plus a 15% redemption premium, but will not receive any accrued interest.

A U.S. Holder will recognize gain or loss upon such redemption in an amount equal to the difference between the amount realized and such U.S. Holder’s tax basis in the debentures. It is possible, however, that, even in advance of the redemption, the above-described change in the terms of the debentures will be characterized for U.S. tax purposes as a deemed exchange of a U.S. Holder’s “old” debenture (immediately prior to the change in terms) for a “new” debenture (immediately following the change in terms). Such deemed exchange would be taxable.

The applicable Treasury regulations provide that any significant modification of a debt instrument will be treated as a deemed exchange. A change in the terms of the debt instrument pursuant to a “unilateral” option, however, will not be considered a modification and thus will not trigger a deemed exchange. It is not clear whether our option to cancel a certain adjustment to the conversion price will be considered unilateral for this purpose. Under the regulations, an issuer’s option to modify a debt instrument is not considered to be unilateral if the holder has a right to terminate the debt instrument. Guidance regarding the application of this rule is limited, however, and it is unclear whether a holder is considered to have a “right” to terminate a debt instrument that is subject to mandatory redemption.

If our option to cancel a certain adjustment to the conversion price is considered to be unilateral, then our exercise of such option will not result in a deemed exchange of the debentures.

If our option to cancel a certain adjustment to the conversion price is not considered to be unilateral, and consequently our exercise of such option causes a deemed exchange of "old" debentures for "new" debentures, then a U.S. Holder of debentures on the date we exercise such option will recognize gain or loss upon such deemed exchange in an amount equal to the difference between the fair market value of the "new" debentures and such U.S. Holder's tax basis in the "old" debentures. A U.S. Holder of debentures on the date we exercise our option would recognize such gain or loss even if such U.S. Holder converts such debentures into our ordinary shares during the period that the debentures remain convertible following our announcement of consummation of the $75 million financing(s).

Tax Consequences if We Are a Passive Foreign Investment Company

We will be a passive foreign investment company, or PFIC, if 75% or more of our gross income in a taxable year, including our pro rata share of the gross income of any company, U.S. or foreign, in which we are considered to own, directly or indirectly, 25% or more of the shares by value, is passive income. Alternatively, we will be considered to be a PFIC if at least 50% of our assets in a taxable year, averaged quarterly over the year and ordinarily determined based on fair market value and including the pro rata share of the assets of any company in which we are considered to own, directly or indirectly, 25% or more of the shares by value, are held for the production of, or produce, passive income. Passive income includes amounts derived by reason of the temporary investment of funds raised in our public offerings. If we are a PFIC, and a U.S. Holder does not make an election to treat us as a qualified electing fund (as described below) or a mark to market election (as described below):

- Excess distributions by us to a U.S. Holder will be taxed in a special way. Excess distributions are amounts received by a U.S. Holder with respect to our stock in any taxable year that exceed 125% of the average distributions received by such U.S. Holder from us in the shorter of either the three previous years or such U.S. Holder's holding period for ordinary shares before the present taxable year. This amount may exceed our current or accumulated earnings and profits. Excess distributions must be allocated ratably to each day that a U.S. Holder has held our stock. A U.S. Holder must include amounts allocated to the current taxable year (or to any year prior to the first year in which we were a PFIC) in its gross income as ordinary income for that year. A U.S. Holder must pay tax on amounts allocated to each prior taxable year (other than any year prior to the first year in which we were a PFIC) at the highest rate in effect for that year on ordinary income and the tax is subject to an interest charge at the rate applicable to underpayments of income tax.
- The entire amount of gain realized by a U.S. Holder upon the sale or other disposition of ordinary shares will also be treated as an excess distribution and will be subject to tax as described above.
- A subsequent holder's tax basis in shares of our stock that are acquired from a decedent will not receive a step-up to fair market value as of the date of the decedent's death but would instead be equal to the decedent's basis, if lower.
- If we are a PFIC, and any foreign subsidiary or other foreign company in which we own shares is also a PFIC, then a U.S. Holder of our shares will also be treated as owning shares of that lower-tier PFIC. For purposes of the above-described rules relating to dispositions of PFIC shares, certain proposed Treasury regulations generally would treat any transaction that reduces a U.S. Holder's proportionate interest in a lower-tier PFIC as a disposition of shares of such lower-tier PFIC.
- Under proposed Treasury regulations, a U.S. Holder of a convertible debenture (or right) would be treated as owning ordinary shares for purposes of the PFIC rules above.

The special PFIC rules described above will not apply to a U.S. Holder if the U.S. Holder makes an election to treat us as a qualified electing fund, or QEF, in the first taxable year in which the U.S. Holder owns (or is considered to own) ordinary shares and if we provide the Internal Revenue Service, or IRS, with information regarding our earnings; a late (retroactive) election may be made in limited circumstances. Instead, a shareholder of a qualified electing fund is required for each taxable year to include in income a pro rata share of the ordinary earnings of the qualified electing fund as ordinary income and a pro rata share of the net capital gain of the qualified electing fund as long-term capital gain, subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. We have agreed to supply U.S. Holders with the information needed to report income and gain pursuant to a QEF election in the event we are classified as PFIC. The QEF election is made on a shareholder-by-shareholder basis and can be revoked only with the consent of the IRS. A shareholder makes a QEF election by attaching a completed IRS Form 8621, including the PFIC annual information statement, to a timely filed U.S. federal income tax return or, if no federal income tax return is required to be filed, by filing such form with the IRS Service Center in Philadelphia, Pennsylvania. Even if a QEF election is not made, a shareholder in a PFIC who is a U.S. person must file a completed IRS Form 8621 every year.

A U.S. Holder of ordinary shares may avoid application of the PFIC rules to shares of a lower-tier PFIC by making a separate QEF election for shares of the lower-tier PFIC for the first taxable year in which the U.S. Holder is considered to own shares of the lower-tier PFIC; this election may only be made, however, if the lower-tier PFIC provides the IRS with information regarding its earnings. A QEF election with respect to our shares does not constitute an election with respect to any lower-tier PFIC.

As noted above, the proposed regulations would treat a U.S. Holder of a convertible debenture (or right) as if the holder held ordinary shares for purposes of the PFIC rules. A convertible debenture (or right) holder, however, may not make a QEF election. If we are considered a PFIC (presently or in the future), a U.S. Holder of a convertible debenture (or right) might be unable to make a timely QEF election for our shares or for shares of any lower-tier PFIC.

A U.S. Holder of PFIC stock which is publicly traded could elect to mark the stock to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the PFIC stock and the holder's adjusted basis in the PFIC stock. Losses would be allowed only to the extent of net mark-to-market gain previously included by the U.S. Holder under the election for prior taxable years. If the mark-to-market election were made, then the rules set forth above would not apply for periods covered by the election.

We do not believe that we currently are a PFIC. We have not obtained an opinion of counsel confirming this conclusion because it is unclear how the relevant regulations would apply in our circumstances. However, our belief that we are not a PFIC is supported by a private letter ruling issued by the IRS to a company whose circumstances are substantially the same as ours, although such private letter ruling would not be binding on the IRS in determining our status. In addition, the tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of future income and assets, which are relevant to the determination of PFIC status. Accordingly, there can be no assurance that we will not become a PFIC. If we determine that we have become a PFIC, we will notify our U.S. Holders and provide them with the information necessary to comply with the QEF rules. U.S. Holders who hold ordinary shares during a period when we are a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC, subject to exceptions for U.S. Holders who made a timely QEF

or mark-to-market election. U.S. Holders are urged to consult their tax advisors about the PFIC rules, including the consequences to them of making a mark-to-market or QEF election with respect to our ordinary shares in the event that we qualify as a PFIC.

Tax Consequences if the Debentures Are Characterized as Contingent Payment Debt Instruments

A contingent payment debt instrument ("CPDI") generally is defined as any debt instrument that provides for one or more contingent payments, unless an exception applies. The possibility that the debentures may be redeemed at a premium prior to maturity means that the debentures provide for one or more contingent payments. The debentures should not be characterized as CPDIs, however, if, as of the issue date, it is significantly more likely than not that they will not be redeemed prior to maturity. One of the required conditions for Tower to cause the early redemption of the debentures is that, by the 12th or (in certain circumstances) 18th month anniversary of the record date, Tower will have consummated a financing or a series of related financings in which it receives gross proceeds of at least $75 million. Tower has not reached any understandings with any potential investors with respect to any investment and has not commenced any discussions with respect to the terms of any investment, nor have term sheets or other documents been drafted or exchanged. Due to the above, and in light of the complexities which would characterize any such potential financing, Tower believes that it is significantly more likely than not that it will not meet the condition described above relating to the consummation of a financing within a specified period. Therefore, Tower considers it significantly more likely than not that the debentures will not be redeemed prior to maturity and believes that the debentures should not be characterized as CPDIs.

If the debentures were nevertheless characterized as CPDIs, the tax consequences to a U.S. Holder would change in the following respects:

— The debenture's "yield to maturity" would be computed by determining the "comparable yield" for a noncontingent debt instrument and constructing a payment schedule consistent with such comparable yield. Based on such comparable yield and payment schedule, and subject to certain adjustments described below, the amount of OID for any accrual period would be determined under the rules described above under the heading "Original Issue Discount, Acquisition Premium and Market Discount."

— If the total amount of contingent payments made in any taxable year were to exceed the total projected amount of contingent payments for such year, such "positive adjustment" would be treated as additional interest income to the U.S. Holder for such year. If the total amount of contingent payments made in any taxable year were to be less than the projected amount of contingent payments for such year, such "negative adjustment" would reduce the amount of interest income otherwise taken into account by the U.S. Holder with respect to the debenture for such year. If the negative adjustment for a taxable year were to exceed the amount of interest income otherwise required to be taken into account with respect to the debenture for such year, the excess would be treated as a ordinary loss, provided that the amount treated as an ordinary loss for any taxable year would be limited to the excess of the holder's total interest inclusions on the debenture over the total amount of negative adjustments treated as an ordinary loss in prior taxable years. Any portion of a negative adjustment that exceeds such limitation (and thus is not utilized in the taxable year in which it arises) may be carried forward to the succeeding taxable year. If a U.S. Holder were to carry forward a negative adjustment to a taxable year in which the debenture is sold, exchanged or retired, the amount realized on such disposition would be reduced by the amount of such negative adjustment carryforward. Additional adjustments would need to be made in the case of a holder whose basis in a debenture was different from the adjusted issue price of the debenture (*e.g.*, a subsequent holder who purchases a debenture for an amount that is more or less than the adjusted issue price).

— Any gain recognized by a U.S. Holder upon the sale, exchange or other disposition of a debenture generally would be characterized as ordinary interest income, rather than capital gain, unless such sale, exchange or other disposition takes place after it is no longer possible for the debentures to be redeemed at a premium.

— Any loss recognized by a U.S. Holder upon the sale, exchange or other disposition of a debenture generally would be characterized as ordinary loss to the extent that the holder's total interest inclusions on the debenture exceed the total amount of negative adjustments treated as an ordinary loss. Any further loss generally would still be characterized as a capital loss.

Interest accruals and adjustments generally are based on a projected payment schedule provided by the issuer. Tower does not intend to provide a projected payment schedule, however, because, as noted above, Tower does not believe that the debentures should be characterized as CDPIs. If the debentures were determined to be CDPIs, a U.S. Holder would be required to prepare its own projected payment schedule and to disclose this fact on a timely filed Federal income tax return for the year in which it acquired the debentures. U.S. Holders should consult their own tax advisors regarding the reporting requirements that would apply if the debentures were determined to be CDPIs.

Tax Consequences if the Debentures Are Characterized as Equity

If the debentures were characterized as equity for U.S. tax purposes, the U.S. income tax consequences to U.S. Holders generally would not be materially less favorable than those described herein. The principal consequences would be as follows:

Receipt of the Distribution; Allocation of Basis

If the debentures were characterized as equity for U.S. tax purposes, this would not increase the risk that an Initial U.S. Holder would be taxed on the distribution. In fact, such equity characterization might increase the possibility that the distribution could qualify for tax-free treatment under Section 305(a) of the Code. As noted above, one reason why Section 305(a) might not apply is that this provision only applies to stock and stock rights and it is uncertain whether the rights distributed pursuant to this rights offering will qualify as "stock rights." If the debentures were characterized as equity, the rights clearly would qualify as stock rights.

If the debentures were characterized as equity for U.S. tax purposes, this would not affect the rules described above regarding allocation of basis.

Exercise or Expiration of Rights; Purchase of Debentures Convertible into Ordinary Shares

If the debentures were characterized as equity for U.S. tax purposes, this would not affect the consequences to a U.S. Holder upon the exercise or expiration of rights.

Conversion of Debentures

If the debentures were characterized as equity for U.S. tax purposes, this would not affect the consequences to a U.S. Holder upon a conversion of debentures into our ordinary shares.

Disposition of Rights, Debentures, or Ordinary Shares Issued Upon the Conversion of Debentures

If the debentures were characterized as equity for U.S. tax purposes, this would not affect the consequences, as described above, to a U.S. Holder who disposes (other than by means of exercise or expiration) of rights, debentures or ordinary shares issued upon conversion of debentures, except that the special rules described above regarding market discount would not apply.

U.S. Option Holders

If the debentures were characterized as equity for U.S. tax purposes, this would not affect the special considerations described above for U.S. Option Holders.

Original Issue Discount, Acquisition Premium and Market Discount; Constructive Dividends

If the debentures were characterized as equity for U.S. tax purposes, the rules described above regarding original issue discount, acquisition premium and market discount would not apply. However, the excess of the amount to be paid at maturity to a U.S. Holder of a debenture over the issue price of the debenture (the "redemption premium") likely would be treated as a constructive distribution to the U.S. Holder under Section 305 of the Code. Such redemption premium would be taken into account under timing rules similar to those discussed above governing the accrual of original issue discount on a debt instrument. It is also possible that, in certain circumstances, the characterization of the debentures as equity for U.S. tax purposes could affect the determination of whether, under Section 305 of the Code and the applicable Treasury regulations, an adjustment to the conversion price, or a failure to adjust the conversion price, results in a constructive distribution to a U.S. Holder.

Tax Consequences if We Are a Passive Foreign Investment Company

If the debentures were characterized as equity for U.S. tax purposes, this generally would not affect the application of the PFIC rules, except that a U.S. Holder of debentures would be able to make a QEF or mark-to-market election.

FOREIGN EXCHANGE CONTROLS AND OTHER LIMITATIONS

Israeli law limits foreign currency transactions and transactions between Israeli and non-Israeli residents. The Controller of Foreign Exchange at the Bank of Israel, through "general" and "special" permits, may regulate or waive these limitations. In May 1998, the Bank of Israel liberalized its foreign currency regulations by issuing a new "general permit" providing that foreign currency transactions are generally permitted, although some restrictions still apply. For example, foreign currency transactions by institutional investors are restricted, including futures contracts between foreign and Israeli residents if one of the base assets is Israeli currency, unless this is a fixed price forward contract for a period of less than one month. Investments outside of Israel by pension funds and insurers are also restricted. Under the new general permit, all foreign currency transactions must be reported to the Bank of Israel, and a foreign resident must report to his financial mediator about any contract for which Israeli currency is being deposited in, or withdrawn from, his account. We cannot currently assess what impact, if any, this liberalization will have on us. We also cannot predict its future impact on the value of the NIS compared to the dollar and the corresponding effect on our financial position and results of operations.

The State of Israel does not restrict in any way the ownership or voting of ordinary shares of Israeli entities by non-residents of Israel, except with respect to subjects of countries that are in a state of war with Israel.

DESCRIPTION OF SHARE CAPITAL

Ordinary Shares

Our authorized share capital consists of 500 million ordinary shares, par value NIS 1.00 per share. Under our articles of association, the ordinary shares do not have preemptive rights, however, we have granted preemptive rights to a number of our Fab 2 investors, regarding which we will seek waivers in connection with this offering. We may from time to time, by approval of a majority of our shareholders, increase our authorized share capital. All ordinary shares are registered shares, rather than bearer shares.

The ownership or voting rights of our ordinary shares by non-residents of Israel is not restricted in any way by our memorandum of association or articles of association. The State of Israel does not restrict in any way the ownership or voting rights of ordinary shares of Israeli entities by non-residents of Israel, except with respect to subjects of countries that are in a state of war with Israel. Our ordinary shares do not have cumulative voting rights for the election of directors. The affirmative vote of the shareholders present in person or by proxy that represent more than 50% of the voting power present in person or by proxy have the power to elect all nominees up for election to our board of directors.

In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of our ordinary shares in proportion to the nominal value of their respective holdings. This liquidation right may be affected by the grant of a preferential dividend or distribution right to the holder of a class of shares with preferential rights that may be authorized in the future. Dividends may be paid only out of profits, as defined in the Israeli Companies Law. Our Board of Directors is authorized to declare dividends, although our bank covenants currently in effect prohibit the payment of dividends on our ordinary shares, unless such payments are approved by our banks.

Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Subject to the provisions set forth in Section 46B of the Israeli Securities Law, these voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future. Our major shareholders do not have different voting rights from each other or other shareholders.

Resolutions of shareholders (e.g. resolutions amending our articles of association, electing or removing directors, appointing an independent registered public accounting firm, authorizing changes in capitalization or the rights attached to our shares or approving a wind-up or merger) require the affirmative vote (at

a meeting convened upon advance notice of twenty one days) of shareholders present in person or by proxy and holding shares conferring, in the aggregate, at least a majority of the votes actually cast on such resolutions.

The quorum required for a meeting of shareholders is at least two shareholders present, in person or by proxy, within half an hour of the time fixed for the meeting's commencement that together hold shares conferring in the aggregate more than 33% of the total voting power of our shares. A meeting adjourned for lack of a quorum is adjourned to the same day in the following week at the same time and place. At the reconvened meeting, in the event a quorum is not present within half an hour of the time fixed for the meetings commencement, the persons present shall constitute a quorum.

Our registration number at the Israeli Registrar of Companies is 52-004199-7.

The objective stated in our articles of association is to engage in any lawful activity.

Modification or abrogation of the rights of any existing class of shares requires either the written consent of all of the holders of the issued shares of such class or the adoption of a resolution by an ordinary majority of a general meeting of holders of such class. The quorum required for a class meeting is at least two shareholders present, in person or by proxy, within half an hour of the time fixed for the meetings commencement that together hold shares conferring in the aggregate at least 33% of the total voting power of the issued shares of such class. If no quorum is present, the meeting shall be adjourned to another time and at the adjourned meeting a quorum shall be constituted in the presence of any number of participants, regardless of the number of shares held by them.

As of December 31, 2004, 65,699,796 of our ordinary shares were outstanding. As of October 31, 2005, 66,932,056 of our ordinary shares were outstanding. The above numbers of outstanding ordinary shares do not include 1.3 million treasury shares held by us as of such dates in an account with Bear Stearns & Co.

The transfer agent and registrar for our ordinary shares is American Stock Transfer & Trust Company, 59 Maiden Lane, New York, New York 10007.

UNDERTAKING TO REFRAIN FROM ACTIONS NOT DISCLOSED IN THIS PROSPECTUS

By signing this prospectus, we and our directors undertake as follows:

(a) not to take any action which is not disclosed in the prospectus concerning this rights offering and distributing or dispersing of the securities offered hereunder to the public, not to grant to purchasers of these securities rights which are not referred to in the prospectus;
(b) not to enter into any agreement with any third party that to the best of our knowledge has entered into arrangements which conflict with sub-paragraph (a); and
(c) to inform the Israel Securities Authority if we become aware of any arrangement with a third party, which conflicts with sub-paragraph (a).

LEGAL MATTERS

The validity of the securities offered in this prospectus will be passed upon for us by Yigal Arnon & Co., our Israeli counsel, and by Eilenberg & Krause LLP, New York, New York, our United States counsel. Certain matters set forth herein under "Material Income Tax Considerations – United States Tax Considerations" will be passed upon for us by Roberts & Holland LLP, our special United States tax counsel.

EXPERTS

The consolidated financial statements incorporated in this prospectus by reference from the company's Annual Report on Form 20-F for the year ended December 31, 2004 have been audited by Brightman Almagor & Co., a member firm of Deloitte Touche Tohmatsu, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference (which report expressed an unqualified opinion and included an explanatory paragraph about the differences between accounting principles generally accepted in Israel and in the United States of America), and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

ENFORCEABILITY OF CIVIL LIABILITIES AND AGENT FOR SERVICE OF PROCESS IN THE UNITED STATES

We are incorporated in Israel, most of our executive officers and directors and the Israeli experts named herein are nonresidents of the United States, and a substantial portion of our assets and of such persons' are located outside the United States. For further information regarding enforceability of civil liabilities against us and other persons, see "Risk Factors– It may be difficult to enforce a U.S. judgment against us, our officers and directors and some of the experts named in this prospectus or to assert U.S. securities law claims in Israel."

THE ISRAEL SECURITIES AUTHORITY EXEMPTION

This prospectus has been prepared based on the requirements of the Securities Act 1933 and in accordance with the requirements of the Securities and Exchange Commission's for Registration Statements on Form F-1. This prospectus, as will be filed and published in Israel, is identical to the Registration Statement on Form F-1 filed with, and declared effective by, the United States Securities and Exchange Commission (File No.333-126909) with the exception of the letter of consent of our external auditors (comprising Exhibit 23.2 to the prospectus to be filed and published in Israel) which is substantially similar to the letter of consent of our external auditors comprising Exhibit 23.2 to the Registration Statement.

Section 35(29) of the Israeli Securities Law authorizes the Israel Securities Authority to grant an exemption from the application of the Securities Regulations (Prospectus Details, Format and Form), 1969, to companies whose shares are dually listed on the Tel Aviv Stock Exchange and certain foreign stock

exchanges, that offer their securities to the public in Israel under a prospectus. Based on the aforesaid, we received such an exemption in connection with the offering under this prospectus.

Both the Tel Aviv Stock Exchange and NASDAQ approved the listing of the debentures and ordinary shares issuable upon the conversion of the debentures and the rights for trade for only one day on both the NASDAQ Capital Market and the Tel Aviv Stock Exchange. Nothing in these approvals should be interpreted as a verification of the information contained herein, an approval of the accuracy or completeness of such information or an expression of any view as to the quality of the securities we are distributing.

We obtained all the approvals and permits required under applicable law for the distribution of the debentures and for the publication of this prospectus. The debentures are not being distributed in any jurisdiction where the offer is not permitted.

WHERE YOU CAN FIND MORE INFORMATION; INCORPORATION OF INFORMATION BY REFERENCE

We have filed a registration statement on Form F-1 with the Securities and Exchange Commission in connection with this offering. In addition, we file annual reports with, and furnish information to, the Securities and Exchange Commission. You may read and copy the registration statement and any other documents we have filed at the Securities and Exchange Commission's Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the Public Reference Room. Our Securities and Exchange Commission filings are also available to the public at the Securities and Exchange Commission's Internet site at "http://www.sec.gov."

This prospectus is part of the registration statement and does not contain all of the information included in the registration statement. Whenever a reference is made in this prospectus to any of our contracts or other documents, the reference may not be complete and, for a copy of the contract or document, you should refer to the exhibits that are a part of the registration statement.

The Securities and Exchange Commission allows us to "incorporate by reference" into this prospectus the information we file with it, which means that we can disclose important information to you by referring you to those documents. Information incorporated by reference is part of this prospectus. Later information filed with the Securities and Exchange Commission will update and supersede this information.

This prospectus will be deemed to incorporate by reference the following documents previously filed by us with the Securities and Exchange Commission:

— our annual report on Form 20-F for the year ended December 31, 2004, filed on June 29, 2005, to the extent the information in that report has not been updated or superseded by this prospectus;

— our report on Form 6-K filed on August 3, 2005, as amended on Form 6-K/A filed on September 22, 2005 and on Form 6-K/A filed on November 7, 2005; and

— our report on Form 6-K filed on November 8, 2005, as amended on Form 6-K/A filed on November 22, 2005.

We will provide to each person, including any beneficial owner, to whom this prospectus is delivered, a copy of these filings, at no cost, upon written or oral request to us at: Ramat Gavriel Industrial Park, Post Office Box 619, Migdal Haemek, 23105 Israel, Attn: Corporate Secretary, telephone number: 972-4-650-6611. Copies of these filings may also be accessed at our website, www.towersemi.com. Click on "Investor Relations" and then "Filings."

A copy of this registration statement, our articles of association and the documents filed as exhibits are available for inspection at our offices at Hamada Avenue, Ramat Gavriel Industrial Park, Migdal Haemek, Israel.

A copy of this prospectus, the Israel Securities Authority permit pursuant to which this prospectus has been published, our memorandum of association, our articles of association and the documents filed as exhibits, are available for inspection at our offices at Hamada Avenue, Ramat Gavriel Industrial Park, Migdal Haemek, Israel.

As a foreign private issuer, we are exempt from the rules under Section 14 of the Exchange Act prescribing the furnishing and content of proxy statements and our officers, directors and principal shareholders are exempt from the reporting and other provisions in Section 16 of the Exchange Act.

Form F-1 Registration Statement. We have filed with the Securities and Exchange Commission a registration statement on Form F-1 under the Securities Act with respect to the debentures offered in this prospectus. This prospectus, which is part of the registration statement, does not contain all of the information that you can find in the registration statement. Some parts of the registration statement are omitted from the prospectus in accordance with the rules and regulations of the Securities and Exchange Commission. The statements we make in this prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete. With respect to each such document filed as an exhibit to the registration statement, you should refer to the exhibit for a more complete description of the matter involved. The registration statement may be read and copied at the Securities and Exchange Commission's public reference rooms as indicated above. In accordance with the requirements of the Israeli Securities Authority, those parts of the Form F-1 that are not part of the prospectus, will be attached to the copies of this prospectus that will be distributed in Israel.

PROSPECTUS

DISTRIBUTION OF RIGHTS
TO PURCHASE
DEBENTURES CONVERTIBLE
INTO ORDINARY SHARES

You should rely only on the information incorporated by reference or provided in this prospectus. We have not authorized anyone to provide you with different information. We are not making any offer to sell or buy any of the securities in any state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date that appears below.

December __, 2005

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Israeli Companies Law-1999, or the Companies Law, which entered into effect on February 1, 2000 and was amended most recently in March 2005, provides that a company may include in its articles of association provisions allowing it to:

1. partially or fully, exempt in advance, an office holder of the company from his responsibility for damages caused by the breach of his duty of care to the company, except for damages caused to the Company due to any breach of such Office Holder's duty of care towards the company in a "distribution" (as defined in the Companies Law).

2. enter into a contract to insure the liability of an office holder of the company by reason of acts or omissions committed in his capacity as an office holder of the company with respect to the following:

   (a) the breach of his duty of care to the company or any other person;

   (b) the breach of his fiduciary duty to the company to the extent he acted in good faith and had a reasonable basis to believe that the act or omission would not prejudice the interests of the company; and

   (c) monetary liabilities or obligations which may be imposed upon him in favor of other persons.

3. indemnify an office holder of the company for:

   (a) monetary liabilities or obligations imposed upon him in favor of other persons pursuant to a court judgment, including a compromise judgment or an arbitrator's decision approved by a court, by reason of acts or omissions of such person in his capacity as an office holder of the company;

   (b) reasonable litigation expenses, including attorney's fees, actually incurred by such office holder or imposed upon him by a court, in an action, suit or proceeding brought against him by or on behalf of us or by other persons, or in connection with a criminal action from which he was acquitted, or in connection with a criminal action which does not require criminal intent in which he was convicted, in each case by reason of acts or omissions of such person in his capacity as an office holder; and

   (c) reasonable litigation expenses, including attorneys' fees, actually incurred by such office holder due to an investigation or a proceeding instituted against such office holder by an authority competent to administrate such an investigation or proceeding, and that was finalized without the filing of an indictment against such office holder and without any financial obligation imposed on such office holder in lieu of criminal proceedings, or that was finalized without the filing of an indictment against such office holder but with financial obligation imposed on such office holder in lieu of criminal proceedings of a crime which does not require proof of criminal intent.

The Companies Law provides that a company's articles of association may provide for indemnification of an office holder post-factum and may also provide that a company may undertake to indemnify an office holder in advance, as described in:

   i. sub-section 3(a) above, provided such undertaking is limited to and actually sets forth the types of occurrences, which, in the opinion of the company's board of directors based on the current activity of the Company, are, at the time such undertaking is provided, foreseeable, and to an amount and degree that the board of directors has determined is reasonable for such indemnification under the circumstances; and

   ii. sub-sections 3(b) and 3(c) above.

The Companies Law provides that a company may not indemnify or exempt the liabilities of an office holder or enter into an insurance contract which would provide coverage for the liability of an office holder with respect to the following:

— a breach of his fiduciary duty, except to the extent described above;

— a breach of his duty of care, if such breach was done intentionally, recklessly or with disregard of the circumstances of the breach or its consequences;

— an act or omission done with the intent to unlawfully realize personal gain; or

— a fine or monetary settlement imposed upon him.

Under the Companies Law, the term "office holder" includes a director, managing director, general manager, chief executive officer, executive vice president, vice president, other managers directly subordinate to the managing director and any other person fulfilling or assuming any such position or responsibility without regard to such person's title.

The grant of an exemption, an undertaking to indemnify or indemnification of, and procurement of insurance coverage for, an office holder of a company requires, pursuant to the Companies Law, the approval of the company's audit committee and board of directors, and, in certain circumstances, including if the office holder is a director, the approval of the company's shareholders.

We have entered into an insurance contract for directors and officers and have procured indemnification insurance for our office holders to the extent permitted by our Articles of Association. We have never had the occasion to indemnify any of our office holders.

ITEM 8. EXHIBITS

EXHIBIT INDEX

Exhibit Numbers	Description of Document
3.1	Articles of Association of the Issuer, as amended. **
4.1	Form of Rights Agent Agreement with Form of Rights Certificate attached
4.2	Form of Indenture
4.3	Eleventh Amendment, dated October 27, 2005, to the Facility Agreement among the Registrant, Bank Hapoalim B.M. and Bank Leumi Le-Israel Ltd. **
4.4	Tenth Amendment, dated September 29, 2005, to the Facility Agreement among the Registrant, Bank Hapoalim B.M. and Bank Leumi Le-Israel Ltd. **
4.5	Ninth Amendment, dated July 24, 2005, to the Facility Agreement among the Registrant, Bank Hapoalim B.M. and Bank Leumi Le-Israel Ltd. **
4.6	Twelfth Amendment, dated November 30, 2005, to the Facility Agreement among the Registrant, Bank Hapoalim B.M. and Bank Leumi Le-Israel Ltd.
5.1	Opinion of Yigal Arnon & Co.
5.2	Opinion of Eilenberg & Krause LLP
5.3	Opinion of Roberts and Holland LLP **
12.1	Statement re Computation of Ratio of Earnings to Fixed Charges **
23.1	Consent of Yigal Arnon & Co. (contained in their opinion constituting Exhibit 5.1)
23.2	Consent of Brightman Almagor & Co.
23.3	Consent of Eilenberg & Krause (contained in their opinion constituting Exhibit 5.2)
23.4	Consent of Roberts & Holland LLP (contained in their opinion constituting Exhibit 5.3) **
24.1	Power of Attorney **

24.2 Power of Attorney of Director **

25.1 Statement of Eligibility of Trustee **

** Previously filed.

ITEM 9. UNDERTAKINGS

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of this Registration Statement (or the most recent post-effective amendment hereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in this Registration Statement or any material change to such information in this Registration Statement;

provided, however, that:

(A) paragraphs (a)(1)(i) and (a)(1)(ii) of this section do not apply if the registration statement is on Form S-8 and the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement; and

(B) paragraphs (a)(1)(i), (a)(1)(ii) and (a)(1)(iii) of this section do not apply if the registration statement is on Form S-3 or Form F-3 and the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) To file a post-effective amendment to the Registration Statement to include any financial statements required by item 8.A. of Form 20-F at the start of any delayed offering or throughout a continuous offering. Financial statements and information otherwise required by Section 10(a)(3) of the Act need not be furnished, *provided*, that the Registrant includes in the prospectus, by means of a post-effective amendment, financial statements required pursuant to this paragraph (a)(4) and other information necessary to ensure that all other information in the prospectus is at least as current as the date of those financial statements. Notwithstanding the foregoing, with respect to Registration Statements on Form F-3, a post-effective amendment need not be filed to include financial statements and information required by item 8.A. of Form 20-F if such financial statements and information are contained in periodic reports filed with or furnished to the Commission by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Form F-3.

(5) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(i) If the registrant is relying on Rule 430B:

(A) Each prospectus filed by the registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(B) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a

registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date; or

(ii) If the registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(6) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424:

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(c) The undersigned registrant hereby undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and, where interim financial information required to be presented by Article 3 of Regulation S-X are not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

(d) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in such Act and will be governed by the final adjudication of such issue.

(e) The undersigned registrant hereby undertakes to file an application for the purpose of determining the eligibility of the trustee to act under subsection (a) of section 310 of the Trust Indenture Act (“Act”) in accordance with the rules and regulations prescribed by the Commission under Section 305(b)2 of the Act.

(f) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b) (1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-1 and has duly caused this Amendment No. 5 on Form F-1 to the Registration Statement on Form F-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Migdal Haemek, Israel, on December 8, 2005.

TOWER SEMICONDUCTOR LTD.

BY: /S/ Russell C. Ellwanger

Russell C. Ellwanger
Director and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
*	Chairman of the Board	December 8, 2005
Ehud Hillman		
/s/ Russell C. Ellwanger	Director and Chief Executive Officer (Principal Executive Officer)	December 8, 2005
Russell C. Ellwanger		
*	Acting Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	December 8, 2005
Oren Shirazi		
*	Director	December 8, 2005
Yossi Rosen		
*	Director	December 8, 2005
Dr. Eli Harari		
*	Director	December 8, 2005
Miin Wu		
*	Director	December 8, 2005
N.D. Reddy		
*	Director	December 8, 2005
Tal Yaron-Eldar		

*	Director	December 8, 2005
Hans Rohrer		
*	Director	December 8, 2005
Kalman Kaufman		
AUTHORIZED REPRESENTATIVE IN THE UNITED STATES Tower Semiconductor USA, Inc.		December 8, 2005
By: /s/ RUSSELL C. ELLWANGER Russell C. Ellwanger Director and Chief Executive Officer		December 8, 2005
* By: /s/ RUSSELL C. ELLWANGER Russell C. Ellwanger, Attorney-in-Fact		

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4.3	Eleventh Amendment, dated October 27, 2005, to the Facility Agreement among the Registrant, Bank Hapoalim B.M. and Bank Leumi Le-Israel Ltd. **
4.4	Tenth Amendment, dated September 29,2005, to the Facility Agreement among the Registrant, Bank Hapoalim B.M. and Bank Leumi Le-Israel Ltd. **
4.5	Ninth Amendment, dated July 24, 2005, to the Facility Agreement among the Registrant, Bank Hapoalim B.M. and Bank Leumi Le-Israel Ltd. **
4.6	Twelfth Amendment, dated November 30, 2005, to the Facility Agreement among the Registrant, Bank Hapoalim B.M. and Bank Leumi Le-Israel Ltd.
5.1	Opinion of Yigal Arnon & Co.
5.2	Opinion of Eilenberg & Krause LLP
5.3	Opinion of Roberts and Holland LLP **
12.1	Statement re Computation of Ratio of Earnings to Fixed Charges **
23.1	Consent of Yigal Arnon & Co. (contained in their opinion constituting Exhibit 5.1)
23.2	Consent of Brightman Almagor & Co.
23.3	Consent of Eilenberg & Krause (contained in their opinion constituting Exhibit 5.2)
23.4	Consent of Roberts & Holland LLP (contained in their opinion constituting Exhibit 5.3) **
24.1	Power of Attorney **
24.2	Power of Attorney of Director **
25.1	Statement of Eligibility of Trustee **

** Previously filed.

RIGHTS AGENT AGREEMENT

This Rights Agent Agreement, made and entered into this _____ day of December ___, 2005, by and between Tower Semiconductor Ltd., a company organized under the laws of Israel (the "Company"), and American Stock Transfer & Trust Company, a New York trust company with offices at 59 Maiden Lane, New York, New York 10038 ("AST").

WITNESSETH:

WHEREAS, the Company has filed with the U.S. Securities and Exchange Commission (i) a Registration Statement on Form F-2 (the "Registration Statement"), which Registration Statement has been declared effective and (ii) a final prospectus (the "Prospectus") setting forth the terms of the proposed offering by the Company (the "Rights Offering") of rights (the "Rights") to purchase its 5% Convertible Subordinated Debentures Due 2011 (the "Debentures"), each in the principal amount of $1.00, which are convertible into Ordinary Shares, NIS 1.00 nominal value (the "Ordinary Shares");

WHEREAS, the Company has filed with the Israel Securities Authority, and such Authority has approved, a prospectus which is substantially the same as the Prospectus (the "Israeli Prospectus");

WHEREAS, The Bank of New York ("BONY") will serve as Note registrar for the Debentures and as Trustee under that certain Indenture, dated December ___, 2005, by and between the Company, BONY and Hermetic Trust (1975) Ltd. (the "Indenture");

WHEREAS, the Rights and the Debentures will be transferable and an application has been made for both the Rights and Debentures to be listed for trading on the NASDAQ Capital Market and the Tel Aviv Stock Exchange (the "TASE");

WHEREAS, the Company will issue, under the terms of the Rights Offering, one Right for each 138.99 Ordinary Shares held as of record as of the date set forth in the Prospectus as the record date (the "Record Date"), and each Right will entitle the holder to purchase at the exercise price of $100.00 (the "Subscription Price"), 100 U.S. Dollar denominated Debentures in the aggregate principal amount of $100.00, substantially in the form of Exhibit A to the Indenture, and that the Rights will be evidenced by transferable certificates (the "Rights Certificates") in the form attached hereto as Exhibit A;

WHEREAS, as described in the Prospectus and the Israeli Prospectus, the Company will also issue Rights to purchase Debentures to employees who hold as of the Record Date options under certain of the Company's employee share option plans that entitle option holders to participate in offering of rights by the Company, ("the Employee Rights");

WHEREAS, the Company desires to engage AST to issue and deliver the Rights Certificates and to act as transfer agent and registrar for the Rights, and AST is willing to act in such capacities.

NOW, THEREFORE, the parties hereto agree, in consideration of the mutual covenants and promises herein contained, as follows:

1. APPOINTMENT OF RIGHTS AGENT. AST is hereby appointed as transfer agent and registrar for the Rights and to generally effect the Rights Offering in accordance with the terms of the Rights, this Agreement and the Prospectus, and the Rights Agent hereby accepts such appointment. Each reference to the "Rights Agent" in this Agreement is to AST acting in its capacities as transfer agent and registrar for the Rights.

2. DELIVERY OF DOCUMENTS BY COMPANY TO THE RIGHTS AGENT

(a) The Company will cause to be timely delivered to the Rights Agent sufficient copies of the following documents for delivery to the holders of record of the Ordinary Shares at the close of business on the Record Date (the "Rights Holders"):

(i) the Prospectus, which includes instructions for exercise of the Rights (the "Instructions") and/or a form of notice to purchaser that complies with Rule 173(a) under the Securities Act of 1933 regarding notice in lieu of prospectus delivery ("Rule 173 Notice");

(ii) blank transferable Rights Certificates, which includes on the reverse thereof forms to be completed in connection with the exercise or transfer of the Rights;

(iii) Form W-9 and Form W-8; and

(iv) Form of Notice of Guaranteed Delivery.

(b) The Company will also deliver to the Rights Agent certified copies of resolutions adopted by the Board of Directors of the Company in connection with the Rights Offering.

3. DETERMINATION OF RIGHTS HOLDERS AND RIGHTS

(a) On or about the Record Date, the Rights Agent shall create and maintain from the stock ledger and register maintained by AST as transfer agent and registrar of the Ordinary Shares, a record of the names, addresses and, where available, U.S. taxpayer identification numbers, of the Rights Holders, and the number of Rights each Rights Holder is entitled to receive in the Rights Offering (the "Rights Record"). The Rights Agent shall promptly send a copy of the Rights Record to the Company by telecopy as soon as it is available. The number of Rights to be issued to each Rights Holder shall be determined by dividing 138.99 by the number of Ordinary Shares that such Rights Holder held of record as of the Record Date, but in lieu of issuing fractional Rights, the Rights Agent shall round each such fraction to the next lower whole number of Rights. The Rights Record shall also include the number of the Rights Certificate issued to each Rights Holder, the number of Rights evidenced on its face by each of the Rights Certificates and the date of each of the Rights Certificates.

(b) The Company shall create from its regularly maintained records a record of the names and addresses and the number of the recipients of the Employee Rights as well as the number of Employee Rights to be issued to each such recipients (the "Employee Rights Record"). The Company shall have sole responsibility for the creation and maintenance of the Employee Rights Record. On or about the Record Date, the Company shall deliver to the Rights Agent a notice setting forth the aggregate number of Employee Rights to be issued which notice shall (i) instruct the Rights Agent to issue a Rights Certificate representing such aggregate number of Employee Rights registered in the name of the TASE Nominee (as defined in Section 4(b) below) and (ii) contain instructions to the TASE Nominee for further crediting the Employee Rights to the account of a nominee broker which will hold the Employee Rights on behalf of the holders thereof (the "Employee Rights Certificate"). Promptly after the issuance thereof, the Rights Agent shall promptly deliver the Employee Rights Certificate to the TASE Nominee along with the instructions for further crediting of the Employee Rights contained in the Company's notice. The TASE Nominee shall be deemed a Rights Holder, as such term is used in this Agreement, with respect to the Employee Rights.

4. ISSUANCE OF THE RIGHTS CERTIFICATES AND MAILING OF DOCUMENTS BY RIGHTS AGENT.

(a) As soon as practicable after delivery of the documents described in subparagraph 2(a) hereof and receipt of written instructions from the Company, the Rights Agent will cause to be issued Rights Certificates in the names of the Rights Holders and for the number of Rights to which they are each entitled, as determined in accordance with Paragraph 3 above. The Rights Agent shall either manually sign or affix a duly authorized facsimile signature on all Rights Certificates. As soon as practicable after issuance of the Rights Certificates, the Rights Agent shall mail or cause to be mailed, via first class mail, to each Rights Holder the following:

(i) a Rights Certificate, registered in the name of the Rights Holder and dated the date of issuance thereof by the Rights Agent, evidencing the Rights to which such Rights Holder is entitled;

(ii) a Prospectus, including the Instructions, or a Rule 173 Notice (as directed by the Company);

(iii) a Form W-9 or Form W-8 (as applicable); and

(iv) an envelope addressed to the Rights Agent.

Prior to mailing, the Rights Agent shall make reasonable efforts to identify which of the Rights Holders are likely to be nominee holders and to include the Instructions with the mailing to such Rights Holders.

(b) The Company and the Rights Agent may mutually agree that the Rights Agent shall use methods other than first class mail, including personal delivery, delivery by International Express Mail, or delivery by recognized expedited courier service such as Federal Express, UPS, DHL or Courier Network. In addition, unless otherwise instructed by the Company in writing, the Rights Agent shall deliver to the Company by expedited courier or by such other means as the Company shall instruct the Rights Agent, all Rights Certificates (other than the Employee Rights Certificate) and other documents to be delivered to Rights Holders reflected on the Rights Record as having a record address in the State of Israel (the "Israeli Rights Holders"), including any Rights Certificates (other than the Employee Rights Certificate) to be issued to Hevra Lerishumim of Bank Leumi which acts as the nominee for the Ordinary Shares held through the facilities of the Clearing House of the Tel Aviv Stock Exchange (the "TASE Nominee"). The Company undertakes to make and shall be responsible for the further delivery of the rights certificates and other documents to the Israeli Rights Holders.

(c) Promptly after the Rights Certificates and other documents are mailed, the Rights Agent shall execute and deliver to the Company a certificate or certificates substantially in the form of Exhibit B hereto.

(d) Subsequent to their original issuance, no Rights Certificates shall be issued by the Rights Agent except Rights Certificates issued upon any transfer, combination, split up or exchange of Rights or issued in replacement of mutilated, destroyed, lost or stolen Rights Certificates pursuant to Paragraph 6 hereof.

5. SUBSCRIPTION PROCEDURE.

(a) Except as provided in subparagraph 5(c) hereof, for a valid exercise of Rights to occur, the Rights Agent must receive, by mail, hand delivery, or otherwise, prior to 5:00 P.M., New York City time, on _____, 2005 (or on a later trading date if the Rights Agent receives a written notice thereof from the Company on or prior to the original expiration date) (the "Expiration Date"), (i) the Rights Certificate pertaining to the Rights being exercised, which has been properly completed and endorsed for exercise as provided in the instructions accompanying the Rights Certificate, or a Notice of Guaranteed Delivery and (ii) payment in full of the Subscription Price for each Right being exercised in U.S. Dollars by wire transfer or by check drawn on a bank located in the United States payable to the order of "American Stock Transfer & Trust Company, as Rights Agent."

(b) Upon the proper exercise of Rights by a holder thereof made in accordance with subparagraphs 5(a) or (c) hereof, the Rights Agent shall, promptly after such exercise, send to the Company written notice of such exercise, which shall set forth (i) the number of Rights exercised by such holder, (ii) the aggregate subscription payment and the principal amount of Debentures subscribed for, (iii) the denominations and the registered name(s) and address(es) in which the holder has requested that such Debentures be issued. The authentication and issuance of the Debentures shall be effectuated by the Company and BONY as the registrar of the Debentures under the Indenture; the Rights Agent shall have no responsibilities in connection with the issuance and/or authentication of the Debentures. The Rights Agent shall as soon as practicable after the Expiration Date provide to the Company a summary of all the Rights exercises made in accordance with subparagraph 5(a) hereof, which summary shall set forth (i) the name and address of the Rights Holder that exercised the Rights, (ii) the number of Rights exercised by each such Rights Holder, (iii) the total Subscription Price paid by such Rights Holder and (iii) the number and principal amount of Debentures issued to such Rights Holder.

(c) The TASE Nominee and other Israeli Rights Holders may elect to exercise Rights directly with the Company by paying the subscription payment in New Israeli Shekels (or in U.S. Dollars if requested thereby and the Company so approves in writing) as set forth in the Prospectus under the caption "The Rights Offering–Method of Exercise of Rights for Record Holders." Additionally, any Rights Holders that reside outside of Israel may exercise their Rights directly with the Company and pay the Subscription Price in New Israeli Shekels or in U.S. Dollars if prior to the Expiration Date the Company approves a written request from such Rights Holder to exercise directly with the Company ("Authorized Rights Holder"). The TASE Nominee and other Israeli Rights Holders (or any Authorized Rights Holder) shall exercise their Rights by delivery directly to the Company on or prior to midnight Israel time on the Expiration Date of payment

in full of the Subscription Price for each Right being exercised in New Israeli Shekels (or in U.S. Dollars in the case of an Authorized Rights Holder or the TASE Nominee or Israeli Rights Holders if approved by the Company) by check or wire transfer payable to the Company, accompanied by such other notices and instructions which shall be certified or confirmed as the Company may prescribe all in accordance with the procedures described in the Prospectus. The Company will promptly notify the Rights Agent in writing of the identity of the Rights Holders who exercised their Rights directly through the Company and the number of Rights so exercised. The authentication and issuance of the Debentures to the Rights Holders who exercised their Rights directly through the Company shall be effectuated by the Company and BONY as the Debenture registrar under the Indenture.

(d) Each Right may be exercised to purchase One Hundred (100) U.S. Dollar denominated Debentures at the Subscription Price. Debentures shall be issued in one or more multiples of $1.00, and each Debenture is of $1.00 principal amount. Rights Holders, such as banks, securities dealers and brokers, who receive Rights through the Depository Trust Company as nominees for one or more beneficial owners shall be entitled to exercise their Rights Certificates on behalf of the beneficial owners.

(e) To the extent that any Rights Certificates remain unexercised or outstanding at 5:01 P.M., New York City time, on the Expiration Date such outstanding Rights Certificates shall be automatically deemed cancelled and of no further force and effect.

6. DEFECTIVE EXERCISE OF RIGHTS; TRANSFER, ETC. OF RIGHTS CERTIFICATES; LOST RIGHTS CERTIFICATES.

(a) Upon receipt by the Company from the Rights Agent of evidence of a defective exercise of Rights, the Company shall have the right to reject any such defective exercise or to waive the defect in exercise. If the Company delivers to the Rights Agent a notice that the Company rejects any defective exercise of Rights, the Rights Agent shall as soon as practicable (i) if the defect and the necessary correction can be adequately explained by telephone and the holder can correct the defect without possession of the Rights Certificate(s), attempt to contact the holder of such Rights by telephone to explain the nature of the defect or (ii) mail the Rights Certificate, together with a letter explaining the nature of the defect in exercise and how to correct the defect. If an exercise is not defective except that there is a partial payment of the Subscription Price, the Rights Agent shall so notify the Company in writing as to the number and principal amount of Debentures for which payment has been made and the Company shall thereafter effectuate the authentication and issuance of such Debentures in accordance with the Indenture. Any Rights Certificate with respect to which defects in exercise are not corrected prior to 5:00 P.M., New York City time, on the Expiration Date, or which are received after such time, shall be returned to the holder of such Rights Certificate.

(b) The Rights Certificate may be transferred, split up, combined or exchanged for another Rights Certificate or Rights Certificates. Any Rights Holder desiring to transfer, split up, combine or exchange any Rights Certificate or Rights Certificates shall make such request in writing delivered to the Rights Agent, and shall surrender the Rights Certificate or Rights Certificates to be transferred, split up, combined or exchanged at the office of the Rights Agent designated for such purpose. Neither the Rights Agent nor the Company shall be obligated to take any action whatsoever with respect to the transfer of any such surrendered Rights Certificate until the Rights Holder shall have completed and signed the certificate contained in the form of assignment on the reverse side of the Rights Certificate.

(c) Upon the receipt by the Rights Agent and the Company of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a Rights Certificate, and upon receipt of indemnity or security reasonably satisfactory to them and reimbursement of all expenses incidental thereto, and upon surrender and cancellation of the Rights Certificate if mutilated, the Company will make and deliver a new Rights Certificate of like tenor to the Rights Agent for delivery to the registered owner in lieu of the Rights Certificate so lost, stolen, destroyed or mutilated. The Rights Agent may, at the direction of the Company and with the consent of the registered holder of the lost, stolen or destroyed Rights Certificate, permit the exercise of the Rights evidenced by such certificate without a replacement of such certificate.

7. SUBDIVISION, SALE OR TRANSFER OF RIGHTS. The Rights Agent shall facilitate subdivisions of the Rights by issuing new Rights Certificates in accordance with the instructions set forth on the reverse side of the Rights Certificates at any time on or prior to the Expiration Date. Until 5:00 p.m., New York City time, on the third business day prior to the Expiration Date (the “Cut-Off Date”), the Rights Agent shall facilitate subdivision or transfers of Rights Certificates by issuing new Rights Certificates in accordance with the instructions set forth on the reverse side of the Rights Certificates. After the Cut Off Date, the Rights Agent may facilitate subdivision or transfers of the Rights Certificate up until 5:00 p.m., New York City time, on the Expiration Date if the Rights Holder has delivered to the Rights Agent a properly executed Notice of Guaranteed Delivery.

8. PROOF OF AUTHORITY TO SIGN. The Rights Agent need not procure supporting legal papers, and is authorized to dispense with proof of authority to sign (including all proof of appointment or authority to sign of any fiduciary, custodian for a minor, or other person acting in a representative capacity), and to dispense with the signatures of co-fiduciaries, in connection with exercise of Rights in the following cases:

(a) where the Rights Certificate is registered in the name of an executor, administrator, trustee, custodian for a minor or other fiduciary, and the subscription form thereof is executed by such executor, administrator, trustee, custodian for a minor or other fiduciary, then the Rights Agent shall advise the Company in writing that the Debentures are to be issued in the name of the registered holder of the Rights Certificate, as appropriate; and

(b) where the Rights Certificate is in the name of a corporation and the subscription form thereof is executed by an officer of such corporation, then the Rights Agent shall advise the Company in writing that the Debentures are to be issued in the name of such corporation.

In all of the cases set forth in this Paragraph 8 and notwithstanding anything contained in this Agreement to the contrary, the check tendered in payment of the Subscription Price must be drawn for the amount of the Subscription Price for the number of Rights being exercised, to the order of the Rights Agent and otherwise be in proper form (subject to the provisions of Section 6(a) hereof regarding partial payment of the Subscription Price), and there must be no evidence indicating that the subscriber is not the duly authorized representative he purports to be.

9. CANCELLATION AND DESTRUCTION OF RIGHTS CERTIFICATES. All Rights Certificates surrendered for the purpose of exercise shall, if surrendered to the Company or to any of its agents, be delivered to the Rights Agent for cancellation or in cancelled form, or if surrendered to the Rights Agent shall be cancelled by it, and no Rights Certificates shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Agreement. The Rights Agent may deliver all cancelled Rights Certificates to the Company, and if delivered to the Company, it shall make available to the Rights Agent the cancelled Rights Certificates for its inspection.

10. TAXES. The Company covenants and agrees that it will pay when due and payable any and all federal and state taxes and charges (including those in the United States and Israel) which may be payable in respect of the issuance or delivery of the Rights Certificates. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer or other assignment of Rights Certificates or the issuance or delivery of certificates for Debentures in a name other than that of the registered holder of the Rights Certificate evidencing Rights surrendered for exercise or to issue or deliver any certificates for Debentures upon the exercise of any Rights until any such tax shall have been paid (any such tax being payable by the holder of such Rights Certificate at the time of surrender) or until it has been established to the Company's satisfaction that no such tax is due.

11. DISBURSEMENT OF FUNDS. Any funds received by the Rights Agent as payments in connection with the subscriptions for Debentures pursuant to the Rights Offering shall be held in a segregated interest bearing money market account by the Rights Agent pending receipt after the Expiration Date of written disbursement instructions from the Company, after which the funds and any interest earned thereon shall be promptly disbursed in accordance with each such written instructions from the Company. The Rights Agent is hereby authorized and directed to endorse, negotiate and deposit all subscription payments into an interest bearing money market account to be maintained with the Rights Agent. The Rights Agent shall provide an accounting to the Company from time to time, as the Company may reasonably request, regarding the subscription payments deposited into such account.

12. DUTIES OF RIGHTS AGENT. The Rights Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, by all of which the Company and the holders of Rights Certificates, by their acceptance thereof, shall be bound:

(a) the Rights Agent may consult with legal counsel (who may be legal counsel for the Company) and the opinion of such counsel shall be full and complete authorization to the Rights Agent.

(b) Whenever in the performance of its duties under this Agreement the Rights Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by the Chief Executive Officer or Chief Financial Officer of the Company and delivered to the Rights Agent; and such certificate shall be full authorization to the Rights Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(c) The Rights Agent shall be liable hereunder only for its own gross negligence or willful misconduct.

(d) The Rights Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement by the Company, in the Rights Certificates or in the Prospectus, or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only.

(e) Nothing herein contained shall preclude the Rights Agent from acting in another capacity for the Company or for any other person or entity.

(f) The Rights Agent shall not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due authorization and execution hereof by such Rights Agent) or in respect of the validity or execution of any Rights Certificate; nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Rights Certificate; nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization of any Debentures to be issued pursuant to this Agreement or any Rights Certificate.

(g) With respect to each Rights Certificate that the Rights Agent is required to mail hereunder, the Rights Agent shall maintain a blanket surety bond protecting the Company and the Rights Agent from loss or liability arising out of non-receipt or non-delivery of such certificates.

(h) Promptly after the Expiration Date, the Rights Agent shall execute and deliver to the Company a certificate or certificates substantially in the form of Exhibit C hereto.

13. REPORTS. The Rights Agent shall make available to the Company, upon the Company's request, the following information: (i) the number and aggregate principal amount of Debentures validly subscribed for, (ii) the number and aggregate principal amount of Debentures for which defective subscriptions have been received, and (iii) the amounts of collected and uncollected funds in the subscription escrow account established under this Agreement. As soon as practicable after the Expiration Date, or upon the request from the Company from time to time thereafter, the Rights Agent shall certify in writing to the Company the cumulative totals through the Expiration Date of all the information set forth in clauses (i) through (iii) above. The Rights Agent shall also maintain and update a record of holders who have fully or partially exercised their Rights and holders who have not exercised their Rights. The Rights Agent shall provide the Company or its designees with such information compiled by the Rights Agent pursuant to this Paragraph 14 as the Company shall request from time to time.

14. FUTURE INSTRUCTIONS. With respect to notices or instructions to be provided by the Company hereunder, the Rights Agent may rely and act on any written instruction signed by any one or more of the following authorized officers or employees of the Company: Russell C. Ellwanger, Oren Shirazi and Nati Somekh Gilboa.

15. PAYMENT OF EXPENSES. The Company will pay the Rights Agent compensation for its services under this Agreement in accordance with Schedule 1 hereto, and will reimburse the Rights Agent for all reasonable and necessary expenses incurred by it in so acting.

16. INDEMNIFICATION.

(a) The Company covenants and agrees to indemnify and hold the Rights Agent harmless against any costs, expenses (including reasonable fees for legal counsel), losses or damages, which may be paid, incurred or suffered by or to which the Rights Agent may become subject, arising from or out of, directly or indirectly, any claim or liability resulting from its actions pursuant to this Agreement other than costs, expenses, losses and damages incurred or suffered by the Rights Agent as a result of, or arising out of, its gross negligence or willful misconduct in connection with performance of its duties hereunder.

(b) If the indemnification provided for in this Paragraph 16 is applicable, but for any reason is held to be unavailable, the Company shall contribute such amount as is just and equitable to pay, or to reimburse the Rights Agent for, the aggregate of any and all losses, liabilities, costs, damages and expenses, including

reasonable counsel fees, actually incurred by the Rights Agent as a result of or in connection with, and any amount paid in settlement of, any action, claim or proceeding arising out of or relating in any way to any actions or omissions of the Company.

(c) If any action is brought against the Rights Agent in respect of which indemnity may be sought against the Company pursuant to this Paragraph 16, the Rights Agent shall promptly notify the Company in writing of the institution of such action and the Company may, at its option, assume the defense of such action, including the employment and fees of counsel (which counsel shall be reasonably satisfactory to the Rights Agent) and payment of expenses. The Rights Agent shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of the Rights Agent unless the employment of such counsel shall have been authorized in writing by the Company in connection with the defense of such action or the Company shall not have employed counsel to have charge of the defense of the action or the Rights Agent shall have reasonably concluded that there may be defenses available to it which are different from or additional to those available to the Company (in which case the Company shall not have the right to direct the defense of such action on behalf of the Rights Agent), in any of which events the fees and expenses of not more than one additional firm of attorneys for the Rights Agent shall be borne by the Company.

17. FURTHER ASSURANCES. The Company agrees to do such further acts and things and to execute and deliver such statements, assignments, agreements, instruments and other documents as the Rights Agent from time to time reasonably may request in connection with the administration, maintenance, enforcement or adjudication of this Agreement in order (a) to give the Rights Agent confirmation and assurance of the Rights Agent's rights, powers, privileges remedies and interests under this Agreement and applicable law, (b) to better enable the Rights Agent to exercise any such right, power, privilege or remedy, or (c) to otherwise effectuate the purpose and the terms and provisions of this Agreement, each in such form and substance as may be acceptable to the Rights Agent.

18. CUMULATIVE RIGHTS. The rights and remedies granted to the Rights Agent in this Agreement are cumulative and not exclusive, and are in addition to any and all other rights and remedies granted and permitted under and pursuant to law.

19. NO WAIVER. The failure of any of the signatories hereto to enforce any provision hereof on any occasion shall not be deemed to be a waiver of any preceding or succeeding breach of such provision or any other provision.

20. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement and understanding of the signatories hereto and no amendment, modification or waiver of any provision herein shall be effective unless in writing, executed by the party charged therewith.

21. GOVERNING LAW. Except as hereinafter provided, this Agreement shall be construed, interpreted and enforced in accordance with and shall be governed by the laws of the State of Israel without regard to the principles of conflicts of laws. Notwithstanding the foregoing, Paragraph 16 of this Agreement shall be construed, interpreted and enforced with and shall be governed by the laws of the State of New York.

22. BINDING EFFECT. This Agreement shall bind and inure to the benefit of the parties, their successors and assigns.

23. ASSIGNMENT AND DELEGATION OF DUTIES. This Agreement may not be assigned by the parties hereto. This Agreement is in the nature of a personal service contract and the duties imposed hereby are non-delegable.

24. PARAGRAPH HEADINGS. The paragraph headings herein have been inserted for convenience of reference only, and shall in no way modify or restrict any of the terms or provisions hereof.

25. NOTICES. Any notice or other communication required or permitted under the provisions of this Agreement shall be in writing, and shall be given by postage prepaid, registered or certified mail, return receipt requested, by hand delivery with receipt acknowledged, by telecopy with receipt confirmed or by the express mail service offered by the United States Post Office or the Israel Postal Authority, directed to the Company and to the Rights Agent at the addresses set forth below, or to any new address of which any party hereto shall have informed the others by the giving of notice in the manner provided herein. Such notice or communication shall be effective upon delivery or, if shipped by mail, three days after it is mailed within the continental United States.

The Company:

Tower Semiconductor Ltd.
Ramat Gavriel Industrial Park
Migdal-Haemek, Israel
Attention: Chief Financial Officer
Telecopy No.: 011 972 (4) 654-6510

with copies to:

Eilenberg & Krause LLP
11 East 44th St
New York, NY 10017
Attention: Sheldon Krause, Esq.
Telecopy No.: 212-986-2399

and to

Yigal Arnon & Co.
One Azrieli Center
Tel Aviv, Israel 67021
Attention: David H. Schapiro, Esq.
Telecopy No.: 011 972-3-608-7714

The Rights Agent: American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038
Attention: Reorganization Department
Telecopy No.: 718-234-5001

with a copy to:

Herbert Lemmer, Esq.
American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038
Telecopy No.: 718-331-1852

26. UNENFORCEABILITY; SEVERABILITY. If any provision of this Agreement is found to be void or unenforceable by a court of competent Jurisdiction, then the remaining provisions of this Agreement, shall, nevertheless, be binding upon the parties with the same force and effect as though the unenforceable part had been severed and deleted.

27. THIRD PARTY RIGHTS. The representations, warranties and other terms and provisions of this Agreement are for the exclusive benefit of the parties hereto' and no other person shall have any right or claim against any party by reason of any of those terms and provisions or be entitled to enforce any of those terms and provisions against any party.

28. COUNTERPARTS. This Agreement may be executed in counterparts, all of which shall be deemed to be duplicate originals.

[Signatures appear on next page.]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date and year first above written.

TOWER SEMICONDUCTOR LTD.

By: _____

Name: Russell C. Ellwanger
Title: Chief Executive Officer

AMERICAN STOCK TRANSFER & TRUST COMPANY

By: _____

Name: Herbert L. Lemmer
Title:VicePresident

EXHIBIT A

Rights Certificate Number:_____ **Number of Rights:_____**

CUSIP: M89915167

TOWER SEMICONDUCTOR LTD.
Organized under the laws of the State of Israel

RIGHTS CERTIFICATE
Evidencing Rights to Purchase 5% Subordinated Convertible Subordinated Debentures
Due 2011

THE TERMS AND CONDITIONS FOR THE DISTRIBUTION OF RIGHTS ARE SET FORTH IN THE RIGHTS AGREEMENT BETWEEN TOWER SEMICONDUCTOR LTD. (THE "COMPANY") AND AMERICAN STOCK TRANSFER & TRUST COMPANY AND THE COMPANY'S PROSPECTUS DATED _____, 2005 (THE "PROSPECTUS"), WHICH ARE INCORPORATED HEREIN BY REFERENCE. COPIES OF THE PROSPECTUS ARE AVAILABLE UPON REQUEST FROM THE RIGHTS AGENT OR THE COMPANY. CAPITALIZED TERMS USED HEREIN WITHOUT DEFINITION SHALL HAVE THE MEANINGS ASCRIBED TO SUCH TERMS IN THE PROSPECTUS.

THIS RIGHTS CERTIFICATE MUST BE RECEIVED BY THE RIGHTS AGENT WITH PAYMENT IN FULL BEFORE 5:00 P.M. NEW YORK TIME ON _____, 2005 (OR ON A LATER DATE UPON NOTICE THEREOF FROM THE COMPANY), OR BY TOWER SEMICONDUCTOR LTD. WITH PAYMENT IN FULL BEFORE 5:00 P.M. ISRAEL TIME ON _____, 2005. (OR ON A LATER DATE UPON NOTICE THEREOF FROM THE COMPANY)

Subscription Price: $100.00 per Right

THE RIGHTS WILL EXPIRE IF NOT EXERCISED ON OR BEFORE _____ 2005, AT 5:00 P.M., NEW YORK TIME (OR ON A LATER DATE UPON NOTICE THEREOF FROM THE COMPANY)

RECORD HOLDER [_____]

THIS IS TO CERTIFY THAT the record holder named above, or its assigns, is entitled to subscribe on or before the Expiration Date set forth above, for Debentures convertible into Ordinary Shares of the Company, on the terms and conditions specified in the Prospectus, by exercising the Rights represented by this Certificate. Each full Right, accompanied by payment of $100.00, will entitle the holder to purchase Debentures in the aggregate principal amount of One Hundred Dollars. Each Debenture is of $1.00 principal amount and bears interest at the rate of five percent (5%) per annum. The Debentures are convertible into Ordinary Shares of the Company at a conversion rate of one Ordinary Share per $1.00 aggregate principal amount of Debentures. The Debentures which the holder is entitled to purchase will be issued only in integral multiples of $1.00, rounded down to the nearest whole number. The Rights represented by this Rights Certificate may be exercised by completing Form 1A and any other appropriate forms on the reverse side of this Certificate. Before exercising Rights, Rights Holders are urged to read carefully and in their entirety the Prospectus and the Instructions on the reverse side of this Certificate.

The Rights represented by this Certificate may be transferred or sold by completing Form 2 in accordance with the Instructions on the reverse side of this Certificate.

This Rights Certificate is not valid unless countersigned by the Rights Agent.

Witness, the facsimile seal of the Company and the facsimile signatures of its duly authorized officers.

TOWER SEMICONDUCTOR LTD.

Dated: _____

By: _____
Chairman of the Board

By: _____
Secretary

[seal]

By: _____
Director and Chief Executive Officer

Countersigned:

AMERICAN STOCK TRANSFER & TRUST COMPANY,
as Rights Agent

By _____
Authorized Officer
Dated: _____

[REVERSE OF CERTIFICATE]

TOWER SEMICONDUCTOR LTD.

RETURN TO RIGHTS AGENT:

by mail, overnight or hand delivery to:

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038
Attention: Reorganization Department

American Stock Transfer & Trust Company
6201 15TH Avenue
Brooklyn, New York 11219
Attention: Reorganization Department

OR RETURN TO THE COMPANY ONLY IF YOU ARE A RECORD HOLDER RESIDING IN ISRAEL AND DESIRE TO PAY THE SUBSCRIPTION PRICE IN NEW ISRAELI SHEKELS:

by mail or by hand delivery to:

Tower Semiconductor Ltd.
Ramat Gavriel Industrial Zone
Migdal Haemek, Israel
Attention: Nati Somekh-Gilboa, Corporate Secretary

EXERCISE AND SUBSCRIPTION
THE EXPIRATION DATE OF THIS RIGHTS CERTIFICATE IS _____ __, 2005
at 5:00 P.M. NEW YORK TIME OR MIDNIGHT ISRAEL TIME (OR ON A LATER
DATE UPON NOTICE THEREOF FROM THE COMPANY)

FORM 1A – SUBSCRIPTION

I hereby exercise Rights and subscribe for the purchase of Debentures, upon the terms specified in the Prospectus relating thereto, as follows:

No. of Rights Exercised		Price		Payment
[_____]	x	$100.00	=	[_____]

(THIS FULL AMOUNT, PAYABLE TO THE ORDER OF AMERICAN STOCK TRANSFER & TRUST COMPANY, MUST ACCOMPANY THE SUBSCRIPTION. IF YOU ARE A RECORD HOLDERS RESIDING IN ISRAEL, THIS FULL AMOUNT MUST BE PAID IN NEW ISRAELI SHEKELS ACCORDING TO THE REPRESENTATIVE EXCHANGE RATE PUBLISHED BY THE BANK OF ISRAEL ON THE DAY BEFORE PAYMENT AND PAYABLE TO THE ORDER OF TOWER SEMICONDUCTOR LTD.)

___ Please issue the Debentures subscribed for in a single Note

___ Please issue the Debentures subscribed for in the following denominations:

_____ _____
Subscriber's Signature Telephone No. (including area code)

(If Form 1B is being completed, a signature guarantee will be required)

Signature Guaranteed By:

_____

IMPORTANT: The signature(s) should be guaranteed by an eligible guarantor institution (bank, stock broker, savings & loan association and credit union) with membership in an approved signature guarantee medallion program pursuant to Securities and Exchange Commission Rule 17Ad-15.

FORM 1B – DELIVERY TO DIFFERENT ADDRESS AND/OR REGISTERED OWNER (S)

INSTRUCTIONS FOR DELIVERY TO DIFFERENT ADDRESS AND/OR REGISTERED OWNER (S)

If you wish any of the Debentures for which you are subscribing to be delivered to an address or registered in a name different from that shown on the face of this Rights Certificate, please enter the name, address and denominations below. **If you are completing this Form 1B, a signature guarantee will be required in Form 1A.**

_____
_____
_____

FORM 1C – METHOD OF PAYMENT

<u>METHOD OF PAYMENT</u> (CHECK ONE)

__ Uncertified check drawn on a bank located in the United States payable to the order of American Stock Transfer & Trust Company, as Rights Agent. *Note: Funds paid by an uncertified check may take at least five business days to clear. Accordingly, Rights holders who pay the Subscription Price with an uncertified check must make payment sufficiently in advance of the Expiration Date to ensure that the check is received and clears by the Expiration Date. The Company will not consider any payment by check to have been made until the check clears.*

__ Certified check or bank check drawn on a bank located in the United States payable to the order of American Stock Transfer & Trust Company, as Rights Agent.

__ Wire transfer of immediately available funds directed to the account maintained by the American Stock Transfer & Trust Company, as Rights Agent, for purposes of accepting subscriptions in this Rights Offering at JPMorgan Chase, 55 Water Street, New York, New York 10005, 323-836933, ABA No. 021000021, reference Tower Semiconductor, Ltd., Attention: Reorganization Department.

__ Wire transfer of immediately available funds in New Israeli Shekels directed to the account maintained by the Company at Bank Leumi Le Israel, Haifa Main Branch, 21 Jaffa Street, Haifa, Israel, Branch #876, Account # 130300162, SWIFT Code: LUMILITTLV, or certified check, uncertified check or bank check drawn on a bank located in Israel payable to the order of Tower Semiconductor Ltd. **(Check this line only if you are an Israeli subscribing directly with the Company and paying in New Israeli Shekels)**

If the amount enclosed or transmitted is not sufficient to pay the subscription price for all of the Rights exercised, or if the number of Rights to be exercised is not specified, the holder will be deemed to have subscribed for the maximum number of Rights that could be subscribed for the amount enclosed or transmitted.

FORM 2 – ASSIGNMENT

For value received, the Rights represented by this Rights Certificate are hereby assigned to **(signature guarantee required)**:

_____	_____
Name (print in full)	Address (print in full)
_____	_____
Tax I.D. or Social Security No.	Signature of Record Holder

Signature Guaranteed By:

_____

IMPORTANT: The signature(s) should be guaranteed by an eligible guarantor institution (bank, stock broker, savings & loan association and credit union) with membership in an approved signature guarantee medallion program pursuant to Securities and Exchange Commission Rule 17Ad-15.

INSTRUCTIONS

TO SUBSCRIBE, USE OF FORMS 1A, 1B AND 1C

To subscribe, fill in Forms 1A, 1B (if applicable) and 1C on your Rights Certificate and sign on the line marked “Subscriber’s Signature.”

Each Right entitles its holder to purchase for a Subscription Price of $100 Debentures in the aggregate principal amount of One Hundred Dollars. Full payment of the Subscription Price must accompany the Rights Certificate and may come via wire transfer or check drawn by a bank located in the United States payable to the order of American Stock Transfer & Trust Company, as Rights Agent, or if you are an Israeli subscribing directly with the Company and paying in New Israeli Shekels, via wire transfer or check drawn by a bank located in the Israel payable to the order of Tower Semiconductor Ltd. If a holder sends a partial payment of the Subscription Price, such holder will only be issued the number and principal amount of Debentures for every $100 of Subscription Price which has been paid.

NOTE: You may choose to exercise fewer Rights than the maximum number of Rights to which you are entitled, as represented by the Rights Certificate. To do this, follow the instructions for Forms 1A and 1B using only the number of Rights for which you wish to subscribe.

TO TRANSFER OR SELL YOUR RIGHTS THROUGH YOUR BROKER, USE FORM 2.

If you wish to transfer or sell your Rights through your broker just sign Form 2 leaving the rest of the form blank. (Your broker will add the buyer’s name later.) Deliver your Rights Certificate and the accompanying envelope to the broker. Your signature on Form 2 must be guaranteed by an eligible guarantor institution (a bank, stockbroker, savings and loan association and credit union) with membership in an approved signature guarantee medallion program, pursuant to S.E.C. Rule 17Ad-15.

TO TRANSFER OR SELL YOUR RIGHTS CERTIFICATE, USE FORM 2

If you wish to transfer or sell your Rights to someone other than through your broker, sign Form 2, fill in the transferee’s name and address, and deliver the Rights Certificate and the accompanying envelope to the person to whom you transferred the Rights Certificate. The Rights Certificate may then be used by the new holder for the exercise of Rights without having a new Rights Certificate issued. Your signature must be guaranteed by an eligible guarantor institution (a bank, stockbroker, savings and loan association and credit union) with membership in an approved signature guarantee medallion program, pursuant to S.E.C. Rule 17Ad-15.

EXHIBIT B

CERTIFICATE OF AMERICAN STOCK TRANSFER & TRUST COMPANY

Pursuant to Paragraph 4(c) of that certain Rights Agent Agreement (the “Agreement”), dated as of _____, 2005, by and between Tower Semiconductor Ltd. (the “Company”) and American Stock Transfer & Trust Company (“AST”), AST does hereby certify that (capitalized terms used herein without definition shall have the meanings ascribed thereto in the Agreement):

1. It has is duly appointed and authorized to act as the transfer agent and registrar for the Ordinary Shares of the Company.

2. It has been duly appointed to act as transfer agent and registrar for the rights (the "Rights") to purchase Debentures of the Company.

3. In its capacity as Rights Agent and in accordance with the Agreement, it has of this date issued, countersigned and mailed Rights Certificates evidencing an aggregate of ___ Rights, which are exercisable for the purchase of Debentures in the aggregate principal amount of $_____, together with accompanying Prospectus or Rule 173 Notice and other materials, in accordance with the Rights Agent Agreement with the Company dated _____, 2005 and the Prospectus.

4. Said certificates were countersigned on its behalf in its capacity as Rights Agent by authorized officers who were at the time of affixing their signatures duly authorized to countersign such certificates.

Dated: _____, 2005.

AMERICAN STOCK TRANSFER & TRUST COMPANY

By: _____
Authorized Officer

EXHIBIT C

CERTIFICATE OF AMERICAN STOCK TRANSFER & TRUST COMPANY

Pursuant to Paragraph 12(h) of that certain Rights Agent Agreement (the "Agreement"), dated as of _____, 2005, by and between Tower Semiconductor Ltd. (the "Company") and American Stock Transfer & Trust Company ("AST"), AST does hereby certify that (capitalized terms used herein without definition shall have the meanings ascribed thereto in the Agreement):

1. It is duly appointed and authorized to act as the transfer agent and registrar for the Rights and Ordinary Shares of the Company.

2. It has been duly appointed to act as transfer agent and registrar for the rights (the "Rights") to purchase Debentures of the Company pursuant to the Agreement.

3. As of the Expiration Date, _____ Rights were duly exercised through it in accordance with the Agreement and in connection therewith it received an aggregate Subscription Price of $_____.

4. Pursuant to Section 5(b) of the Agreement, it has as of this date instructed the Company that Debentures in the aggregate principal amount of $_____ should be issued and authenticated as an original issue in connection with the exercise of Rights, and, to the best of AST's knowledge, Debentures in the aggregate principal amount of $_____ have been subscribed for by the exercise of Rights by Rights Holders who exercised their Rights in accordance with Paragraph 5(c) of the Agreement.

Dated: _____, 2005.

AMERICAN STOCK TRANSFER & TRUST COMPANY

By: _____
Authorized Officer

SCHEDULE 1 – FEES OF THE RIGHTS AGENT

$7,500

Exhibit 4.2

TOWER SEMICONDUCTOR LTD.,

AS ISSUER

THE BANK OF NEW YORK,

AS TRUSTEE

AND

HERMETIC TRUST (1975) LTD.,

AS CO-TRUSTEE

Indenture

Dated as of —, 2005

$50,000,000
5% Subordinated Convertible Debentures due 2011

TABLE OF CONTENTS

INDENTURE

INDENTURE dated as of [ ], 2005 by and among Tower Semiconductor Ltd., a company with limited liability incorporated under the laws of Israel (the "**Issuer**"), The Bank of New York, a New York banking corporation, as trustee (the "**Trustee**") and Hermetic Trust (1975) Ltd., an Israeli company, as co-trustee (the "**Co-Trustee**", and, together with the Trustee, the "**Trustees**").

WITNESSETH:

WHEREAS, for its lawful corporate purposes, the Issuer has duly authorized the issue of its 5% Subordinated Convertible Debentures due 2011 (the "**Notes**"), in an aggregate principal amount not to exceed $50,000,000 and to provide the terms and conditions upon which the Notes are to be authenticated, issued and delivered, the Issuer has duly authorized the execution and delivery of this Indenture; and

WHEREAS, the Notes, the certificate of authentication to be borne by the Notes, a form of assignment and a form of conversion notice to be borne by the Notes are to be substantially in the forms hereinafter provided for; and

WHEREAS, all acts and things necessary to make the Notes, when executed by the Issuer and authenticated and delivered by the Trustee or a duly authorized authenticating agent, as in this Indenture provided, the valid, binding and legal obligations of the Issuer, and to constitute this Indenture a valid agreement according to its terms, have been done and performed, and the execution of this Indenture and the issue hereunder of the Notes have in all respects been duly authorized,

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That in order to declare the terms and conditions upon which the Notes are, and are to be, authenticated, issued and delivered, and in consideration of the premises and of the purchase and acceptance of the Notes by the holders thereof, the Issuer covenants and agrees with the Trustees for the equal and proportionate benefit of the respective holders from time to time of the Notes (except as otherwise provided below), as follows:

ARTICLE 1
DEFINITIONS

Section 1.01. *Definitions*. The terms defined in this Section 1.01 (except as herein otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture and of any indenture supplemental hereto shall have the respective meanings specified in this Section 1.01. All other terms used in this Indenture that are defined in the Trust Indenture Act or which are by reference therein defined in the Securities Act (except as herein otherwise expressly provided or unless the context otherwise requires) shall have the meanings assigned to such terms in the Trust Indenture Act and in the Securities Act as in force at the date of the execution of this Indenture. The words "**herein**", "**hereof**", "**hereunder**" and words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other Subdivision. The terms defined in this Article include the plural as well as the singular.

"**Affiliate**" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "**control**", when used with respect to any specified Person, means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing.

"**Articles of Association**" means the Issuer's Amended Articles of Association adopted by the shareholders' meeting of the Issuer on November 14, 2000 as it may have been and may be amended from time to time.

"**Bank Payment Date**" means a payment date of interest and/or principal to the Lenders under the Credit Facility.

"**Board of Directors**" means the Board of Directors of the Issuer or a committee of such Board duly authorized to act for it hereunder.

"**Business Day**" means any day on which banking institutions in London, New York and the State of Israel are generally open for business.

"**Co-Trustee**" means Hermetic Trust (1975) Ltd. and its successors and any corporation resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor co-trustee at any time serving as successor or co-trustee hereunder.

"**Commission**" means the Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this Indenture such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"**Conversion Price**" has the meaning specified in Section 14.03.

"**Corporate Trust Office**", or other similar term, means the designated office of the Trustee at which at any particular time its corporate trust business as it relates to this Indenture shall be administered, which office is, at the date as of which this Indenture is dated, located at One Canada Square, London E14 5AL, United Kingdom.

"**Credit Facility**" means the credit facility agreement dated January 18, 2001 made between the Issuer, as borrower, and Bank Hapoalim B.M and Bank Leumi Le-Israel Ltd., as lenders, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time.

"**Credit Facility Event of Default**" has the meaning specified in Section 8.03.

"**default**" means any event that is, or after notice or passage of time, or both, would be, an Event of Default.

"**Event of Default**" means any event specified in Section 6.01 as an Event of Default.

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, as in effect from time to time.

"**Immediate Report**" means a report which is referred to in Section 30 of the Securities Regulations (Periodic and Immediate Reports) – 1970, regulations promulgated under the Securities Law.

"**Indenture**" means this instrument as originally executed or, if amended or supplemented as herein provided, as so amended or supplemented.

"**interest**" means, when used with reference to the Notes, any interest payable under the terms of the Notes.

"**Issuer**" means the corporation named as the "**Issuer**" in the first paragraph of this Indenture, and, subject to the provisions of Article 12 and Section 14.05, shall include its successors and assigns.

"**Lender**" means a lender under the Credit Facility from time to time.

"**ISA**" means the Israel Securities Authority.

"**NIS**" means New Israeli Shekels, the lawful currency of the State of Israel.

"**non-electing share**" has the meaning specified in Section 14.05.

"**Note**" or "**Notes**" means any Note or Notes, as the case may be, authenticated and delivered under this Indenture.

"**Note register**" has the meaning specified in Section 2.05.

"**Note registrar**" has the meaning specified in Section 2.05.

"**Noteholder**" or "**holder**" as applied to any Note, or other similar terms (but excluding the term "**beneficial holder**"), means any Person in whose name at the time a particular Note is registered on the Note registrar's books.

"**Officers' Certificate**", when used with respect to the Issuer, means a certificate signed by the Chairman of the Board, the Chief Executive Officer, the President or any Vice President (whether or not designated by a number or numbers or word or words added before or after the title **"Vice President**"), the Treasurer or any Assistant Treasurer, or the Secretary of the Issuer.

"**Opinion of Counsel**" means an opinion in writing signed by legal counsel, who may be an employee of or counsel to the Issuer, or other counsel reasonably acceptable to the Trustee.

"**Ordinary Shares**" means any stock of any class of the Issuer which has no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Issuer and which is not subject to redemption by the Issuer. Subject to the provisions of Section 14.05, however, shares issuable on conversion of Notes shall include only shares of the class designated as ordinary shares of the Issuer at the date of this Indenture (namely, the Ordinary Shares, par value NIS 1.00) or shares of any class or classes resulting from any reclassification or reclassifications thereof and which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Issuer and which are not subject to redemption (other than as provided in the Articles of Association) by the Issuer; *provided* that if at any time there shall be more than one such resulting class, the shares of each such class then so issuable on conversion shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

"**outstanding**", when used with reference to Notes and subject to the provisions of Section 9.04, means, as of any particular time, all Notes authenticated and delivered by the Trustee under this Indenture, except:

(a) Notes theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(b) Notes, or portions thereof, for the redemption of which monies in the necessary amount shall have been deposited in trust with the Trustee or with any paying agent (other than the Issuer);

(c) Notes in lieu of which, or in substitution for which, other Notes shall have been authenticated and delivered pursuant to the terms of Section 2.06; and

(d) Notes converted into Ordinary Shares pursuant to Article 14 and Notes deemed not outstanding pursuant to Article 3.

"**Person**" means a corporation, an association, a partnership, a limited liability company, an individual, a joint venture, a joint stock company, a trust, an unincorporated organization or a government or an agency or a political subdivision thereof.

"**Responsible Officer**" means, when used with respect to the Trustee or the Co-Trustee, any officer within the corporate trust department of the Trustee or the Co-Trustee, including any vice president, assistant vice president, assistant treasurer, trust officer or any other officer of the Trustee or the Co-Trustee who customarily performs functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person's knowledge of, and familiarity with, the particular subject and who shall have direct responsibility for the administration of this Indenture.

"**Restricted Securities**" has the meaning specified in Section 2.05(b).

"**Securities**" means any capital stock of the Issuer.

"**Securities Act**" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, as in effect from time to time.

"**Securities Law**" means the Israel Securities Law, 5728 – 1968 and the regulations pursuant thereto, as in effect from time to time.

"**Significant Subsidiary**" means, as of any date of determination, a Subsidiary of the Issuer that would constitute a "**significant subsidiary**" as such term is defined under Rule 1-02(w) of Regulation S-X of the Commission as in effect on the date of this Indenture.

"**Six Month Period**" has the meaning specified in Section 8.03.

"**Subsidiary**" means, with respect to any Person, (i) any corporation, association or other business entity of which more than 50% of the total voting power of shares of capital stock or other equity interest entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other subsidiaries of that Person (or a combination thereof) and (ii) any partnership (a) the sole general partner or managing general partner of which is such Person or a subsidiary of such Person or (b) the only general partners of which are such Person or one or more subsidiaries of such Person (or any combination thereof).

"**TASE**" means the Tel Aviv Stock Exchange Ltd., or any successor thereto.

"**TASE Trading Day**" means a day on which the TASE is open for trading in Ordinary Shares.

"**Trust Indenture Act**" means the Trust Indenture Act of 1939, as amended, as it was in force at the date of this Indenture, except as provided in Sections 11.03 and 15.07; *provided* that if the Trust Indenture Act of 1939 is amended after the date hereof, the term "**Trust Indenture Act**" shall mean, to the extent required by such amendment, the Trust Indenture Act of 1939 as so amended.

"**Trustee**" means The Bank of New York, and its successors and any corporation resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor trustee at the time serving as successor trustee hereunder.

"**Trustee Disagreement**" has the meaning specified in Section 7.13(b).

"**US dollars**" or "**$**" means the lawful currency of the United States of America.

ARTICLE 2
ISSUE, DESCRIPTION, EXECUTION, REGISTRATION AND EXCHANGE OF NOTES

Section 2.01. *Designation Amount and Issue of Note.* The Notes shall be designated as "**5% Subordinated Convertible Debentures due 2011**". Notes not to exceed the aggregate principal amount of $50,000,000 upon the execution of this Indenture, or from time to time thereafter, may be executed by the Issuer in accordance with Section 2.04 and delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate and deliver said Notes to or upon the written order of the Issuer, signed by its Chairman of the Board, Chief Executive Officer, Chief Financial Officer, President or any Vice President (whether or not designated by a number or numbers or word or words added before or after the title "Vice President"), and attested by the manual or facsimile signature of the Treasurer or any Assistant Treasurer or the Secretary, without any further action by the Issuer hereunder.

Section 2.02. *Form of Note.* The Notes and the Trustee's certificate of authentication to be borne by such Notes shall be substantially in the form set forth in Exhibit A. The terms and provisions contained in the form of Note attached as Exhibit A hereto shall constitute, and are hereby expressly made, a part of this Indenture and, to the extent applicable, the Issuer and the Trustee, by their execution and delivery of this Indenture, expressly agree to such terms and provisions and to be bound thereby.

Any of the Notes may have such letters, numbers or other marks of identification and such notations, legends, endorsements or changes as the officers executing the same may approve (execution thereof to be conclusive evidence of such approval) and as are not inconsistent with the provisions of this Indenture or as may be required to comply with any applicable law or with any rule or regulation made pursuant thereto or with any rule or regulation of any securities exchange or automated quotation system on which the Notes may be listed, or conform to usage, or to indicate any special limitations or restrictions to which any particular Notes are subject.

Section 2.03. *Date and Denomination of Notes; Payments of Interest.* The Notes shall be issuable in registered form without coupons in denominations of $1.00 principal amount and integral multiples thereof. Each Note shall be dated the date of its authentication and shall bear interest from the date specified on the face of the form of Note attached as Exhibit A hereto. Interest on the Notes will be paid only upon the maturity of the Notes or upon the early redemption of the Notes in accordance with Section 3.02. No interest shall be payable on any Notes which are redeemed at a premium in accordance with Section 3.03 or upon any portion of any Note which is converted into Ordinary Shares as provided in Article 14. Interest on the Notes shall be computed on the basis of a 365 day year.

Section 2.04. *Execution of Notes.* The Notes shall be signed in the name and on behalf of the Issuer by the manual or facsimile signature of its Chairman of the Board, Chief Executive Officer, Chief Financial Officer, President or any Vice President (whether or not designated by a number or numbers or word or words added before or after the title "Vice President") and attested by the manual or facsimile signature of its Secretary or any of its Assistant Secretaries or its Treasurer or any of its Assistant Treasurers (which may be printed, engraved or otherwise reproduced thereon, by facsimile or otherwise). Only such Notes as shall bear thereon a certificate of authentication substantially in the form set forth on the form of Note attached as Exhibit A hereto, manually executed by the Trustee (or an authenticating agent appointed by the Trustee as provided by Section 15.11), shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such certificate by the Trustee (or such an authenticating agent) upon any Note executed by the Issuer shall be conclusive evidence that the Note so authenticated has been duly authenticated and delivered hereunder and that the holder is entitled to the benefits of this Indenture.

In case any officer of the Issuer who shall have signed any of the Notes shall cease to be such officer before the Notes so signed shall have been authenticated and delivered by the Trustee, or disposed of by the Issuer, such Notes nevertheless may be authenticated and delivered or disposed of as though the person who signed such Notes had not ceased to be such officer of the Issuer, and any Note may be signed on behalf of the Issuer by such persons as, at the actual date of the execution of such Note, shall be the proper officers of the Issuer, although at the date of the execution of this Indenture any such person was not such an officer.

Section 2.05. *Exchange and Registration of Transfer of Notes; Restrictions on Transfer.* (a) The Issuer shall cause to be kept at the Corporate Trust Office a register (the register maintained in such office and in any other office or agency of the Issuer designated pursuant to Section 4.02 being herein sometimes collectively referred to as the "**Note register**") in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for the registration of Notes and of transfers of Notes. The Note register shall be in written form or in any form capable of being converted into written form within a reasonably prompt period of time. The Trustee is hereby appointed "**Note registrar,**" and does hereby accept such appointment, for the purpose of registering Notes and transfers of Notes as herein provided. The Issuer may appoint one or more co-registrars in accordance with Section 4.02.

Upon surrender for registration of transfer of any Note to the Note registrar or any co-registrar, and satisfaction of the requirements for such transfer set forth in this Section 2.05, the Issuer shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes of any authorized denominations and of a like aggregate principal amount and bearing such restrictive legends as may be required by this Indenture.

Notes may be exchanged for other Notes of any authorized denominations and of a like aggregate principal amount, upon surrender of the Notes to be exchanged at any such office or agency maintained by the Issuer pursuant to Section 4.02. Whenever any Notes are so surrendered for exchange, the Issuer shall execute, and the Trustee shall authenticate and deliver, the Notes which the Noteholder making the exchange is entitled to receive bearing registration numbers not contemporaneously outstanding.

All Notes issued upon any registration of transfer or exchange of Notes shall be the valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Notes surrendered upon such registration of transfer or exchange.

All Notes presented or surrendered for registration of transfer or for exchange, redemption or conversion shall (if so required by the Issuer or the Note registrar) be duly endorsed, or be accompanied by a written instrument or instruments of transfer in form satisfactory to the Issuer, and the Notes shall be duly executed by the Noteholder thereof or his attorney duly authorized in writing.

No service charge shall be made to any holder for any registration of, transfer or exchange of Notes, but the Issuer may require payment by the holder of a sum sufficient to cover any tax, assessment or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Notes.

Neither the Issuer nor the Trustee nor any Note registrar shall be required to exchange or register a transfer of (a) any Notes for a period of fifteen (15) days next preceding any selection of Notes to be redeemed, (b) any Notes surrendered for conversion pursuant to Article 14 or (c) any Notes tendered for redemption (and not withdrawn) pursuant to Section 3.02.

(b) Every Note that bears or is required under this Section 2.05(b) to bear the legend set forth in this Section 2.05(b) (together with any Ordinary Shares issued upon conversion of the Notes and required to bear the legend set forth in Section 2.05(c), collectively, the "**Restricted Securities**") shall be subject to the restrictions on transfer set forth in Sections 2.05(b) and 2.05 (c), as applicable (including those set forth in the legends below), unless such restrictions on transfer shall be waived by written consent of the Issuer, and the holder of each such Restricted Security, by such Note holder's acceptance thereof, agrees to be bound by all such restrictions on transfer. As used in Sections 2.05(b) and 2.05(c), the term "**transfer**" encompasses any sale, pledge, loan, transfer or other disposition whatsoever of any Restricted Security or any interest therein.

Until the expiration of the holding period applicable to sales thereof under Rule 144(k) under the Securities Act (or any successor provision), any certificate evidencing such Note (and all securities issued in exchange therefor or substitution thereof, other than Ordinary Shares, if any, issued upon conversion thereof, which shall bear the legend set forth in Section 2.05(c), if applicable) shall bear a legend in substantially the following form, unless such Note has been sold pursuant to a registration statement that has been declared effective under the Securities Act (and which continues to be effective at the time of such transfer), or unless otherwise agreed by the Issuer in writing, with written notice thereof to the Trustee:

THE NOTE EVIDENCED HEREBY AND THE ORDINARY SHARES ISSUABLE UPON CONVERSION THEREOF HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD IN THE ABSENCE OF A REGISTRATION STATEMENT WITH RESPECT TO THE SECURITIES SO OFFERED OR SOLD IN EFFECT UNDER THE SECURITIES ACT OR AN OPINION OF COUNSEL (SATISFACTORY IN FORM AND SUBSTANCE TO THE ISSUER) THAT SUCH REGISTRATION IS NOT REQUIRED.

Any Note (or security issued in exchange or substitution therefor) as to which such restrictions on transfer shall have expired in accordance with their terms or as to conditions for removal of the foregoing legend set forth therein have been satisfied may, upon surrender of such Note for exchange to the Note registrar in accordance with the provisions of this Section 2.05, be exchanged for a new Note or Notes, of like tenor and aggregate principal amount, which shall not bear the restrictive legend required by this Section 2.05(b).

(c) (i) Until the expiration of the holding period applicable to sales thereof under Rule 144(k) under the Securities Act (or any successor provision), any stock certificate representing Ordinary Shares issued upon conversion of any Restricted Note shall bear a legend in substantially the following form, unless such Ordinary Shares have been registered under a registration statement that has been declared effective under the Securities Act (and which continues to be effective at the time of such exchange), or unless otherwise agreed by the Issuer in writing with written notice thereof to the transfer agent:

THE ORDINARY SHARES EVIDENCED HEREBY HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD IN THE ABSENCE OF A REGISTRATION STATEMENT WITH RESPECT TO THE SECURITIES SO OFFERED OR SOLD IN EFFECT UNDER THE SECURITIES ACT OR AN OPINION OF COUNSEL (SATISFACTORY IN FORM AND SUBSTANCE TO THE ISSUER) THAT SUCH REGISTRATION IS NOT REQUIRED.

Any such Ordinary Shares as to which such restrictions on transfer shall have expired in accordance with their terms or as to which the conditions for removal of the foregoing legend set forth therein have been satisfied may, upon surrender of the certificates representing such shares of Ordinary Shares for exchange in accordance with the procedures of the transfer agent for the Ordinary Shares, be exchanged for a new certificate or certificates for a like number of shares of Ordinary Shares, which shall not bear the restrictive legend required by this Section 2.05(c).

(d) Any Note or Ordinary Shares issued upon the conversion of a Note that is purchased or owned by the Issuer or any Affiliate thereof may not be resold by the Issuer or such Affiliate unless registered under the Securities Act or resold pursuant to an exemption from the registration requirements of the Securities Act.

(e) The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions or transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Note other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by the terms of, this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

Section 2.06. *Mutilated, Destroyed, Lost or Stolen Notes.* In case any Note shall become mutilated or be destroyed, lost or stolen, the Issuer in its discretion may execute, and upon its written request the Trustee or an authenticating agent appointed by the Trustee shall authenticate and make available for delivery, a new Note, bearing a number not contemporaneously outstanding, in exchange and substitution for the mutilated Note, or in lieu of and in substitution for the Note so destroyed, lost or stolen. In every case, the applicant for a substituted Note shall furnish to the Issuer, to the Trustee and, if applicable, to such authenticating agent such security or indemnity as may be required by them to save each of them harmless for any loss, liability, cost or expense caused by or connected with such substitution, and, in every case of destruction, loss or theft, the applicant shall also furnish to the Issuer, to the Trustee and, if applicable, to such authenticating agent evidence to their satisfaction of the destruction, loss or theft of such Note and of the ownership thereof.

Following receipt by the Trustee or such authenticating agent, as the case may be, of satisfactory security or indemnity and evidence, as described in the preceding paragraph, the Trustee or such authenticating agent may authenticate any such substituted Note and make available for delivery such Note. Upon the issuance of any substituted Note, the Issuer may require the payment by the holder of a sum sufficient to cover any tax, assessment or other governmental charge that may be imposed in relation thereto and any other expenses connected therewith. In case any Note which has matured or is about to mature or is to be converted into Ordinary Shares shall become mutilated or be destroyed, lost or stolen, the Issuer may, instead of issuing a substitute Note, pay or authorize the payment of or convert or authorize the conversion of the same (without surrender thereof except in the case of a mutilated Note), as the case may be, if the applicant for such payment or conversion shall furnish to the Issuer, to the Trustee and, if applicable, to such authenticating agent such security or indemnity as may be required by them to save each of them harmless for any loss, liability, cost or expense caused by or in connection with such substitution, and, in every case of destruction, loss or theft, the applicant shall also furnish to the Issuer, the Trustee and, if applicable, any paying agent or conversion agent evidence to their satisfaction of the destruction, loss or theft of such Note and of the ownership thereof.

Every substitute Note issued pursuant to the provisions of this Section 2.06 by virtue of the fact that any Note is destroyed, lost or stolen shall constitute an additional contractual obligation of the Issuer, whether or not the destroyed, lost or stolen Note shall be found at any time, and shall be entitled to all the benefits of (but shall be subject to all the limitations set forth in) this Indenture equally and proportionately with any and all other Notes duly issued hereunder. To the extent permitted by law, all Notes shall be held and owned upon the express condition that the foregoing provisions are exclusive with respect to the replacement or payment or conversion or redemption of mutilated, destroyed, lost or stolen Notes and shall preclude any and all other rights or remedies notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement or payment or conversion or redemption of negotiable instruments or other securities without their surrender.

Section 2.07. *Temporary Notes.* Pending the preparation of Notes in certificated form, the Issuer may execute and the Trustee or an authenticating agent appointed by the Trustee shall, upon the written request of the Issuer, authenticate and deliver temporary Notes (printed or lithographed). Temporary Notes shall be issuable in any authorized denomination, and substantially in the form of the Notes in certificated form, but with such omissions, insertions and variations as may be appropriate for temporary Notes, all as may be determined by the Issuer. Every such temporary Note shall be executed by the Issuer and authenticated by the Trustee or such authenticating agent upon the same conditions and in substantially the same manner, and with the same effect, as the Notes in certificated form. Without unreasonable delay, the Issuer will execute and deliver to the Trustee or such authenticating agent Notes in certificated form and thereupon any or all temporary Notes may be surrendered in exchange therefor, at each office or agency maintained by the Issuer pursuant to Section 4.02 and the Trustee or such authenticating agent shall authenticate and make available for delivery in exchange for such temporary Notes an equal aggregate principal amount of Notes in certificated form. Such exchange shall be made by the Issuer at its own expense and without any charge therefor. Until so exchanged, the temporary Notes shall in all respects be entitled to the same benefits and subject to the same limitations under this Indenture as Notes in certificated form authenticated and delivered hereunder.

Section 2.08. *Cancellation of Notes.* All Notes surrendered for the purpose of payment, redemption, conversion, exchange or registration of transfer shall, if surrendered to the Issuer or any paying agent or any Note registrar or any conversion agent, be surrendered to the Trustee and promptly canceled by it, or, if surrendered to the Trustee, shall be promptly canceled by it, and no Notes shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Indenture. The Trustee shall dispose of such canceled Notes in accordance with its customary procedures. If the Issuer shall acquire any of the Notes, such

acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Notes unless and until the same are delivered to the Trustee for cancellation.

Section 2.09. *CUSIP Numbers.* The Issuer in issuing the Notes may use CUSIP numbers (if then generally in use), and, if so, the Trustee shall use CUSIP numbers, as appropriate, in notices of redemption as a convenience to Holders; *provided*, that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Notes or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Notes, and any such redemption shall not be affected by any defect in or omission of such numbers. The Issuer shall promptly notify the Trustee of any change in the CUSIP numbers.

ARTICLE 3
REDEMPTION OF NOTES

Section 3.01. *Redemption of Notes.* Except as otherwise provided in Sections 3.02 and 3.03, the Issuer may not redeem any Notes prior to maturity.

Section 3.02. *Redemption at Option of Issuer.* The Issuer may, at its option, announce the early redemption of the Notes or part thereof, provided that the outstanding aggregate balance of principal on account of the Notes is equal to or less than $500,000. In the event that the Issuer chooses to redeem the Notes pursuant to this Section 3.02, the Issuer will redeem 100% of the Notes; no partial redemptions shall be permitted. The Issuer will provide notice to Noteholders as set forth in this Section 3.02 below and to the Trustees at least 30 days prior to any such redemption. Upon such early redemption, the Issuer will pay to the Noteholders the amount of outstanding principal of the Notes and interest accrued as of the redemption date. The Issuer will also furnish notice of any resolution by the Board of Directors to the Commission on Form 6-K, and in an Immediate Report in Israel as well as a notice to be published in two Israeli newspapers with wide circulation in Israel. The date of the early redemption will be between 30 to 45 days after the date of the Issuer's notification.

Section 3.03. *Mandatory Redemption by the Issuer in a Certain Event.* Section 14.04 provides for certain adjustments to the Conversion Price and further provides that the Issuer may elect that the Conversion Price shall not and will not be subject to adjustment if certain conditions occur. In the event that (i) the Issuer has elected that the Conversion Price shall not and will not be subject to adjustment in accordance with the provisions of Section 14.04, and (ii) the closing price of the Issuer's ordinary shares on NASDAQ (or such other stock exchange or quotation system on which its ordinary shares are listed in the event that they cease to be traded on NASDAQ) on the trading day immediately prior to the date on which the Issuer consummates the $75 million financing described in Section 14.04 is equal to or is lower than $_____, then the Issuer will redeem the Notes. The Issuer will announce the redemption and the redemption date by filing a report on Form 6-K and in an Immediate Report in Israel, as well as a notice to be published in two Israeli newspapers with wide circulation in Israel. The redemption date shall be between 21 and 30 days after the date of announcement. Conversion of the debentures will not be permitted during the 16 days prior to the redemption date. Upon redemption of the Notes under this Section 3.03, accrued interest will not be payable, and the Issuer will pay the Noteholders, as soon as practicable on or following the redemption date, the amount of the outstanding principal on the Notes, plus an early redemption premium in an amount equal to 15% of the amount of the outstanding principal on the Notes.

Section 3.04. *Notes Owned by Issuer or Its Subsidiaries.* (a) The Issuer and any Subsidiary thereof may purchase Notes at any time, and must provide prompt notice thereof to the Trustees.

(b) Any Notes purchased by the Issuer shall be cancelled upon such purchase.

(c) Any Notes purchased by a Subsidiary of the Issuer shall be disregarded in connection with any direction, consent, waiver, vote or other action of the Noteholders under this Indenture in accordance with Section 9.04.

ARTICLE 4
PARTICULAR COVENANTS OF THE COMPANY

Section 4.01. *Payment of Principal and Interest.* The Issuer covenants and agrees that it will duly and punctually pay or cause to be paid the principal of, premium, if any, and interest on each of the Notes at the places, at the respective times and in the manner provided herein and in the Notes.

Section 4.02. *Maintenance of Office or Agency.* The Issuer will maintain an office or agency in London, England where the Notes may be surrendered for registration of transfer or exchange or for presentation for payment or for conversion or redemption and where notices and demands to or upon the Issuer in respect of the Notes and this Indenture may be served. The Issuer will give prompt written notice to the Trustees of the location, and any change in the location, of such office or agency not designated or appointed by the Trustee. If at any time the Issuer shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office or the principal corporate trust office of the Trustee in London which office is located as of the date hereof at One Canada Square, London E14 5AL.

The Issuer may also from time to time designate co-registrars and one or more offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations. The Issuer will give prompt written notice of any such designation or rescission and of any change in the location of any such other office or agency.

The Issuer hereby initially appoints The Bank of New York as principal paying agent, Note registrar and conversion agent and each of the Corporate Trust Office and the office of agency of the Trustee shall be considered as one such office or agency of the Issuer for each of the aforesaid purposes. The Bank of New York hereby accepts such appointments. In addition, the Issuer hereby initially appoints Hermetic Trust (1975) Ltd. as Co-Trustee. Hermetic Trust (1975) Ltd. hereby accepts such appointment.

All payments of the principal of, premium, if any, and interest on this Note shall be made only upon the surrender of this Note at the option of the Holder at the Corporate Trust Office or at the office or agency maintained by the Issuer for such purpose in London, England.

So long as the Trustee is the Note registrar, the Trustee agrees to mail, or cause to be mailed, the notices set forth in Section 7.09 and the third paragraph of Section 7.10. If co-registrars have been appointed in accordance with this Section, the Trustee shall mail such notices only to the Issuer and the holders of Notes it

can identify from its records.

Section 4.03. *Appointments to Fill Vacancies in Trustees' Office*. The Issuer, whenever necessary to avoid or fill a vacancy in the office of Trustee or Co-Trustee, will appoint, in the manner provided in Section 7.09, a Trustee or Co-Trustee, so that there shall at all times be a Trustee and a Co-Trustee hereunder. The appointment of any such entity located and operating in the State of Israel shall be in accordance with the applicable provisions of the Securities Law.

Section 4.04. *Provisions as to Paying Agent.* (a) If the Issuer shall appoint a paying agent other than the Trustee, or if the Trustee shall appoint such a paying agent, the Issuer will cause such paying agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provisions of this Section 4.04:

(1) that it will hold all sums held by it as such agent for the payment of the principal of or interest on the Notes in trust for the benefit of the holders of the Notes;

(2) that it will give the Trustee notice of any failure by the Issuer to make any payment of the principal of or interest on the Notes when the same shall be due and payable; and

(3) that at any time during the continuance of an Event of Default, upon request of the Trustee, it will forthwith pay to the Trustee all sums so held in trust.

The Issuer shall, on or before each due date of the principal of or interest on the Notes, deposit with the paying agent a sum (in funds which are immediately available on the due date for such payment) sufficient to pay such principal or interest, and (unless such paying agents is the Trustee) the Issuer will promptly notify the Trustees of any failure to take such action; *provided* that if such deposit is made on the due date, such deposit shall be received by the paying agent by 10:00 a.m. London time, on such date.

(b) If the Issuer shall act as its own paying agent, it will, on or before each due date of the principal of or interest on the Notes, set aside, segregate and hold in trust for the benefit of the holders of the Notes a sum sufficient to pay such principal or interest so becoming due and will promptly notify the Trustees of any failure to take such action and of any failure by the Issuer to make any payment of the principal of or interest on the Notes when the same shall become due and payable.

(c) Anything in this Section 4.04 to the contrary notwithstanding, the Issuer may, at any time, for the purpose of obtaining a satisfaction and discharge of this Indenture, or for any other reason, pay or cause to be paid to the Trustee all sums held in trust by the Issuer or any paying agent hereunder as required by this Section 4.04, such sums to be held by the Trustee upon the trusts herein contained and upon such payment by the Issuer or any paying agent to the Trustee, the Issuer or such paying agent shall be released from all further liability with respect to such sums.

(d) Anything in this Section 4.04 to the contrary notwithstanding, the agreement to hold sums in trust as provided in this Section 4.04 is subject to Sections 13.03 and 13.04.

No Trustee shall be responsible for the actions of any other paying agents (including the Issuer if acting as its own paying agent) and shall have no control of any funds held by such other paying agents.

Section 4.05. *Existence.* Subject to Article 12, the Issuer will do or cause to be done all things necessary to preserve and keep in full force and effect its existence and rights (charter and statutory); *provided* that the Issuer shall not be required to preserve any such right if the Issuer shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Issuer and that the loss thereof is not disadvantageous in any material respect to the Noteholders.

Section 4.06. *Stay, Extension and Usury Laws.* The Issuer covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law which would prohibit or forgive the Issuer from paying all or any portion of the principal of or interest on the Notes as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this Indenture and the Issuer (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 4.07. *Compliance Certificate.* The Issuer shall deliver to the Trustees, within one hundred twenty (120) days after the end of each fiscal year of the Issuer, a certificate signed by either the principal executive officer, principal financial officer or principal accounting officer of the Issuer, stating whether or not to the best knowledge of the signer thereof the Issuer is in default in the performance and observance of any of the terms, provisions and conditions of this Indenture (without regard to any period of grace or requirement of notice provided hereunder) and, if the Issuer shall be in default, specifying all such defaults and the nature and the status thereof of which the signer may have knowledge.

The Issuer will deliver to the Trustees, forthwith upon becoming aware of (i) any default in the performance or observance of any covenant, agreement or condition contained in this Indenture, or (ii) any Event of Default, an Officers' Certificate specifying with particularity such default or Event of Default and further stating what action the Issuer has taken, is taking or proposes to take with respect thereto.

Any notice required to be given under this Section 4.07 shall be delivered to a Responsible Officer of the Trustee at its Corporate Trust Office and to the Co-Trustee at its address as specified in Section 15.03.

ARTICLE 5
NOTEHOLDERS' LISTS AND REPORTS BY THE COMPANY AND THE TRUSTEE

Section 5.01. *Noteholders' Lists.* The Issuer covenants and agrees that it will furnish or cause to be furnished to the Trustee, semiannually, not more than fifteen (15) days after each May 1 and November 1 in each year beginning with May 1, 2006, and at such other times as the Trustee may request in writing, within thirty (30) days after receipt by the Issuer of any such request (or such lesser time as the Trustee may reasonably request in order to enable it to timely provide any notice to be provided by it hereunder), a list in such form as the Trustee may reasonably require of the names and addresses of the holders of Notes (to the extent available to the Issuer) as of a date not more than fifteen (15) days (or such other date as the Trustee may reasonably request in order to so provide any such notices) prior to the time such information is furnished, except that no such list need be furnished by the Issuer to the Trustee so long as the Trustee is acting as the sole Note registrar.

Section 5.02. *Preservation and Disclosure of Lists.* (a) The Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the holders of Notes contained in the most recent list furnished to it as provided in Section 5.01 or maintained by the Trustee in its capacity as Note registrar or co-registrar in respect of the Notes, if so acting. The Trustee may destroy any list furnished to it as provided in Section 5.01 upon receipt of a new list so furnished.

(b) The rights of Noteholders to communicate with other holders of Notes with respect to their rights under this Indenture or under the Notes, and the corresponding rights and duties of the Trustee, shall be as provided by the Trust Indenture Act.

(c) Every Noteholder, by receiving and holding the same, agrees with the Issuer and the Trustee that neither the Issuer nor the Trustee nor any agent of either of them shall be held accountable by reason of any disclosure of information as to names and addresses of holders of Notes made pursuant to the Trust Indenture Act.

Section 5.03. *Reports by Trustee.* (a) Within sixty (60) days after May 15 of each year commencing with the year 2006, the Trustee shall transmit to holders of Notes and the Co-Trustee such reports dated as of May 15 of the year in which such reports are made concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto. The Noteholders may review such report at the offices of the Trustee and the offices of the Co-Trustee during normal working hours.

(b) A copy of such report shall, at the time of such transmission to holders of Notes, be filed by the Trustee with each stock exchange and automated quotation system upon which the Notes are listed and with the Issuer. The Issuer will promptly notify the Trustee in writing when the Notes are listed on any stock exchange or automated quotation system or delisted therefrom.

(c) The Co-Trustee shall prepare an annual report concerning the Co-Trustee and its actions as required under the Securities Law and any regulation promulgated thereunder from time to time. The Noteholders may review such report at the offices of the Co-Trustee during normal working hours. The Co-Trustee shall furnish a copy of such report to the Trustee and to any Noteholder who so requests in writing.

Section 5.04. *Reports by Issuer.* The Issuer shall file with the Trustees, the Commission and the ISA and transmit to holders of Notes, such information, documents and other reports and such summaries thereof, as may be required pursuant to the Trust Indenture Act and/or the Securities Law at the times and in the manner provided pursuant to such Act or Law, whether or not the Notes are governed by such Act or Law, and the Issuer shall deliver to the Trustees any additional information which may be reasonably requested by either of the Trustees from time to time; *provided* that any such information, documents or reports required to be filed with the Commission pursuant to Section 13 or 15(d) of the Exchange Act and/or the ISA pursuant to the Securities Law shall be filed with the Trustees within fifteen (15) days after the same is so required to be filed with the Commission and/or the ISA. Delivery of such reports, information and documents to the Trustees is for informational purposes only and the Trustees' receipt of such shall not constitute actual or constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's compliance with any of its covenants hereunder (as to which the Trustees are entitled to rely exclusively on an Officers' Certificate).

ARTICLE 6
REMEDIES OF THE TRUSTEE AND NOTEHOLDERS ON AN EVENT OF DEFAULT

Section 6.01. *Events of Default.* In case one or more of the following Events of Default (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body) shall have occurred and be continuing:

(a) default in the payment of any amount of interest upon any of the Notes, as and when the same shall become due and payable, and continuance of such default for a period of fourteen (14) Business Days following the date on which such payment is due under the terms hereof (and subject to Article 8); or

(b) default in the payment of the principal of any of the Notes as and when the same shall become due and payable either at maturity (subject to Article 8) or in connection with any redemption or otherwise, pursuant to Article 3, by acceleration or otherwise and continuance of such default for a period of fourteen (14) Business Days; or

(c) The Issuer takes any corporate action or other steps are taken or proceedings are started or are consented to or any order is made for its winding-up, liquidation, bankruptcy, dissolution, administration or re-organization (or for the suspension of payments generally or any process giving protection against creditors) or for the appointment of a liquidator, receiver, administrator, administrative receiver or similar officer of it or of all or any part of its revenues or assets or such a person is appointed, which action, steps, proceedings or order are not cancelled or withdrawn within 60 (sixty) days of the occurrence or institution thereof; or

(d) an involuntary case or other proceeding shall be commenced against the Issuer seeking liquidation, reorganization or other relief with respect to the Issuer or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of the Issuer or any substantial part of the property of the Issuer, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of sixty (60) consecutive days,

then, and in each and every such case, unless the principal of all of the Notes shall have already become due and payable, either the Trustee or Co-Trustee, or both acting jointly, by notice in writing to the Issuer shall declare the principal of all the Notes and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Notes contained to the contrary notwithstanding, but subject to Article 8. This provision, however, is subject to the conditions that if, at any time after the principal of the Notes shall have been so declared due and payable, and before any judgment or decree for the payment of the monies due shall have been obtained or entered as hereinafter provided, the Issuer shall pay or shall deposit with the Trustees a sum sufficient to pay all matured installments of interest upon all Notes and the principal of any and all Notes which shall have become due otherwise than by acceleration (with interest on overdue installments of interest (to the extent that payment of such interest is enforceable under applicable law) and on such principal at the rate borne by the Notes, to the date of such payment or deposit) and amounts due to the Trustees pursuant to Section 7.05, and if any and all defaults under this Indenture, other than the nonpayment of principal of and accrued interest on Notes which shall have become due by acceleration, shall have been cured or waived pursuant to Section 6.07, then and in every such case the holders of a majority in aggregate principal amount of the Notes then outstanding, by written notice to the Issuer and to the Trustees, may waive all defaults or Events of Default and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or Event of Default, or shall impair any right consequent thereon. The Issuer shall notify in writing a Responsible Officer of the Trustee and of the Co-Trustee, promptly upon becoming aware thereof, of any Event of Default.

Provided, that the Trustees may not declare any amount due and payable prior to its maturity and shall not take any action against the Issuer unless the Event of Default remains unremedied within thirty-nine (39) days of the later of (i) the receipt by the Issuer of demand to cure such default and (ii) the receipt by the Lenders from either the Co-Trustee or the Trustee of a copy of such demand to cure, such notice to the Lenders to have been made in accordance with addresses and contact details of the representative of the Lenders provided by the Issuer to the Co-Trustee or to the Trustee from time to time.

In case the Trustees shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned because of such waiver or rescission and annulment or for any other reason or shall have been determined adversely to the Trustee, the Co-Trustee or both, then and in every such case the Issuer, the holders of Notes, and the Trustees shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Issuer, the holders of Notes, and the Trustees shall continue as though no such proceeding had been taken.

Section 6.02. *Payments of Notes on Default; Suit Therefor.* The Issuer covenants that (a) in case default shall be made in the payment of any installment of interest upon any of the Notes as and when the same shall become due and payable, and such default shall have continued for a period of fourteen (14) Business Days, or (b) in case a default shall be made in the payment of the principal of any of the Notes as and when the same shall have become due and payable, whether at maturity of the Notes or in connection with any redemption of the Notes, by acceleration or otherwise, and such default shall have continued for a period of fourteen (14) Business Days, then, upon demand of the Trustees, but subject to Article 8 below, the Issuer will pay to the Trustee, for the benefit of the holders of the Notes, the whole amount that then shall have become due and payable on all such Notes for principal or interest, as the case may be, with interest upon the overdue principal and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including reasonable compensation to the Trustees, their agents, attorneys and counsel, and all other amounts due the Trustees under Section 7.05. Until such demand by the Trustees, the Issuer may pay the principal of and interest on the Notes to the registered holders, whether or not the Notes are overdue.

In case the Issuer shall fail forthwith to pay such amounts upon such demand, the Trustees, in their own name and as trustees of an express trust, shall be entitled and empowered (but not required) to institute any actions or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Issuer and collect in the manner provided by law out of the property of the Issuer wherever situated the monies adjudged or decreed to be payable.

In case there shall be pending proceedings for the bankruptcy or for the reorganization of the Issuer under Title 11 of the United States Code, liquidation, insolvency or reorganization proceedings under the Israeli Companies Ordinance – 1983, Section 350 of the Israeli Companies Law – 2000, or under any other applicable law, or in case a receiver, assignee or trustee in bankruptcy or reorganization, liquidator, sequestrator or similar official shall have been appointed for or taken possession of the Issuer the property of the Issuer, or in the case of any other judicial proceedings relative to the Issuer upon the Notes, or to the creditors or property of the Issuer, the Trustees, irrespective of whether the principal of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustees shall have made any demand pursuant to the provisions of this Section 6.02, shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount of principal and interest owing and unpaid in respect of the Notes, and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustees and of the Noteholders allowed in such judicial proceedings relative to the Issuer, its creditors, or its property, and to collect and receive any monies or other property payable or deliverable on any such claims, and to distribute the same after the deduction of any amounts due the Trustees under Section 7.05, and any receiver, assignee or trustee in bankruptcy or reorganization, liquidator, custodian or similar official is hereby authorized by each of the Noteholders to make such payments to the Trustees, and, in the event that the Trustees shall consent to the making of such payments directly to the Noteholders, to pay to the Trustees any amount due it for reasonable compensation, expenses, advances and disbursements, including counsel fees and expenses incurred by them up to the date of such distribution. To the extent that such payment of reasonable compensation, expenses, advances and disbursements out of the estate in any such proceedings shall be denied for any reason, payment of the same shall be secured by a lien on, and shall be paid out of, any and all distributions, dividends, monies, securities and other property which the holders of the Notes may be entitled to receive in such proceedings, whether in liquidation or under any plan of reorganization or arrangement or otherwise.

All rights of action and of asserting claims under this Indenture, or under any of the Notes, may be enforced by the Trustees without the possession of any of the Notes, or the production thereof at any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustees shall be brought in their own name as trustees of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustees, their agents and counsel, be for the ratable benefit of the holders of the Notes.

In any proceedings brought by the Trustee or the Co-Trustee, or both (and in any proceedings involving the interpretation of any provision of this Indenture to which the Trustee or the Co-Trustee, or both shall be a party) the Trustee or the Co-Trustee, or both shall be held to represent all the holders of the Notes, and it shall not be necessary to make any holders of the Notes parties to any such proceedings.

Section 6.03. *Application of Monies Collected by Trustees.* Any monies collected by the Trustee or the Co-Trustee, or both pursuant to this Article 6 shall be applied in the order following, at the date or dates fixed by the Trustees for the distribution of such monies, upon presentation of the several Notes, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

FIRST: To the payment of all amounts due (a) the Trustee and then (b) the Co-Trustee under Section 7.05;

SECOND: In case the principal of the outstanding Notes shall not have become due and be unpaid, to the payment of interest on the Notes in default in the order of the maturity of the installments of such interest, with interest (to the extent that such interest has been collected by the Trustees) upon the overdue installments of interest at the rate borne by the Notes, such payments to be made ratably to the Persons entitled thereto;

THIRD: In case the principal of the outstanding Notes shall have become due, by declaration or otherwise, and be unpaid to the payment of the whole amount then owing and unpaid upon the Notes for principal and interest with interest on the overdue principal and (to the extent that such interest has been collected by the Trustees) upon overdue installments of interest at the rate borne by the Notes, and in case such monies shall be insufficient to pay in full the whole amounts so due and unpaid upon the Notes, then to the payment of such principal and interest without preference or priority of principal over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Note over any other Note, ratably to the aggregate of such principal and accrued and unpaid interest; and

FOURTH: To the payment of the remainder, if any, to the Issuer or any other Person lawfully entitled thereto.

Section 6.04. *Proceedings by Noteholder.* Subject to the further provisions of this Section 6.04, no holder of any Note shall have any right by virtue of or by reference to any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture, or for the appointment of a receiver, trustee, liquidator, custodian or other similar official, or for any other remedy hereunder.

Notwithstanding any other provision of this Indenture, the right of any holder of any Note to receive payment of the principal of and accrued interest on such Note, on or after the respective due dates expressed in such Note, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such holder.

Notwithstanding any other provision of this Indenture, the right of any holder of any Note to institute suit for the enforcement of the right to convert the Note as provided herein, shall not be impaired or affected without the consent of the holder.

No one or more Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Holders.

Section 6.05. *Proceedings by Trustees.* In case of an Event of Default, the Trustee and the Co-Trustee may, jointly or separately in their discretion, proceed to protect and enforce the rights vested in it or them by this Indenture by such appropriate judicial proceedings as are necessary to protect and enforce any of such rights, either by suit in equity or by action at law or by proceeding in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustees by this Indenture or by law.

Section 6.06. *Remedies Cumulative and Continuing.* Except as provided in Section 2.06, all powers and remedies given by this Article 6 to the Trustees or to the Noteholders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any thereof or of any other powers and remedies available to the Trustees or the holders of the Notes, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture, and no delay or omission of the Trustees or of any holder of any of the Notes to exercise any right or power accruing upon any default or Event of Default occurring and continuing as aforesaid shall impair any such right or power, or shall be construed to be a waiver of any such default or any acquiescence therein, and, subject to the provisions of Section 6.04, every power and remedy given by this Article 6 or by law to the Trustees or to the Noteholders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee, the Co-Trustee or by the Noteholders.

Section 6.07. *Direction of Proceedings and Waiver of Defaults by Noteholders.*

(a) *Direction of Proceedings by Noteholders.* The holders of a majority in aggregate principal amount of the Notes at the time outstanding determined in accordance with Section 9.04 shall have the right to direct in accordance with Section 9.01, the time, method and place of conducting any proceeding for any remedy available to the Trustees or exercising any trust or power conferred on the Trustees; *provided* that (a) such direction shall not be in conflict with any rule of law or with this Indenture, (b) the Trustees may take any other action which is not inconsistent with such direction and (c) the Trustees may decline to take any action that would benefit some Noteholder to the detriment of other Noteholders.

(b) *Waiver of Defaults by Noteholders.* The holders of a majority in aggregate principal amount of the Notes at the time outstanding determined in accordance with Section 9.04, shall have the right (subject to the next paragraph below) to direct, in accordance with Section 9.01, a waiver, on behalf of the holders of all of the Notes, of any past default or Event of Default hereunder and its consequences, provided that such direction to waive is given at a meeting of the Noteholders, in accordance with Article 10, and that such waiver be approved by the vote of holders of at least 75% of the principal amount of the Notes present or represented in that Noteholders meeting.

Notwithstanding the former paragraph above, the following defaults may not be waived without the consent of the holders of each or all Notes then outstanding or affected thereby: (i) a default in the payment of interest on, or the principal of, the Notes, (ii) a failure by the Issuer to convert any Notes into Ordinary Shares, (iii) a default in the payment of the redemption premium pursuant to Section 3.03, or (iv) a default in respect of a covenant or provisions hereof which under the provisions of the Trust Indenture Act cannot be modified or amended without the consent of the holders of each or all Notes then outstanding or affected thereby.

Upon any such waiver, the Issuer, the Trustees and the holders of the Notes shall be restored to their former positions and rights hereunder; but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon. Whenever any default or Event of Default hereunder shall have been waived as permitted by this Section 6.07, said default or Event of Default shall for all purposes of the Notes and this

Indenture be deemed to have been cured and to be not continuing; but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon.

Section 6.08. *Notice of Defaults.* The Trustees shall, within ninety (90) days after a Responsible Officer of the Trustee and of the Co-Trustee have actual knowledge of the occurrence of a default, mail to all Noteholders, as the names and addresses of such holders appear upon the Note register, notice of all defaults known them, unless such defaults shall have been cured or waived before the giving of such notice.

Section 6.09. *Undertaking to Pay Costs.* All parties to this Indenture agree, and each holder of any Note by his acceptance thereof shall be deemed to have agreed, that any court may, in its discretion, require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustees for any action taken or omitted by them as Trustees, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; *provided* that the provisions of this Section 6.09 (to the extent permitted by law) shall not apply to any suit instituted by the Trustee or the Co-Trustee, or both, to any suit instituted by any Noteholder, or group of Noteholders, holding in the aggregate more than ten percent (10%) in principal amount of the Notes at the time outstanding determined in accordance with Section 9.04, or to any suit instituted by any Noteholder for the enforcement of the payment of the principal of or interest on any Note on or after the due date expressed in such Note or to any suit for the enforcement of the right to convert any Note in accordance with the provisions of Article 14.

Section 6.10. *Indenture and Notes Solely Corporate Obligations*. No recourse for the payment of the principal of or interest on any Note, or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Issuer in this Indenture or in any supplemental indenture or in any Note, or because of the creation of any indebtedness represented thereby, shall be had against any incorporator, stockholder, employee, agent, officer, director or subsidiary, as such, past, present or future, of the Issuer or of any successor corporation, either directly or through the Issuer or any successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that all such liability is hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issue of the Notes.

ARTICLE 7
THE TRUSTEES

Section 7.01. *Duties and Responsibilities of Trustees.* The Trustees prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertake to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred (which has not been cured or waived), the Trustees shall exercise such of the rights and powers vested in them by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

No provision of this Indenture shall be construed to relieve the Trustees from liability for their own negligent action, their own negligent failure to act or their own willful misconduct, except that:

(a) prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default which may have occurred:

(i) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture and the Trust Indenture Act (and, in the case of the Co-Trustee, by the express provisions of this Indenture and the Securities Law), and the Trustees shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture, the Trust Indenture Act and/or the Securities Law (as applicable) against the Trustees; and

(ii) in the absence of bad faith and willful misconduct on the part of the Trustees, the Trustees may conclusively rely as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustees and conforming to the requirements of this Indenture; but, in the case of any such certificates or opinions which by any provisions hereof are specifically required to be furnished to the Trustees, the Trustees shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein);

(b) the Trustees shall not be liable for any error of judgment made in good faith by a Responsible Officer or Officers of the Trustee or Responsible Officers or Officers of the Co-Trustee, unless the Trustees were negligent in ascertaining the pertinent facts;

(c) the Trustees shall not be liable with respect to any action taken or omitted to be taken by them in good faith in accordance with the written direction of the holders of not less than a majority in principal amount of the Notes at the time outstanding determined as provided in Section 9.04 relating to the time, method and place of conducting any proceeding for any remedy available to the Trustees, or exercising any trust or power conferred upon the Trustees under this Indenture;

(d) whether or not therein provided, every provision of this Indenture relating to the conduct or affecting the liability of, or affording protection to, the Trustees shall be subject to the provisions of this Section;

(e) the Trustees shall not be liable in respect of any payment (as to the correctness of amount, entitlement to receive or any other matters relating to payment) or notice effected by the Issuer or any paying agent or any records maintained by any co-registrar with respect to the Notes;

(f) if any party fails to deliver a notice relating to an event the fact of which, pursuant to this Indenture, requires notice to be sent to the Trustees, the Trustees may conclusively rely on their failure to receive such notice as reason to act as if no such event occurred; and

(g) the Trustee or Co-Trustee, as the case may be, shall not be deemed to have notice of any default or Event of Default hereunder unless a Responsible Officer thereof shall have actual knowledge thereof or unless written notice of any event which is in fact such a default or Event of Default is received by a Responsible Officer of the Trustee or the Co-Trustee, as the case may be, and such notice references the Notes and this Indenture.

None of the provisions contained in this Indenture shall require the Trustees to expend or risk their own funds or otherwise incur personal financial liability in the performance of any of their duties or in the exercise of any of their rights or powers, if there is reasonable ground for believing that the repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to them.

Section 7.02. *Rights of Trustees; Reliance on Documents, Opinions, Etc.* Except as otherwise provided in Section 7.01:

(a) the Trustees may conclusively rely and shall be protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, note, coupon or other paper or document (whether in its original or facsimile form) believed by them in good faith to be genuine and to have been signed or presented by the proper party or parties;

(b) any request, direction, order or demand of the Issuer mentioned herein shall be sufficiently evidenced by an Officers' Certificate (unless other evidence in respect thereof be herein specifically prescribed); and any resolution of the Board of Directors may be evidenced to the Trustees by a copy thereof certified by the Secretary or an Assistant Secretary of the Issuer;

(c) the Trustees may each consult with counsel or other professional advisors of its own selection and any such advice so received or Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or omitted by it hereunder in good faith and in reliance on such advice or Opinion of Counsel;

(d) the Trustees shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Noteholders pursuant to the provisions of this Indenture, unless such Noteholders shall have offered to the Trustees security or indemnity satisfactory to them against the costs, expenses and liabilities which may be incurred therein or thereby;

(e) the Trustees shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture or other paper or document, but the Trustees may make such further inquiry or investigation into such facts or matters as they may see fit, and, if the Trustees shall determine to make such further inquiry or investigation, they shall be entitled to examine the books, records and premises of the Issuer, personally or by agent or attorney at the sole cost of the Issuer and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation;

(f) the Trustees may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustees shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed by them with due care hereunder;

(g) the Trustees shall not be liable for any action taken, suffered or omitted to be taken by them in good faith and reasonably believed by them to be authorized or within the discretion or rights or powers conferred upon it by this Indenture;delivery of reports, information and documents to the Trustees under any Section 5.04 is for informational purposes only and the Trustees' receipt of the foregoing shall not constitute actual or constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's compliance with any of their covenants hereunder (as to which the Trustees are entitled to rely exclusively on Officers' Certificates) except as otherwise required in this Indenture or the terms of the Notes;

(h) the Trustees shall not have any obligation or duty to monitor, determine or inquire as to compliance, and shall not be responsible or liable for compliance with restrictions on transfer, exchange, redemption, purchase or repurchase, as applicable, of minimum denominations imposed under this Indenture or under applicable law or regulation with respect to any transfer, exchange, redemption, purchase or repurchase, as applicable, of any interest in any Notes;

(i) in no event shall the Trustees be responsible or liable for any failure or delay in the performance of their obligations hereunder arising out of, or caused by, directly or indirectly, forces beyond their control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God; it being understood that the Trustees shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances;

(j) the rights, privileges, protections, immunities and benefits given to the Trustees including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustees in each of their capacities hereunder, and each agent, custodian and other Person employed to act hereunder;

(k) the Trustees may request that the Issuer deliver an Officers' Certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture, which Officers' Certificate may be signed by any person authorized to sign an Officers' Certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded;

(l) the Trustees are not required to give any bond or surety with respect to the performance or their duties or the exercise of their powers under this Indenture or the Notes;

(m) the Trustees will not be liable to any person if prevented or delayed in performing any of their obligations or discretionary functions under this Indenture by reason of any present or future law applicable to them, by any governmental or regulatory authority;

(n) in the event the Trustees receive inconsistent or conflicting requests and indemnity from two or more groups of Holders, each representing less than a majority in aggregate principal amount of the Notes then outstanding, pursuant to the provisions of this Indenture, the Trustees, in their sole discretion, may determine what action, if any, will be taken and shall not incur any liability for their failure to act until such inconsistency or conflict is, in their reasonable opinion, resolved;

(o) the Trustees shall not be liable for any error of judgment made in good faith unless it is proved that the Trustees were grossly negligent in ascertaining the pertinent facts;

(p) the Trustees shall not be liable for any consequential loss (being loss of business, goodwill, opportunity or profit of any kind) of the Issuer; and

(q) the permissive right of the Trustees to take the actions permitted by this Indenture shall not be construed as an obligation or duty to do so.

Section 7.03. *No Responsibility for Recitals, Etc.* The recitals contained herein and in the Notes (except in the Trustee's certificate of authentication) shall be taken as the statements of the Issuer, and the Trustees assume no responsibility for the correctness of the same. The Trustees make no representations as to the validity or sufficiency of this Indenture or of the Notes. The Trustees shall not be accountable for the use or application by the Issuer of any Notes or the proceeds of any Notes authenticated and delivered by the Trustee in conformity with the provisions of this Indenture.

Section 7.04. *Monies to Be Held in Trust.* Subject to the provisions of Section 13.04, all monies received by the Trustees shall, until used or applied as herein provided, be held in trust for the purposes for which they were received. The Trustee shall be under no liability for interest on any money received by it hereunder except as may be agreed in writing from time to time by the Issuer and the Trustee.

Section 7.05. *Compensation and Expenses of Trustees.* (a) The Issuer covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, such compensation for all services rendered by it hereunder in any capacity (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust) as mutually agreed to from time to time in writing between the Issuer and the Trustee, and the Issuer will pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances reasonably incurred or made by the Trustee in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all Persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence, willful misconduct or bad faith.

(b) The Issuer will pay to the Co-Trustee the following fees for its services under this Indenture:

(i) For each of the years from the second year of the trust hereunder (that is from the expiry of 12 months from the date of this Indenture) in which there are still Notes outstanding, a sum of $10,000 (referred to in this section 7.05(b) as: the "Annual Fee"). The Annual Fee will be paid to the Co-Trustee at the beginning of each year of the trust. The Annual Fee will be paid to the Co- Trustee for the period until the end of the period of the trust pursuant to the terms of this Indenture even if a receiver and/or an administrative receiver is appointed for the Issuer and/or even if the trust pursuant to this Indenture is managed under the supervision of a court. If the term of the Co-Trustee's office has come to an end, the Co-Trustee will not be entitled to the payment of its fee from the date on which its term of office has ended. Should the term of the Co-Trustee's office come to an end during the course of a year of the trust, the Co-Trustee will refund to the Issuer the portion of the Annual Fee paid for the months on which the it has not acted as a Co-Trustee. The Annual Fee is not payable for the first year of the trust; and

(ii) The Co-Trustee is entitled to payment for the time actually spent by the Co-Trustee in connection with this Indenture and the trust hereunder prior the execution of this Indenture in the total amount of approximately $5,000; and

(iii) The Co-Trustee will be entitled to the reimbursement of the reasonable expenses that it has incurred in the fulfillment of its roles and duties hereunder. Regarding expenses for an expert opinion, the Co-Trustee will give prior notice to the Issuer of its intention to request an expert opinion; and

(iv) The Co-Trustee will also be entitled to additional payment to the extent that the Co-Trustee is required to take any action as a result of a default on this Indenture by the Issuer or an Event of Default. This payment will be calculated according to the time actually spent by the Co-Trustee in connection with these actions, based on an agreed hourly rate of up to $200; and

(v) In the event that, due to changes in the applicable law in Israel, the Co-Trustee shall be required to perform additional reviews or prepare additional reports, the Co-Trustee shall be entitled to additional fees as shall be agreed upon by the Co-Trustee and the Issuer.

Israeli Value added tax, if applicable, will be added to the payments due to the Co-Trustee hereunder and will be paid by the Issuer. The Issuer covenants and agrees to reimburse the Co-Trustee for the costs incurred by the Co-Trustee for an insurance policy providing for coverage in respect of expenses of the Co-Trustee resulting from any litigation action taken against the Co-Trustee under the competent jurisdiction of a United States court, in connection with the actions and duties of the Co-Trustee under this Indenture.

(c) The Issuer also covenants to indemnify each of the Trustee and the Co-Trustee and any predecessor Trustees (or any officer, director or employee of the Trustees), in any capacity under this Indenture and its agents and any authenticating agent for, and to hold them harmless against, any and all loss, liability, damage, claim or expense including taxes (other than taxes based on the income of the Trustees) incurred without negligence, willful misconduct or bad faith on the part of the Trustee or the Co-Trustee or such officers, directors, employees and agent or authenticating agent, as the case may be, and arising out of or in connection with the acceptance or administration of this trust or in any other capacity hereunder, including the costs and expenses of defending themselves against any claim (whether asserted by the Issuer, any holder or any other Person) of liability in the premises. For the avoidance of doubt, neither of the Trustee nor the Co-Trustee shall be denied any indemnification to which it is entitled pursuant to this Section 7.05(c) as the result of the other's negligence, willful misconduct or bad faith. The obligation of the Issuer under this Section 7.05 shall survive the satisfaction and discharge of this Indenture.

(d) When the Trustees and its agents and any authenticating agent incur expenses or render services after an Event of Default specified in Section 6.01(c) or (d) with respect to the Issuer occurs, the expenses and the compensation for the services are intended to constitute expenses of administration under any bankruptcy, insolvency or similar laws.

Section 7.06. *Officers' Certificate as Evidence.* Except as otherwise provided in Section 7.01, whenever in the administration of the provisions of this Indenture the Trustees shall deem it necessary or desirable that a matter be proved or established prior to taking or omitting any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of bad faith or willful misconduct on the part of the Trustees, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustees.

Section 7.07. *Conflicting Interests of Trustee and the Co-Trustee.* (a) If the Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture.

(b) If, with respect to the Co-Trustee, there at any time exist circumstances which may constitute a conflict of interests as provided in Section 35(E)(2) of the Securities Law, the Co-Trustee shall either eliminate such circumstances or resign, to the extent and in the manner provided by, and subject to the provisions of, the Securities Law.

Section 7.08. *Eligibility of Trustee and Co-Trustee*. (a) There shall at all times be a Trustee hereunder which shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus of at least $50,000,000 (or if such Person is a member of a bank holding company system, its bank holding company shall have a combined capital and surplus of at least $50,000,000). If such Person publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority, then for the purposes of this Section the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 7.08, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

(b) There shall at all times be a Co-Trustee hereunder which shall be a Person that is eligible pursuant to the Securities Law to act as a trustee for debentures issued to the Israeli public. If at any time the Co-Trustee shall cease to be eligible in accordance with the provisions of the Securities Law, it shall resign immediately in the manner and with the effect specified in Section 7.09.

Section 7.09. *Resignation or Removal of the Trustee and of the Co-Trustee.* (a) (i) The Trustee may at any time resign by giving written notice of such resignation to the Issuer, the Co-Trustee and to the holders of Notes. Upon receiving such notice of resignation, the Issuer shall promptly appoint a successor trustee by written instrument, in triplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the resigning Trustee, one copy to the successor trustee and one copy to the Co-Trustee. If no successor trustee shall have been so appointed and have accepted appointment sixty (60) days after the mailing of such notice of resignation to the Noteholders, the resigning Trustee may, upon ten (10) Business Days' notice to the Issuer, the Co-Trustee and the Noteholders, appoint a successor identified in such notice or may petition, at the expense of the Issuer, any court of competent jurisdiction for the appointment of a successor trustee, or, if any Noteholder who has been a bona fide holder of a Note or Notes for at least six (6) months may, subject to the provisions of Section 6.09, on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(ii) The provisions of the Securities Law will apply to the expiry of the appointment of the Co-Trustee as a trustee under this Indenture upon the occurrence of certain events specified therein and to the appointment of a successor trustee in such an event.

(iii) Subject to the applicable provisions of the Securities Law, the Co-Trustee and any successor co-trustee that replaces the Co-Trustee may resign from their office as trustee after giving notice in writing to the Issuer, the Trustee and the Noteholders three (3) months in advance, in which the reasons for the resignation will be specified. Such resignation will come into effect only after it has been approved by a court of competent jurisdiction in the State of Israel and on the date specified in such court approval. The Issuer shall promptly notify the Trustees and the Noteholders of such approval.

(b) In case at any time any of the following shall occur:

(i) the Trustee or the Co-Trustee shall fail to comply with Section 7.07 after written request therefor by the Issuer or by any Noteholder who has been a bona fide holder of a Note or Notes for at least six (6) months; or

(ii) the Trustee or the Co-Trustee shall cease to be eligible in accordance with the relevant provisions of Section 7.08 and shall fail to resign after written request therefor by the Issuer or by any such Noteholder; or

(iii) the Trustee or the Co-Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or the Co-Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation;

then, in any such case, the Issuer may remove the Trustee or the Co-Trustee and appoint a successor trustee by written instrument, in triplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the Trustee or the Co-Trustee so removed, one copy to the successor trustee and one copy to the Co-Trustee, or, subject to the provisions of Section 6.09, any Noteholder who has been a bona fide holder of a Note or Notes for at least six (6) months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee or the Co-Trustee and the appointment of a successor trustee; *provided* that if no successor trustee shall have been appointed and have accepted appointment sixty (60) days after either the Issuer or the Noteholders has removed the Trustee or the Co-Trustee , or the Trustee or the Co-Trustee resigns, the trustee so removed may petition, at the expense of the Issuer, any court of competent jurisdiction for an appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee or the Co-Trustee and appoint a successor trustee.

(c) The holders of a majority in aggregate principal amount of the Notes at the time outstanding may at any time by action pursuant to Section 9.01 remove the Trustee or the Co-Trustee and nominate a successor trustee which shall be deemed appointed as successor trustee unless, within ten (10) days after notice to the Issuer of such nomination, the Issuer objects thereto, in which case the trustee so removed or any Noteholder, or if such trustee so removed or any Noteholder fails to act, the Issuer, upon the terms and conditions and otherwise as in this Section 7.09(a) provided, may petition any court of competent jurisdiction for an appointment of a successor trustee.

(d) (i) Any resignation or removal of the Trustee or the Co-Trustee and appointment of a successor trustee pursuant to any of the provisions of this Section 7.09 shall become effective upon acceptance of appointment by the successor trustee as provided in Section 7.10.

(ii) A court of competent jurisdiction in the State of Israel may dismiss the Co-Trustee if it has not fulfilled its duties hereunder properly or if a court of competent jurisdiction in the State of Israel should find any other reason for its dismissal. Additionally, the holders of ten percent (10%) in aggregate principal amount of the Notes may convene a general meeting of the holders of the Notes in accordance with Article 10. At such a meeting, the Co-Trustee may be removed by an affirmative vote of the holders of a majority of the aggregate principal amount of the Notes.

The ISA may petition a court of competent jurisdiction in the State of Israel to bring the Co-Trustee's term of office to an end, pursuant to Section 35 of the Securities Law.

Section 7.10. *Acceptance by Successor Trustee.* Any successor trustee appointed as provided in Section 7.09 shall execute, acknowledge and deliver to the Issuer and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as trustee herein; but, nevertheless, on the written request of the Issuer or of the successor trustee, the trustee ceasing to act shall, upon payment of any amount then due it pursuant to the provisions of Section 7.05, execute and deliver an instrument transferring to such successor trustee all the rights and powers of the trustee so ceasing to act. Upon request of any such successor trustee, the Issuer shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers. Any trustee ceasing to act shall, nevertheless, retain a lien upon all property and funds held or collected by such trustee as such, except for funds held in trust for the benefit of holders of particular Notes, to secure any amounts then due it pursuant to the provisions of Section 7.05.

No successor trustee shall accept appointment as provided in this Section 7.10 unless, at the time of such acceptance, such successor trustee shall be qualified under the provisions of Section 7.09 and be eligible under the provisions of Section 7.08.

Upon acceptance of appointment by a successor trustee as provided in this Section 7.10, the Issuer (or the former trustee, at the written direction of the Issuer) shall mail or cause to be mailed notice of the succession of such trustee hereunder to the holders of Notes at their addresses as they shall appear on the Note register. If the Issuer fails to mail such notice within ten (10) days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be mailed at the expense of the Issuer. The Issuer shall promptly file an Immediate Report regarding such an event, as provided in the Securities Law, as well as furnish such notice to the Commission on Form 6-K.

Section 7.11. *Succession by Merger.* Any corporation into which either of the Trustees may be merged or converted or with which either of them may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee or Co-Trustee shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Trustee or Co-Trustee (including any trust created by this Indenture), shall be the successor to the Trustee or Co-Trustee hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided that in the case of any corporation succeeding to all or substantially all of the corporate trust business of the Trustee or Co-Trustee, such corporation shall be qualified under the provisions of Section 7.07 and shall, in the case of the successor to the Trustee, be eligible under the provisions of Section 7.08.

In case at the time such successor to the Trustee or the Co-Trustee shall succeed to the trusts created by this Indenture, any of the Notes shall have been authenticated but not delivered, any such successor to the Trustee or the Co-Trustee may adopt the certificate of authentication of any predecessor trustee or authenticating agent appointed by such predecessor trustee, and deliver such Notes so authenticated; and in case at that time any of the Notes shall not have been authenticated, any successor to the Trustee or the Co-Trustee or any authenticating agent appointed by such successor trustee may authenticate such Notes in the name of the successor trustee; and in all such cases such certificates shall have the full force that is provided in the Notes or in this Indenture; *provided* that the right to adopt the certificate of authentication of any predecessor Trustee or authenticate Notes in the name of any predecessor Trustee or the Co-Trustee shall apply only to its successor or successors by merger, conversion or consolidation.

Section 7.12. *Preferential Collection of Claims.* If and when the Trustee shall be or become a creditor of the Issuer, the Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of the claims against the Issuer.

Section 7.13. *Coordination between the Trustee and the Co-Trustee*. (a) Except as duties, rights and obligations are specifically attributed to one of either the Trustee or the Co-Trustee herein, the Trustee and the Co-Trustee are to take or refrain from taking all actions in the exercise of the terms of this Indenture by mutual agreement.

(b) To the extent that the Trustee and the Co-Trustee are unable to agree to take or refrain from taking an action in accordance with Section 7.13(a) in good faith (a "**Trustee Disagreement**"), the Trustee or the Co-Trustee, or both of them, shall be entitled, in its sole discretion, to convene a meeting of Noteholders in accordance with Article 10. At such meeting, the Noteholders, by a vote in accordance with Section 10.10, shall be entitled to adopt a resolution resolving the Trustee Disagreement, *provided*, that any actions to be taken by the Trustee or the Co-Trustee, or both of them, pursuant to this Section 7.13(b), shall be in accordance with Section 6.07(a).

(c) Upon receipt of any notice, information or other communication provided pursuant to this Indenture that is required to be made to both the Trustee and the Co-Trustee, the Trustee and Co-Trustee, if not previously contacted by the other pursuant to this Section 7.13(c), shall as promptly as practicable consult with the other, as applicable,

(i) to confirm receipt of the notice, information or other communication;

(ii) transmit such notice, information or other communication to the other if not yet received by the other; and

(iii) to the extent necessary, the Trustee and Co-Trustee will consult in accordance with Section 7.13(a).

(d) Notwithstanding any other provision of this Indenture, neither of the Trustee or the Co-Trustee shall be liable for actions taken by the other if such actions were (i) the result of negligence or willful misconduct on the part of the other; (ii) any action taken by either of the Trustee or the Co-Trustee without the knowledge of the other or (iii) any action taken or refrained from being taken by the Trustee or the Co-Trustee to which the other has stated an objection in writing.

ARTICLE 8
SUBORDINATION

Section 8.01. *Agreement to Subordinate.*

(a) The Issuer agrees, and each Holder by accepting a Note agrees, that all payments pursuant to the Notes made by or on behalf of the Issuer are subordinated to the extent and in the manner provided in this Article 8 to all existing and future obligations of the Issuer under the Credit Facility and that such subordination is for the benefit of and enforceable by the Lenders.

(b) Each Noteholder agrees and acknowledges that the Trustee and or the Co-Trustee shall refrain from initiating any proceeding or acting in any other way against the Issuer due to the provisions of this Article 8. Each Noteholder waives any right or claim against the Trustee and/or the Co-Trustee based, *inter-alia*, on the grounds that the Trustee or the Co-Trustee should have initiated any proceeding or act in any other way in spite of the provisions of this Article 8 while claiming that Article 8 does not comply with any applicable law.

(c) In the event of any insolvency or bankruptcy case or proceeding, or any receivership, liquidation, reorganization or other similar case or proceeding in connection therewith, relating to the Issuer or its assets, or any liquidation, dissolution or other winding-up of the Issuer, whether voluntary or involuntary, or any assignment for the benefit of creditors or other marshalling of assets or liabilities of the Issue, all existing and future obligations of the Issuer under the Credit Facility must be paid in full in cash before any payment is made on account of the principal of or interest on the Notes.

Section 8.02. *Postponement of Payments.* Notwithstanding any provision herein to the contrary, the date for payment of any interest or principal on the Notes may be postponed in accordance with the provisions of Section 8.03 below, with interest continuing to accrue at its regular rate.

Section 8.03. *Postponement of Payments to the Noteholders if Defaults Occur Under the Credit Facility*. (a) In the event of the existence of a default, as such term is defined in the Credit Facility (a "**Credit Facility Event of Default**"), on a Bank Payment Date, then, subject to the provisions below, no payment of principal or interest on the Notes shall be made and the holders and any person or entity acting on their behalf (including the Trustees) shall not be entitled to take any action against the Issuer in connection with such non-payment, unless such non-payment shall continue for a period of more than six (6) months commencing on the applicable Bank Payment Date falling immediately prior to the date of the scheduled payment in respect of the Notes due immediately after the Bank Payment Date (a "**Six Month Period**"). The Issuer shall notify the holders and the Trustees of any Credit Facility Event of Default.

(b) During the Six Month Period, the following shall apply:

(i) If during such period, the Issuer shall make any payment to the Lenders on account of interest or principal under the Credit Facility, then, on the date of such payment to the Lenders, or promptly thereafter, the Issuer shall make a payment on account of interest or principal then due and payable in respect of the Notes, such payment to be made at the same percentage of the interest or principal then due and payable on the Notes proportionate to the portion of the payment actually made to the Lenders to the amount (interest and principal as the case may be) due and payable under the Credit Facility as of the payment date;

(ii) In the event that during such Six Month Period the Lenders and the Issuer shall reach an agreement regarding a rescheduling of payments by the Issuer to the Lenders under the Credit Facility, such rescheduling shall apply pro rata also to payments of principal and/or interest, as the case may be, in respect of the Notesand the holders of the Notes shall be bound by such rescheduling agreement, provided that any such rescheduling agreement shall apply only to payments (of principal and/or interest) scheduled to be made under the Notes and under the Credit Facility during the period of 12 (twelve) months from the relevant Bank Payment Date, and shall postpone the scheduled payment under the Notes to a date falling not more than 12 (twelve) months after the scheduled date for such payment pursuant to the terms of the Notes. (All payments, whether of interest or principal, in respect of the Notes rescheduled under any such rescheduling agreement, shall be hereinafter referred to as the "Rescheduled Note Payments"; the date of payment of Rescheduled Note Payments shall be hereinafter referred to as the "Rescheduled Note Payment Date"; and all payments, whether of interest or principal under the Credit Facility, rescheduled under such a Rescheduling Agreement, shall be hereinafter referred to as the "Rescheduled Facility Payments".) Pursuant to any such rescheduling agreement, the Issuer shall pay to the holders of the Notes, such amounts on account of principal and/or interest, which, together with the aggregate of all payments (of principal and/or interest) actually made prior to such Rescheduled Note Payment Date in respect of the Rescheduled Note Payments under the rescheduling agreement comprises the same percentage of the scheduled repayments of principal or interest, of the aggregate Rescheduled Note Payments rescheduled under such Rescheduling Agreement as the aggregate Rescheduled Facility Payments under such rescheduling agreement actually made prior to such Rescheduled Note Payment Date comprise of the aggregate Rescheduled Facility Payments rescheduled under such Rescheduling Agreement. Alternatively, such rescheduling agreement may provide that payments of principal and interest on account of the Notes shall, with effect from the termination of such Six Month Period, be made to the holders of the Notes in accordance with the original schedule under the terms of the Notes, *provided* that amounts not paid during such Six Month Period, or prior thereto shall be postponed to be paid pro rata to those payments not made to the Lenders during such Six Month Period or prior thereto and the holders of the Notes shall be bound by such an agreement. If during the rescheduling period another Credit Facility Event of Default shall occur, the

aforementioned provisions shall again apply. For the removal of doubt, in the event of the existence of a Credit Facility Event of Default during or after any rescheduling period under this Article 8.03(b)(ii), (including non-payment on the due date of any amount of principal or interest, whether pursuant to any rescheduling agreement or otherwise), the provisions of this Article 8.03(b)(ii) shall again apply, mutatis mutandis (all without derogating from Article 8.03(c) below).

(c) Notwithstanding this Section 8.03, if, on a date scheduled for the payment of principal or interest on the Notes, any of the events described in Section 8.03 (c) shall occur, then no amount of whatsoever nature shall be payable by the Issuer in respect of the Notes (whether in respect of principal, interest or any other amount) until all amounts owed by the Issuer under the Credit Facility shall have been paid in full. The events are as follows:

(A) The existence of any of the following events: (i) the Issuer's inability or admission of its inability to pay its debts as they fall due or the commencement by the Issuer of negotiations with any one or more of its creditors with a view to the general readjustment or rescheduling of its indebtedness or making a general assignment for the benefit of or a composition with its creditors (save for an event referred to in this sub-paragraph (A) comprising only the commencement of negotiations by the Issuer with individual suppliers of the Issuer to make an adjustment or rescheduling of its indebtedness to such suppliers), (ii) if the Issuer takes any corporate action or other steps are taken or proceedings are started or are consented to or any order is made for the Issuer's winding-up, liquidation, bankruptcy, dissolution, administration or re-organisation (or for the suspension of payments generally or any process giving protection against creditors) or for the appointment of a liquidator, receiver, administrator, administrative receiver or any similar officer, against or in respect of the Issuer, its revenues or any of its assets) or any such person is appointed, provided that such actions, steps, proceedings, or orders are not cancelled or withdrawn within 60 days of the occurrence or institution thereof, (iii) any execution, attachment or sequestration or other process arises out of any third party claim against the Issuer where the amount being the subject of the relevant proceeding is in excess of $2.5 million, save where: (1) the Issuer is in good faith on reasonable grounds, contesting the execution, attachment, sequestration or other process by appropriate proceedings diligently pursued; (2) the Lenders are satisfied that the Issuer's ability to comply with its respective obligations under the Credit Facility will not be adversely affected whilst such distress, execution, attachment, diligence or other process is being so contested; and (3) such process as aforesaid is cancelled or withdrawn not later than 45 (forty-five) days after the institution thereof;

(B) If the Lenders under the Credit Facility shall declare that all loans and/or other credits received under the Credit Facility are immediately due and payable (including where any such declaration is made following a Credit Facility Event of Default constituted by proceedings as referred to in sub-section (C) below;

(C) In the event that the holders of the Notes (or any person or entity acting on their behalf, including the Trustees), shall institute any legal proceedings against the Issuer other than in connection with excluded proceedings, and in accordance with the terms of the Notes. Excluded proceedings mean (i) proceedings where the sole claim relates to the Issuer's failure to make payments of principal or interest on the Notes more than 14 Business Days from the date on which the Issuer is required to make them hereunder, as these dates may be postponed in accordance with the above provisions in this Section 8, provided that the Lenders are given 39 days prior notice as required under Section 6.01 before the institution of such proceedings; or (ii) proceedings instituted with relate only to a misleading statement in the prospectus pursuant to which the Notes were offered.

(d) After the conclusion of a Six Month Period, the Issuer may not make payments of principal and interest on the Notes unless the Issuer has either (i) paid the Lenders all amounts then owing to them under the Credit Facility in full; or (ii) the holders of the Notes shall have obtained a final judgment requiring the Issuer to make payment to them.

(e) In the event that, contrary to the provisions of this Section 8.03, the holders of the Notes (or, as applicable, any person or entity acting on their behalf, including, subject at all times to Section 8.08, the Trustees) shall receive any payment, distribution or benefit, the recipient thereof shall be deemed to hold same on trust for the Lenders and shall forthwith pay or transfer to the Lenders any payment, distribution or benefit so received.

Sections 8.02 and 8.03 above shall apply to the premium under Section 3.03, if any, mutatis mutandis.

Section 8.04. *[reserved]*

Section 8.05. *Provisions Solely to Define Relative Rights*. The provisions of this Article 8 are and are intended solely for the purpose of defining the relative rights of the Holders of the Notes on the one hand and the Lenders on the other hand. Nothing contained in this Article 8 or elsewhere in this Indenture or in the Notes is intended to or shall

(i) impair, as among the Issuer, its creditors other than Lenders and the Holders of the Notes, the obligation of the Issuer, which is absolute and unconditional, to pay to the Holders of the Notes the principal of, premium, if any, and interest on the Notes as and when the same shall become due and payable in accordance with their terms;

(ii) affect the relative rights against the Issuer of the Holders of the Notes and creditors of the Issuer other than the Lenders; or

(iii) prevent the Trustees or the Holder of any Notes from exercising all remedies otherwise permitted by applicable law upon default under this Indenture subject to this Article 8.

Section 8.06. *Trustee to Effectuate Subordination*. Each Holder of a Note by its acceptance thereof authorizes and directs the Trustees on its behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article 8 and appoints the Trustees, and each of them, its attorney-in-fact for any and all such purposes.

Section 8.07. *No Waiver of Subordination Provisions*. No right of any present or future Lender to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Issuer or by any act or failure to act, in good faith, by any such Lender, or by any non-compliance by the Issuer with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof any such Lender may have or be otherwise charged with. Without in any way limiting the generality of the foregoing paragraph, the Lenders may, at any time and from time to time, without the consent of or notice to the Trustees or the Holders of the Notes, without incurring responsibility to the Holders of the Notes and without impairing or releasing the subordination provided in this Article 8 or the obligations hereunder of the Holders of the Notes to the Lenders, do any one or more of the following: (i) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, existing and future obligations of the Issuer under the Credit Facility, or otherwise amend or supplement in any manner existing and future obligations of the Issuer under the Credit Facility or any instrument evidencing the same or any agreement under which other indebtedness is outstanding; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing senior indebtedness; (iii) release any Person liable in any manner for the collection of senior indebtedness; and (iv) exercise or refrain from exercising any rights against the Issuer and any other Person. For the removal of doubt, any variation of the terms of the Credit Facility Agreement, shall not require the consent of the Noteholders or anyone acting on their behalf (including the Trustees), nor shall it constitute a default hereunder.

Section 8.08. *Notice to Trustee*. The Issuer shall give prompt written notice to the Trustees of any fact known to the Issuer which would prohibit the making of any payment to or by the Trustee or the Co-Trustee, or both, in respect of the Notes. Notwithstanding the provisions of this Article 8 or any other provision of this Indenture, the Trustees shall not be charged with knowledge of the existence of any facts that would prohibit the making of any payment to or by the Trustees in respect of the Notes, unless and until the Trustees shall have received written notice thereof from the Issuer or a Lender or from any trustee thereof; and, prior to the receipt of any such written notice, the Trustees, subject to the provisions of Section 6.01, shall be entitled in all respects to assume that no such facts exist; *provided*, that if the Trustee shall not have received at its Corporate Trust Office or the Co-Trustee at the address specified in Section 15.03, the notice provided for in this Section at least three (3) Business Days prior to the date upon which by the terms hereof any money may become payable for any purpose (including, without limitation, the payment in cash of the principal of or interest on any Note), then, anything herein contained to the contrary notwithstanding, the Trustees shall have full power and authority to receive such money and to apply the same to the purpose for which such money was received and shall not be affected by any notice to the contrary which may be received by it within three (3) Business Days prior to such date.

Section 8.09. *Trustees Not Fiduciary for the Lenders under the Credit Facility*. The Trustees shall not be deemed to owe any fiduciary duty to the Lenders and shall not be liable to any Lender if they shall in good faith mistakenly pay over or distribute to holders or the Issuer or any other Person, cash, property or securities to which any Lender shall be entitled by virtue of this Article 8 or otherwise. With respect to the Lenders and the Issuer, the Trustees undertake to perform or to observe only such of its or their covenants or obligations as are specifically set forth in this Indenture and no implied covenants or obligations with respect to the Lenders or the Issuer shall be read into this Indenture against the Trustees.

Section 8.10. *Trustees' Compensation Not Prejudiced*. Nothing in this Article 8 shall apply to amounts due to the Trustees pursuant to other Sections of this Indenture.

ARTICLE 9
THE NOTEHOLDERS

Section 9.01. *Action by Noteholders.* Whenever in this Indenture it is provided that the holders of a specified percentage in aggregate principal amount of the Notes may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action), the fact that at the time of taking any such action, the holders of such specified percentage have joined therein may be evidenced (a) by any instrument or any number of instruments of similar tenor executed by Noteholders in person or by agent or proxy appointed in writing, or (b) by the record of the holders of Notes voting in favor thereof at any meeting of Noteholders duly called and held in accordance with the provisions of Article 10, or (c) by a combination of such instrument or instruments and any such record of such a meeting of Noteholders. Whenever the Issuer or the Trustees (acting jointly or separately) solicits the taking of any action by the holders of the Notes, the Issuer or the Trustees may fix in advance of such solicitation, a date as the record date for determining holders entitled to take such action. The record date shall be not more than fifteen (15) days prior to the date of commencement of solicitation of such action.

Section 9.02. *Proof of Execution by Noteholders.* Subject to the provisions of Sections 7.01, 7.02 and 10.05, proof of the execution of any instrument by a Noteholder or its agent or proxy shall be sufficient if made in accordance with such reasonable rules and regulations as may be prescribed by the Trustees or in such manner as shall be satisfactory to the Trustees, each acting in its sole discretion. The holding of Notes shall be proved by the registry of such Notes or by a certificate of the Note registrar. With respect to any Notes held through the Clearing House of the TASE and the Hevra Le-Rishumim of Bank Leumi Le-Israel Ltd, (Nominee Company), the holding of such Notes may be proven by a TASE Member through which such Notes are held.

The record of any Noteholders' meeting shall be proved in the manner provided in Section 10.06.

Section 9.03. *Who Are Deemed Absolute Owners.* The Issuer, the Trustees, any paying agent, any conversion agent and any Note registrar may deem the Person in whose name such Note shall be registered upon the Note register to be, and may treat it as, the absolute owner of such Note (whether or not such Note shall be overdue and notwithstanding any notation of ownership or other writing thereon made by any Person other than the Issuer or any Note registrar) for the purpose of receiving payment of or on account of the principal of and interest on such Note, for conversion of such Note and for all other purposes; and neither the Issuer nor the Trustees nor any paying agent nor any conversion agent nor any Note registrar shall be affected by any notice to the contrary. All such payments so made to any holder for the time being, or upon his order, shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for monies payable upon any such Note.

Section 9.04. *Notes Held by Subsidiaries or Affiliates of the Issuer may be Disregarded.* (a) In determining whether the holders of the requisite aggregate principal amount of Notes have concurred in any direction, consent, waiver, vote or other action under this Indenture, Notes which are owned by a Subsidiary of the Issuer shall be disregarded and deemed not to be outstanding for the purpose of any such determination;

(b) In addition to paragraph (a) above, with respect to Section 6.07 above – in determining whether the holders of the requisite aggregate principal amount of Notes have concurred in any direction, consent, waiver, vote or other action specified in Section 6.07, Notes which are owned by an Affiliate of the Issuer shall be disregarded and deemed not to be outstanding for the purpose of any such determination;

provided that for the purposes of determining whether the Trustees shall be protected in relying on any such direction, consent, waiver, vote or other action, only Notes which a Responsible Officer of the Trustee or of the Co-Trustee knows are owned by a Subsidiary or an Affiliate of the Issuer (as applicable) shall be so disregarded. In the case of a dispute as to such right, any decision by the Trustees taken upon the advice of counsel shall be full protection to the Trustees. Upon request of the Trustees, the Issuer shall furnish to the Trustees promptly an Officers' Certificate listing and identifying all Notes, if any, known by the Issuer to be owned or held by or for the account of any of the above described Persons, and, subject to Section 7.01, the Trustees shall be entitled to accept such Officers' Certificate as conclusive evidence of the facts therein set forth and of the fact that all Notes not listed therein are outstanding for the purpose of any such determination.

Section 9.05. *Revocation of Consents, Future Holders Bound.* At any time prior to (but not after) the evidencing to the Trustees, as provided in Section 9.01, of the taking of any action by the holders of the percentage in aggregate principal amount of the Notes specified in this Indenture in connection with such action, any holder of a Note which is shown by the evidence to be included in the Notes the holders of which have consented to such action may, by filing written notice with the Trustee at its Corporate Trust Office and the Co-Trustee at its office as specified in Section 15.03 and upon proof of holding as provided in Section 9.02, revoke such action so far as concerns such Note. Except as aforesaid, any such action taken by the holder of any Note shall be conclusive and binding upon such holder and upon all future holders and owners of such Note and of any Notes issued in exchange or substitution therefor, irrespective of whether any notation in regard thereto is made upon such Note or any Note issued in exchange or substitution therefor.

ARTICLE 10
MEETINGS OF NOTEHOLDERS

Section 10.01. *Purpose of Meetings.* A meeting of Noteholders may be called at any time and from time to time pursuant to the provisions of this Article 10 for any of the following purposes:

(1) to give any notice to the Issuer or to the Trustee and/or the Co-Trustee or to give any directions to the Trustee and/or the Co-Trustee permitted under this Indenture, or to consent to the waiving of any default or Event of Default hereunder and its consequences, or to take any other action authorized to be taken by Noteholders pursuant to any of the provisions of Article 6;

(2) to remove the Trustees (or either of them) and nominate a successor trustee pursuant to the provisions of Article 7;

(3) to consent to the execution of an indenture or indentures supplemental hereto pursuant to the provisions of Section 11.02; or

(4) to take any other action authorized to be taken by or on behalf of the holders of any specified aggregate principal amount of the Notes under any other provision of this Indenture or under applicable law.

Section 10.02. *Call of Meetings by Trustees.* The Trustees, either jointly or separately may at any time call a meeting of Noteholders to take any action specified in Section 10.01, to be held at such time and at such place as the Trustee, Co-Trustee or both of them shall determine. Notice of every meeting of the Noteholders, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting and the establishment of any record date pursuant to Section 9.01, shall be mailed to holders of Notes at their addresses as they shall appear on the Note register. Such notice shall also be mailed to the Issuer and the Issuer shall publish an Immediate Report (under the Securities Law) and furnish a report to the Commission on Form 6-K thereof. Such notices shall be mailed not less than twenty (20) nor more than ninety (90) days prior to the date fixed for the meeting.

Any meeting of Noteholders shall be valid without notice if the holders of all Notes then outstanding are present in person or by proxy or if notice is waived before or after the meeting by the holders of all Notes outstanding, and if the Issuer, the Trustee and the Co-Trustee are either present by duly authorized representatives or have, before or after the meeting, waived notice.

Section 10.03. *Call of Meetings by Issuer or Noteholders.* In case at any time the Issuer, pursuant to a resolution of its Board of Directors, or the holders of at least ten percent (10%) in aggregate principal amount of the Notes then outstanding, shall have requested the Trustees to call a meeting of Noteholders, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustees shall not have mailed the notice of such meeting within twenty (20) days after receipt of such request, then the Issuer or such Noteholders may determine the time and the place for such meeting and may call such meeting to take any action authorized in Section 10.01, by mailing notice thereof as provided in Section 10.02. The Issuer shall publish such notice in an Immediate Report and furnish a report to the Commission on Form 6-K which shall include such notice or the substance thereof.

Section 10.04. *Qualifications for Voting.* To be entitled to vote at any meeting of Noteholders a person shall (a) be a holder of one or more Notes on the record date pertaining to such meeting or (b) be a person appointed by an instrument in writing as proxy by a holder of one or more Notes on the record date pertaining to such meeting. The only persons who shall be entitled to be present or to speak at any meeting of Noteholders shall be the persons entitled to vote at such meeting and their counsel and any representatives of the Trustees and their counsel and any representatives of the Issuer and its counsel, unless the Trustees, in their sole discretion, consent to the participation of other Persons.

Section 10.05. *Regulations.* Notwithstanding any other provisions of this Indenture, the Trustees may make such reasonable regulations as they may deem advisable for any meeting of Noteholders, in regard to proof of the holding of Notes and of the appointment of proxies, and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall think fit.

The Trustees shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Issuer or by Noteholders as provided in Section 9.03, in which case the Issuer or the Noteholders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the holders of a majority in principal amount of the Notes represented at the meeting and entitled to vote at the meeting.

Subject to the provisions of Section 9.04, at any meeting each Noteholder or proxyholder shall be entitled to one vote for each $1.00 principal amount of Notes held or represented by him; *provided* that no vote shall be cast or counted at any meeting in respect of any Note challenged as not outstanding and ruled by the chairman of the meeting to be not outstanding. The chairman of the meeting shall have no right to vote other than by virtue of Notes held by him or instruments in writing as aforesaid duly designating him as the proxy to vote on behalf of other Noteholders. Any meeting of Noteholders duly called pursuant to the provisions of Section 10.02 or 10.03 may be adjourned from time to time by the holders of a majority of the aggregate principal amount of Notes represented at the meeting.

A Responsible Officer of the Co-Trustee shall participate, without voting privileges, in all meetings of the shareholders of the Issuer.

Section 10.06. *Voting.* The vote upon any resolution submitted to any meeting of Noteholders shall be by written ballot on which shall be subscribed the signatures of the holders of Notes or of their representatives by proxy and the aggregate principal amount of the Notes held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in duplicate of all votes cast at the meeting. A record in duplicate of the proceedings of each meeting of Noteholders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was mailed as provided in Section 10.02. The record shall show the principal amount of the Notes voting in favor of or against any resolution. The record shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one of the duplicates shall be delivered to the Issuer and the other to the Trustees to be preserved by the Trustees, the latter to have attached thereto the ballots voted at the meeting.

Any record so signed and verified shall be conclusive evidence of the matters therein stated.

Section 10.07. *No Delay of Rights by Meeting.* Nothing contained in this Article 10 shall be deemed or construed to authorize or permit, by reason of any call of a meeting of Noteholders or any rights expressly or impliedly conferred hereunder to make such call, any hindrance or delay in the exercise of any right or rights conferred upon or reserved to the Trustees or to the Noteholders under any of the provisions of this Indenture or of the Notes.

Section 10.08. *Separate Meetings of Groups of Noteholders*. When a meeting of Noteholders is convened, the Co-Trustee may determine according to the circumstances at that time that the different interests of certain groups of Noteholders dictate the convening of separate meetings of certain group of Noteholders, pursuant to the provisions of the Israeli law, including Israeli case law and the instructions of the ISA (as applicable). In such an event, such separate meetings shall be convened, and the procedural provisions in this Article 10, shall apply in those meetings, *mutatis mutandis*.

Section 10.09. *Quorum.*(a) Two Noteholders present in person or by proxy who together hold or represent at least 50% in aggregate principal amount of the Notes then outstanding will constitute a quorum for any meeting of the Noteholders.

(b) If within thirty (30) minutes of the time specified for the meeting to start there is no quorum present, the meeting will be postponed to the same day in the following week (and in the event that such day is not a Business Day, to the Business Day immediately following such day) and to the same venue without it being necessary to give notice to that effect to the Noteholders or to another day, venue and time as the Issuer selects and of which notice will be given to the Noteholders and the Trustees at least three Business Days in advance. If no quorum is present at the aforesaid postponed meeting, at that meeting two Noteholders who are present in person or by proxy regardless of the principal amount they hold, will constitute a quorum.

Section 10.10. *Majority Controls.* Resolutions in meetings of the Noteholders shall be adopted by a simple majority (50.01%), subject to any other specific provision herein requiring any other majority with respect to certain resolutions.

ARTICLE 11
SUPPLEMENTAL INDENTURES

Section 11.01. *Supplemental Indentures Without Consent of Noteholders.* The Issuer, when authorized by the resolutions of the Board of Directors, and the Trustees may, from time to time, and at any time enter into an indenture or indentures supplemental hereto for one or more of the following purposes:

(a) to evidence the succession of another Person to the Issuer, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Issuer pursuant to Article 12;

(b) to add to the covenants of the Issuer such further covenants, restrictions or conditions as the Board of Directors and the Trustees shall consider to be for the benefit of the holders of Notes, and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions or conditions a default or an Event of Default permitting the enforcement of all or any of the several remedies provided in this Indenture as herein set forth; *provided* that in respect of any such additional covenant, restriction or condition, such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Trustees upon such default;

(c) to provide for the issuance under this Indenture of Notes in coupon form (including Notes registrable as to principal only) and to provide for exchangeability of such Notes with the Notes issued hereunder in fully registered form and to make all appropriate changes for such purpose;

(d) to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture that may be defective or inconsistent with any other provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under this Indenture that shall not materially adversely affect the interests of the holders of the Notes;

(e) to evidence and provide for the acceptance of appointment hereunder by a successor trustee with respect to the Notes;

(f) to modify, eliminate or add to the provisions of this Indenture to such extent as shall be necessary to effect the qualifications of this Indenture under the Trust Indenture Act, or under any similar federal statute hereafter enacted or the Securities Law; or

(g) to make any other change that does not adversely affect any right of the holders of Notes under this Indenture.

Upon the written request of the Issuer, accompanied by a copy of the resolutions of the Board of Directors certified by its Secretary or Assistant Secretary authorizing the execution of any supplemental indenture, the Trustees are hereby authorized to join with the Issuer in the execution of any such supplemental indenture, to make any further appropriate agreements and stipulations that may be therein contained and to accept the conveyance, transfer and assignment of any property thereunder, but the Trustees shall not be obligated to, but may in its discretion, enter into any supplemental indenture that affects the Trustees' own rights, duties or immunities under this Indenture or otherwise.

Any supplemental indenture authorized by the provisions of this Section 11.01 may be executed by the Issuer and the Trustees without the consent of the holders of any of the Notes at the time outstanding, notwithstanding any of the provisions of Section 11.02 *provided*, the Trustee and the Co-Trustee shall have received an opinion of counsel stating that such supplemental indenture does not adversely affect any rights of the Noteholders.

Section 11.02. *Supplemental Indenture with Consent of Noteholders.* With the approval of the Noteholders, the Trustees may, from time to time and at any time, enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or any supplemental indenture or of modifying in any manner the rights of the holders of the Notes; *provided* that the entering into such supplemental indenture is approved by a resolution of the Noteholders meeting in accordance with Article 10, by the vote of Noteholders who (i) hold not less than a majority of the aggregate principal amount of the Notes at the time outstanding, determined in accordance with Section 9.04; and also (ii) hold at least 75% of the principal amount of the Notes present or represented in that Noteholders meeting; and *provided further* that no such supplemental indenture shall modify any term, covenant or provisions hereof which under the provisions of the Trust Indenture Act cannot be modified or amended without the consent of the holders of each or all Notes then outstanding or affected thereby, without the consent of the holder of each Note so affected.

Upon the written request of the Issuer, accompanied by a copy of the resolutions of the Board of Directors certified by its Secretary or Assistant Secretary authorizing the execution of any such supplemental indenture, and upon the filing with the Trustees of evidence of the consent of Noteholders as aforesaid, the Trustees shall join with the Issuer in the execution of such supplemental indenture unless such supplemental indenture affects the Trustees' own rights, duties or immunities under this Indenture or otherwise, in which case the Trustees may in their discretion, but shall not be obligated to, enter into such supplemental indenture.

It shall not be necessary for the consent of the Noteholders under this Section 10.02 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Section 11.03. *Effect of Supplemental Indenture.* Any supplemental indenture executed pursuant to the provisions of this Article 11 shall comply with the Trust Indenture Act provided that this Section 11.03 shall not require such supplemental indenture or the Trustee to be qualified under the Trust Indenture Act. Upon the execution of any supplemental indenture pursuant to the provisions of this Article 11, this Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitation of rights, obligations, duties and immunities under this Indenture of the Trustee, the Issuer and the holders of Notes shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 11.04. *Notation on Notes.* Notes authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article 11 may bear a notation in form approved by the Trustees as to any matter provided for in such supplemental indenture. If the Issuer or the Trustees shall so determine, new Notes so modified as to conform, in the opinion of the Trustees and the Board of Directors, to any modification of this Indenture contained in any such supplemental indenture may, at the Issuer's expense, be prepared and executed by the Issuer, authenticated by the Trustee (or an authenticating agent duly appointed by the Trustee pursuant to Section 15.10) and delivered in exchange for the Notes then outstanding, upon surrender of such Notes then outstanding.

Section 11.05. *Evidence of Compliance of Supplemental Indenture to Be Furnished to Trustees.* Prior to entering into any supplemental indenture, the Trustees shall be provided with an Officers' Certificate and an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant hereto complies with the requirements of this Article 11.

ARTICLE 12
MERGER AND CONSOLIDATION

Section 12.01. *Issuer May Merge on Certain Terms.* The Issuer shall not consolidate or merge with or into any other Person or Persons (whether or not affiliated with the Issuer), nor shall the Issuer or its successor or successors be a party or parties to successive consolidations or mergers unless: upon any such consolidation or merger, such successor Person assumes (either expressly as a matter of law or assume) the obligation to pay the principal of and interest on all of the Notes when due and payable hereunder and the obligation to observe all of the covenants and conditions that under this Indenture are to be performed by the Issuer.

Section 12.02. *Successor to Be Substituted.* In case of any such consolidation or merger, such successor Person shall succeed to and be substituted for the Issuer, with the same effect as if it had been named herein as the party of this first part. Such successor Person thereupon may cause to be signed, and may issue either in its own name or in the name of Tower Semiconductor Ltd. any or all of the Notes, issuable hereunder that theretofore shall not have been signed by the Issuer and delivered to the Trustees; and, upon the order of such successor Person instead of the Issuer and subject to all the terms, conditions and limitations in this Indenture prescribed, the Trustee shall authenticate and shall deliver, or cause to be authenticated and delivered, any Notes that previously shall have been signed and delivered by the officers of the Issuer to the Trustee for authentication, and any Notes that such successor Person thereafter shall cause to be signed and delivered to the Trustee for that purpose. All the Notes so issued shall in all respects have the same legal rank and benefit under this Indenture as the Notes theretofore or thereafter issued in accordance with the terms of this Indenture as though all of such Notes had been issued at the date of the execution hereof. In the event of any such consolidation, merger, sale, conveyance, transfer or lease, the Person named as the "**Issuer**" in the first paragraph of this Indenture or any successor that shall thereafter have become such in the manner prescribed in this Article 11 may be dissolved, wound up and liquidated at any time thereafter and such Person shall be released from its liabilities as obligor and maker of the Notes and from its obligations under this Indenture.

In case of any such consolidation or merger, such changes in phraseology and form (but not in substance) may be made in the Notes thereafter to be issued as may be appropriate.

Section 12.03. *Opinion of Counsel to Be Given to Trustees.* The Trustees shall receive an Officers' Certificate and an Opinion of Counsel as conclusive evidence that any such consolidation or merger and any such assumption by the successor Person complies with the provisions of this Article 12.

ARTICLE 13
SATISFACTION AND DISCHARGE OF INDENTURE

Section 13.01. *Discharge of Indenture.* When (a) the Issuer shall deliver to the Trustee for cancellation all Notes theretofore authenticated (other than any Notes that have been destroyed, lost or stolen and in lieu of or in substitution for which other Notes shall have been authenticated and delivered) and not theretofore canceled, or (b) all the Notes not theretofore canceled or delivered to the Trustee for cancellation shall have become due and payable, or are by their terms to become due and payable within one year or are to be called for redemption within one year under arrangements satisfactory to the Trustees for the giving of notice of redemption, and the Issuer shall deposit with the Trustees, in trust, funds sufficient to pay at maturity or upon redemption of all of the Notes (other than any Notes that shall have been mutilated, destroyed, lost or stolen and in lieu of or in substitution for which other Notes shall have been authenticated and delivered) not theretofore canceled or delivered to the Trustee for cancellation, including principal and interest due or to become due to such date of maturity or redemption date, as the case may be, accompanied by a verification report, as to the sufficiency of the deposited amount, from an independent certified accountant or other financial professional satisfactory to the Trustees, and if the Issuer shall also pay or cause to be paid all other sums payable hereunder by the Issuer, then this Indenture shall cease to be of further effect (except as to (i) remaining rights of registration of transfer, substitution and exchange and conversion of Notes, (ii) rights hereunder of Noteholders to receive payments of principal of and interest on, the Notes and the other rights, duties and obligations of Noteholders, as beneficiaries hereof with respect to the amounts, if any, so deposited with the Trustees and (iii) the rights, obligations and immunities of the Trustees hereunder), and the Trustees, on written demand of the Issuer accompanied by an Officers' Certificate and an Opinion of Counsel as required by Section 15.05 and at the cost and expense of the Issuer, shall execute proper instruments acknowledging satisfaction of and discharging this Indenture; the Issuer, however, hereby agrees to reimburse the Trustees for any costs or expenses thereafter reasonably and properly incurred by the Trustees and to compensate the Trustees for any services thereafter reasonably and properly rendered by the Trustees in connection with this Indenture or the Notes.

Section 13.02. *Deposited Monies to Be Held in Trust by Trustees.* Subject to Section 13.04, all monies deposited with the Trustees pursuant to Section 13.01 shall be held in trust for the sole benefit of the Noteholders, and such monies shall be applied by the Trustee to the payment, either directly or through any paying agent (including the Issuer if acting as its own paying agent), to the holders of the particular Notes for the payment or redemption of which such monies have been deposited with the Trustees, of all sums due and to become due thereon for principal and interest.

Section 13.03. *Paying Agent to Repay Monies Held.* Upon the satisfaction and discharge of this Indenture, all monies then held by any paying agent of the Notes (other than the Trustees) shall, upon written request of the Issuer, be repaid to it or paid to the Trustees, and thereupon such paying agent shall be released from all further liability with respect to such monies.

Section 13.04. *Return of Unclaimed Monies.* Subject to the requirements of applicable law, any monies deposited with or paid to the Trustees for payment of the principal of or interest on Notes and not applied but remaining unclaimed by the holders of Notes for two years after the date upon which the principal of or interest on such Notes, as the case may be, shall have become due and payable, shall be repaid to the Issuer by the Trustee on demand and all liability of the Trustees shall thereupon cease with respect to such monies; and the holder of any of the Notes shall thereafter look only to the Issuer for any payment that such holder may be entitled to collect unless an applicable abandoned property law designates another Person.

Section 13.05. *Reinstatement.* If the Trustees or the paying agent are unable to apply any money in accordance with Section 13.02 by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Issuer's obligations under this Indenture and the Notes shall be revived and reinstated as though no deposit had occurred pursuant to Section 13.01 until such time as the Trustees or the paying agent are permitted to apply all such money in accordance with Section 13.02; *provided* that if the Issuer makes any payment of interest on or principal of any Note following the reinstatement of its obligations, the Issuer shall be subrogated to the rights of the holders of such Notes to receive such payment from the money held by the Trustees or paying agent.

ARTICLE 14
CONVERSION OF NOTES

Section 14.01. *Right to Convert.* (a) Subject to and upon compliance with the provisions of this Indenture, but subject to Section 14.04 below, at any time commencing on the first trading date on the TASE after the date on which the Notes are listed for trading on the TASE and until 5:00 p.m. (New York City time) on [ ], [ ], 2011, inclusive (but if such last date is not a trading day on the TASE, then the last date to convert the Notes will be the first trading day on the TASE after such date), the holder of any Note shall have the right, at such holder's option, to convert the principal amount of the Note, in integral multiples of $1.00, into fully paid and non-assessable Ordinary Shares at the Conversion Price in effect at such time, by surrender of the Note so to be converted, together with any required funds, under the circumstances described in this Section 14.01 and in the manner provided in Section 14.02.

(b) A holder of Notes is not entitled to any rights of a holder of Ordinary Shares until such holder has converted his Notes to Ordinary Shares, and only to the extent such Notes are deemed to have been converted to Ordinary Shares under this Article 14.

(c) No accrued interest will be payable by the Issuer upon the conversion of the Notes into Ordinary Shares. A holder's right to accrued interest, if any, will be lost up conversion of the Notes into Ordinary Shares.

(d) Fractional shares will not be issued upon conversion of the Notes. The number of shares issuable upon conversion of the Notes will be rounded down to the nearest whole number. No payment of cash or in kind will be made in lieu of fractional shares.

Section 14.02. *Exercise of Conversion Privilege; Issuance of Ordinary Shares on Conversion; No Adjustment for Interest.* In order to exercise the conversion privilege with respect to any Note in certificated form, the Issuer must receive at the office or agency of the Issuer maintained for that purpose or, at the option of such holder, the Corporate Trust Office, such Note with the original or facsimile of the form entitled "**Conversion Notice**" on the reverse thereof, duly completed and manually signed, together with such Notes duly endorsed for transfer. Such notice shall also state the name or names (with address or addresses) in which the

certificate or certificates for Ordinary Shares which shall be issuable on such conversion shall be issued, and shall be accompanied by transfer or similar taxes, if required pursuant to this Indenture.

As promptly as practicable after satisfaction of the requirements for conversion set forth above, subject to compliance with any restrictions on transfer if shares issuable on conversion are to be issued in a name other than that of the Noteholder (as if such transfer were a transfer of the Note or Notes so converted), the Issuer shall issue and shall deliver to such Noteholder at the office or agency maintained by the Issuer for such purpose pursuant to Section 4.02, a certificate or certificates for the number of full Ordinary Shares issuable upon the conversion of such Note as determined by the Issuer in accordance with the provisions of this Article 14, calculated by the Issuer as provided in Section 14.03.

Each conversion shall be deemed to have been effected as to any such Note on the date on which the requirements set forth above in this Section 14.02 have been satisfied as to such Note, and the Person in whose name any certificate or certificates for Ordinary Shares shall be issuable upon such conversion shall be deemed to have become on said date the holder of record of the shares represented thereby; *provided* that any such surrender on any date when the stock transfer books of the Issuer shall be closed shall constitute the Person in whose name the certificates are to be issued as the record holder thereof for all purposes on the next succeeding day on which such stock transfer books are open, but such conversion shall be at the Conversion Price in effect on the date upon which such Note shall be surrendered.

Upon conversion of a Note, and thereafter, no amount of principal and/or interest on account of the Note shall be payable by the Issuer.

Section 14.03. *Conversion Price.* Each $[ ] principal amount of the Notes shall be convertible into one Ordinary Share specified in the form of Note (herein called the "Conversion Price") attached as Exhibit A hereto, subject to adjustment as provided in this Article 14. The adjusted Conversion Price to the debentures shall under no circumstances be lower than $0.01. Fractional shares will not be issued upon conversion of the Notes. The number of shares issuable upon conversion of the Notes will be rounded down to the nearest whole number. No payment of cash or in kind will be made in lieu of fractional shares.

Section 14.04. *Adjustment of Conversion Price.* Except as set forth in this Section 14.04 below, the Conversion Price will be adjusted if:

(a) In the event that by [ ], 2006, the Issuer consummates one or more financings (excluding the offering under which the Notes were issued) in which the Issuer receives gross proceeds from each such financing that equal or exceed $5 million, the Conversion Price of the Notes will be adjusted to 90% of the lowest price per share (as calculated below) at which the Issuer sold securities in any one of these financings, provided that the lowest price per share at which the Issuer sold securities in any one of these financings is lower than the original Conversion Price. The Issuer shall issue a press release, with a copy to the Trustee and Co-Trustee, to announce the adjusted Conversion Price on the fifth TASE Trading Day after_____ __, 2006 and the adjustment will take effect on the first TASE Trading Day following the twenty-first day after the date of the press release.

(b) In the event that by [ ], 2006, the Issuer does not receive in any one financing (excluding the offering under which the Notes were issued) gross proceeds that equal or exceed $5 million, but executes prior to [ ], 2006, one or more agreements relating to transactions which have not closed, letters of intent, memorandums of understanding or similar agreements or understandings, for a proposed financing or financings, which have not been abandoned prior to [ ], 2006, and the Issuer receives in any one of these financings gross proceeds that equal or exceed $5 million by [ ], 2007, then, the Conversion Price will be adjusted to 90% of the lowest price per share (as calculated below) at which the Issuer sold securities in any of these financings, *provided* that the lowest price per share at which the Issuer sold securities in any one of these financings is lower than the original Conversion Price. The Issuer shall issue a press release, with a copy to the Trustee and Co-Trustee, to announce the adjusted Conversion Price on the fifth TASE Trading Day after _____ __, 2007 and the adjustment will take effect on the first TASE Trading Day following the twenty-first day after the date of the press release.

In the event that the Issuer executes prior to _____ __, 2006 one or more agreements, letters of intent, memorandums of understanding or similar agreements or understandings for a proposed $75 million financing that is not consummated prior to_____ __, 2006, even if the Issuer receives gross proceeds of at least $5 million in a financing by _____ __, 2006, then the Conversion Price will be subject to the aforementioned adjustment only following _____ __, 2007, and if the Issuer consummates the aforementioned $75 million financing by _____, 2007, the price per share in such financing will be taken into account for such purposes.

Notwithstanding the adjustment to the Conversion Price provided for in this Section 14.04, the Issuer may at its discretion elect that such adjustment shall not and will not apply in certain circumstances as provided in this Section 14.04 below.

A "financing" for purposes of adjustments to the Conversion Price means:

(a) the sale of the Issuer's Ordinary Shares, warrants or additional convertible debentures, other than employee options, existing outstanding warrants, employee options, convertible debentures or other rights; and

(b) the conversion of existing debt of the Issuer into equity, other than the conversion of existing wafer credits into the Issuer's Ordinary Shares and existing convertible debentures.

The Issuer shall calculate the price per share for the purposes of the adjustment to the Conversion Price as follows:

(a) If, in the financing or financings the Issuer issues only Ordinary Shares, the price per share for the purposes of calculating the adjustment will be the price per Ordinary Share in the financing or financings.

(b) If, in the financing or financings the Issuer issues only convertible debentures, the price per share for the purposes of calculating the adjustment will be the result of dividing the purchase price of the debentures issued in the financing or financings less the present value of the cumulative amount of interest payable prior to the last conversion date of the debentures issued in the financing or financings, by the number of Ordinary Shares issuable upon conversion of the debentures issued in the financing or financings.

(c) If, in the financing or financings the Issuer issues only warrants, the price per share for the purposes of calculating the adjustment will be the purchase price of the warrants less the difference between the economic value of the warrants and the purchase price of the warrants, plus the present value of the exercise price of the warrants.

(d) If, in the financing or financings the Issuer issues units consisting of Ordinary Shares and warrants, the price per share for the purposes of calculating the adjustment will be the result of dividing the purchase price per unit in the financing or financings, less the economic value of the warrants, by the number of Ordinary Shares in each unit (not including the number of Ordinary Shares issuable upon exercise of the warrants).

(e) If, in the financing or financings the Issuer issues units consisting of convertible debentures and warrants, the price per share for the purposes of calculating the adjustment will be the result of dividing the price per unit in the financing or financings, less the present value of the cumulative amount of interest payable prior to the last conversion date of the debentures issued in the financing or financings and less the economic value of the warrants included in the units, by the number of Ordinary Shares in each unit issuable upon conversion of the debentures issued in the financing or financings, but not including the number of Ordinary Shares issuable upon exercise of the warrants.

(f) If, in the financing or financings the Issuer issues units consisting of Ordinary Shares and convertible debentures, the price per share for the purposes of calculating the adjustment will be the result of dividing the purchase price per unit in the financing or financings, less the present value of the cumulative amount of interest payable prior to the last conversion date of the debentures issued in the financing or financings, by the number of Ordinary Shares in each unit including the number of Ordinary Shares issuable upon conversion of the debentures issued in the financing or financings.

(g) If, in the financing or financings the Issuer issues units consisting of Ordinary Shares, convertible debentures and warrants, the price per share for the purposes of calculating the adjustment will be the result of dividing the price per unit in the financing or financings, less the present value of the cumulative amount of interest payable prior to the last conversion date of the debentures issued in the financing or financings and less the economic value of the warrants included in the units, by the number of Ordinary Shares in each unit including the number of Ordinary Shares issuable upon conversion of the debentures issued in the financing or financings, but not including the number of Ordinary Shares issuable upon exercise of the warrants.

For the purposes of the adjustments set forth above, the "economic value" of the warrants will be calculated according to the Black and Scholes model as set forth in the TASE Rules for registered companies based on the average closing price of the Issuer's Ordinary Shares on NASDAQ (or such other stock exchange or quotation system on which the Issuer's Ordinary Shares are listed in that the event that they cease to be traded on NASDAQ) during the 15 consecutive trading days immediately prior to the date on which the financing agreement is signed. The interest rate for this calculation will be the interest rate as published by the TASE on the date of the relevant financing.

For the purposes of the adjustments set forth above, the "present value" will be calculated using the interest rate then applicable to the long term loans (more than 12 months maturity) under the Credit Facility. In the event that the financing or financings is denominated in a currency other than United States dollars, the amounts in the financing or financings will be converted to United States dollars according to the last known exchange rate on the date of the consummation of the relevant financing.

In the event that by [ ], 2006 or by [ ], 2007 (in the event that the Issuer executes prior to _____ __, 2006 one or more agreements, letters of intent, memorandums of understanding or similar agreements or understandings for a proposed $75 million financing, as described in this Section 14.04 above, even if the Issuer receives gross proceeds of at least $5 million in a financing by _____ __, 2006), as applicable, the Issuer consummates a financing or series of related financings (excluding the offering under which the Notes were issued) in which the Issuer receives gross proceeds of at least $75 million, the Issuer may, at its discretion, elect that the adjustment to the Conversion Price set forth in this Section 14.04 above shall not apply and will no longer apply. Following the signing of an agreement for a financing or series of related financings in which it is contemplated that the Issuer may receive gross proceeds of at least $75 million, if the Issuer so elects, it shall announce such election, subject to the consummation of such $75 million financing, by the filing of a Report on Form 6-K to be filed with the Commission and in an Immediate Report as well as in a notice to be published in two Israeli newspapers with wide circulation in Israel. When such $75 million financing has been consummated, the Issuer will announce such consummation by filing a report on Form 6-K and in an Immediate Report in Israel, as well as a notice to be published in two Israeli newspapers with wide circulation in Israel. In the event that the Issuer has elected that the Conversion Price shall not be subject to adjustment, then:

(a) If the closing price of the Issuer's ordinary shares on NASDAQ (or such other stock exchange or quotation system on which its ordinary shares are listed in the event that they cease to be traded on NASDAQ) on the trading day immediately prior to the date on which the $75 million financing is consummated is greater than [$_____], then the Conversion Price shall not be subject to adjustment and the original Conversion Price of one ordinary share per $___ aggregate principal amount of Notes will apply to any conversion of the Notes until the maturity thereof; or

(b) If the closing price of the Issuer's ordinary shares on NASDAQ (or such other stock exchange or quotation system on which its ordinary shares are listed in the event that they cease to be traded on NASDAQ) on the trading day immediately prior to the date on which the $75 million financing is consummated is equal to or is lower than [$_____], then the Notes will be subject to mandatory redemption in accordance with the provisions set forth in Section 3.03. Notes will not be convertible during the 16 day period prior to redemption thereof. Therefore, in the event such redemption shall have been announced, the Notes shall only be convertible for the period (which may be as few as five days but no more than fourteen days) after announcement by the Issuer and before the commencement of the 16-day period.

Section 14.05. *Effect of Reclassification, Consolidation, Merger, Bonus Shares, Rights Offerings.*

(a) If the Issuer shall effect a subdivision or consolidation of its Ordinary Shares into a greater or lesser number of Ordinary Shares (by reclassification, stock split, reverse stock split or otherwise than by payment of a dividend in Ordinary Shares) then, upon conversion of Notes following the record date for the determination of holders of Ordinary Shares to be affected by such subdivision or consolidation, the number of Ordinary Shares issuable upon the conversion of each Note will be increased or decreased, as the case may be, by such number of Ordinary Shares that would have been received if such Note had been converted on the record date fixed for such subdivision or consolidation.

(b) If the Issuer shall effect a distribution of bonus Ordinary Shares then, upon conversion of Notes following the record date for the determination of holders of Ordinary Shares entitled to the bonus share distribution, the number of Ordinary Shares issuable upon the conversion of each Note will be increased by such number of Ordinary Shares that would have been received if such Note had been converted on the record date fixed for the bonus share distribution.

(c) In the event of the Issuer shall consummate a rights offering to its shareholders of any type of its securities prior to the conversion of the Notes, the number of Ordinary Shares issuable upon the conversion of the Notes shall be adjusted to take into account the element of economic benefit in the future rights offering as is represented by the ratio between the price per share of the Issuer's Ordinary Shares on the effective date of the future rights offering and the opening price per share of the Issuer's Ordinary Shares that is established by the TASE on the following TASE Trading Day. If the TASE does not establish an opening price per share of the Issuer's Ordinary Shares, no adjustment in the number of shares issuable upon conversion of the Notes will be made with respect to such future rights offering.

(d) In the event of a consolidation or merger of the Issuer with another Person as a result of which the Issuer is not the surviving Person, the Issuer shall provide notice to the Trustees prior to the date of consummation of such consolidation or merger. Notes which are not converted prior to the date of consummation of such consolidation or merger shall no longer be convertible. The surviving Person shall execute with the Trustee a supplemental indenture (which shall comply with the Trust Indenture Act as in force at the date of execution of such supplemental indenture) providing that each Note shall continue to hold such rights and/or privileges with respect to payment of interest and/or principal from the surviving Person as further set forth in section 12.01.

The Issuer shall cause notice of the execution of such supplemental indenture to be mailed to each holder of Notes, at its address appearing on the Note register provided for in Section 2.05 of this Indenture, within twenty (20) days after execution thereof. Failure to deliver such notice shall not affect the legality or validity of such supplemental indenture.

The above provisions of this Section shall similarly apply to successive reclassifications, consolidations, mergers and combinations.

If Section 14.05(d) applies, thereafter, the adjustments under Section 14.04 shall no longer apply.

Section 14.06 Reserved.

Section 14.07. *Taxes on Shares Issued.* The issue of stock certificates on conversions of Notes shall be made without charge to the converting Noteholder for any documentary, stamp or similar issue or transfer tax in respect of the issue thereof. The Issuer shall not, however, be required to pay any such tax which may be payable in respect of any transfer involved in the issue and delivery of stock in any name other than that of the holder of any Note converted, and the Issuer shall not be required to issue or deliver any such stock certificate unless and until the Person or Persons requesting the issue thereof shall have paid to the Issuer the amount of such tax or shall have established to the satisfaction of the Issuer that such tax has been paid.

Section 14.08. *Reservation of Shares, Shares to Be Fully Paid; Compliance with Governmental Requirements; Listing of Ordinary Shares.* The Issuer shall provide, free from preemptive rights, out of its authorized but unissued shares or shares held in treasury, sufficient Ordinary Shares to provide for the conversion of the Notes from time to time as such Notes are presented for conversion.

Upon taking any action which would cause an adjustment to the Conversion Price to an amount that would cause the Conversion Price to be reduced below the then par value, if any, of the Ordinary Shares issuable upon conversion of the Notes, the Issuer will take all corporate action which may, in the opinion of its counsel, be necessary in order that the Issuer may validly and legally issue Ordinary Shares at such adjusted Conversion Price.

The Issuer covenants that all Ordinary Shares which may be issued upon conversion of Notes will upon issue be fully paid and non-assessable by the Issuer and free from all taxes, liens and charges with respect to the issue thereof.

The Issuer covenants that, if any Ordinary Shares to be provided for the purpose of conversion of Notes hereunder require registration with or approval of any governmental authority under any federal or state law before such shares may be validly issued upon conversion, the Issuer will in good faith and as expeditiously as possible, to the extent then permitted by the rules and interpretations of the Commission (or any successor thereto), endeavor to secure such registration or approval, as the case may be.

The Issuer further covenants that, if at any time the Ordinary Shares shall be listed on the NASDAQ National Market and the TASE or any other national securities exchange or automated quotation system, the Issuer will, if permitted by the rules of such exchange or automated quotation system, list and keep listed, so long as the Ordinary Shares shall be so listed on such exchange or automated quotation system, all Ordinary Shares issuable upon conversion of the Notes; *provided* that if the rules of such exchange or automated quotation system permit the Issuer to defer the listing of such Ordinary Shares until the first conversion of the Notes into Ordinary Shares in accordance with the provisions of this Indenture, the Issuer covenants to list such Ordinary Shares issuable upon conversion of the Notes in accordance with the requirements of such exchange or automated quotation system at such time.

Section 14.09. *Responsibility of Trustees.* The Trustees and any other conversion agent shall not at any time be under any duty or responsibility to any holder of Notes to determine the Conversion Price or whether any facts exist which may require any adjustment of the Conversion Price, or with respect to the nature or extent or calculation of any such adjustment when made, or with respect to the method employed, or herein or in any supplemental indenture provided to be employed, in making the same. The Trustees and any other conversion agent shall not be accountable with respect to the validity or value (or the kind or amount) of any Ordinary Shares, or of any securities or property, which may at any time be issued or delivered upon the conversion of any Note; and the Trustees and any other conversion agent make no representations with respect thereto. Neither the Trustees nor any conversion agent shall be responsible for any failure of the Issuer to issue, transfer or deliver any Ordinary Shares or stock certificates or other securities or property or cash upon the surrender of any Note for the purpose of conversion or to comply with any of the duties, responsibilities or covenants of the Issuer contained in this Article 14. Without limiting the generality of the foregoing, neither the Trustees nor any conversion agent shall be under any responsibility to determine the correctness of any provisions contained in any

supplemental indenture entered into pursuant to Section 14.05 relating to any adjustment to be made with respect thereto, but, subject to the provisions of Section 7.01, may accept as conclusive evidence of the correctness of any such provisions, and shall be protected in relying upon, the Officers' Certificate (which the Issuer shall be obligated to file with the Trustees prior to the execution of any such supplemental indenture) with respect thereto.

Section 14.10. *Notice to Holders Prior to Certain Actions.* In case of the taking of any of the actions listed in Section 14.05 above or of the voluntary or involuntary dissolution, liquidation or winding up of the Issuer, the Issuer shall cause to be filed with the Trustees and to be mailed to each holder of Notes at his address appearing on the Note register provided for in Section 2.05 of this Indenture, as promptly as possible but in any event at least ten (10) days prior to the applicable date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such distribution of bonus shares, or rights offering, or, if a record is not to be taken, the date as of which the holders of Ordinary Shares of record to be entitled to such bonus shares, or to participate in such rights offering are to be determined, or (y) the date on which such, consolidation, merger dissolution, liquidation or winding up is expected to become effective or occur. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such dividend, distribution, reclassification, consolidation, merger, dissolution, liquidation or winding up.

ARTICLE 15
MISCELLANEOUS PROVISIONS

Section 15.01. *Provisions Binding on Issuer's Successors.* All the covenants, stipulations, promises and agreements by the Issuer contained in this Indenture shall bind its successors and assigns whether so expressed or not.

Section 15.02. *Official Acts by Successor Corporation.* Any act or proceeding by any provision of this Indenture authorized or required to be done or performed by any board, committee or officer of the Issuer shall and may be done and performed with like force and effect by the like board, committee or officer of any Person that shall at the time be the lawful sole successor of the Issuer.

Section 15.03. *Notices; Addresses for Notices, Etc.* Any notice or demand which by any provision of this Indenture is to be given by publication and/or the filing of a report with the Commission and/or the ISA, shall, if and to the extent so required by the provision of any applicable law or stock exchange rule, be mailed to each holder of Notes at his address appearing on the Note register provided for in Section 2.05 of this Indenture.

Any notice or demand which by any provision of this Indenture is required or permitted to be given or served by the Trustees or by the holders of Notes on the Issuer shall be deemed to have been sufficiently given or made, for all purposes, if given or served by being deposited postage prepaid by registered or certified mail in a post office letter box or sent by telecopier transmission addressed as follows:

to the Issuer:

Tower Semiconductor Ltd.
Ramat Gavriel Industrial Park
P.O. Box 619 Migdal Haemek 23150
Israel

Attention: Chief Financial Officer
Facsimile: +972 (0) 4-654-6510.

Any notice, direction, request or demand hereunder to or upon the Trustees shall be deemed to have been sufficiently given or made, for all purposes, if given or served by being deposited, postage prepaid, by registered or certified mail in a post office letter box or sent by telecopier transmission addressed as follows:

The Bank of New York
One Canada Square
London E14 5AL
United Kingdom
Facsimile: +44 (0) 207-964 6399
Attention: Corporate Trust Administration

and

Hermetic Trust (1975) Ltd
of Hayarkon Street 113
Tel Aviv
Israel

Facsimile: +972 (0) 3-527 1736
Attention: Dan Avnon, Esq.

The Trustees, by notice to the Issuer, may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Noteholder shall be mailed to him by first class mail, postage prepaid, at his address as it appears on the Note register and shall be sufficiently given to him if so mailed within the time prescribed.

Failure to mail a notice or communication to a Noteholder or any defect in it shall not affect its sufficiency with respect to other Noteholders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

Section 15.04. *Governing Law.* THIS INDENTURE AND EACH NOTE SHALL BE DEEMED TO BE A CONTRACT MADE UNDER THE LAWS OF THE STATE OF NEW YORK, AND FOR ALL PURPOSES SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

Section 15.05. *Evidence of Compliance with Conditions Precedent, Certificates to Trustees.* Upon any application or demand by the Issuer to the Trustees to take any action under any of the provisions of this Indenture, the Issuer shall furnish to the Trustees an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with, and an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

Each certificate or opinion provided for in this Indenture and delivered to the Trustees with respect to compliance with a condition or covenant provided for in this Indenture shall include: (1) a statement that the person making such certificate or opinion has read such covenant or condition; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statement or opinion contained in such certificate or opinion is based; (3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and (4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

Section 15.06. *Legal Holidays.* In any case in which the date of maturity of interest on or principal of the Notes or the redemption date of any Note will not be a Business Day, then payment of such interest on or principal of the Notes need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the redemption date, and no interest shall accrue for the period from and after such date.

Section 15.07. *Trust Indenture Act.* This Indenture is hereby made subject to, and shall be governed by, the provisions of the Trust Indenture Act required to be part of and to govern indentures qualified under the Trust Indenture Act;If any provision hereof limits, qualifies or conflicts with another provision hereof which is required to be included in an indenture qualified under the Trust Indenture Act, such required provision shall control.

Section 15.08. *No Security Interest Created.* The Notes are not secured. Nothing in this Indenture or in the Notes, expressed or implied, shall be construed to constitute a security interest under the Uniform Commercial Code or similar legislation, as now or hereafter enacted and in effect, in any jurisdiction in which property of the Issuer or its subsidiaries is located.

Section 15.09. *No limitation on the Issuer's Future Financings*. For the removal of doubt, it is clarified that the Issuer shall be entitled to create pledges and security interests over any of its assets, without the consent of the Trustees and/or the Noteholders, and that the Issuer shall be entitled at any time to take any credit with no limitation, to issue additional series of debentures, with any terms whatsoever as the Issuer decide, whether subordinated or senior or equal to the rights of the Noteholders hereunder.

Section 15.10. *Benefits of Indenture.* Nothing in this Indenture or in the Notes, express or implied, shall give to any Person, other than the parties hereto, any paying agent, any authenticating agent, any Note registrar and their successors hereunder and the holders of Notes any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 15.11. *Table of Contents, Headings, Etc.* The table of contents and the titles and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

Section 15.12. *Authenticating Agent.* The Trustee may appoint an authenticating agent that shall be authorized to act on its behalf, and subject to its direction, in the authentication and delivery of Notes in connection with the original issuance thereof and transfers and exchanges of Notes hereunder, including under Sections 2.04, 2.05, 2.06, 2.07 and 3.02, as fully to all intents and purposes as though the authenticating agent had been expressly authorized by this Indenture and those Sections to authenticate and deliver Notes. For all purposes of this Indenture, the authentication and delivery of Notes by the authenticating agent shall be deemed to be authentication and delivery of such Notes "by the Trustee" and a certificate of authentication executed on behalf of the Trustee by an authenticating agent shall be deemed to satisfy any requirement hereunder or in the Notes for the Trustee's certificate of authentication. Such authenticating agent shall at all times be a Person eligible to serve as trustee hereunder pursuant to Section 7.09.

Any corporation into which any authenticating agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, consolidation or conversion to which any authenticating agent shall be a party, or any corporation succeeding to the corporate trust business of any authenticating agent, shall be the successor of the authenticating agent hereunder, if such successor corporation is otherwise eligible under this Section 15.12, without the execution or filing of any paper or any further act on the part of the parties hereto or the authenticating agent or such successor corporation.

Any authenticating agent may at any time resign by giving written notice of resignation to the Trustee and to the Issuer. The Trustee may at any time terminate the agency of any authenticating agent by giving written notice of termination to such authenticating agent and to the Issuer. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any authenticating agent shall cease to be eligible under this Section, the Trustee shall either promptly appoint a successor authenticating agent or itself assume the duties and obligations of the former authenticating agent under this Indenture and, upon such appointment of a successor authenticating agent, if made, shall give written notice of such appointment of a successor authenticating agent to the Issuer and shall mail notice of such appointment of a successor authenticating agent to all holders of Notes as the names and addresses of such holders appear on the Note register.

The Issuer agrees to pay to the authenticating agent from time to time such reasonable compensation for its services as shall be agreed upon in writing between the Issuer and the authenticating agent.

The provisions of Sections 7.02, 7.03, 7.04 and 8.03 and this Section 15.12 shall be applicable to any authenticating agent.

Section 15.13. *Execution in Counterparts.* This Indenture may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

Section 15.14. *Severability.* In case any provision in this Indenture or in the Notes shall be invalid, illegal or unenforceable, then (to the extent permitted by law) the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

The Bank of New York and Hermetic Trust (1975) Ltd. each hereby accepts the trusts in this Indenture declared and provided, upon the terms and conditions herein above set forth.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed.

TOWER SEMICONDUCTOR LTD.,

By: _____

Name:
Title:

THE BANK OF NEW YORK, as Trustee

By: _____

Name:
Title:

HERMETIC TRUST (1975) LTD., as Co-Trustee

By: _____

Name:
Title:

Exhibit A

FORM OF NOTE

[FORM OF FACE OF NOTE]

[THE FOLLOWING LEGEND SHALL APPEAR ON THE FACE OF EACH RESTRICTED NOTE]

THE NOTE EVIDENCED HEREBY AND THE ORDINARY SHARES ISSUABLE UPON CONVERSION THEREOF HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD IN THE ABSENCE OF A REGISTRATION STATEMENT WITH RESPECT TO THE SECURITIES SO OFFERED OR SOLD IN EFFECT UNDER THE SECURITIES ACT OR AN OPINION OF COUNSEL (SATISFACTORY IN FORM AND SUBSTANCE TO THE ISSUER) THAT SUCH REGISTRATION IS NOT REQUIRED.

TOWER SEMICONDUCTOR LTD.

5% SUBORDINATED CONVERTIBLE DEBENTURES DUE 2011

CUSIP: M87915 AB 6

No.

$_____

Tower Semiconductor Ltd., a company with limited liability incorporated under the laws of the State of Israel (herein called the "**Issuer**), for value received hereby promises to pay to [ ] or its registered assigns, the principal sum of Dollars at maturity on [ ], 2011, and to pay interest on said principal sum, at the rate per annum of 5%, from December __, 2005 until the principal hereof is duly paid or provided for. Interest on the Notes shall be computed on the basis of a 365-day year.

All payments of the principal of, premium, if any, and interest due and payable on this Note at the maturity thereof or on any redemption date, shall be made only upon the surrender of this Note, at the option of the holder, at the Corporate Trust Office or at the office or agency maintained by the Issuer for that purpose in London, England, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

No accrued interest will be payable upon the redemption of this Note with premium or upon any portion of this Note converted into the Issuer's Ordinary Shares, as provided on the reverse hereof and in the Indenture.

Reference is made to the further provisions of this Note set forth on the reverse hereof. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Note shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been manually signed by the Trustee or a duly authorized authenticating agent under the Indenture.

IN WITNESS WHEREOF, the Issuer has caused this Note to be duly executed.

TOWER SEMICONDUCTOR LTD.,

Attest:

By: _____
Name:
Title:

By: _____
Name:
Title:

Name:
Title:

Dated:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Notes described in the within-named Indenture.

THE BANK OF NEW YORK, as Trustee

By: _____

Authorized Signatory

, or

By: _____

As Authenticating Agent
(if different from Trustee)

By: _____

Authorized Signatory

FORM OF REVERSE OF NOTE

TOWER SEMICONDUCTOR LTD.

5% SUBORDINATED CONVERTIBLE DEBENTURES DUE 2011

Notes; Indenture; Trustees. This Note is one of a duly authorized issue of Notes of the Issuer, designated as its 5% Subordinated Convertible Debentures due 2011 (the "**Notes**"), limited in aggregate principal amount to $50,000,000 and to be issued under and pursuant to an Indenture dated as of [ ], 2005 (the "**Indenture**"), by and between the Issuer, and The Bank of New York, as trustee (the "**Trustee**") and Hermetic Trust (1975) Ltd., as co-trustee (the "**Co-Trustee**", and, together with the Trustee, the "**Trustees**"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustees, the Issuer and the holders of the Notes.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall (i) alter or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of, premium, if any, and interest on this Note at the place, at the respective times, at the rate and in the coin or currency herein prescribed; (ii) affect the relative rights against the Issuer of the Holders of the Notes and creditors of the Issuer other than the Lenders; or (iii) prevent the Trustees or the holder of any Notes from exercising all remedies otherwise permitted by applicable law upon default under the Indenture (subject to any conditions and limitations set forth therein).

Capitalized but otherwise undefined terms used in this Note that are defined in the Indenture are used herein as therein defined.

Form; Denomination; Exchange; Transfer. The Notes are issuable in fully registered form, without coupons, in denominations of $1.00 principal amount and any integral multiple of $1.00, at the office or agency of the Issuer referred to on the face hereof, and in the manner and subject to the limitations provided in the Indenture, without payment of any service charge but with payment of a sum sufficient to cover any tax, assessment or other governmental charge that may be imposed in connection with any registration or exchange of Notes, Notes may be exchanged for a like aggregate principal amount of Notes of any other authorized denominations. Upon surrender for registration of transfer of this Note to the Note registrar or any co-registrar, and satisfaction of the requirements for such transfer set forth in Section 2.05 of the Indenture, the Issuer shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes of authorized denominations and of like aggregate principal amount and bearing such restrictive legends as may be required by this Indenture, subject to the limitations provided in the Indenture and without charge except for any tax, assessment or other governmental charge imposed in connection therewith.

Redemption. The Issuer may, at its option, announce the early redemption of the Notes, provided that the outstanding aggregate balance of principal on account of the Notes is equal to or less than $500,000. In such case, the Issuer shall redeem 100% of the Notes; no partial redemptions shall be permitted. The Issuer will provide notice to the holders of the Notes and the Trustees at least 30 days (but not more than 45 days) prior to any such redemption.

The Notes are also subject to mandatory redemption in accordance with the terms of and in the circumstances described in Section 3.03 of the Indenture, at a redemption price equal to the outstanding principal amount of the Notes, plus an early redemption premium equal to 15% of the outstanding principal amount of the Notes. No accrued interest will be payable by the Issuer upon mandatory redemption pursuant to Section 3.03 of the Indenture.

The Notes are not subject to redemption through the operation of any sinking fund.

Subordination. All payments pursuant to the Notes made by or on behalf of the Issuer are subordinated to the extent and in the manner provided in the Indenture to all existing and future obligations of the Issuer under the Credit Facility. Any Holder by accepting this Note agrees to and shall be bound by the subordination provisions set forth in the Indenture. Upon any dissolution, winding up, liquidation or reorganization of the Issuer, the Lenders will be entitled to receive payment in full of all amounts due to them under the Credit Facility before the holders of Notes are entitled to receive any payment. In addition, the dates for payment of the principal of, premium, if any, and interest on the Notes may be postponed (with interest continuing to accrue at regular rates), under certain circumstances as described in the Indenture. The Lenders may, at any time and from time to time, without the consent of or notice to the Trustees or the holders of the Notes, take any action under the Credit Facility or vary any terms of the Credit Facility agreement, as set forth in Article 8 of the Indenture.

Conversion. Subject to and in compliance with the provisions of the Indenture, commencing on the first trading date on the TASE after the date on which the Notes are listed for trading on the TASE and until 5:00 p.m. (New York City time) on _____ _____, 2011, inclusive (but if such last date is not a trading day on the TASE, then the last date to convert the Notes will be the first trading day on the TASE after such date), the holder hereof has the right, at its option, to convert the principal amount of the Notes, in integral multiples of $1.00, into the Issuer's Ordinary Shares at the Conversion Price in effect at such time, subject to adjustment from time to time as provided in Section 14.04 of the Indenture, upon surrender of this Note with the form entitled "**Conversion Notice**" on the reverse hereof duly completed, to the Issuer at the office or agency of the Issuer maintained for that purpose in accordance with the terms of the Indenture, or at the option of such holder, the Corporate Trust Office, and, unless the shares issuable on conversion are to be issued in the same name as this Note, duly endorsed for transfer.

The Conversion Price is subject to adjustment if the Issuer consummates one or more financings as described in Section 14.04 of the Indenture on or before _____, 2006, or in certain circumstances on or before _____, 2007, subject to and as provided in Section 14.04 of the Indenture. In certain circumstances described in Section 14.04, the Issuer may elect that the adjustment to the Conversion Price otherwise provided for in the Indenture shall not and will not apply not to apply in certain circumstances.

The Conversion Price is also subject to adjustment as a result of certain corporate events such as consolidation, reclassification, stock split, payment of bonus shares (stock dividends), mergers or rights offering, as provided in Section 14.05 of the Indenture.

Fractional shares will not be issued upon any conversion of this Note. The number of Ordinary Shares issuable upon conversion of this Note will be rounded down to the nearest whole number. No payment of cash or in kind will be made in lieu of fractional shares.

No accrued interest will be payable by the Issuer upon the conversion of this Note into the Issuer's Ordinary Shares. The holder's right to accrued interest, if any, will be lost upon conversion of this Note into Ordinary Shares.

Persons Deemed Owners. The Issuer, the Trustees, any authenticating agent, any paying agent, any conversion agent and any Note registrar may deem and treat the registered holder hereof as the absolute owner of this Note (whether or not this Note shall be overdue and notwithstanding any notation of ownership or other writing hereon made by anyone other than the Issuer or any Note registrar) for the purpose of receiving payment hereof, or on account hereof, for the conversion hereof and for all other purposes, and neither the Issuer nor the Trustees nor any other authenticating agent nor any paying agent nor other conversion agent nor any Note registrar shall be affected by any notice to the contrary. All payments made to or upon the order of such registered holder shall, to the extent of the sum or sums paid, satisfy and discharge liability for monies payable on this Note.

No Recourse Against Incorporator, Stockholder, Etc. No recourse for the payment of the principal of or interest on this Note, or for any claim based hereon or otherwise in respect hereof, and no recourse under or upon any obligation, covenant or agreement of the Issuer in the Indenture or any supplemental indenture or in any Note, or because of the creation of any indebtedness represented thereby, shall be had against any incorporator, stockholder, employee, agent, officer or director or subsidiary, as such, past, present or future, of the Issuer or of any successor corporation, either directly or through the Issuer or any successor corporation, whether by virtue of any constitution, statute or rule of law or by the enforcement of any assessment or penalty or otherwise, all such liability being expressly waived and released as a condition of, and as a consideration for, the execution of the Indenture and the issue of this Note.

Events of Default. An Event of Default on this Note is (i) any corporate action taken by the Issuer or other steps taken or proceedings started or consented to or any order made for the Issuer's winding up, liquidation, bankruptcy, dissolution, administration or re-organization (or for the suspension of payments generally or any process giving protection against creditors), or for the appointment of a liquidator, receiver, administrator, administrative receiver or similar officer for all or any part of the Issuer's revenues or assets or such a person is appointed, which action, steps, proceedings or order are not cancelled or withdrawn within 60 days of the occurrence or the institution thereof, or (ii) failure by the Issuer to pay an amount of principal or interest due hereon within 14 Business Days of the date the Issuer is required to make the payment hereon as such date may be postponed in accordance with the terms hereof.

In case an Event of Default shall have occurred and be continuing, the principal of, premium, if any, and accrued interest on all Notes may be declared by the Trustee, the Co-Trustee or both acting jointly, and upon said declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

Waivers of Events of Default. The holders of a majority in aggregate principal amount of the Notes at the time outstanding determined in accordance with Section 9.04 of the Indenture, shall have the right (subject to the next sentence below) to direct, in accordance with Section 9.01 of the Indenture, a waiver, on behalf of the holders of all of the Notes, of any past default or Event of Default and its consequences, provided that such direction to waive is given at a meeting of the Noteholders, in accordance with Article 10 of the Indenture, and that such waiver be approved by the vote of holders of at least a majority of the aggregate principal amount of the Notes at the time outstanding, determined in accordance with Section 9.04, who also hold at least 75% of the principal amount of the Notes present or represented in that Noteholders meeting. Notwithstanding the preceding sentence, the following defaults may not be waived without the consent of the holders of each or all Notes then outstanding or affected thereby: (i) a default in the payment of interest on, or the principal of, the Notes, (ii) a failure by the Issuer to convert any Notes into Ordinary Shares, (iii) a default in the payment of the redemption premium pursuant to Section 3.03 of the Indenture, or (iv) a default in respect of a covenant or provisions of the Indenture which under the provisions of the Trust Indenture Act cannot be modified or amended without the consent of the holders of each or all Notes then outstanding or affected thereby. Upon any such waiver, the Issuer, the Trustees and the holders of the Notes shall be restored to their former positions and rights under the Indenture; but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon. Whenever any default or Event of Default under the Indenture shall have been waived as permitted by Section 6.07 of the Indenture, said default or Event of Default shall for all purposes of the Notes and the Indenture be deemed to have been cured and to be not continuing; but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon.

Supplemental Indentures. The Issuer, when authorized by the resolutions of the Board of Directors, and the Trustees may, from time to time, and at any time enter into an indenture or indentures supplemental hereto for one or more of the following purposes: (i) evidence the succession of another Person to the Issuer, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Issuer pursuant to Article 12 of the Indenture; (ii) add covenants, restrictions or conditions to the Issuer so long as they are deemed by the Board of Directors and the Trustees as for the benefit of the Noteholders (provided the Trustees shall first have received an opinion of counsel to this effect), (iii) provide for the issuance of Notes in coupon form; (iv) to cure any ambiguity or to correct or supplement any provision in the Indenture or in any supplemental indenture; (v) evidence and provide for the acceptance of appointment hereunder by a successor trustee with respect to the Notes; (vi) modify, eliminate or add to the provisions of this Indenture to such extent as shall be necessary to effect the qualifications of this Indenture under the Trust Indenture Act, or under any similar federal statute hereafter enacted or the Securities Law; or (vii) make any other change that does not adversely affect any right of the Noteholders under the Indenture. The Indenture contains provisions permitting the Issuer and the Trustee, with the consent of the Noteholders, to execute supplemental indentures adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture or modifying in any manner the rights of the Noteholders; provided that the entering into such supplemental indenture is approved by a resolution of the Noteholders meeting in accordance with Article 10 of the Indenture, by the vote of Noteholders who (i) hold not less than a majority of the aggregate principal amount of the Notes at the time outstanding, determined in accordance with Section 9.04 of the Indenture; and also (ii) hold at least 75% of the principal amount of the Notes present or represented in that Noteholders meeting; and provided further that no such supplemental indenture shall modify any term, covenant or provisions hereof which under the provisions of the Trust Indenture Act cannot be modified or amended without the consent of the holders of each or all Notes then outstanding or affected thereby, without the consent of the holder of each Note so affected.

Governing Law. THIS NOTE SHALL BE DEEMED TO BE A CONTRACT MADE UNDER THE LAWS OF NEW YORK, AND FOR ALL PURPOSES SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF NEW YORK.

ABBREVIATIONS

The following abbreviations, when used in the inscription of the face of this Note, shall be construed as though they were written out in full according to applicable laws or regulations.

TEN COM -	as tenants in common	UNIF GIFT MIN ACT- _____Custodian_____
TEN ENT -	as tenant by the entireties	(Cust) (Minor)
JT TEN -	as joint tenants with right of survivorship and not as tenants in common	under Uniform Gifts to Minors Act _____ (State)

Additional abbreviations may also be used though not in the above list.

CONVERSION NOTICE:

TO: TOWER SEMICONDUCTOR LTD.

The undersigned registered owner of this Note hereby irrevocably exercises the option to convert this Note, or the portion thereof (which is $1.00 or an integral multiple thereof) below designated, into Ordinary Shares of Tower Semiconductor Ltd. in accordance with the terms of the Indenture referred to in this Note, and directs that the shares issuable and deliverable upon such conversion, be issued and delivered to the registered holder hereof unless a different name has been indicated below. Capitalized terms used herein but not defined shall have the meanings ascribed to such terms in the Indenture. If shares or any portion of this Note not converted are to be issued in the name of a person other than the undersigned, the undersigned will provide the appropriate information below and pay all transfer taxes payable with respect thereto.

Dated: _____

_____
Signature(s)

Signature(s) must be guaranteed by an "**eligible guarantor institution**" meeting the requirements of the Note registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("**STAMP**") or such other "**signature guarantee program**" as may be determined by the Note registrar in a substitution for, STAMP, all in accordance with Act of 1934, as amended.

_____
Signature Guarantee

Fill in the registration of Ordinary Shares if to be issued, and Notes if to be delivered, other than to and in the name of the registered holder

_____
(Name)

_____
(Street Address)

_____
(City, State and Zip Code)

_____
Please print name and address

Principal amount to be converted
(if less than all):

Social Security or Other Taxpayer
Identification Number:

ASSIGNMENT

For value received THE UNDERSIGNED hereby sells assigns and transfers unto (Please insert name of assignee and social security or other Taxpayer Identification Number of assignee) the within Note, and hereby irrevocably constitutes and appoints attorney to transfer said Note on the books of the Issuer, with full power of substitution in the premises.

_____
Signature(s)

Signature(s) must be guaranteed by an "**eligible guarantor institution**" meeting the requirements of the Note registrar, which requirements include membership or participation in the Security Transfer Agent Medallion Program ("**STAMP**") or such other "**signature guarantee program**" as may be determined by the Note registrar in a substitution for, STAMP, all in accordance with Act of 1934, as amended.

_____
Signature Guarantee

NOTICE: The signature on the Conversion Notice or the Assignment must correspond with the name as written upon the face of the Note in every particular without alteration or enlargement or any change whatever.

TWELFTH AMENDMENT
TO THE FACILITY AGREEMENT

Made and entered into on this 30th day of November, 2005, by and between:

(1) TOWER SEMICONDUCTOR LTD. ("the Borrower")

and

(2) BANK LEUMI LE-ISRAEL B.M. and **BANK HAPOALIM B.M. ("the Banks")**

WHEREAS: the Borrower, on the one hand, and the Banks, on the other hand, are parties to a Facility Agreement dated January 18, 2001, as amended pursuant to a letter dated January 29, 2001, a Second Amendment dated January 10, 2002, a letter dated March 7, 2002, a letter dated April 29, 2002, a letter dated September 18, 2002, as amended on October 22, 2002, a letter dated June 10, 2003, a Seventh Amendment dated November 11, 2003, a letter dated January 30, 2005, a Ninth Amendment dated July 24, 2005, a Tenth Amendment dated September 29, 2005 and an Eleventh Amendment dated October 27, 2005 (the Facility Agreement, as amended as aforesaid, hereinafter **"the Facility Agreement"**); and

WHEREAS: the Borrower intends to issue Additional Subordinated Debt and has requested certain waivers from the Banks in connection with the repayment of such Additional Subordinated Debt; and

WHEREAS: following the Borrower's request, the Banks have agreed to grant certain waivers under certain provisions of the Facility Agreement, all subject to the terms and conditions set out in this agreement below ("**this Twelfth Amendment**"),

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. (a) Unless the context specifies otherwise, capitalised terms and expressions defined in the Facility Agreement shall have the same meaning in this Twelfth Amendment.

(b) In this Twelfth Amendment, **"Replacement Issue"** shall mean one or more issuances of shares and/or Permitted Subordinated Debt to one or more investors under one or more related investment agreements that in the aggregate constitute 1 (one) integrated round of financing pursuant to which the Borrower shall actually receive an aggregate amount of at least US $75,000,000 (seventy-five million United States Dollars) in Paid-in Equity and/or Permitted Subordinated Debt, which issue, in each case, meets all of the following conditions:

(i) any Permitted Subordinated Debt issued within the framework of a Replacement Issue **("Replacement Issue Subordinated Debt"**) shall be on terms and conditions all of which are no less favourable to the Banks than the terms and conditions of the Additional Subordinated Debt. Without limiting the generality of the aforegoing, all terms and conditions of clause 1.1.118 of the Facility Agreement (including those expressly applicable to the Additional Subordinated Debt) shall apply to any Replacement Issue Subordinated Debt issued within the framework of a Replacement Issue; provided that:

(1) the Borrower shall procure that: (A) upon the issuance of such Replacement Issue Subordinated Debt, an amount equal to the aggregate amount of Interest payable in cash by the Borrower thereunder from the date of such issuance until the date immediately prior to the fourth anniversary of the issuance of such Replacement Issue Subordinated Debt shall be deposited in the Reserve Account and duly pledged in favour of the Banks in accordance with the Facility Agreement; and (B) none of such amounts are released from the Reserve Account during such 4 (four) year period, except to pay such Interest on such Replacement Issue Subordinated Debt as are required to be paid in cash during such period;

(2) no Interest (other than periodic Interest at a rate not to exceed 1.5% (one point five percent) per annum) or other amount shall be paid on any Replacement Issue Subordinated Debt prior to the sixth anniversary of the issuance of Additional Subordinated Debt that is permitted to be replaced by such Replacement Issue Subordinated Debt pursuant to paragraph 2 below; and

(3) no principal or other amount (other than periodic Interest at a rate not to exceed 1.5% (one point five percent) per annum) with respect to Replacement Issue Subordinated Debt shall be repayable or repaid earlier than the sixth anniversary of the issuance of Additional Subordinated Debt that is permitted to be replaced by such Replacement Issue Subordinated Debt pursuant to paragraph 2 below.

2. Following the request by the Borrower, the Banks hereby agree that, in the event that:

2.1. the Borrower shall issue Additional Subordinated Debt;

2.2. within 1 (one) year of the date of the first issue of Additional Subordinated Debt, the closing of the Replacement Issue by the Borrower shall have occurred (in the event only that a term sheet or a letter of intent or a similar agreement or understanding in writing, or a written agreement or related

agreements which have not closed by such date, in each case, with respect to the Replacement Issue, is signed within such 1 (one) year period, such 1 (one) year period shall be extended to 18 (eighteen) months from the date of the first issue of Additional Subordinated Debt); and

2.3. prior to the aforesaid closing of the Replacement Issue, the investors of the Replacement Issue shall have given written notice to the Borrower (with a copy to the Banks) advising that such investors do not agree to the ratchet (or similar preferences) conditions contained in the Additional Subordinated Debt,

then the Borrower shall be entitled, notwithstanding the provisions of clauses 1.1.118(f), 1.1.118(g) and 16.7 of the Facility Agreement, to apply the amounts actually received by it in the Replacement Issue in order to pay in full:

(a) the principal of the Additional Subordinated Debt; and

(b) a premium that shall not exceed 15% (fifteen percent) of the principal of the Additional Subordinated Debt.

For the removal of doubt, the aforegoing shall not apply to any Permitted Subordinated Debt, other than the Additional Subordinated Debt, and then only if all of the conditions referred to in paragraphs 2.1–2.3 (inclusive) above are met.

3. For the avoidance of doubt, to the extent that any amount remains required to be raised by the Borrower under clause 16.27.2 of the Facility Agreement after the issuance of the Additional Subordinated Debt, only the amount of the Replacement Issue actually received by the Borrower in excess of the amount paid by the Borrower on account of the Additional Subordinated Debt pursuant to paragraphs 2(a) and (b) above shall be taken into account for the purpose of clause 16.27.2 of the Facility Agreement.

4. The Facility Agreement is hereby amended by deleting the reference to “November 30, 2005” in clause 16.36.1.1 and substituting therefor, “December 31, 2005".

5. For the removal of doubt, nothing herein contained shall be deemed to be an amendment or waiver of any provision of the Facility Agreement (including, the aforesaid clause 16.27.2 and the “Prohibition on Change of Ownership” undertaking set forth in clause 16.32, as well as the definition of “Change of Ownership” in clause 1.1.18), save for the express, limited waiver set out in paragraph 2 above and the amendment set out in paragraph 4 above.

6. The Facility Agreement is hereby amended as expressly set out in this Twelfth Amendment above. This Twelfth Amendment shall be read together with the Facility Agreement as one agreement and, save as expressly amended by this Twelfth Amendment, the Facility Agreement shall remain unaltered and in full force and effect.

IN WITNESS WHEREOF, the parties have signed this Twelfth Amendment on the date first mentioned above.

for: **TOWER SEMICONDUCTOR LTD.**

By: _____

Title: _____

for: **BANK HAPOALIM B.M.**

By: _____

Title: _____

for: **BANK LEUMI LE-ISRAEL B.M.**

By: _____

Title: _____

Exhibit 5.1

YIGAL ARNON & CO.
ADVOCATES AND NOTARY

Tel Aviv December 8, 2005

Direct Dial: 972-608-7856
Direct Fax: 972-608-7714
E-mail: davids@arnon.co.il

Tower Semiconductor Ltd.
Ramat Gavriel Industrial Zone
Migdal Haemek
ISRAEL

Dear Sir and Madam:

We refer to the prospectus filed by Tower Semiconductor Ltd., a corporation organized under the laws of Israel (the "Company"), with the Israel Securities Authority (the "Prospectus") and the Registration Statement on Form F-1 (File No. 333-126909) (the "Registration Statement") filed by the Company with the Securities and Exchange Commission under the Securities Act of 1933, as amended, for the purpose of offer and sale of the following securities in the amounts and in accordance with the terms and conditions set forth in the final Prospectus and the final Registration Statement: (i) transferable rights, exercisable to purchase Debentures (as defined below) (the "Rights"); (ii) U.S. dollar denominated debentures (the "Debentures"), each of $1.00 in principal amount, convertible into ordinary shares of the Company, par value 1.00 NIS each, to be issued pursuant to an indenture substantially in the form filed as an exhibit to the Registration Statement (the "Indenture") and (iii) ordinary shares of the Company, par value 1.00 NIS each, issuable upon the conversion of the Debentures (the "Debenture Shares").

As counsel to the Company in Israel, we have examined such corporate records, documents, agreements and such matters of law, as we have considered necessary or appropriate for the purpose of rendering this opinion. Upon the basis of such examination, we advise you that in our opinion:

1. The Rights, when issued in accordance with the Prospectus, will be duly authorized and legally issued.

2. When the Debentures to be issued pursuant to the Indenture have been duly executed and issued by the Company, authenticated by the Trustee and delivered against payment therefor in accordance with the Prospectus, the Indenture and the terms and conditions of the exercise of the Rights, the Debentures will be duly authorized, legally issued and entitled to the benefits of the Indenture and will constitute valid and binding obligations of the Company.

3. The Debenture Shares, if and when paid for through the conversion of Debentures and issued in accordance with the terms of the Debentures, the Indenture and the Prospectus, will be duly authorized, legally issued, fully paid and nonassesable.

4. The Rights, Debentures and Debenture Shares, upon issuance in accordance with the Prospectus and the terms and conditions of the exercise of the Rights and the conversion of the Debentures, shall constitute binding obligations of the Company under the laws of the State of Israel.

We are members of the Israel Bar, and the opinions expressed herein are limited to questions arising under the laws of the State of Israel, and we disclaim any opinion whatsoever with respect to matters governed by the laws of any other jurisdiction. Eilenberg & Krause LLP may rely upon this opinion for the purpose of rendering their opinion dated the date herof, with respect to certain matters concerning the Debentures.

We consent to the reference to this firm under the caption "Legal Matters" in the Prospectus and the Registration Statement, and we consent to the filing of this opinion as an exhibit to the Prospectus and the Registration Statement.

Sincerely,

/s/ Yigal Arnon & Co.

Exhibit 5.2

Eilenberg & Krause LLP

11 EAST 44TH STREET

NEW YORK, NEW YORK 10017

TELEPHONE: (212) 986-9700

FACSIMILE: (212) 986-2399

December 8, 2005

Tower Semiconductor Ltd.
Ramat Gavriel Industrial Zone
Migdal Haemek
ISRAEL

Ladies and Gentlemen:

We have acted as United States counsel for Tower Semiconductor Ltd., a corporation organized under the laws of Israel (the "Company"), in connection with the prospectus filed by the Company with the Israel Securities Authority and the Registration Statement on Form F-1 (File No. 333-126909) (the "Registration Statement") filed by the Company with the Securities and Exchange Commission under the Securities Act of 1933, as amended, for the purpose of offer and sale of the following securities in the amounts and in accordance with the terms and conditions set forth in the final prospectus and Registration Statement: (i) transferable rights, exercisable to purchase Debentures (as defined below); (ii) U.S. dollar denominated debentures, each of $1.00 in principal amount, convertible into ordinary shares of the Company, par value 1.00 NIS each (the "Debentures"); and (iii) ordinary shares of the Company, par value 1.00 NIS each, issuable upon the conversion of the Debentures. The Debentures will be issued pursuant to the Indenture (the "Indenture"), substantially in the form annexed as an exhibit to the Registration Statement, among the Company, The Bank of New York, as trustee (the "Trustee") and Hermetic Trust (1975) Ltd., as co-trustee (together with the Trustee, the "Co-Trustees"). All capitalized terms not otherwise defined herein have the same meanings given to such terms in the Registration Statement.

In connection with the foregoing, we have examined, among other things, (i) the Registration Statement, (ii) the Indenture, (iii) the form of Debentures to be issued pursuant to the Indenture and (iv) originals, photocopies or conformed copies of all such corporate records, agreements, instruments and documents of the Company, certificates of public officials and other certificates and opinions, and have made such other investigations as we have deemed necessary for the purpose of rendering the opinion set forth herein. In our examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to originals of all documents submitted to us as photocopies or conformed copies, and the authenticity of the originals of such latter documents. We have relied, to the extent we deem such reliance proper, upon representations, statements or certificates of public officials and officers and representatives of the Company. We have also relied, with the permission of Yigal Arnon & Co., upon the legal opinion letter of Yigal Arnon & Co. to the Company dated the date hereof with respect to certain matters concerning the due authorization and execution of the Indenture and the Debentures by the Company.

Based upon and subject to the foregoing, we are of the opinion that when the Debentures to be issued have been duly executed and issued by the Company, authenticated by the Trustee and delivered against payment therefor in accordance with the Prospectus, the Indenture and the terms and conditions of the exercise of the Rights, the Debentures will be legally issued and entitled to the benefits of the Indenture and will constitute valid and binding obligations of the Company.

We assume for purposes of this opinion that each of the Co-Trustees is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization; that each of the Co-Trustees is duly qualified to engage in the activities contemplated by the Indenture; that the Indenture has been duly authorized, executed and delivered by each of the Co-Trustees and constitutes the legally valid, binding and enforceable obligation of each of the Co-Trustees enforceable against each of the Co-Trustees in accordance with its terms; that each of the Co-Trustees is in compliance, generally and with respect to acting as a trustee under the Indenture, with all applicable laws and regulations; and that each of the Co-Trustees has the requisite organizational and legal power and authority to perform its obligations under the Indenture.

We express no opinion as to the laws of any jurisdiction other than the laws of the State of New York and the federal laws of the United States of America.

We hereby consent to the use of this opinion as an exhibit to the Registration Statement and to the reference to our firm under the heading "Legal Matters" in the prospectus that forms a part thereof.

Very truly yours,

/s/ Eilenberg & Krause LLP

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Registration Statement, Amendment No. 5 on Form F-1 to Form F-2, of our report dated February 3, 2005 (May 30, 2005 as for Note 20), relating to the financial statements of Tower Semiconductor Ltd. appearing in the Annual Report on Form 20-F of Tower Semiconductor Ltd. for the year ended December 31, 2004, and to the references to us under the headings “Selected Financial Data” and “Experts” in the prospectus, which is part of this Registration Statement.

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

Tel Aviv, Israel
December 8, 2005

Eilenberg & Krause llp

11 east 44th street

new york, new york 10017

telephone: (212) 986-9700

facsimile: (212) 986-2399

December 8, 2005

Ms. Peggy A. Fisher
Assistant Director Division of Corporation Finance
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: **Tower Semiconductor Ltd.**
Amendment Nos. 3 & 4 to Registration Statement on Form F-2
Filed November 21, 2005 and November 23, 2005, respectively
File No. 333-126909

Dear Ms. Fisher:

This letter is submitted on behalf of Tower Semiconductor Ltd. ("Tower" or the "Company"), in response to the comments of the Staff of the Division of Corporation Finance of the Securities and Exchange Commission regarding Amendment Nos. 3 and 4 to the Registration Statement on Form F-2 (Registration No. 333-126909) filed on November 21, 2005 and November 23, 2005, respectively. With a courtesy copy of this letter, we are including a copy of Amendment No. 5 on Form F-1 to the Registration Statement on Form F-2 as filed with the Securities and Exchange Commission on the date hereof. The Amendment reflects Tower's responses to the comments contained in your letter of December 7, 2005, as well as updated information. We have also enclosed copies of Amendment No. 5, which have been marked to show changes from Amendment No. 4 to the Registration Statement as amended to date.

Our numbered responses correlate to the numbers in your letter dated December 7, 2005, and we have set forth in full the text of the comments included in your letter for convenience purposes. All references in our responses to page numbers are to the pages in the unmarked copies of the documents.

We respond to the Staff's comments as follows:

Form F-2

1. ***Note that amendments to this Form F-2 must be made on the registration statement form for which you are eligible, other than Form F-2. Effective December 12, 2005, Form F-2 amendments will not be accepted because the form has been eliminated. See Release No. 33-8591.***

We note the Staff's comment and have filed the amendment to the registration statement (File No. 333-126909) on Form F-1.

Recent Developments

2. ***Since the date referenced in bullet 2 has passed, please update the disclosure.***

We have updated the disclosure to reflect that the November 30, 2005 date has been extended to December 31, 2005. We have filed the amendment to the Company's facility agreement with its banks that provides for this extension as Exhibit 4.6.

Risk Factors, page 10

If we do not meet conditions to receive the Israel government grants, page 11

3. ***Revise the caption to more accurately reflect the nature of the risk. State, if true, that you cannot meet the conditions by the end of 2005, and briefly describe the possible consequences of your inability to do so.***

We have revised the caption to better reflect the nature of the risks described in the risk factor and the possible consequences thereof.

4. ***We note your belief that it is "improbable" that the Investment Center would demand the repayment of all or a portion of the grants received. Please provide support for this belief or remove the statement.***

The Company's belief that it is improbable that the Investment Center would demand the repayment of all or a portion of the grants already received due to the Company not completing investments in an amount of $1.25 billion by the end of 2005 is based on, inter alia, the following factors:

— The Company notified the Investment Center on numerous occasions, both in writing, verbally and by way of filing updated working plans and investment schedules, that it did not expect to complete 100% of its Approved Enterprise Program by the end of 2005. In addition, the Company has received copies of reports received by the Investment Center from the latter's external auditors that examine the Company's progress under its Approved Enterprise Program which state that the Company will not complete 100% of its Approved Enterprise Program by

the end of 2005. Nonetheless, the Investment Center continues to timely provide grants to the Company and, as described below, is working with the Company to find satisfactory arrangements to approve a new expansion program.

— In 2004, the Investment Center approved a revised investment schedule, based on an updated business plan submitted to it by the Company in 2003, which showed that the Company would not complete $1.25 billion of investments by the end of 2005, but would only complete such amount of investments in 2008. As mentioned, the Investment Center continues to timely provide grants to the Company.

— As disclosed in the risk factor, in light of the Company not expecting to complete investments in the amount of $1.25 billion by the end of 2005, it has been holding discussions with the Investment Center to achieve satisfactory arrangements to approve a new expansion program and, at the Investment Center's request, the Company submitted a revised business plan to the Investment Center for the period commencing on January 1, 2006. The Company has also recently been informed that the review of the business plan is still ongoing. The Company believes that it is improbable that the Investment Center would demand repayment of the grants in light of the Investment Center's cooperation with the Company to achieve satisfactory arrangements to approve a new expansion. In this regard, during the first half of 2005, the Company received supportive letters from the Israeli Minister of Industry, Trade and Labor and from the General Manager of the Investment Center stating that they will act, subject to Israeli law, to support such expansion.

— Under the original terms of the approval letter for the Approved Enterprise Program, the Company was to complete 80% of the Approved Enterprise Program by the end of 2004 in order for it to be eligible to receive grants for investments made in 2005. By the end of 2004, the Company completed approximately 70% of the program, yet in 2005 the Investment Center continued to provide it with grants and, in April 2005, the Investment Center formally approved the Company's eligibility to receive grants for investments made in 2005.

— Further to the bullet immediately above, the approval letter for the Approved Enterprise Program does not specifically require the Company to complete 100% of its Approved Enterprise Program by the end of 2005.

— Although Israeli law, prima facie, provides the Investment Center with the ability to demand the repayment of all or a portion of the grants received due to the Company not completing investments in the amount of $1.25 billion by the end of 2005, the guidelines of the Investment Center provide that if 60% of an Approved Enterprise Program is completed, the Investment Center may recognize that the Approved Enterprise Program was materially complied with. As of September 30, 2005, the Company invested 71% of $1.25 billion and, by the end of 2005, the Company expects to have invested 72% of $1.25 billion. The Company believes that since the Investment Center is allowed to recognize that an Approved Enterprise Program was materially complied with if 60% of it was completed, it is improbable that the Investment Center would demand the repayment of grants regarding an Approved Enterprise Program of which 72% was completed.

— The Investment Center continues to timely provide grants to the Company despite its clear knowledge that the Company will not complete investments in an amount of $1.25 billion by the end of 2005.

— To the best of the Company's knowledge, it is not aware of any case where the Investment Center demanded the return of grants due to the incompletion of an Approved Enterprise Program by the end of the grant eligibility period and that the Investment Center only demands the return of grants made in cases where the recipient provided the Investment Center with false or misleading information. The Company believes that it has not provided the Investment Center with false or misleading information.

The Company notified the Investment Center on numerous occasions that it does not expect to complete 100% of its Approved Enterprise Program by the end of 2005 and the Investment Center has neither demanded that the Company return the grants nor provided the Company with notice that it will so demand. For the reasons above, the Company believes that it is improbable that the Investment Center would demand the repayment of all or a portion of the grants already received due to the Company not completing investments in an amount of $1.25 billion by the end of 2005.

Descriptions of the Debentures, page 35

Early Redemption at the Discretion of the Company, page 41

5. ***We refer you to your disclosure on page 41. We note that under the facility agreement, you are not permitted to redeem debentures; however, your banks have permitted you to do so under the described circumstances. Please update us as to the status of your preparation of the formal agreement to this effect between you and your banks.***

The relevant disclosures have been updated to reflect that the formal agreement with the Company's banks permitting the redemption of the debentures under the described circumstances has been signed. Such agreement has been filed as Exhibit 4.6 to the Registration Statement.

Material Income Tax Considerations, page 48

Tax Consequences if the Debentures Are Characterized as Contingent Payment Debt Instruments, page 58

6. ***We refer you to your disclosure in the first paragraph of this subsection. Please disclose why you believe it is "significantly more likely than not" that you will not redeem the debentures prior to maturity.***

As described in the prospectus, in order for the Company to cause the early redemption of the debentures, the following will need to be true: (i) by the 12th month following the record date the Company will have consummated one financing or a series of related financings in which it receives gross proceeds of $75 million (or by the 18th month following the record date, in case that by the 12th month anniversary the Company will have executed one or more agreements relating to transactions which have not closed, letters of intent, memorandums of understanding or similar agreements or understandings, for a proposed $75 million financing), (ii) the Company will decide to cancel the adjustment to the conversion price mechanism and (iii) the closing price of the Company's shares on the trading day prior to the consummation of the $75 million financing is equal to or is lower than $1.30 (we note that this figure was $1.15 in the previous filing). The Company has not reached any understandings with any potential investors with respect to any investment and the Company has not commenced any discussions with respect to the terms of any investment, nor have term sheets or other documents been drafted or exchanged. Due to all of the above, and in light of the complexities which would characterize any such potential financing, including the negotiation of terms, drafting and finalizing definitive agreements, obtaining third party approvals and satisfying closing conditions, the Company believes that it is significantly more likely than not that it will not consummate a $75 million financing by the 12th or 18th month following the record date, and therefore it came to the conclusion that it is significantly more likely than not that the debentures will not be redeemed prior to maturity. The filing has been revised to describe why the Company believes that it is significantly more likely than not that the debentures will not be redeemed prior to maturity.

Exhibit 5.1

7. ***We note this opinion is subject to contingencies in the second paragraph, such as "if and when the indenture has been duly executed and delivered…." We assume you will refile the opinion to remove the contingencies prior to effectiveness of the registration statement. Please confirm.***

We note the Staff's comment and have revised Exhibit 5.1 accordingly and refiled said exhibit.

Exhibit 5.2

8. ***See our previous comment regarding Exhibit 5.1, and apply it to this exhibit, eliminating impermissible contingencies and assumptions.***

We note the Staff's comment and have revised Exhibit 5.2 accordingly and refiled said exhibit.

Exhibit 5.3

9. ***We note counsel's statement in the fourth paragraph that the opinion speaks as of the date of the opinion. We also note that counsel undertakes no obligation to update the opinion after the effective date. Resolve this inconsistency by filing an opinion dated as of the effective date of the registration statement as an exhibit to a final pre-effective amendment to your registration statement.***

The opinion was revised from the proposed form of opinion submitted for the Staff's review to respond to Comment No. 22 in the Staff's letter of September 30, 2005. We believe that the revised language, which states that counsel undertakes no obligation to update after the effective date, is responsive to the Staff's concern that there be no such disclaimer of a duty to update for the period between the date of the opinion and the effective date. We have established an arrangement with tax counsel pursuant to which the undersigned has undertaken in writing to inform tax counsel as to the date for which acceleration has been requested, and give them an opportunity to determine if there have been any developments which might necessitate revision of the disclosure and opinion. We trust that these procedures address the Staff's concern that the opinion reflect developments through the effective date. The need to file a pre-effective amendment dated the effective date will make coordination of the effectiveness process with the Commission and the Israeli Securities Authority extremely difficult and impede our ability to give appropriate and timely notices to Nasdaq and the Tel Aviv Stock Exchange and our shareholders.

If you have any questions, please feel free to call the undersigned at (212) 986-9700 (extension 17), or Ted Chastain of this office (extension 50).

Sincerely,

Sheldon Krause

cc: Adelaja K. Heyliger
Mr. Thomas Dyer
David Schapiro, Esq.