W&T OFFSHORE INC
Form SC 13D
February 11, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13D

(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT

TO RULE 13d-1(a) AND AMENDMENTS THERETO FILED PURSUANT TO

RULE 13d-2(a)

W&T Offshore, Inc.

(Name of Issuer)

COMMON STOCK, PAR VALUE $.00001 PER SHARE

(Title of Class of Securities)

(CUSIP Number)

Tracy W. Krohn

Eight Greenway Plaza, Suite 1330

Houston, Texas 77046

(713) 826-8525

(Name, Address and Telephone Number of Person

Authorized to Receive Notices and Communications)

Copy to:

Virginia Boulet, Esq.

Adams and Reese LLP

4500 One Shell Square

New Orleans, Louisiana 70139

(504) 581-3234

January 27, 2005

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 13d-1(f) or 13d-1(g), check the following box. ¨

Note. Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Rule 13d-7 for other parties to whom copies are to be sent.

(Continued on following pages)

13D

CUSIP No. 92922P106

1. Names of Reporting Person.

   I.R.S. Identification Nos. of above person (entities only).

   Tracy W. Krohn

2. Check the Appropriate Box if a Member of a Group (a) ¨ (b) x

3. SEC Use Only

4. Source of Funds

   PF

5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) ¨

6. Citizenship or Place of Organization

   United States

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7. Sole Voting Power	52,400,361*
	8. Shared Voting Power	0
	9. Sole Dispositive Power	43,397,378
	10. Shared Dispositive Power	0

11. Aggregate Amount Beneficially Owned by Each Reporting Person

52,400,361*

12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares ¨

13. Percent of Class Represented by Amount in Row (11)

79.5%

14. Type of Reporting Person

IN

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*Includes (i) 7,087,271 shares owned of record by Ann K. Freel and which Reporting Person has the sole right to vote pursuant to the Stockholders Agreement attached hereto as Exhibit A and (ii) 1,915,712 shares owned of record by W&T Offshore, Inc. employees and which Reporting Person has the sole right to vote pursuant to Grant Letters, a form of which is attached hereto as Exhibit B.

ITEM 1. Security and Issuer.

This statement on Schedule 13D relates to the common stock, par value $0.00001 per share (the Common Stock), of W&T Offshore, Inc (the Company). The principal executive offices of the Company are located at Eight Greenway Plaza, Suite 1330, Houston, Texas 77046.

ITEM 2. Identity and Background

(a) This Schedule 13D is being filed by Tracy W. Krohn.

(b) The business address of Mr. Krohn is Eight Greenway Plaza, Suite 1330, Houston, Texas 77046.

(c) Mr. Krohn is Founder, Chairman of the Board, President, Treasurer and Chief Executive Officer of the Company.

(d) & (e) Mr. Krohn has not, during the last five years, been (i) convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws on finding any violation with respect to such laws.

(f) United States

ITEM 3. Source and Amount of Funds or Other Considerations

Mr. Krohn is one of the founders of the Company and originally purchased his interest with personal assets of $10,000 in 1983.

ITEM 4. Purpose of Transaction

Mr. Krohn acquired the securities herein reported for investment purposes. Depending on market conditions, general economic conditions and other factors Mr. Krohn may deem significant to his investment decisions and subject to the Underwriting Agreement discussed below, Mr. Krohn may purchase shares of Common Stock in the open market or in private transactions or may dispose of all or a portion of the shares of Common Stock or other securities of the Company that he may acquire. Mr. Krohn does not have any present plans or proposals which relate to or would result in (a) the acquisition by any person of additional securities of the Company or the disposition of securities of the Company; (b) an extraordinary corporate transaction, such as a merger, reorganization or liquidation, involving the Company; (c) a sale or transfer of a material amount of assets of the Company; (d) any material change in the present capitalization or dividend policy of the Company; (e) any other material change to the Company s business or corporate structure; (f) changes in the Company s charter or bylaws or other actions which may impede the acquisition of control of the Company by any person; (g) the Common Stock or any other class of securities of the Company to be de-listed from the New York Stock Exchange; (h) the Common Stock or any other class of equity securities of the Company becoming eligible for termination of registration pursuant to Section 12(g)(4) of the Securities Exchange Act of 1934, as amended; or (i) any action similar to any of those enumerated above.

Mr. Krohn plans to use his voting power to fill vacancies on the Board of Directors, in conformance with NYSE regulations applicable to controlled companies. Mr. Krohn has no present plans to remove any of the current directors.

Additionally, Mr. Krohn is bound to the various provisions of the Underwriting Agreement dated January 27, 2005 filed as Exhibit C to this Schedule 13D. As such, Mr. Krohn is subject to the restrictions and lock-out provisions contained therein. The terms of the Underwriting Agreement provide that Mr. Krohn may not directly or indirectly offer, sell, pledge or otherwise dispose of any shares of Common Stock or any securities convertible into or exchangeable for Common Stock without the prior written consent of Lehman Brothers, Inc. on behalf of the underwriters for a period of 180 days from the date of the Underwriting Agreement.

ITEM 5. Interest in Securities of the Issuer

(a) There were 65,969224 shares of Common Stock outstanding as of January 27, 2005.

As of January 27, 2005, the Reporting Person may be deemed to have beneficially owned an aggregate of 52,400,361 shares of Common Stock, representing, in the aggregate, approximately 79.5% of the outstanding shares of Common Stock. This number includes (i) 7,087,271 shares owned of record by Ann K. Freel and which Reporting Person has the sole right to vote pursuant to the Stockholders Agreement, attached hereto as Exhibit A and (ii) 1,915,712 shares owned of record by Company employees and which Reporting Person has the sole right to vote pursuant to Grant Letters, a form of which is attached hereto as Exhibit B.

(b) As of January 27, 2005, the Reporting Person had the sole power to vote or to direct the voting of 52,400,361 shares of Common Stock that he may be deemed to beneficially own as indicated above.

Mr. Krohn has the sole power to dispose or to direct the disposition of 43,397,378 shares of Common Stock that he may be deemed to beneficially own as indicated above. Mr. Krohn does not have the sole or shared power to dispose or to direct the disposition of (i) 7,087,271 shares owned of record by Ann K. Freel as indicated above, and (ii) 1,915,712 shares owned of record by Company employees as indicated above.

(c) In the past 60 days, no transactions in the shares of Common Stock were effected by the Reporting Person. The Reporting Person has entered into an Underwriting Agreement (a copy of which is attached hereto as Exhibit C) pursuant to which he has agreed to sell 2,645,371 shares of Common Stock to the underwriters named therein on February 2, 2005 at a price per share of $17.765. He has also granted the underwriters an option, exercisable on or before February 26, 2005, to purchase up to an additional 396,804 shares of Common Stock for $17.765 per share.

(d) Not applicable.

(e) Not applicable.

ITEM 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer

Other than the Underwriting Agreement attached hereto as Exhibit C and described in Item 4 above, the Stockholders Agreement attached hereto as Exhibit A and described in Item 5 above, and the Grant Letters, a form of which is attached hereto as Exhibit B and described in Item 5 above, there are no contracts, arrangements, understandings or relationships (legal or otherwise) between the Reporting Person and any person with respect to any securities of the Company, including, but not limited to, transfer or voting of any of such securities, finder s fees, joint ventures, loan or option arrangements, puts or calls, guarantees of profits, division of profits or loss, or the giving or withholding of proxies.

ITEM 7. Material to be Filed as Exhibits

Exhibit A	Stockholders Agreement dated as of December 2, 2002
Exhibit B	Form of Grant Letter
Exhibit C	Underwriting Agreement dated as of January 27, 2005
Exhibit D	Power of Attorney in favor of Price W. Wilson previously filed as exhibit 24.1 to a Form 3 filed on behalf of Tracy Krohn dated January 27, 2005 and incorporated herein by reference.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Statement is true, complete and correct.

Date: February 10, 2005

By: /s/ Price W. Wilson
Price W. Wilson, as Attorney for Tracy W. Krohn

The original statement shall be signed by each person on whose behalf the statement is filed or his authorized representative. If the statement is signed on behalf of a person by his authorized representative (other than an executive officer or general partner of the filing person), evidence of the representative s authority to sign on behalf of such person shall be filed with the statement: provided, however, that a power of attorney for this purpose which is already on file with the Commission may be incorporated by reference. The name and any title of each person who signs the statement shall be typed or printed beneath his signature.

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (see 18 U.S.C. 1001)

ur business, we expect to continue to experience overall underutilization of Fab 1 for the foreseeable future. We are currently operating Fab 1 at a capacity utilization of approximately 35%. If we do not operate Fab 1 at or near full capacity levels and make the transition to a higher mix of products manufactured utilizing our higher-margin processes, we may not be able to achieve and maintain profitable operations in Fab 1, which could in turn result in our disposing of this facility. Following the completion of the construction of Fab 2, equipment installation, qualification of process technologies and the start of ramp up of production as of the third quarter of 2003, these technologies and other Fab 2 assets will start to incur significant operating expenses as well as depreciation and amortization. Accordingly, even as we begin high utilization of Fab 2, we need to achieve significant production volume in order to be profitable. As a result, we expect to operate at an overall loss through at least the end of 2004, even if we are able to achieve and maintain profitable operations in Fab 1. 10 CREDITS GIVEN TO OUR WAFER PARTNERS WILL AFFECT CASH FLOW FROM FAB 2 OPERATIONS. We have credited our wafer partners with a portion of amounts that they have previously paid to us as long-term customer advances to be credited against future purchases by these partners. To date, these credits amount to approximately $47.2 million, including the pending amendment made to our Fab 2 investment agreements in connection with the fifth milestone payment to allow our wafer partners to convert up to an aggregate of $13.2 million unutilized wafer credits which they may have as of December 31, 2005 into our ordinary shares based on the market price of the ordinary shares at that time (see "Recent Developments" above for a discussion of this amendment). While the issuance of credits have improved our cash flow from operations, the utilization of credits by our wafer partners will adversely impact our liquidity at such time as our wafer partners begin to purchase wafers from Fab 2 since we will be generating a lower level of cash from the sale of wafers to our wafer partners. THE CYCLICAL NATURE OF THE SEMICONDUCTOR INDUSTRY AND THE RESULTING PERIODIC OVERCAPACITY AND PRESSURE TO REDUCE PRICES MAY SERIOUSLY HARM OUR BUSINESS. The semiconductor industry has historically been highly cyclical and has experienced significant economic downturns characterized by production overcapacity and rapid erosion of average sale prices. 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 a new downturn. We expect this pattern to repeat itself in the future. Our operating results for 1996 through 1999 were harmed by a downturn in the semiconductor market that resulted in reduced orders, underutilization of our facility and severe price erosion. Although utilization and average sale prices improved during 2000, demand slowed in the overall semiconductor market and in many of our end product markets beginning in the fourth quarter of 2000. This slowing in demand deepened in 2001 and continued in 2002. While the semiconductor industry has to some extent recovered from the 2001 downturn, we cannot be assured that this overall recovery will continue or that demand for our products, in particular, will improve; in fact, we expect a decrease in Fab 1 sales in the third quarter of 2003. While we are confident of the long-term growth prospects of the semiconductor business, we believe that the cyclical market behavior will continue. The overcapacity and price pressures characteristic of a prolonged downturn may have an affect on all sectors of the market, and may not allow us to operate at a profit, even at full utilization of our Fab facilities or with an improved product mix. Therefore, the current downturn, and future downturns in the semiconductor business cycle, could seriously harm our financial results and business. Fab 2 will give us significant additional manufacturing capacity and state-of-the-art capabilities to better serve our customers. However, it also significantly increases our cost structure and overall capacity and, therefore, our exposure to market downturns. 11 WE DEPEND ON A SMALL NUMBER OF CUSTOMERS AND BUSINESS PARTNERS FOR A SIGNIFICANT PORTION OF OUR REVENUES; WE MUST CONTINUE TO ATTRACT ADDITIONAL CUSTOMERS AND BUSINESS PARTNERS TO SUBSTANTIALLY INCREASE OUR OVERALL CAPACITY UTILIZATION IN BOTH OF OUR FACILITIES. For the first half of 2003, approximately 66% of our business was generated by three of our customers, National Semiconductor Corporation (25%), Motorola, Inc. (22%) and FillFactory 19%, and approximately 12% was generated by three additional customers. Although we have expanded and are continuing to expand our customer base, we expect to continue to receive a significant portion of our revenue from a limited number of customers. Loss or cancellation of business from or decreases in the sales prices to these customers could seriously harm our financial results and business. Furthermore, our arrangements with certain large customers permit these customers to reduce their orders, in some cases with little advance notice. If these customers order significantly fewer wafers than forecasted, we will have excess capacity that we may not be able to sell, resulting in lower utilization of our facility. 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, which could harm our financial results. We have also entered into wafer partner agreements and agreements with technology providers under which we have committed a portion of our Fab 2 capacity for contemplated orders from these parties, and we recently received first production orders from three of our four wafer partners. Although we believe that our overall relationship with our wafer partners and technology providers, including their ownership of equity and the credits against wafer purchases which are established under the agreements, provide very strong incentives for the wafer partners and technology providers to become significant Fab 2 customers, they are not obligated to utilize all or any portion of their allocated capacity. Although we are constantly making efforts to identify additional wafer partners and customers to fill our new facility, there can be no certainty that we will be able to do so in the short or the long term. THE SEMICONDUCTOR MARKET IS SUBJECT TO RAPID CHANGE; WE MUST KEEP PACE TO MAINTAIN AND DEVELOP OUR PRODUCTS AND SERVICES FOR THE MARKETS. The semiconductor market is characterized by rapid change, including the following: o rapid technological developments; o evolving industry standards; o changes in customer requirements; o frequent new product introductions and enhancements; and o 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/or introducing to production specialized process technologies. We have also transferred 0.18 micron technology from Toshiba and begun the transfer of 0.13 micron technology from Motorola and are working on independent and joint development projects of technologies for Fab 2. Our ability to achieve and maintain profitable operations depends on the successful development and introduction to production of these processes. The development and introduction to production and the successful commercialization of these new processes is subject to risks, which could seriously harm our business, including the following risks: o technical problems or delays in the development of the new processes; o competition in attracting and retaining customers for the new processes; o difficulty in recruiting and retaining qualified employees; o failure of products that use our specialized processes to gain market acceptance; and o failures of our customers' designs. 12 We also need to

invest in continued process and/or product development, including the procurement of third party intellectual property in order to keep pace with changing technologies and to fulfill our customers' requirements. We may not have the required resources to make such procurements or invest in such development or such development and procurement efforts may not be successful. WE MUST SUCCESSFULLY COMPLETE DEVELOPMENT, INTRODUCTION TO PRODUCTION AND PERFORMANCE ENHANCEMENT OF OUR MICROFLASH(R) MEMORY AND OTHER ADVANCED PROCESSES. We have made a substantial investment in the development of our MICROFLASH processes. We have introduced the first of our microFLASH processes into production with the manufacture of a 2 megabit stand-alone memory device and an embedded multi-time programming module, with a limited number of rewrite cycles. We have also started development of our MICROFLASH process for introduction in Fab 2. The long-term commercial success of our MICROFLASH process is dependent on our success in developing next generation processes and advances to this process, which will allow production of MICROFLASH products rated for greater than 10,000 erase-rewrite cycles. There is no assurance that we will successfully complete the planned development and introduction to production and advancement of our MICROFLASH processes. If we do not successfully complete the advancement of our MICROFLASH processes, we may not be able to achieve the planned sales and/or gross margins. Furthermore, the successful development of competing technologies may make our MICROFLASH technology obsolete prior to its reaching market. We are engaged in the co-development with one of our customers of a specialized imaging process technology, for use of this technology in Fab 1 on an exclusive basis. In addition, we have started to develop this process technology in Fab 2 using process geometries of 0.18 microns. If these development efforts are delayed or are not successful or if the customer is unable to commercialize its products, this could result in a serious loss of business and in our inability to recover our investments from these efforts. WE MAY ENCOUNTER DIFFICULTIES AND DELAYS IN COMPLETING THE RAMP-UP OF FAB 2 AND IN THE TRANSFER AND IMPLEMENTATION OF THE TECHNOLOGIES FOR FAB 2. The ramp-up of Fab 2 is a substantial and complex project, which requires the timely participation by and coordination of the activities of many participants, including our contractor, equipment vendors, technology providers outside consultants and our own employees. We have completed the construction of Fab 2 but not the equipping necessary for production of 10,000 200-mm wafers per month at Fab 2 and continue to install equipment to reach production capacity at this level. We expect to continue the equipping necessary to reach the full production capacity of 33,000 200-mm wafers per month in the future. Failures or delays in obtaining or coordinating the necessary equipment and other resources on a timely basis may delay the completion of the ramp-up of Fab 2 and add to its cost. We need to complete development of the 0.18-micron industry standard technology, transfer the 0.13 micron technology from Motorola and develop new process technologies for Fab 2 to suit our customers' needs. Any failures or delays in these processes could have an adverse affect on our ability to complete the ramp up production at Fab 2 or bring new customers to Fab 2. We can give no assurance that failures or delays in the ramp-up of the facility or in the transfer and qualification of the technologies will not occur. Such failures or delays may result in delays in funding, cash shortage or defaults under our Fab 2 financing agreements, any of which may negatively impact our financial results. 13 IF WE FAIL TO MEET CONDITIONS, WE MAY LOSE OUR EXCLUSIVE FOUNDRY LICENSE WITH SAIFUN. Saifun Semiconductors Ltd. has granted us exclusive foundry manufacturing rights to Saifun's proprietary N-ROM technology. Our agreement with Saifun requires that we maintain minimum levels of annual sales of products, which incorporate Saifun's technology through 2005. If we do not meet these minimum sales levels, our foundry manufacturing rights will become nonexclusive. As a result, if our Saifun manufacturing rights become non-exclusive, other foundries may obtain licenses from Saifun, which will enable them to manufacture semiconductor products for third parties using the Saifun process technology in direct competition with us. DEMAND FOR NEW PROCESSES AND PRODUCTS IS DIFFICULT TO PREDICT. The success of our businesses depends on emerging markets and new products. In order for demand for our processes to grow, the markets for the end products using these processes must develop and grow. For example, the success of our imaging process technologies will depend, in part, on the markets for digital photography and video. Because our processes may be used in many new applications, it is difficult to forecast demand. If demand is lower than expected, we may have excess capacity, and if demand is higher than expected, we may be unable to fill all of the orders we receive. WE MAY EXPERIENCE DIFFICULTY IN ACHIEVING ACCEPTABLE DEVICE YIELDS, PRODUCT PERFORMANCE AND DELIVERY TIMES AS A RESULT OF MANUFACTURING PROBLEMS. 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 productivity. Microscopic impurities such as dust and other contaminants, difficulties in the production process or defects in the key materials and tools used to manufacture a wafer can cause a percentage of the 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. These problems may result from, among other things, the introduction of new processes or the expansion or upgrading of existing facilities. Any of these problems could seriously harm our financial results and business. WE NEED TO HIRE ADDITIONAL EMPLOYEES FOR FAB 2. Our future success depends on our continuing ability to identify, hire, train and retain additional highly qualified technical and managerial personnel. There has historically been a shortage of qualified employees in the semiconductor industry and in Israel in particular, and competition for such personnel has at times been intense. If we fail to attract or retain the highly qualified technical and managerial personnel we need now or in the future, our financial results and business may be harmed. WE DEPEND ON OUR KEY MANAGEMENT AND TECHNICAL EMPLOYEES; LOSS OF THE SERVICES AND REPLACEMENT OF KEY EMPLOYEES COULD HARM OUR OPERATIONS. The loss of key employees could diminish our ability to develop and maintain relationships with customers and potential customers. The loss of technical personnel could harm our ability to run production smoothly and to meet development and implementation schedules. We do not maintain key man life insurance on any of our executives or employees. WE FACE COMPETITION; SOME COMPETITORS ARE BETTER POSITIONED TO WITHSTAND MARKET DOWNTURNS. The semiconductor foundry industry is highly competitive. We compete with other dedicated foundries and with integrated semiconductor and end-product manufacturers that produce integrated circuits for their own use and/or allocate a portion of their manufacturing capacity to foundry operations. Many of our competitors have one or more of the following competitive advantages over us: 14 o greater manufacturing capacity; o multiple and more advanced manufacturing facilities; o more advanced technological capabilities; o a more diverse and established customer base; o greater financial, marketing, distribution and other resources; and/or o a better cost structure. WE DEPEND ON A LIMITED NUMBER OF OUR SUPPLIERS OF RAW MATERIALS AND DO NOT TYPICALLY HAVE LONG-TERM SUPPLY CONTRACTS WITH THEM. Our manufacturing processes use many raw materials, including silicon wafers, chemicals, gases and various metals. These raw materials generally are available from several suppliers. In many instances, however, we purchase raw materials from a single source due to process requirements that make purchases from multiple sources impractical. If any of the following occurs in the future, it may take a substantial period of time for us to modify our production processes to allow the use of alternative materials: o raw materials are not available from our sources; o we are unable to obtain sufficient quantities of raw materials and other supplies in a timely manner; o there is a significant increase in the costs of raw materials; o we are required for other reasons to seek other sources for such materials. Although supplies for the raw materials that we use currently are adequate, shortages could occur in various critical materials 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. WE DEPEND ON A LIMITED NUMBER OF MANUFACTURERS AND VENDORS THAT MAKE AND SELL THE COMPLEX EQUIPMENT WE USE IN OUR MANUFACTURING PROCESSES. In periods of high market demand, the lead times from order to delivery of this equipment could be as long as 12 to 18 months. The timing and cost of upgrades to Fab 1 and of equipping Fab 2 may be seriously affected by conditions in the equipment market. If there are delays in the delivery of needed equipment or if there are increases in the cost of this equipment, it could seriously delay the completion of or otherwise harm the ramp-up of Fab and the upgrades to Fab 1 or harm our financial results. THE EXEMPTION ALLOWING US TO OPERATE OUR MANUFACTURING FACILITIES SEVEN DAYS A WEEK IS TEMPORARY AND MAY NOT BE RENEWED. 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, which has been renewed several times in the past, expires on December 31, 2003. 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. We expect the exemption to be renewed, but if the exemption is not renewed and we are forced to close the facility for this period each week, our financial results and business will be harmed. CURRENCY EXCHANGE AND INTEREST RATE FLUCTUATIONS COULD INCREASE THE COST OF OUR OPERATIONS. Almost all of our cash generated from

operations and from our financing and investing activities is denominated in dollars and NIS. Our expenses and costs are denominated in NIS, dollars, Japanese Yen and Euros. We are, therefore, exposed to the risk of currency exchange rate fluctuations. 15 Our borrowings, including the loans contemplated under our Fab 2 credit facility, provide for interest based on a floating Libor rate, and we are therefore subject to exposure 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 activities, and following the ramp up of production in Fab 2, will increase our financing expenses. POTENTIAL INTELLECTUAL PROPERTY RIGHTS DISPUTES COULD MAKE OUR OPERATIONS MORE EXPENSIVE OR REQUIRE US TO CHANGE OUR PROCESSES. Our ability to compete successfully depends in part on our ability to operate without infringing on the proprietary rights of others. Possible infringement claims could harm our business by requiring us to pay royalties or to change our manufacturing processes. There are no lawsuits currently pending against us regarding the infringement of patents or intellectual property rights of others. However, we have been a party to such claims in the past and recently received a notice from a technology company claiming that we are infringing its patent rights. This notice was followed by an offer to license the technology company's patents for a one-time license payment. We are currently negotiating a license with this technology company. All prior claims against us 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 we may be unable to extend or renew it on similar terms. WE DEPEND ON THE INTELLECTUAL PROPERTY OF THIRD PARTIES IN PROVIDING DESIGN SERVICES TO OUR CLIENTS. We depend on third party intellectual property in order for us to provide foundry and design services to our clients. We believe that we are in compliance with the licensing agreements with the owners of these rights and that the licensing agreements adequately protect our rights. If problems or delays arise with respect to the timely development, quality and provision of such intellectual property, our customers' design and production could be delayed, resulting in underutilization of our capacity. Failure to maintain or acquire licenses could harm our business. In addition, license fees and royalties payable under these agreements may impact our margins. WE DEPEND ON TECHNOLOGY PARTNERS TO BROADEN OUR PORTFOLIO OF PROCESS TECHNOLOGIES. In order to compete in our market, we must continue to advance our process technologies through our internal technology development efforts and through technology alliances with leading semiconductor suppliers. Although we have an internal process development team dedicated to developing new semiconductor manufacturing process technologies, we depend on technology partners to advance our portfolio of process technologies. If we are unable to continue our technology alliances, or are unable to enter into new technology alliances with other leading semiconductor suppliers, we may not be able to continue providing our customers with leading-edge process technologies, which could seriously harm us. 16 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. We are currently operating under a conditional permit from the Israeli Ministry of Environmental Affairs concerning the concentration of fluoride in our wastewater. We believe that we are currently in compliance with the written terms of our permit with the following one exception. We are monitoring the levels of fluoride in accordance with an oral understanding with the Israeli Ministry of Environmental Affairs concerning how often we monitor the levels of fluoride, resulting in our monitoring the levels of fluoride less frequently than required by the written terms of our permit. We are working towards getting this understanding with the environmental authorities reduced to writing. There have been instances in the past where we were not in compliance with these restrictions, and despite our best efforts there may be future instances of non-compliance. We are also in discussions with the Israeli Ministry of Environmental Affairs regarding the possibility of easing of conditions set forth in our permit. If we cannot maintain our compliance with the conditions set forth in our permit or in our other understandings with the Ministry, we may be required to allocate financial resources for the implementation of an infrastructure solution in order to be in compliance with all the conditions. We estimate that such an infrastructure solution would cost approximately $1 million. While we believe that we are currently in compliance in all other material respects with applicable environmental laws and regulations, 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. POSSIBLE PRODUCT RETURNS COULD HARM OUR BUSINESS. Products manufactured by us are subject to return for specified periods if they are defective or otherwise fail to meet customers' specifications. Although we establish what we believe to be reasonable provisions against possible product returns based on our past experience, product returns in excess of such 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. In connection with our Fab 1 program, the Investment Center had taken the position that our ability to receive Fab 1 grants was dependent on our meeting specified forecasted levels of Fab 1 revenues and maintaining specified levels of Fab 1 employees and that we may be required to refund the grants we received if we do not meet specified forecasted levels of Fab 1 revenues and maintain specified levels of Fab 1 employees. Although we believe that the Investment Center's position is incorrect 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. Fab 1 revenues in 2002 were $43.7 million. At June 30, 2003, we employed approximately 470 employees in Fab 1. 17 TERRORIST ATTACKS THAT OCCURRED IN NEW YORK AND WASHINGTON ON SEPTEMBER 11, 2001, THE WAR IN IRAQ AND OTHER ACTS OF VIOLENCE OR WAR MAY MATERIALLY AFFECT THE MARKETS ON WHICH OUR SECURITIES TRADE, THE MARKETS IN WHICH WE OPERATE, OUR OPERATIONS AND PROFITABILITY. In the aftermath of the September 11, 2001 terrorist attacks on the United States, the United States-led coalition of nations commenced a series of retaliatory military strikes in Afghanistan upon strategic installations of the Taliban regime, and governmental intelligence authorities issue from time to time warnings of the imminent threat of further attacks against civilian and military installations. On March 17, 2003, a coalition of countries led by the United States and the United Kingdom commenced large scale military action against Iraq which resulted in the toppling of the Iraqi regime. These attacks and armed conflicts, as well as the uncertainty surrounding these issues, have had, and we expect will continue for the unforeseeable future to have, an adverse effect on the global economy, and the semiconductor industry and could result in a disruption of our business or that of our customers. In addition, these events may discourage foreign technical experts and foreign employees, upon whom we rely for support and maintenance of our specialized fabrication equipment and for consultation necessary for the ongoing ramp-up of Fab 2 and related development activity, from traveling to our facilities in Israel, which may result in delays to the Fab 2 deployment timetable and could affect the performance of the equipment. CORPORATE GOVERNANCE SCANDALS AND NEW LEGISLATION COULD INCREASE THE COST OF OUR OPERATIONS. As a result of recent corporate governance scandals and the legislative and litigation environment resulting from those scandals, the costs of being a public company in general are expected to increase in the near future. New legislation, such as the recently enacted Sarbanes-Oxley Act of 2002, will have the effect of increasing the burdens and potential liabilities of being a public reporting company. This and other proposed legislation may increase the fees of our professional advisors and our insurance premiums. RISKS RELATED TO OUR ORDINARY SHARES AND LISTED WARRANTS ISSUANCE OF ADDITIONAL SHARES PURSUANT TO FAB 2 RELATED EQUITY FINANCINGS WILL DILUTE THE INTEREST OF CURRENT AND PROSPECTIVE SHAREHOLDERS. In connection with the Fab 2 project, we have issued to date, 36,485,386 ordinary shares to our wafer and equity partners. Upon the payment of the remaining $8.7 million of the initial $24.6 million payment in connection with the fifth and final Fab 2 milestone payments by our wafer and equity partners, as amended, we will issue 2,331,885 additional ordinary shares and approximately another 3.4 million additional ordinary shares (assuming a purchase price of $5.00 per share), subject to fluctuations in the price of our ordinary shares in the future, in connection with the second installment of the fifth milestone payment and pursuant to our existing agreements with our wafer and equity partners. Up to 800,000 additional ordinary shares may be issued upon the exercise of warrants held by our banks and our Fab 2 contractor. In January 2002, we sold units comprised of convertible debentures, options to purchase our ordinary shares and options to purchase additional convertible debentures. Up to 8,102,746

additional ordinary shares are potentially issuable pursuant to these units as follows: (1) 2,697,068 shares would be issued assuming conversion of all the outstanding convertible debentures and (2) 2,211,596 shares would be issued assuming exercise of all the outstanding options to purchase ordinary shares. In addition, 1,844,082 ordinary shares would be issued assuming exercise of all the outstanding listed warrants in connection with the distribution of rights to our shareholders in October 2002 and 1,350,000 ordinary shares upon exercise of listed warrants issued to Ontario Teachers' Pension Plan Board ("OTPP"). We will also need to issue ordinary shares or securities convertible into ordinary shares in connection with new agreements or transactions with wafer and/or equity partners or private or public offerings of ordinary shares to raise required additional equity capital in connection with Fab 2. These issuances will result in significant dilution of the interest of current shareholders. 18 THE MARKET PRICE OF OUR ORDINARY SHARES HAS BEEN, AND MAY CONTINUE TO BE, VERY VOLATILE. The market prices of our ordinary shares and the securities of other publicly traded companies have fluctuated widely. The following factors, among others, may significantly impact the market price of our ordinary shares: o announcements of technological innovations or new products by us or our competitors; o developments or disputes concerning patents or proprietary rights; o publicity regarding actual or potential results relating to products under development by us or our competitors; o events or announcements relating to our collaborative relationship with others; o economic and other external factors; o period-to-period fluctuations in our operating results; and o volatility in the securities markets. MARKET SALES OF LARGE AMOUNTS OF OUR SHARES ELIGIBLE FOR FUTURE SALE MAY LOWER THE PRICE OF OUR ORDINARY SHARES. Of our 48,779,146 outstanding ordinary shares, 8,476,416 are freely tradable and an additional 894,829 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. Of these shares, 418,616 and 476,213 shares will be freely tradable under Rule 144(k) by September 2003 and April 2004, respectively. An additional 597,692 and 80,456 shares held by non-affiliates will be eligible for sale under Rule 144(k) by October 2003 and May 2004, respectively. In addition, our affiliates (Israel Corporation Technologies (ICTech) Ltd., SanDisk Corporation, Alliance Semiconductor Corporation and Macronix (BVI) Co., Ltd.) hold 35,729,753 of our outstanding shares, of which 20,851,910 are currently eligible for sale subject to the time, volume and manner of sale limitations of Rule 144. An additional 5,528,648, 4,425,076 and 838,082 shares held by these affiliates will be eligible for sale under Rule 144 by October 2003, May 2004 and August 2004, respectively; however, the sale of shares held by these affiliates are also 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 2006. We also agreed with our affiliates to register the resale of 4,086,037 ordinary shares that they purchased in our rights offering in October 2002. The registration statement of which this prospectus forms a part covers the resale of such securities. We have agreed with OTPP to register for resale the 3,000,000 ordinary shares and the 1,350,000 ordinary shares underlying the warrants that OTPP purchased from us in October 2002. We are unable to predict the effect that sales of our ordinary shares may have on the then prevailing market price of our ordinary shares. It is likely that market sales of large amounts of our ordinary shares (or the potential for those sales even if they do not actually occur) will have the effect of depressing the market price of our ordinary shares. This could impair our ability to raise capital through the sale of our equity securities. 19 WE MAY FAIL TO MEET THE MAINTENANCE STANDARDS FOR THE NASDAQ NATIONAL MARKET OR THE TEL AVIV STOCK EXCHANGE, WHICH WOULD NEGATIVELY IMPACT THE LIQUIDITY OF OUR ORDINARY SHARES. If we fail to comply with the requirements for continued listing on the NASDAQ National Market or the Tel Aviv Stock Exchange, our ordinary shares, listed warrants and convertible debentures may be delisted from trading on such market. Consequently, selling and buying our securities would be more difficult because of delays in the timing of transactions and greater difficulty in selling securities and obtaining accurate quotations. These factors could result in lower prices and larger spreads in the bid and ask prices for our ordinary shares than might otherwise be obtained. If our ordinary shares are delisted from the NASDAQ National Market, we cannot assure you that our securities will trade on the NASDAQ SmallCap Market. In addition, even if we obtain such alternative listing, broker-dealers would be subject to a SEC rule that imposes additional sales practice requirements on broker-dealers who sell low-priced securities to persons other than established customers and institutional accredited investors. For transactions covered by this rule, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written agreement to the transaction prior to sale. Consequently, this rule may affect the ability of broker-dealers to sell our ordinary shares and may affect the ability of shareholders to sell our ordinary shares in the secondary market. UNDER OUR

ARTICLES OF ASSOCIATION, TWO SHAREHOLDERS HOLDING TOGETHER 33% OF OUR OUTSTANDING SHARES CONSTITUTE A QUORUM FOR CONDUCTING A SHAREHOLDERS MEETING. Under our articles of association, two shareholders holding together 33% of our outstanding shares constitute a quorum for conducting a shareholders meeting. We have several large shareholders who together hold in excess of 33% of our outstanding shares and 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 shareholder meetings. If only two large shareholders were to participate in one of our shareholder meetings, these shareholders would determine the outcome of our shareholder meetings without the benefit of the participation of our other shareholders. CURRENT PROSPECTUS AND STATE BLUE SKY REGISTRATION REQUIRED FOR EXERCISING THE LISTED WARRANTS. The listed warrants are not exercisable unless, at the time of exercise, we have a current prospectus covering the ordinary shares issuable upon the exercise of the listed warrants, and the ordinary shares have been registered, qualified or deemed to be exempt under the securities or blue sky laws of the state of residence of the exercising U.S. holder of the listed warrants. Although we have undertaken to use our reasonable efforts to have all of the ordinary shares issuable upon the exercise of the listed warrants so registered and qualified on or before the exercise date and to maintain a current prospectus relating thereto until the expiration of the listed warrants, which will be primarily satisfied through our continuous compliance with the reporting requirements of the Securities Exchange Act of 1934, there is no assurance that we will be able to do so. The value of the listed warrants may be greatly reduced if a current prospectus covering the ordinary shares issuable upon the exercise of the listed warrants is not kept effective or if such ordinary shares are not qualified or exempt from qualification in the states in which U.S. holders of the listed warrants reside. THERE HAS BEEN LIMITED TRADING IN THE LISTED WARRANTS. In October 2002, the listed warrants were registered for trading on the Nasdaq SmallCap Market and the Tel Aviv Stock Exchange. Since that time, no listed warrants have traded on the Nasdaq SmallCap Market and there has been virtually no trading of the listed warrants on the Tel Aviv Stock Exchange. To the extent the price of our ordinary shares is less than $7.50, the exercise price of the listed warrants, it is unlikely that a significant trading market in the listed warrants will develop on either market. In addition, trading in the listed warrants will be limited unless and until the selling securityholders begin to actively trade the listed warrants covered by this prospectus. Excluding the listed warrants held by the selling securityholders, there are only 5,367 listed warrants that outstanding. 20 THE EXERCISE PRICE OF THE LISTED WARRANTS IS NOT NECESSARILY AN INDICATION OF OUR VALUE. Our board of directors determined the exercise price of the listed warrants in accordance with the price at which they were sold to OTPP immediately following the expiration of the rights offering. The exercise price does not necessarily bear any relationship to the book value of our assets, past operations, cash flow, earnings (or losses) or financial condition. You should not consider the exercise price of the listed warrants as an indication of our present or future value. We have neither sought nor obtained a valuation opinion from an outside financial consultant or investment banker. RISKS RELATED TO OUR OPERATIONS IN ISRAEL INSTABILITY IN ISRAEL MAY HARM OUR BUSINESS; OUR OPERATIONS MAY BE NEGATIVELY AFFECTED BY THE OBLIGATIONS OF OUR PERSONNEL TO PERFORM MILITARY SERVICE. All our manufacturing facilities and our corporate and primary 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, there has been an increase in unrest and terrorist activity which began in September 2000 and which has continued with varying levels of severity into 2003. Parties with whom we do business have 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 contracts claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions. We do not believe that the political and security situation has had any material impact on our business to date; however, we can give no assurance that security and political conditions will have no such effect 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 is currently experiencing civil unrest, terrorist activity and military action. Since we do not have a detailed disaster recovery plan that would allow us to quickly resume manufacturing, we could experience serious disruption of our manufacturing if acts associated with this conflict result in any serious damage to our manufacturing facility. 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. Many of our employees in Israel are obligated to perform military reserve duty. In the event of severe unrest or other conflict, individuals could be required to serve in the military for extended periods of time. Recently, there has been a significant call up of military reservists, and it is possible that there will be additional call-ups in the future. 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. 21 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. Substantially all of our executive officers and directors and our Israeli accountants and attorneys, are nonresidents of the United States, and a substantial portion 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. 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. CAPITALIZATION The following table sets forth our short-term debt, long-term debt, convertible debentures and capitalization as of June 30, 2003 on an actual basis: JUNE 30, 2003 ---------- (U.S. DOLLARS IN THOUSANDS) UNAUDITED ---------- Short-term debt(1) 4,000 Long-term debt (1) 308,000 Convertible Debentures 26,549 Shareholders' equity, NIS1.00 par value; authorized 100,000,000 shares issued 49,241,064 shares 12,291 Treasury stock, 1,300,000 shares (9,072) Total shareholders' equity 280,704 Total capitalization 761,642 (1) All of our long-term and short-term debt is secured by liens registered in favor of our banks on substantially all of our present and future assets. 22 The foregoing information also excludes approximately 22,084,686 ordinary shares issuable, as of June 30, 2003, upon the exercise of the listed warrants, options granted under our share option plans, wafer and equity partner agreements, subordinated convertible debentures and Options (Series 1), Options (Series 2), and warrants issued to our banks and to our contractor, all at a weighted average exercise price of $6.50 per ordinary share. As of such date, approximately 2,021,000 additional ordinary shares were reserved for issuance upon exercise of options that may be granted after such date under our share option plans. USE OF PROCEEDS We will not receive any of the proceeds from the sale of ordinary shares and listed warrants by our selling securityholders or from the sale by the selling securityholders of the ordinary shares issuable upon exercise of the listed warrants. However, we will receive the exercise price of any of the listed warrants or the warrant held by our contractor that are exercised. We will receive approximately $27.0 million if all 3,194,082 listed warrants and 400,000 warrants held by our contractor are exercised. We have agreed to bear all expenses relating to the registration of the securities registered pursuant to the registration statement, of which this prospectus is a part. The net proceeds received from the exercise of the listed warrants and the warrants held by our contractor will be used towards the

further ramp-up and deployment of Fab 2 as well as for general corporate purposes. SELLING SECURITYHOLDERS BENEFICIAL OWNERSHIP AND OTHER INFORMATION The securities covered by this prospectus were issued to the selling securityholders pursuant to the following transactions. On October 23, 2002, we completed a sale of ordinary shares and listed warrants in connection with the distribution of rights to our shareholders and employee option holders in September 2002, resulting in gross proceeds of approximately $20.5 million. A total of 4,097,964 shares were issued at a price of $5.00 per share in addition to listed warrants exercisable through October 31, 2006 into 1,844,082 ordinary shares at an exercise price of $7.50 per share in connection with the rights offering. Concurrent with the completion of the rights offering, we closed a $15 million investment in our ordinary shares made by OTPP pursuant to a share purchase agreement. We issued to OTPP 3,000,000 ordinary shares at a price of $5.00 per share in addition to listed warrants exercisable through October 31, 2006 into 1,350,000 ordinary shares at an exercise price of $7.50 per share in connection with the share purchase agreement. 23 In February 2003, we issued to Meissner-Baran Ltd. a warrant exercisable into an aggregate of 400,000 of our ordinary shares in connection with an amendment to the construction contract between Meissner-Baran Ltd., M+W Zander Holding GmbH and Baran Group Ltd. and us. The warrant issued to Meissner-Baran Ltd. is exercisable through February 19, 2007 into 400,000 ordinary shares at an exercise price of $7.50 per share. The following table assumes that each selling securityholder will sell all of the securities owned by it and covered by this prospectus. Information included in the table is based upon information provided by the selling securityholders. Our registration of these securities does not necessarily mean that the selling securityholders will sell any or all of the securities. Pursuant to the share purchase agreement between OTPP and us described above, OTPP may use this prospectus to resell up to an aggregate of 4,350,000 of our ordinary shares, including ordinary shares to be issued upon the exercise of the 1,350,000 listed warrants that we issued to it under the share purchase agreement. This prospectus also covers both the resale by OTPP of the listed warrants and the offer by us of the ordinary shares issuable upon the exercise of the listed warrants to persons to whom the listed warrants may be sold or otherwise transferred by OTPP. OTPP has committed that it will not sell or otherwise dispose of any of the ordinary shares, listed warrants or ordinary shares issuable upon the exercise of the listed warrants that we issued to it until the end of July 2003. As of the end of July 2003, OTPP committed that it will only transfer, sell, offer for sale, pledge, hypothecate of otherwise dispose of any of the ordinary shares, listed warrants or ordinary shares issuable upon the exercise of the listed warrants in compliance with the Securities Act of 1933, the Israel Securities Law - 1968 or any applicable securities laws of any jurisdiction and the terms of this Agreement. OTPP has not held any position or office or had a material relationship with us or any of our affiliates within the past three years other than as a result of its purchase and ownership of the securities covered by this prospectus. Israel Corporation Technologies (ICTech) Ltd., SanDisk Corporation, Alliance Semiconductor Corporation and Macronix (BVI) Co., Ltd. may use this prospectus to resell up to an aggregate of 4,086,037 ordinary shares and up to 1,838,715 ordinary shares which may be issued upon the exercise of 1,838,715 listed warrants. These outstanding ordinary shares and listed warrants were issued to them as part of the rights offering described above. This prospectus also covers the resale by such securityholders of the listed warrants and the offer by us of the ordinary shares issuable upon exercise of the listed warrants by persons to whom the listed warrants may be sold or otherwise transferred by ICTech Ltd., SanDisk, Alliance and Macronix. Pursuant to a shareholders agreement, each of ICTech Ltd., SanDisk, Alliance and Macronix have agreed to restrictions (subject to exceptions contained in the agreement, including a right to sell up to 1.2 million of our ordinary shares under limited circumstances and the right to sell holdings in excess of 5.4 million of our shares) through January 2004 on the transfer of ordinary shares purchased by them in connection with their investments in Fab 2. These restrictions are thereafter gradually lifted through January 2006. We have granted each of ICTech Ltd., SanDisk, Alliance and Macronix demand registration rights commencing in January 2004. Our agreement with our banks also limits the number of ordinary shares which SanDisk, Alliance, Macronix and ICTech Ltd. may sell while loans under our facility agreement are outstanding. The limitations of the shareholders agreement and our bank agreement do not apply to the securities being registered pursuant to this prospectus. Meissner-Baran Ltd. may use this prospectus to resell up to an aggregate of 400,000 of our ordinary shares issued pursuant to its exercise of the warrant issued to it in connection with an amendment to the construction contract described above. 24 Securities Securities Beneficially Owned Beneficially Owned Securities Being Prior to Upon Completion of Names and Addresses Offered Offering (1) Offering (1) ---------- ---------- ---------- ---------- Percentage Percentage of of Class Class Shares/ Shares/ Number Warrants Number Warrants ---------- ---------- ---------- ---------- Ontario Teacher's Pension 4,350,000 Shares(2) 4,350,000

Shares(2) 8.68% 0 0% Plan Board 1,350,000 Warrants 1,350,000 Warrants 42.27% 0 0% 5650 Yonge Street Toronto, Ontario Canada M2M 4H5 SanDisk Corporation 1,161,007 Shares(2) 9,774,020 Shares(3) 19.16% 8,613,013 17.00% 140 Caspian Court 360,312 Warrants 360,312 Warrants 11.28% 0 0% Sunnyvale, CA USA 94089 Alliance Semiconductor 1,152,742 Shares(2) 9,737,596 Shares(4) 19.09% 8,584,854 16.95% Corporation 357,747 Warrants 357,747 Warrants 11.20% 0 0% 2575 Augustine Drive Santa Clara, CA USA 95054 Macronix (BVI) Co., Ltd. 957,000 Shares(2) 9,541,854 Shares(5) 18.73% 8,584,854 16.95% PO Box 957 297,000 Warrants 297,000 Warrants 9.30% 0 0% Offshore Incorporations Centre Road Town Tortola British Virgin Islands Israel Corporation 2,654,003 Shares(2) 15,398,446 Shares(6) 30.28% 12,744,443 25.47% Technologies 823,656 Warrants 823,656 Warrants 25.79% 0 0% (ICTech) Ltd. 23 Arania St. Tel Aviv, Israel 61070 Meissner-Baran Ltd. 400,000 Shares 400,000 Shares 0.81% 0 0% 7 Hamarpe St. Jerusalem, Israel 1. Beneficial ownership is calculated as of August 31, 2003 in accordance with General Instruction F. to Form 20-F. and is based on 48,779,146 outstanding ordinary shares and 3,194,082 outstanding listed warrants. 2. Includes shares underlying the listed warrants owned by such securityholders and covered by this prospectus. 3. Represents 7,536,343 shares currently owned by SanDisk, 777,295 shares issuable in connection with the initial installment under the amendment to its fifth milestone payment and 1,100,070 shares issuable in connection with the second installment under the amendment to its fifth milestone payment assuming a purchase price of $4.00 per share, and 360,312 shares issuable upon the exercise of listed warrants. 4. Represents 7,502,484 shares currently owned by Alliance, 777,295 shares issuable in connection with the initial installment under the amendment to its fifth milestone payment and 1,100,070 shares issuable in connection with the second installment under the amendment to its fifth milestone payment assuming a purchase price of $4.00 per share, and 357,747 shares issuable upon the exercise of the listed warrants. 25 5. Represents 7,367,489 shares currently owned by Macronix, 777,295 shares issuable in connection with the initial installment under the amendment to its fifth milestone payment and 1,100,070 shares issuable in connection with the second installment under the amendment to its fifth milestone payment assuming a purchase price of $4.00 per share, and 297,000, shares issuable upon the exercise of listed warrants. 6. Represents 13,323,436 shares currently owned by ICTech, 518,020 shares issuable in connection with the initial installment under the amendment to its fifth milestone payment and 733,334 shares issuable in connection with the second installment under the amendment to its fifth milestone payment assuming a purchase price of $4.00 per share, and 823,656 shares issuable upon the exercise of listed warrants. Pursuant to a consolidated shareholders agreement dated January 18, 2001, by and among Israel Corp., Alliance Semiconductor Corporation, SanDisk Corporation and Macronix International Co. Ltd., each of ICTech, Alliance Semiconductor Corporation, SanDisk Corporation and Macronix International Co. Ltd. may be deemed to have shared voting and dispositive control over 76.56% of the outstanding shares of Tower. On January 31, 2001, Israel Corp. transferred all its beneficial ownership of shares of Tower to ICTech. The beneficial ownership described above with respect to the parties to the consolidated shareholders agreement is expressly disclaimed with respect to any shares other than the shares held directly by each party, as specified in the table above, and the statement shall not be deemed to constitute an admission by any party described in this paragraph that it is the beneficial owner of any shares of Tower covered by the consolidated shareholders agreement, other than the shares held directly by such party, for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended, or for any other purpose. In addition, we have entered into foundry agreements with each of Alliance Semiconductor Corporation, SanDisk Corporation and Macronix International Co. Ltd. under which we have committed a portion of our Fab 2 capacity for contemplated orders from these parties. Also, a representative of each of ICTech, Alliance Semiconductor Corporation, SanDisk Corporation and Macronix International Co. Ltd. is a member of our board of directors. PLAN OF DISTRIBUTION This prospectus relates to the offer and sale of ordinary shares, listed warrants and ordinary shares issuable upon the exercise of listed warrants and the warrants held by our contractor, as the case may be, by the selling securityholders named herein. As used herein, "selling securityholder" includes donees, pledgees, transferees or other successors-in-interest selling securities received after the date of this prospectus from the named selling securityholders as a gift, pledge, partnership distribution or other non-sale related transfer. We will bear all costs, expenses and fees in connection with the registration of the securities offered by this prospectus, other than brokerage commissions and similar selling expenses, if any, attributable to the sale of securities offered hereby which will be borne by the selling securityholders. Sales of the securities offered hereby may be effected by the selling securityholders from time to time in one or more types of transactions (which may include block transactions) on the Nasdaq National Market (or Nasdaq SmallCap Market in the case of the listed warrants) and/or on the Tel Aviv Stock Exchange at prevailing market prices, in the

over-the-counter market, in negotiated transactions, through put or call options transactions relating to the shares offered hereby, through short sales of the shares offered hereby, or a combination of such methods of sale, at market prices prevailing at the time of sale, or at negotiated prices. Such transactions may or may not involve brokers or dealers. The selling securityholders have advised us that they have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers regarding the sale of their securities, nor is there an underwriter or coordinating broker acting in connection with the proposed sale of the securities offered hereby by the selling securityholders. 26 The selling securityholders may enter into hedging transactions with broker-dealers or other financial institutions. In connection with such transactions, broker-dealers or other financial institutions may engage in short sales of the securities offered hereby or of securities convertible into or exchangeable for such securities in the course of hedging positions they assume with the selling securityholders. The selling securityholders may also enter into options or other transactions with broker-dealers or other financial institutions which require the delivery to such broker-dealers or other financial institutions of the securities offered by this prospectus, which securities such broker-dealer or other financial institution may resell pursuant to this prospectus (as amended or supplemented to reflect such transaction). The selling securityholders may effect these transactions by selling the securities offered hereby directly to purchasers or to or through broker-dealers, which may act as agents or principals. Such broker-dealers may receive compensation in the form of discounts, concessions or commissions from the selling securityholders and/or the purchasers of the securities offered hereby for whom such broker-dealers may act as agents or to whom they sell as principal, or both (which compensation as to a particular broker-dealer might be in excess of customary commissions). The selling securityholders and any broker-dealers that act in connection with the sale of the securities offered hereby might be deemed to be "underwriters" within the meaning of Section 2 (11) of the Securities Act, and any commissions received by such broker-dealers and any profit on the resale of the securities offered hereby sold by them while acting as principals might be deemed to be underwriting discounts or commissions under the Securities Act. We have agreed to indemnify OTPP against certain liabilities, including liabilities arising under the Securities Act. The selling securityholders may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of the securities offered hereby against certain liabilities, including liabilities arising under the Securities Act and/or the Israeli Securities Law. Because the selling securityholders may be deemed to be "underwriters" within the meaning of Section 2(11) of the Securities Act, the selling securityholders will be subject to the prospectus delivery requirements of the Securities Act. We have informed the selling securityholders that the anti-manipulative provisions of Regulation M promulgated under the Exchange Act may apply to their sales in the market. Subject to the limitations on the transfer of their shares (see "Selling Securityholders" above), the selling securityholders also may resell all or a portion of the securities offered hereby in open market transactions in reliance upon Rule 144 under the Securities Act, provided they meet the criteria and conform to the requirements of Rule 144. Upon our being notified by any of the selling securityholders that any material arrangement has been entered into with a broker-dealer for the sale of shares offered hereby through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer, a supplement to this prospectus will be filed, if required, pursuant to Rule 424(b) under the Securities Act, disclosing: o the name of the selling securityholder and of the participating broker-dealer(s); o the number and type of securities involved; o the initial price at which such securities were sold; 27 o the commissions paid or discounts or concessions allowed to such broker-dealer(s), where applicable; o that such broker-dealer(s) did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus; and o other facts material to the transaction. In addition, upon our being notified by any of the selling securityholders that a donee, pledgee, transferee or other successor-in-interest intends to sell more than 500 shares, a supplement to this prospectus will be filed. This prospectus also relates to the offer and sale by us of ordinary shares issuable upon the exercise of the listed warrants by any person other than the selling securityholders. To the extent required, we will use our best efforts to file one or more supplements to this prospectus to describe any material information with respect to the plan of distribution not previously disclosed in this prospectus or any material change to such information. EXPENSES OF THE OFFERING We have incurred, or will incur, the following estimated expenses in connection with the sale of the securities covered by this prospectus: SEC Registration fee $ 5,084.27 Legal fees and expenses $ 23,000 Miscellaneous $ 1,500 Total $ 29,584.27 ========== 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 prohibit the payment of dividends prior to January 1, 2006 and before 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 charged such deposit in favor of our banks, and we must have complied with certain financial ratios. In addition, we may only declare and pay a dividend provided that: o the dividend is only paid from excess cash flow from Fab 2; o there is no event of default outstanding under the facility agreement; and o 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 the company from meeting its existing and future expected obligations as they come due. 28 MATERIAL INCOME TAX CONSIDERATIONS A. ISRAELI CAPITAL GAINS TAX Until the end of the year 2002, capital gains from the sale of our securities were generally exempt from Israeli Capital Gains Tax. This exemption did not apply to a shareholder whose taxable income is determined pursuant to the Israeli Income Tax Law (Inflationary Adjustments), 1985, or to a person whose gains from selling or otherwise disposing of our securities are deemed to be business income. As a result of the recent tax reform legislation in Israel, gains from the sale of our ordinary shares and warrants to purchase our ordinary shares derived from January 1, 2003 and on will in general be liable to capital gains tax of up to 15%. This will be the case so long as our securities remain listed for trading on the Tel Aviv Stock Exchange or on a designated foreign stock market such as the NASDAQ. However, according to the tax reform legislation, non-residents of Israel will be exempt from any capital gains tax from the sale of our securities 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. These provisions dealing with capital gains are not applicable to a person whose gains from selling or otherwise disposing of our securities are deemed to be business income or whose taxable income is determined pursuant to the Israeli Income Tax Law (Inflation Adjustments), 1985; the latter law would not normally be applicable to non-resident shareholders who have no business activity in Israel. In any event, under the US-Israel Tax Treaty, a US treaty resident cannot be liable to Israeli capital gains tax from the sale of our warrants for the purchase of our shares, and may only be liable 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. B. ISRAELI TAX ON DIVIDEND INCOME Israeli tax at a rate of 25% is generally withheld at source from dividends paid to Israeli individuals and non-residents; in general, no withholding tax is imposed on dividends paid to Israeli companies (subject to the provision of the Israeli Income Tax Ordinance). The applicable rate for dividends paid out of the profits of an Approved Enterprise is 15%. These rates are subject to the provisions of any applicable tax treaty. Under the US-Israel Tax Treaty, Israeli withholding tax on dividends paid to a US treaty resident may not in general exceed 25%, or 15% in the case of dividends paid out of the profits of an Approved Enterprise. Where the recipient is a US corporation owning 10% or more of the voting stock of the paying corporation and the dividend is not paid from the profits of an Approved Enterprise, the Israeli tax withheld may not exceed 12.5% subject to certain conditions. C. PFIC RULES A non-U.S. corporation will be classified as a PFIC for U.S. federal income tax purposes if either (i) 75% or more of its gross income for the taxable year is passive income, or (ii) on a quarterly average for the taxable year by value (or, if it is not a publicly traded corporation and so elects, by adjusted basis), 50% or more of its gross assets produce or are held for the production of passive income. 29 We do not believe that we satisfied either of the tests for PFIC status in 2002 or in any prior year. However, there can be no assurance that we will not be a PFIC in 2003 or a later year. If, for example, the "passive income" earned by us exceeds 75% or more of our "gross income", we will be a PFIC under the "income test". Passive income for PFIC purposes includes, among other things, gross interest, dividends, royalties, rents and annuities. For manufacturing businesses, gross income for PFIC purposes should be determined by reducing total sales by the cost of goods sold. Although not free from doubt, if our cost of goods sold exceeds our total sales by an amount greater than our passive income, such that we are treated as if we had no gross income for PFIC purposes, we believe that we would not be a PFIC as a result of the income test. This belief 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. If we were to be a PFIC at any time during a U.S. holder's holding period, such U.S. holder would be required to either: (i) pay an interest charge together with tax calculated at maximum ordinary income rates on "excess distributions," which is defined to include gain on a sale or other disposition of ordinary shares, or (ii) so long as the ordinary shares are "regularly traded" on a qualifying exchange, elect to recognize as ordinary income each such year

the excess in the fair market value, if any, of its ordinary shares at the end of the taxable year over such holder's adjusted basis in such ordinary shares and, to the extent of prior inclusions of ordinary income, recognize ordinary loss for the decrease in value of such ordinary shares (the "mark to market" election). For this purpose, the Nasdaq National Market is a qualifying exchange. U.S. holders are strongly urged to consult their own tax advisers regarding the possible application and consequences of the PFIC rules. The above discussion does not purport to be an official interpretation of the tax law provisions mentioned therein or to be a comprehensive description of all tax law provisions which might apply to our securities or to reflect the views of the Israeli tax authorities, and it is not meant to replace professional advice in these matters. The above discussion is based on current Israeli tax law, which may be changed by future legislation or reforms. Non-residents should obtain professional tax advice with respect to the tax consequences under the laws of their countries of residence of holding or selling our securities. DESCRIPTION OF SHARE CAPITAL The description of our share capital contained in Amendment No. 1 to our registration statement on Form F-2, filed on September 27, 2002 under the heading "Description of Share Capital" is hereby incorporated by reference. 30 FOREIGN EXCHANGE CONTROLS AND OTHER LIMITATIONS Under Israeli law, non-residents of Israel who purchase ordinary shares with certain non-Israeli currencies (including dollars) may freely repatriate in such non-Israeli currencies all amounts received in Israeli currency in respect of the ordinary shares, whether as a dividend, as a liquidating distribution, or as proceeds from any sale in Israel of the ordinary shares, provided in each case that any applicable Israeli income tax is paid or withheld on such amounts. The conversion into the non-Israeli currency must be made at the rate of exchange prevailing at the time of conversion. Under Israeli law and our company's Memorandum and Articles of Association both residents and non-residents of Israel may freely hold, vote and trade ordinary shares. LEGAL MATTERS Certain legal matters in connection with the offering with respect to Israeli law will be passed upon for us by Yigal Arnon & Co., Tel Aviv, Israel, our Israeli counsel. This opinion addresses the authorization and legality of the issuance of the securities registered hereunder. Certain legal matters in connection with this offering with respect to United States law will be passed upon for us by Ehrenreich Eilenberg & Krause LLP, New York, New York, our United States counsel. EXPERTS The consolidated financial statements incorporated in this prospectus by reference from our Annual Report on Form 20-F for the year ended December 31, 2002 have been audited by Brightman Almagor & Co., a member of Deloitte Touche Tohmatsu, independent auditors, as stated in their report, which is incorporated herein by reference, 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 CERTAIN 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 the assets of such persons and of ours are located outside the United States. For further information regarding enforceability of civil liabilities against us and certain other persons, see "Risk Factors--Service of Process and Enforcement of Judgments." THE ISRAEL SECURITIES AUTHORITY EXEMPTION Promptly following our consummation of a rights offering to our shareholders in October 2002 to purchase ordinary shares and listed warrants, implemented through a registration statement on Form F-2 prepared in accordance with the requirements of the Securities Act of 1933 and a prospectus in substantially identical form prepared in accordance with Israeli securities law, we issued additional ordinary shares and warrants to OTPP. Prior to this issuance to OTPP, NASDAQ and the Tel Aviv Stock Exchange approved the listing of the securities to be issued to OTPP for trade on these stock exchanges. In connection with the private placement to OTPP, we undertook to register the securities issued to OTPP in order to release them from the resale restrictions provided under Rule 144 of the Securities Act of 1933 and Section 15C of the Israeli Securities Law, 1968. 31 Pursuant to guidelines published by the Israel Securities Authority in December 2000 in connection with restrictions on the resale of securities issued in a private placement outside of Israel, the Israel Securities Authority confirmed to us in July 2003 that once this registration statement on Form F-3 is declared effective by the Securities Exchange Commission and the securities issued to OTPP in October 2002 will thereby be released from the resale restrictions under Rule 144 of the Securities Act of 1933, these securities will automatically be released from the resale restrictions under Section 15C of the Israeli Securities Law, 1968 with no requirement to publish a resale prospectus in Israel. On the first business day following the date of this registration statement, we will file a copy of this registration statement with the Israeli Registrar of Companies. WHERE YOU CAN FIND MORE INFORMATION; INCORPORATION OF CERTAIN INFORMATION BY REFERENCE FOREIGN PRIVATE ISSUER. We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, as applicable to foreign private issuers.

Accordingly, we file annual and current reports and other information with the SEC. You may read and copy any document we file with the SEC at the SEC's public reference room at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on these public reference rooms. In addition, similar information concerning Tower can be inspected and copied at the offices of the National Association of Securities Dealers, Inc., 9513 Key West Avenue, Rockville, Maryland 20850, at the offices of the Israel Securities Authority at 22 Kanfei Nesharim St., Jerusalem Israel, at the offices of the Tel Aviv Stock Exchange at 54 Ahad Ha'am Street, Tel Aviv, Israel and at the offices of the Israeli Registrar of Companies at 97 Jaffa Street, Jerusalem, Israel. All documents that we have filed on the SEC's EDGAR system are available for retrieval on the SEC's website at www.sec.gov. We customarily solicit proxies by mail; however, as a "foreign private issuer," we are exempt from the rules under the Exchange Act prescribing certain disclosure and procedural requirements for proxy solicitations. Also, our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act and the rules thereunder, with respect to their purchases and sales of securities. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. Pursuant to an exemption granted to us by the Israeli Securities Authority in connection with an offering of our convertible debentures in Israel in January 2002, we committed that our future periodic reports shall be filed in the timeframe required of domestic U.S. issuers and shall include additional information required of domestic U.S. issuers, as required by the ISA. A copy of this registration statement, our memorandum of association, our articles of association and the documents filed as exhibits (see list below), are available for inspection at our offices at Hamada Avenue, Ramat Gavriel Industrial Park, Migdal Haemek, Israel. 32 You may request, at no cost, a copy of any documents incorporated by reference herein, excluding all exhibits, unless we have specifically incorporated by reference an exhibit, by writing or telephoning us at: Tower Semiconductor Ltd. P.O. Box 619 Migdal Haemek, Israel 23105 972-4-650-6611 Attention: Ms. Tamar Cohen, Corporate Secretary 33 10,680,119 ORDINARY SHARES 3,188,715 WARRANTS TO PURCHASE ORDINARY SHARES ---------- PROSPECTUS ---------- 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. SEPTEMBER , 2003 34 INFORMATION NOT REQUIRED IN PROSPECTUS INDEMNIFICATION OF DIRECTORS AND OFFICERS The Israeli Companies Law, or the Companies Law, 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. 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; and (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. 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, provided such undertaking is limited to types of occurrences, which, in the opinion of the company's board of directors, are, at the time of the undertaking, foreseeable and to an amount the board of directors has determined is reasonable in the circumstances. 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: 35 o a breach of his fiduciary duty, except to the extent

described above; o 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; o an act or omission done with the intent to unlawfully realize personal gain; or o 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. Our Articles of Association have been amended to allow for indemnification of, and procurement of insurance coverage for our officers and directors to the maximum extent provided for by the Companies Law. 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. 36 EXHIBITS EXHIBIT INDEX EXHIBIT NUMBERS DESCRIPTION OF DOCUMENT *4.1 Memorandum of Association of Registrant **4.2 Articles of Association of Registrant ***4.3 Form of Warrant Agreement between the Registrant and American Stock (including form of Warrant Certificate) 5.1 Opinion of Yigal Arnon & Co. 23.1 Consent of Yigal Arnon & Co. (contained in their opinion constituting Exhibit 5.1) 23.2 Consent of Brightman Almagor & Co. 24 Power of Attorney (included on signature page hereof) ---------- *Incorporated by reference to Exhibit No. 3.1 of the Registrant's Registration Statement on Form F-1, File No. 33-83126. ** Incorporated by reference to Exhibit 1.1 to the registrant's Annual Report on Form 20-F for the year ended December 31, 2000. *** Incorporated by reference to Exhibit 4.2 to the registrant's registration statement on Form F-2 (SEC File No. 333-97043). 37 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 paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is 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 this 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. 38 (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 Section 10(a)(3) of the Act or rule 3-19 of Regulation S-X 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. (b) The undersigned

Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual reports pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in this Registration Statement 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. (c) 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. 39 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-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Migdal Haemek, Israel, on September 18, 2003. TOWER SEMICONDUCTOR LTD. By: /s/Carmel Vernia ---------- Carmel Vernia Chairman of the Board of Directors and Acting Chief Executive Officer KNOW ALL MEN BY THESE PRESENTS, each director and officer whose signature appears below constitutes and appoints, Carmel Vernia, Idan Ofer and Amir Harel or any of them, his true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, to sign in any and all capacities any and all amendments or post-effective amendments to this registration statement on Form F-3 and to file the same with all exhibits thereto and other documents in connection therewith with the Securities Exchange Commission, granting such attorneys-in-fact and agents, and each of them, full power and authority to do all such other acts and execute all such other documents as they, or any of them, may deem necessary or desirable in connection with the foregoing, as fully as the undersigned might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof. Pursuant to the requirements of the Securities Act of 1933, this registration statement on Form F-3 has been signed by the following persons in the capacities and on the dates indicated: SIGNATURE TITLE DATE /s/ IDAN OFER Director September 18 , 2003 ---------- Idan Ofer /s/ AMIR HAREL Vice President and September 18 , 2003 ---------- Amir Harel Chief Financial Officer /s/ EHUD HILLMAN Director September 18, 2003 ---------- Ehud Hillman /s/ DR. ELI HARARI Director September 18, 2003 ---------- Dr. Eli Harari /s/ MIIN WU Director September 18, 2003 ---------- Miin Wu 40 /s/N.D. REDDY Director September 18, 2003 ---------- N.D. Reddy /s/ ZEHAVA SIMON Director September 18, 2003 ---------- Zehava Simon /s/ HANS ROHRER Director September 18, 2003 ---------- Hans Rohrer AUTHORIZED REPRESENTATIVE IN THE UNITED STATES September 18, 2003 Tower Semiconductor USA By:/s/Harold Blomquist ---------- Harold Blomquist Chief Executive Officer 41 EXHIBIT INDEX EXHIBIT NUMBERS DESCRIPTION OF DOCUMENT ------- ---------- *4.1 Memorandum of Association of Registrant **4.2 Articles of Association of Registrant ***4.3 Form of Warrant Agreement between the Registrant and American Stock (including form of Warrant Certificate) 5.1 Opinion of Yigal Arnon & Co. 23.1 Consent of Yigal Arnon & Co. (contained in their opinion constituting Exhibit 5.1) 23.2 Consent of Brightman Almagor & Co. 24 Power of Attorney (included on signature page hereof) ---------- * Incorporated by reference to Exhibit No. 3.1 of the Registrant's Registration Statement on Form F-1, File No. 33-83126. ** Incorporated by reference to Exhibit 1.1 to the registrant's Annual Report on Form 20-F for the year ended December 31, 2000. *** Incorporated by reference to Exhibit 4.2 to the registrant's registration statement on Form F-2 (SEC File No. 333-97043). 42