TOWER SEMICONDUCTOR LTD
Form F-1/A
December 14, 2005

As filed with the Securities and Exchange Commission on December 14 , 2005

Registration No. 333-126909

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 6
ON FORM F-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

TOWER SEMICONDUCTOR LTD.

(Exact name of Registrant as specified in its charter)

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

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

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

Copies of all Correspondence to:

DAVID H. SCHAPIRO, ESQ. **ARI FRIED, ESQ.** Yigal Arnon & Co. 1 Azrieli Center Tel Aviv, 67021 Israel Tel: 972-3-608-7856	**SHELDON KRAUSE, ESQ.** Eilenberg & Krause LLP 11 East 44th Street New York, NY 10017 Tel: 212-986-9700

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

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

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

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

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

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

EXPLANATORY NOTE

The prospectus included in this Amendment No. 6 to the Registration Statement is the form of prospectus which the Registrant intends to use after the Registration Statement has been declared effective by the Securities and Exchange Commission and any required permits have been issued by the Israeli Securities Authority. This prospectus will not be used in connection with the offer or sale of any security until such declaration has been made and such permits have been issued.

PROSPECTUS

DISTRIBUTION OF RIGHTS TO PURCHASE DEBENTURES CONVERTIBLE INTO ORDINARY SHARES

We are distributing transferable rights to purchase up to $50 million of U.S. dollar denominated debentures that are convertible into up to 45,454,545 of our ordinary shares to those persons that, as of 5:00 p.m., New York City time (midnight, Israel time) on the record date of December 20 , 2005 were either shareholders of our company or eligible employees holding options to purchase our ordinary shares under our share option plans that entitle option holders to participate in a rights offering. You will receive one right for each 138.98 ordinary shares and/or eligible employee options that you hold on the record date. If you hold 138 or fewer ordinary shares and/or eligible options on the record date, you will not receive any rights. Your rights will be aggregated for all the shares (and/or eligible employee options, as the case may be) that you own on the record date and then rounded down to the nearest whole number, so that you will not receive fractional rights. For example, if you own 139 shares on the record date, you will receive one right, and if you own 100,000 shares on the record date, you will receive 719 rights. Each right will entitle you to purchase, at a subscription price of $100.00, 100 U.S. dollar denominated debentures. The debentures will be convertible into our ordinary shares at a rate of one ordinary share per $ 1.10 aggregate principal amount of debentures. Each debenture is of $1.00 in principal amount, and bears annual interest at the rate of 5%. Principal, together with accrued interest, is payable in one installment on January 12 , 201 2 . The rights are exercisable during a 23-day period, beginning after 5:00 p.m., New York City time (midnight, Israel time) on December 20 , 2005 (the record date) and ending on January 12 , 200 6 at 5:00 p.m., New York City time (midnight, Israel time)

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

Commencing on the first trading day on the Tel Aviv Stock Exchange after the date on which the debentures are listed for trading on the Tel Aviv Stock Exchange and until December 27 , 2011, the debentures are convertible into our ordinary shares at a conversion price of one ordinary share per $ 1.10 aggregate principal amount of debentures. The conversion price is subject to adjustment and the debentures will be subject to mandatory redemption by us in certain circumstances. For a detailed description of the debentures, see Description of the Debentures.

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

Our ordinary shares trade on the NASDAQ National Market under the symbol TSEM and on the Tel Aviv Stock Exchange in Israel under the symbol TSEM. The debentures will be listed on the NASDAQ Capital Market under the symbol TSEMG and the Tel Aviv Stock Exchange under the symbol TSEM.C2 and may be identified on the Tel Aviv Stock Exchange as Debentures (Series B). On December 13 , 2005, the last reported sale price of our ordinary shares on the NASDAQ National Market was $1. 57 per share and on the Tel Aviv Stock Exchange was NIS 7.32 per share.

The rights are transferable and will be listed for trading for a single day on the NASDAQ Capital Market under the symbol TSEMR and on the Tel Aviv Stock Exchange under the symbol TSEM.R2". The trading day will be January 9 , 200 6 . If you hold your rights through an Israeli brokerage company that holds the rights through the nominee company of the Tel Aviv Stock Exchange, you will be considered to have instructed your broker to sell all your rights on the Tel Aviv Stock Exchange with no price limit, if you fail to give your broker instructions regarding the exercise, non-exercise or sale of the rights prior to January 9 , 200 6 .

The offering is not secured by an underwriting commitment.

The securities offered hereby involve a high degree of risk. See Risk Factors beginning on page 9 .

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

The date of this prospectus is December 15 , 2005

TABLE OF CONTENTS

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

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SUMMARY

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

QUESTIONS AND ANSWERS ABOUT TOWER SEMICONDUCTOR LTD.

What do we do?

We are a pure-play independent wafer foundry dedicated to the manufacture of semiconductors, strategically focused on embedded non-volatile memory, complementary metal oxide semiconductor (CMOS) image sensor, mixed signal and radio frequency CMOS (RFCMOS) technologies. Typically, pure-play foundries do not offer products of their own, but focus on producing integrated circuits, or ICs, based on the design specifications of their customers. We manufacture semiconductors using advanced production processes for our customers primarily based on third party designs and our own proprietary designs. We currently offer the manufacture of ICs with geometries ranging from 1.0 to 0.18-micron, while our 0.13-micron technology is expected to be ready for production by the end of 2005. We also provide complementary technical services and design support. ICs manufactured by us are incorporated into a wide range of products in diverse markets, including consumer electronics, personal computers, communications, automotive, industrial and medical device products.

In January 2001, we commenced construction of a new, state-of-the-art wafer fabrication facility, which we refer to as Fab 2, located in Migdal Haemek, Israel and adjacent to our first facility, Fab 1. Depending on the process technology and product mix, as of September 30, 2005, Fab 1 is able to achieve capacity levels of approximately 16,000 wafers per month. In 2003, we completed the infrastructure of Fab 2 and commenced production wafer shipments from this Fab. Fab 2 is designed to operate in geometries of 0.18-micron and below, using advanced materials and advanced CMOS technology licensed from Freescale and Toshiba and other technologies that we developed and will develop independently or with development partners. Production capacity at the end of September 2005 was 14,600 wafers per month. We currently expect to have production capacity of 15,400 wafers per month by the end of 2005, of which approximately 800 wafers per month are expected to be in 0.13-micron. Depending on the process technology and product mix, when fully ramped-up we estimate that Fab 2 will be able to achieve capacity levels of up to 36,000 wafers per month.

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

Where are we located?

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

Where can you find more information about us?

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

QUESTIONS AND ANSWERS ABOUT THE RIGHTS OFFERING

What is an offering of rights to purchase convertible debentures?

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

What securities may be purchased under each right?

Each right entitles the holder to purchase, at a price of $100.00, one hundred U.S. dollar denominated debentures. Each debenture is of $1.00 in principal amount. The debentures will be convertible into our ordinary shares at a rate of one ordinary share per $ 1.10 aggregate principal amount of debentures.

How many rights will you receive?

Each person who, at the close of business at 5:00 p.m., New York City time (midnight, Israel time), on December 20 , 2005 (the record date), owns our ordinary shares and/or options under our employee share option plans that entitle option holders to participate in this offering will receive, at no charge, one right for each 138.98 ordinary shares and/or eligible options owned on the record date. The 138.98 ratio was derived by dividing the sum of the total number of our issued and outstanding ordinary shares and the number of options that entitle their holders to participate in the rights offering by the dollar amount being offered in the rights offering, multiplied by the subscription price. If you hold 138 or fewer ordinary shares and/or eligible options on the record date, you will not receive any rights. Your rights will be aggregated for all the shares (and/or eligible employee options, as the case may be) that you own on the record date and then rounded down to the nearest whole number, so that you will not receive fractional rights. For example, if you own 139 shares on the record date, you will receive one right, and if you own 100,000 shares on the record date, you will receive 719 rights. When you exercise a right, you choose to purchase the number of debentures that the right entitles you to purchase.

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

One right entitles its holder to purchase, at a price of $100.00, one hundred debentures convertible into our ordinary shares. Each debenture is of $1.00 in principal amount. The debentures will be convertible into our ordinary shares at a rate of one ordinary share per $ 1.10 aggregate principal amount of debentures. When you exercise a right, you choose to purchase the number of debentures that the right entitles you to purchase. You may exercise all of your rights or a portion of your total rights, or you may choose not to exercise any of your rights. In addition, you may sell the rights on either the NASDAQ Capital Market or the Tel Aviv Stock Exchange, during one single trading day, on January 9 , 200 6 . You may pay us the subscription price either in U.S. dollars, or if you are an Israeli resident, in New Israeli Shekels according to the U.S. dollar/NIS representative exchange rate published by the Bank of Israel on the day before payment of the subscription price.

How will principal and interest be paid?

The debentures will bear interest at the rate per annum of 5%. Principal of the debentures is payable, together with accrued interest, in one installment on January 12 , 201 2 . On January 12, 2012 , the cumulative interest rate on the debentures will be 34.0096%. Instruments representing the debentures will be issued in denominations of $1.00 and integral multiples thereof.

Interest will initially accrue from the date following the last day rights may be exercised (January 13 , 200 6), and will be computed on the basis of a 365-day year.

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

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

How may the debentures be converted?

Commencing on the first Tel Aviv Stock Exchange trading day after the date on which the debentures are listed for trading on the Tel Aviv Stock Exchange and until December 27 , 2011 (inclusive) but if such date is not a trading day on the Tel Aviv Stock Exchange, then the last date to convert the debentures will be the first trading day on the Tel Aviv Stock Exchange after such date), the debentures are convertible into our ordinary shares at a conversion price of one ordinary share per $ 1.10 aggregate principal amount of debentures. We will not issue fractional shares upon conversion of the debentures. We will round down the number of shares issuable upon conversion of the debentures to the nearest whole number and will not pay any cash adjustment in lieu of fractional shares.

Could the conversion price be adjusted and under what circumstances?

Yes. The conversion price will be adjusted if either of the two scenarios described under Description of the Debentures Conversion of Debentures Adjustment to Conversion Price Following a Future Financing occurs.

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

Must I convert the debentures I hold into ordinary shares?

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

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

Yes. We may at our option announce the early redemption of the debentures or part thereof, subject to the conditions described under Description of the Debentures Optional Early Redemption of Debentures - Early Redemption at the Discretion of the Company.

Will the debentures be listed for trading?

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

Are the debentures subordinated to our current indebtedness?

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

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

Why are we engaging in a rights offering?

In July 2005, we entered into an amendment to the credit facility agreement with our banks. The amendment provides, among other things, for financing from our banks in the amount of up to an additional approximately $30 million under our credit facility agreement, subject to a similar amount being raised by us from investors through the issuance of shares or convertible debentures. Our four major shareholders have committed to invest an aggregate of $25.5 million in a rights offering towards this funding requirement through the purchase of debentures convertible into our ordinary shares. We are engaging in this rights offering in order to afford all of our shareholders (and eligible employees) the opportunity to purchase our securities on the same terms as our four major shareholders. We are also engaging in this rights offering to provide our company with an opportunity to raise funds towards our other fundraising obligation to our banks to raise an additional $26 million by June 30, 2006, and to provide us with an opportunity to raise additional capital for the ramp up and operations of Fab 2.

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

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

How long will the rights offering last?

You will be able to exercise your rights only during a limited period. The rights are exercisable during a 23-day period, beginning after 5:00 p.m. New York City time (midnight, Israel time) on December 20 , 2005 (the record date) and ending at 5:00 p.m. New York City time (midnight, Israel time) on January 12 , 200 6 (the rights expiration date). If you hold your shares through a broker, dealer or other nominee (including through members of the Tel Aviv Stock Exchange), you will be required to comply with the procedural requirements of such nominee, including the procedures relating to the last time by which you may be required to provide notice of your intention to exercise your rights (which may be earlier than the final expiration date of the rights), as well as other procedural requirements described under the heading The Rights Offering. If you do not exercise your rights by the date and in accordance with the procedures applicable to you, your ability to exercise the rights and purchase the debentures will expire.

How do you exercise your rights?

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

If you are a record holder of our ordinary shares and you wish to exercise your rights, you should complete the exercise form on the back of the rights certificate and send the certificate (or a notice of guaranteed delivery), accompanied by the subscription price following the record date, to the offices of American Stock Transfer & Trust Co., as our Rights Agent, to the attention of: Reorganization Department, to be received no later than the expiration date of the rights. The rights will expire on January 12, 2006 , at 5:00 p.m. New York time, (midnight, Israel time). You may make your payment to American Stock Transfer by wire transfer or cashier s check or a money order drawn on a bank located in the United States payable to the order of American Stock Transfer & Trust Co., as Rights Agent. Payment made to American Stock Transfer & Trust Co. must be in U.S. dollars. We may agree to accept other forms of payment if requested and agreed to by us prior to payment.

4

If you are a record holder of rights that resides in Israel, you may exercise your rights by delivering the completed exercise form on the back of the rights certificate to our offices in Migdal Haemek, Israel, following the record date, accompanied by evidence of a wire transfer or a cashier s check or a money order drawn on a bank located in Israel payable to Tower Semiconductor Ltd. Payment to us must be either in New Israeli Shekels in accordance with the representative exchange rate published by the Bank of Israel on the day before payment of the subscription price. The completed exercise form and payment must be delivered to us by midnight Israel time on January 12, 2006 (the rights expiration date). Israeli record holders of rights may pay us in U.S. dollars if requested and we agree to such payment.

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

How do you transfer your rights?

If you are a record holder of our ordinary shares and wish to transfer your rights to another person, you may do so by completing the transfer form on the back of your certificate and submitting it to American Stock Transfer & Trust Co., as Rights Agent, prior to January 9, 2006 . If you wish to sell your rights on the NASDAQ Capital Market or the Tel Aviv Stock Exchange, you should independently engage a broker to execute this sale on your behalf. The rights will be listed for trading on these exchanges during their regular trading hours for one day only on January 9 , 200 6 . In connection with our September 2002 rights offering which was conducted simultaneously on NASDAQ and the Tel Aviv Stock Exchange, in which we offered shares and warrants to purchase our shares, the rights were listed for trading on NASDAQ, although no bid or asked prices were ever quoted by any market makers and there was no trading.

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

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

Is exercising your rights risky?

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

Do you have to exercise your rights?

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

Can you sell or give away your rights?

Yes. You may transfer or sell, at any time prior to the expiration date (January 12, 2006 , at 5:00 p.m. New York time, midnight, Israel time), all or a portion of the rights. You are responsible for all commissions, fees and other expenses, including brokerage commissions and transfer taxes, incurred in connection with the purchase or sale of rights. The unexercised rights will be listed for trading on the NASDAQ Capital Market and on the Tel Aviv Stock Exchange for one day only on January 9, 2006 . For further details regarding trading in our rights, please see The Rights Offering Transferability of Rights.

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

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

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

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

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

What happens if you choose not to exercise your rights?

You will retain your current number of ordinary shares even if you do not exercise your rights. However, if you do not exercise your rights and other shareholders and/or eligible employee option holders who receive rights do and then convert their debentures into ordinary shares, the percentage of our ordinary shares that you own will diminish, and your voting and other rights will be diluted. For example, if only our major shareholders Israel Corp., SanDisk Corporation, Alliance Semiconductor Corporation and Macronix International Co. Ltd., exercise rights which they have committed to exercise for the purchase of an aggregate of $25.5 million principal amount of convertible debentures, and assuming the conversion of the $25.5 million principal amount of debentures purchased by these shareholders into our ordinary shares at a conversion price of $ 1.10 per share, the percentage of our ordinary shares held collectively by these major shareholders will increase from approximately 63% to approximately 72. 6 % (the percentage of our ordinary shares held by Israel Corp. will increase from approximately 21.3% to approximately 3 6 %), and the percentage of our ordinary shares held by our other shareholders will decrease from approximately 37% to approximately 27. 4 %. None of these major shareholders have indicated whether or not they intend to convert the debentures purchased by them in this rights offering.

If you hold our shares through the nominee company of the Tel Aviv Stock Exchange (*Hevra Le-Rishumim of Bank Leumi Le-Israel Ltd.*) and you do not provide notice of your exercise of the rights or give any other instructions by the time determined by your broker on January 9, 2006 (the rights trading day), under the rules of the Tel Aviv Stock Exchange, you will be considered to have provided an instruction to sell all your rights on the Tel Aviv Stock Exchange with no price limit.

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

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

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

If you are a beneficial owner of our ordinary shares and hold them through a broker, dealer or other nominee (including a member of the Tel Aviv Stock Exchange), you should expect your broker, dealer or other nominee to notify you of this rights offering and the procedures for exercising or transferring your rights. If you wish to exercise your rights, you will need to have your broker, dealer or other nominee act for you. To indicate your decision with respect to your rights, you should complete and return to your broker, dealer or other nominee the form provided to you accompanied by the subscription payment payable to your broker, dealer or other nominee. You should receive this form from your broker, custodian bank or other nominee. If you are a beneficial owner of our ordinary shares and hold them through a broker, dealer or other nominee (including a member of the Tel Aviv Stock Exchange), you should NOT return your exercise form or transfer the subscription payment directly to us. Your broker, dealer or other nominee will execute the exercise of your rights through the appropriate facilities. However, if you own your shares through a member of the Tel Aviv Stock Exchange, the rules of the Tel Aviv Stock Exchange provide that if no contrary instructions have been received from you by the time determined by your broker on January 9, 2006 (the rights trading day), you will be considered to have instructed your broker to sell all your rights on the Tel Aviv Stock Exchange with no price limit.

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

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

What fees or charges apply if you exercise your rights?

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

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

NASDAQ will not reduce the opening price of the ordinary shares at the opening of trading on the NASDAQ Ex-day, which is the first day that our ordinary shares will trade on NASDAQ without entitlement to receive the rights. The NASDAQ Ex-day will be the first trading day on NASDAQ following the record date; the NASDAQ Ex-day for the rights offering will, therefore, be December 21, 2005 . In accordance with the rules of the Tel Aviv Stock Exchange, the Tel Aviv Stock Exchange will not reduce the opening price of the ordinary shares at the opening of trading on the Tel Aviv Stock Exchange Ex-day, which is the first day that our ordinary shares will trade on the Tel Aviv Stock Exchange following the record date; the Tel Aviv Stock Exchange Ex-day for the rights offering will, therefore, be December 21 , 2005.

When will you receive your new securities?

If you exercise your rights in this rights offering and the Rights Agent has received your duly completed exercise form and your payment has cleared, your purchase of debentures will be effected at 5:00 p.m., New York City time (midnight, Israel time) on January 12, 2006 (the rights expiration date), and you will receive certificates representing the debentures purchased upon exercise of the rights as soon as practicable thereafter. Brokers may be unwilling to sell your debentures until you have received certificates representing your debentures. Trading in the debentures on the Tel Aviv Stock Exchange and NASDAQ will commence as soon as practicable after the rights expiration date (January 12, 2006) in accordance with their respective rules.

Can we withdraw the rights offering?

Yes. Our board of directors may withdraw the rights offering in its sole discretion at any time prior to 5:00 p.m. New York City time (midnight, Israel time) on December 20 , 2005 (the record date), for any reason (including, without limitation, a change in the market price of our ordinary shares).

How much money will we receive from the rights offering?

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

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

How will we use the proceeds from the rights offering?

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

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

As of the date of this prospectus, 66,932,056, of our ordinary shares were issued and outstanding. The issuance of debentures under this rights offering will not directly affect the number of our outstanding ordinary shares. However, the number of ordinary shares that will be outstanding after the conversion of the debentures depends on the number of rights that are exercised, as well as the conversion price. If all the rights are exercised in full, and assuming that all of the debentures are converted into ordinary shares at a conversion price of one ordinary share per each $ 1.10 of outstanding principal of debentures, 112,386,601 of our ordinary shares will be outstanding.

If no debentures are purchased other than the $25.5 million of debentures which our four major shareholders have committed to purchase and all such debentures are converted into ordinary shares at a conversion price of $ 1.10 per share, 90,113,874 of our ordinary shares will be outstanding.

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

RECENT DEVELOPMENTS

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

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

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

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

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

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

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

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

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

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

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

RISK FACTORS

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

Risks Affecting Our Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- The cyclical nature of both the semiconductor industry and the markets served by our customers;
- Changes in the economic conditions of geographical regions where our customers and their markets are located;
- Shifts by integrated device manufacturers (IDMs) and customers between internal and outsourced production;
- Inventory and supply chain management of our customers;
- The loss of a key customer, postponement of an order from a key customer, failure of a key customer to pay accounts receivables in a timely manner or the financial condition of our customers;
- The occurrence of accounts receivables write-offs;
- The rescheduling or cancellation of large orders or planned capital expenditures;

Our ability to satisfy our customers' demand of quality and timely production;

The timing and volume of orders relative to our available production capacity;

Our ability to obtain raw materials and equipment on a timely and cost-effective basis;

Environmental events or industrial accidents such as fires or explosions;

Our susceptibility to intellectual property rights disputes;

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

Actual capital expenditures exceeding planned capital expenditures;

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

Technological changes and short product life cycles; and

Timing for designing and the qualification of new products.

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

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

Our customers generally do not place purchase orders far in advance, partly due to the cyclical nature of the semiconductor industry. As a result, we do not typically operate with any significant backlog. The lack of a significant backlog makes it difficult for us to forecast our revenues in future periods. Moreover, since our expense levels are based in part on our expectations of future revenues, we may be unable to adjust costs in a timely manner to compensate for revenue shortfalls. We expect that in the future our revenues in any quarter will continue to be substantially dependent upon purchase orders received in that quarter and in the immediately preceding quarter. We cannot assure you that any of our customers will continue to place orders with us in the future at the same levels as in prior periods.

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

Our sales cycles, which measure the time between our first contact with a customer and the first shipment of product orders to the customer, vary substantially and may last as long as two years or more, particularly for new technologies. In addition, even after we make initial shipments of prototype products, it may take several more months to reach full production of the product. As a result of these long sales cycles, we may be required to invest substantial time and incur significant expenses in advance of the receipt of any product order and related revenue. If orders ultimately received differ from our expectations with respect to the product, volume, price or other items, our operating results may be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- greater manufacturing capacity;
- multiple and more advanced manufacturing facilities;
- more advanced technological capabilities;
- a more diverse and established customer base;
- greater financial, marketing, distribution and other resources;
- a better cost structure; and/or
- better operational performance in cycle time and yields.

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

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