FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

For the month of May 2006 No. 3

TOWER SEMICONDUCTOR LTD.
(Translation of registrant's name into English)

RAMAT GAVRIEL INDUSTRIAL PARK
P.O. BOX 619, MIGDAL HAEMEK, ISRAEL 23105
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F [X]   Form 40-F [_]

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes [_]   No [X]

On May 17, 2006, the Registrant announced its financial results for the three months ended March 31, 2006. Attached hereto are the following exhibits:

Exhibit 99.1   Registrant's unaudited condensed interim consolidated financial statements as of March 31, 2006 and for the three month period then ended.

Exhibit 99.2   Management's Discussion and Analysis of Financial Condition and Results of Operations

This Form 6-K, including all exhibits hereto, is hereby incorporated by reference into (1) all effective registration statements filed by us under the Securities Act of 1933 and (2) Registration Statement No. 333-131315 on Form F-3, except that the information herein relating to EBITDA and related non-GAAP financial measure disclosures is expressly excluded from such incorporation.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TOWER SEMICONDUCTOR LTD.

Date: May 18, 2006

By: /s/ Nati Somekh Gilboa

Nati Somekh Gilboa
Corporate Secretary

EXHIBIT 99.1

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2006

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY

INDEX TO UNAUDITED CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2006

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data and per share data)

	AS OF MARCH 31, 2006 (UNAUDITED)	AS OF MARCH 31, 2005 (UNAUDITED)	DECEMBER 31, 2005
A S S E T S			
CURRENT ASSETS			
CASH AND CASH EQUIVALENTS	$ 17,570	$ 34,507	$ 7,337
DESIGNATED CASH AND SHORT-TERM INTEREST-BEARING DEPOSITS	15,126	17,614	31,661
TRADE ACCOUNTS RECEIVABLE:			
RELATED PARTIES	6,938	5,368	5,309
Others	11,944	6,773	11,467
OTHER RECEIVABLES	8,937	9,430	9,043
INVENTORIES	28,684	21,624	24,376
OTHER CURRENT ASSETS	1,350	861	1,048
TOTAL CURRENT ASSETS	90,549	96,177	90,241
LONG-TERM INVESTMENTS			
LONG-TERM INTEREST-BEARING DEPOSITS DESIGNATED FOR FAB 2 OPERATIONS	--	5,071	--
	--	5,071	--
PROPERTY AND EQUIPMENT, NET	484,289	587,707	510,645
OTHER ASSETS, NET:			
TECHNOLOGY	59,724	76,750	61,441
OTHER	1,477	15,728	16,359
	61,201	92,478	77,800
TOTAL ASSETS	$ 636,039	$ 781,433	$ 678,686
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
CURRENT MATURITIES OF LONG-TERM DEBT	$ --	$ --	$ 21,103
CURRENT MATURITIES OF CONVERTIBLE DEBENTURES	5,734	6,575	6,453
TRADE ACCOUNTS PAYABLE	52,028	53,249	59,741
OTHER CURRENT LIABILITIES	8,913	9,625	8,972
TOTAL CURRENT LIABILITIES	66,675	69,449	96,269
LONG-TERM DEBT	514,966	497,000	497,000
CONVERTIBLE DEBENTURES	34,429	19,724	19,358
LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES	54,537	63,326	59,621
OTHER LONG-TERM LIABILITIES	10,238	19,274	11,012
TOTAL LIABILITIES	680,845	668,773	683,260
CONVERTIBLE DEBENTURES	--	--	25,493
SHAREHOLDERS' EQUITY (DEFICIT)			
ORDINARY SHARES, NIS 1.00 PAR VALUE - AUTHORIZED 500,000,000, 250,000,000 AND 500,000,000 SHARES, RESPECTIVELY; ISSUED 76,946,189, 66,999,796 AND 68,232,056 SHARES, RESPECTIVELY	18,403	16,274	16,548
ADDITIONAL PAID-IN CAPITAL	531,123	517,476	522,237
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES AND CUMULATIVE STOCK BASED COMPENSATION	19,550	(26)	(26)
ACCUMULATED DEFICIT	(604,810)	(411,992)	(559,754)
	(35,734)	121,732	(20,995)
TREASURY STOCK, AT COST - 1,300,000 SHARES	(9,072)	(9,072)	(9,072)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	(44,806)	112,660	(30,067)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 636,039	$ 781,433	$ 678,686

SEE NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

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

	THREE MONTHS ENDED MARCH 31, 2006 (unaudited)	THREE MONTHS ENDED MARCH 31, 2005 (unaudited)	YEAR ENDED DECEMBER 31, 2005
REVENUES			
Sales	$ 35,875	$ 23,167	$ 93,991
Revenues related to a joint development agreement	--	--	8,000
	35,875	23,167	101,991
COST OF SALES	61,280	61,214	238,358
GROSS LOSS	(25,405)	(38,047)	(136,367)
OPERATING COSTS AND EXPENSES			
RESEARCH AND DEVELOPMENT	3,354	4,763	16,029
MARKETING, GENERAL AND ADMINISTRATIVE	5,324	4,528	17,418
	8,678	9,291	33,447
OPERATING LOSS	(34,083)	(47,338)	(169,814)
FINANCING EXPENSE, NET	(11,524)	(8,175)	(35,651)
OTHER INCOME, NET	551	193	2,383
LOSS FOR THE PERIOD	$ (45,056)	$ (55,320)	$(203,082)
BASIC AND DILUTED LOSS PER ORDINARY SHARE			
Loss per share	$ (0.63)	$ (0.84)	$ (3.06)
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING - IN THOUSANDS	71,872	65,700	66,371

SEE NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

TOWER SEMICONDUCTOR LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA AND PER SHARE DATA)

	ORDINARY SHARES		ADDITIONAL PAID-IN	EQUITY COMPONENT OF CONVERTIBLE DEBENTURES AND CUMULATIVE STOCK BASED	ACCUMULATED	TREASURY	
	SHARES	AMOUNT	CAPITAL	COMPENSATION	DEFICIT	STOCK	TOTAL
BALANCE - JANUARY 1, 2006	68,232,056	$ 16,548	$ 522,237	$ (26)	$ (559,754)	$ (9,072)	$ (30,067)
CHANGES DURING THREE-MONTH PERIOD (UNAUDITED):							
ISSUANCE OF SHARES	2,713,396	579	3,708				4,287
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES				21,979			21,979
CONVERSION OF CONVERTIBLE DEBENTURES INTO SHARES	6,000,737	1,276	5,178	(2,782)			3,672
EMPLOYEE STOCK-BASED COMPENSATION				379			379
LOSS FOR THE PERIOD					(45,056)		(45,056)
BALANCE - MARCH 31, 2006 (UNAUDITED)	76,946,189	$ 18,403	$ 531,123	$ 19,550	$ (604,810)	$ (9,072)	$ (44,806)
BALANCE - JANUARY 1, 2005	66,999,796	$ 16,274	$ 517,476	$ (26)	$ (356,672)	$ (9,072)	$ 167,980
CHANGES DURING THREE-MONTH PERIOD (UNAUDITED):							
LOSS FOR THE PERIOD					(55,320)		(55,320)
BALANCE - MARCH 31, 2005 (UNAUDITED)	66,999,796	$ 16,274	$ 517,476	$ (26)	$ (411,992)	$ (9,072)	$ 112,660
BALANCE - JANUARY 1, 2005	66,999,796	$ 16,274	$ 517,476	$ (26)	$ (356,672)	$ (9,072)	$ 167,980
CHANGES DURING 2005:							
ISSUANCE OF SHARES	1,232,260	274	1,520				1,794
STOCK-BASED COMPENSATION RELATED TO THE FACILITY AGREEMENT WITH THE BANKS			2,793				2,793
STOCK-BASED COMPENSATION RELATED TO RIGHTS OFFERED TO EMPLOYEES			448				448
LOSS FOR THE YEAR					(203,082)		(203,082)
BALANCE - DECEMBER 31, 2005	68,232,056	$ 16,548	$ 522,237	$ (26)	$ (559,754)	$ (9,072)	$ (30,067)

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

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,
	2006	2005	2005
	(UNAUDITED)		
CASH FLOWS - OPERATING ACTIVITIES			
LOSS FOR THE PERIOD	$ (45,056)	$ (55,320)	$(203,082)
ADJUSTMENTS TO RECONCILE LOSS FOR THE PERIOD TO NET CASH USED IN OPERATING ACTIVITIES:			
INCOME AND EXPENSE ITEMS NOT INVOLVING CASH FLOWS:			
DEPRECIATION AND AMORTIZATION	38,076	34,594	144,852
EFFECT OF INDEXATION AND TRANSLATION ON CONVERTIBLE DEBENTURES	(257)	(403)	(1,031)
OTHER INCOME, NET	(551)	(193)	(2,383)
CHANGES IN ASSETS AND LIABILITIES:			
DECREASE (INCREASE) IN TRADE ACCOUNTS RECEIVABLE	(2,106)	7,145	2,510
DECREASE (INCREASE) IN OTHER RECEIVABLES AND OTHER CURRENT ASSETS	(477)	2,036	1,988
DECREASE (INCREASE) IN INVENTORIES	(4,308)	4,045	1,293
INCREASE (DECREASE) IN TRADE ACCOUNTS PAYABLE	1,348	(1,051)	3,082
DECREASE IN OTHER CURRENT LIABILITIES	(179)	(1,263)	(1,839)
DECREASE IN OTHER LONG-TERM LIABILITIES	(1,206)	(567)	(5,368)
	(14,716)	(10,977)	(59,978)
DECREASE IN LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES, NET	(415)	(106)	(760)
NET CASH USED IN OPERATING ACTIVITIES	(15,131)	(11,083)	(60,738)
CASH FLOWS - INVESTING ACTIVITIES			
DECREASE IN DESIGNATED CASH, SHORT-TERM AND LONG-TERM INTEREST-BEARING DEPOSITS, NET	16,535	36,242	27,266
INVESTMENTS IN PROPERTY AND EQUIPMENT	(13,404)	(19,650)	(38,878)
INVESTMENT GRANTS RECEIVED	872	3,488	7,496
PROCEEDS RELATED TO SALE AND DISPOSAL OF PROPERTY AND EQUIPMENT	551	346	2,179
INVESTMENTS IN OTHER ASSETS	(3,507)	(2,500)	(3,841)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,047	17,926	(5,778)
		--	
CASH FLOWS - FINANCING ACTIVITIES			
PROCEEDS FROM ISSUANCE OF CONVERTIBLE DEBENTURE, NET	22,203	--	25,086
PROCEEDS FROM LONG-TERM DEBT	8,590	--	21,103
REPAYMENT OF CONVERTIBLE DEBENTURES	(6,476)	--	--
NET CASH PROVIDED BY FINANCING ACTIVITIES	24,317	--	46,189
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,233	6,843	(20,327)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	7,337	27,664	27,664
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 17,570	$ 34,507	$ 7,337
NON-CASH ACTIVITIES			
INVESTMENTS IN PROPERTY AND EQUIPMENT	$ 1,901	$ 9,205	$ 12,999
STOCK-BASED COMPENSATION RELATED TO THE FACILITY AGREEMENT WITH THE BANKS	$ --	$ --	$ 2,793
STOCK-BASED COMPENSATION RELATED TO RIGHTS OFFERED TO EMPLOYEES	$ --	$ --	$ 448
INVESTMENTS IN OTHER ASSETS	$ --	$ 1,283	$ 442
CONVERSION OF LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES TO SHARE CAPITAL	$ 4,287	$ --	$ 1,794
CONVERSION OF CONVERTIBLE DEBENTURES INTO SHARES	$ 3,672	$ --	$ --
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
CASH PAID DURING THE PERIOD FOR INTEREST	$ 10,546	$ 8,316	$ 32,805
CASH PAID DURING THE PERIOD FOR INCOME TAXES	$ 14	$ 4	$ 86

SEE NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

NOTE 1 - GENERAL

A. BASIS FOR PRESENTATION

(1) The unaudited condensed interim consolidated financial statements as of March 31, 2006 and for the three months then ended ("interim financial statements") of Tower Semiconductor Ltd. and subsidiary ("the Company") should be read in conjunction with the audited consolidated financial statements of the Company as of December 31, 2005 and for the year then ended, including the notes thereto. In the opinion of management, the interim financial statements include all adjustments necessary for a fair presentation of the financial position and results of operations as of the date and for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected on a full-year basis.

(2) The interim financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") in Israel ("Israeli GAAP"), for interim financial statement, which differ in certain respects from GAAP in the United States of America ("U.S. GAAP"), as indicated in Note 6.

The accounting principles applied in the preparation of these interim financial statements are consistent with those principles applied in the preparation of the most recent annual audited financial statements, except for the accounting principles detailed in paragraph 3 below.

(3) RECENT ACCOUNTING PRONOUNCEMENTS BY THE ISRAELI ACCOUNTING STANDARDS BOARD

A. ACCOUNTING STANDARD NO. 21 "EARNINGS PER SHARE"

In February 2006, the Israeli Accounting Standards Board approved for publication Accounting Standard No. 21, "Earnings Per Share" ("Standard No. 21").

With the initial adoption of Standard No. 21, Opinion No. 55 of the Institute of Certified Public Accountants in Israel - Earnings per share is cancelled.

Standard No. 21 prescribes that an entity shall calculate basic earnings per share amounts for profit or loss attributable to ordinary equity holders of the entity. The basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the reported period. For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders of the entity, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.

NOTE 1 - GENERAL (cont.)

A. BASIS FOR PRESENTATION (cont.)

(3) RECENT ACCOUNTING PRONOUNCEMENTS BY THE ISRAELI ACCOUNTING STANDARDS BOARD (cont.)

A. ACCOUNTING STANDARD NO. 21 "EARNINGS PER SHARE" (cont.)

Standard No. 21 is effective for financial statements for periods commencing January 1, 2006 or thereafter. The adoption of Standard No. 21 is accounted for retrospectively and a comparative earnings per share data for prior periods is adjusted. Accordingly, the loss per share presented in the financial statements for the 12 months ended December 31, 2005 was adjusted from $2.55 to $3.06.

B. ACCOUNTING STANDARD NO. 22 "FINANCIAL INSTRUMENTS: DISCLOSURE AND PRESENTATION"

In July 2005, the Israeli Accounting Standards Board approved for publication Accounting Standard No. 22 "Financial Instruments: Disclosure and Presentation" ("Standard No. 22"). A financial instrument under Standard No. 22 is defined, in general, as any contract that establishes a financial asset of an entity, or a financial liability or equity instrument of another entity. Standard No. 22 establishes the requirements for presentation of financial instruments in the financial statements and indicates the information that should be disclosed in relation thereto, and, in certain cases, the method to measure their impact on the entity's financial statements. The presentation requirements relate to the classification of financial instruments as financial assets, financial liabilities or equity instruments. It also deals with the classification of related interest, dividends, losses and gains and to the circumstances under which financial assets and financial liabilities are to be offset. Standard No. 22 establishes requirements for disclosure of information relating to factors affecting the amount, timing and certainty of the entity's future cash flows relating to financial instruments and accounting policy implemented in respect of these instruments. Standard No. 22 also establishes requirements for disclosure of information about the nature and the extent of an entity's use of financial instruments, the business purposes they serve, the risks associated with them and management's policies for the oversight of those risks.

Standard No. 22 is effective for financial statements for periods commencing January 1, 2006 or thereafter. Financial instruments issued before the effective date of Standard No. 22 will be classified and presented in accordance with its provisions commencing from the effective date. Comparative financial statements for prior periods are not to be adjusted. The Company issued two series of convertible debentures that are considered compound instruments under Standard No. 22. A compound instrument has to be separated to its components, the equity component and the liability component. The equity component is classified as shareholders' equity and is determined as the excess of the total value over the fair value of the liability component.

NOTE 1 - GENERAL (cont.)

A. BASIS FOR PRESENTATION (cont.)

(3) RECENT ACCOUNTING PRONOUNCEMENTS BY THE ISRAELI ACCOUNTING STANDARDS BOARD (cont.)

C. ACCOUNTING STANDARD NO. 25 "REVENUES"

In February 2006, the Israeli Accounting Standards Board approved for publication Accounting Standard No. 25, "Revenues" ("Standard No. 25").

Standard No. 25 establishes the requirements for recognition criteria, measurement, disclosure and presentation of revenues arising from sale of goods, rendering of services and from the use by others of entity assets yielding interest, royalties and dividends. Standard No. 25 prescribes that revenue shall be measured at the fair value of the consideration received or receivable.

Standard No. 25 is effective for financial statements for periods commencing January 1, 2006 or thereafter.

The adoption of the standard had no material effect on the financial statements.

B. ESTABLISHMENT AND OPERATIONS OF NEW FABRICATION FACILITY ("FAB 2")

In January 2001, the Company's Board of Directors approved the establishment of a new wafer fabrication facility in Israel ("Fab 2"). Fab 2 is designated to manufacture semiconductor integrated circuits on silicon wafers in geometries of 0.18 micron and below on 200-millimeter wafers. The Company has entered into several related agreements and other arrangements and has completed public and private financing deals, which, as of the approval date of the interim financial statements, have provided an aggregate of approximately $1,260,000 of financing for Fab 2.

The Fab 2 project is a complex undertaking, which entails substantial risks and uncertainties. For further details concerning the Fab 2 project and related agreements, some of which were amended several times, risks and uncertainties, see Note 11A to the 2005 audited consolidated financial statements.

NOTE 1 - GENERAL (cont.)

C. FINANCING OF THE COMPANY'S ONGOING OPERATIONS

In the three months ended March 31, 2006 and in recent years, the Company has experienced significant recurring losses from operations, recurring negative cash flows from operating activities, an increasing accumulated deficit and a deficit in shareholders equity. According to the Company's approved short-term working plan, based on the current prevailing semiconductor market conditions, the Company needs to raise funds in order to finance its short-term activities and liabilities in 2006.

In May 2006 the Company signed an amendment to the Facility Agreement with its Banks, according to which repayments of long-terms loans in the amount of approximately $100,000, formerly scheduled to be paid between October 2006 and June 2007, were deferred to July 2007.

In March 2006, the Company's Board of Directors approved the Company's plan to ramp up Fab 2 in order to meet the Company's customer and product qualification needs, based on its customer pipeline, reinforced by forecasted market conditions. According to this plan, the Company will need to raise approximately $130,000 during 2006, which will take the current Fab 2 capacity to approximately 24,000 wafers per month.

As part of the financing efforts for that expansion plan, in May 2006, the Company and its Banks signed a Memorandum of Understanding ("MOU") for the refinancing of the $526,693 in long term debt, according to which: (i) 30% of such debt will be converted to equity for 51,973,684 ordinary shares of the Company, based on a formula using the average closing price during the 10-day period prior to signing the MOU; (ii) the interest rate of the long-term loans will be decreased from LIBOR plus 2.5% per annum to LIBOR plus 1.1% per annum; and (iii) the commencement date for the repayment of principal shall be postponed from July 2007 to September 2009. The terms of the MOU are subject to a commitment of Israel Corporation Ltd. ("TIC") to the Company's Banks to invest $100,000 in the Company's capacity expansion as described below. The MOU is further subject to reaching a definitive amendment to the Facility Agreement based on the terms of the MOU. In this regard, TIC has committed to invest $100,000 in the Company for 65,789,474 ordinary shares of the Company, based on the base price used in the formula under which the banks will be issued shares. Such amount may include amounts that may be payable by the Company to TIC in connection with the agreement for the ordering of equipment described below. TIC's investment is subject to the signing of a definitive investment agreement between the Company and TIC, the approval of the Company's audit committee, board of directors and shareholders and the closing of a definitive amendment to the Facility Agreement with the Banks based on the terms of the MOU.

The Company is currently examining alternatives for additional funding sources.

(dollars in thousands, except share data and per share data)

NOTE 1 - GENERAL (cont.)

C. FINANCING OF THE COMPANY'S ONGOING OPERATIONS (cont.)

In order to implement the acceleration plan in a timely manner, the Company and TIC entered into an agreement according to which TIC will order up to approximately $100,000 worth of equipment in connection with the ramp-up of Fab 2. Under the terms of the agreement: (i) TIC has the right to sell the equipment to the Company at cost, plus related expenses; (ii) the Company has the right to purchase the equipment from TIC at cost, plus related expenses, subject to the Company having raised $100,000; (iii) upon the sale of the equipment by TIC to the Company, the Company will assume TIC's obligations to the equipment suppliers; and (iv) if after 5 months from the signing of the agreement, the equipment has not been sold to the Company by TIC, TIC may sell the equipment to a third party and the Company will pay TIC the difference between the cost, plus related expenses, for the purchase of the equipment by TIC and the net sale price. This agreement was approved by the Audit Committee and the Board of Directors of the Company in May 2006 and may require the approval of the Company's shareholders if the Company shall have received by May 31, 2006 a written request by a shareholder or shareholders who hold at least 1% of the Company's issued and outstanding shares to bring the agreement to the Company's shareholders for approval.

NOTE 2 - INVENTORIES

Inventories consist of the following (*):

	March 31, 2006 (unaudited)	March 31, 2005 (unaudited)	December 31, 2005
Raw materials	$ 7,293	$ 8,941	$ 6,777
Spare parts and supplies	4,280	4,072	3,738
Work in process	14,552	7,502	11,502
Finished goods	2,559	1,109	2,359
	$28,684	$21,624	$24,376

(*) Net of aggregate write downs to net realizable value of $ $4,018, $2,895 and $3,259 as of March 31, 2006, March 31, 2005 and December 31, 2005, respectively.

(dollars in thousands, except share data and per share data)

NOTE 3 - MAJOR CUSTOMERS

Revenues from major customers as a percentage of total revenues were as follows:

	Three months ended March 31, 2006	Three months ended March 31, 2005	Year ended December 31, 2005
	(unaudited)	(unaudited)	
Customer A	18%	42%	22%
Customer B	14	12	14
Customer C	12	2	7
Customer D	11	-	5

NOTE 4 - RECENT DEVELOPMENTS RELATING TO FAB 2

A. APPROVED ENTERPRISE STATUS

Under the terms of the approved enterprise program for Fab 2, the Company was eligible to receive grants of 20% of up to $1,250,000 invested in Fab 2 plant and equipment, or an aggregate of up to $250,000 for investments made by December 31, 2005, of which as of the balance sheet date, an aggregate of approximately $159,000 has been received from the Investment Center.

Under the terms of the program, investments in respect of Fab 2 were to be completed by December 31, 2005, five years from the date the approval certificate was obtained. Due to the later than planned construction of Fab 2, market conditions and slower than planned ramp-up, the Company completed approximately 73% of the investments under the approved enterprise program. The Company has been holding discussions with the Investment Center to achieve satisfactory arrangements to approve a new expansion program commencing as of January 1, 2006. During 2005, the Company received letters from the Israeli Minister of Industry, Trade and Employment and from the General Manager of the Investment Center stating that they will act under Israeli law to support such expansion. In April 2005, at the Investment Center's request, the Company submitted a revised business plan to the Investment Center for the period commencing as of January 1, 2006. As of the approval date of the interim financial statements, the Company's management cannot estimate when, if at all, the Company will receive approval of its request for a new expansion program.

NOTE 4 - RECENT DEVELOPMENTS RELATING TO FAB 2 (cont.)

B. FACILITY AGREEMENT

In July 2005, the Company and its Banks entered into a definitive amendment to the Facility Agreement. Pursuant to such amendment, the Company borrowed $29,693 and was required to raise through the issuance of shares or convertible debentures $23,500 by December 31, 2005 and an additional $6,500 by March 31, 2006. In January 2006, as described in Note 5C below, the Company completed a rights offering of convertible debentures in which it raised $48,169, $25,500 of which was raised in December 2005, thereby satisfying the abovementioned obligations to raise additional funds. Under the amended Facility Agreement the Company is required to raise an additional approximately $8,000 by June 30, 2006.

In addition, in May 2006, the Company and its Banks entered into an amendment to the Facility Agreement, according to which the repayments of long-term loans in the amount of approximately $100,000, formerly scheduled to be paid between October 2006 and June 2007, were deferred to July 2007.

As part of the financing efforts for the accelerated expansion plan, in May 2006, the Company and its Banks signed an MOU for the refinancing of the $526,693 in long term debt, according to which: (i) 30% of such debt will be converted to equity for 51,973,684 ordinary shares of the Company, based on a formula using the average closing price during the 10-day period prior to signing the MOU ; (ii) the interest rate of the long-term loans will be decreased from LIBOR plus 2.5% per annum to LIBOR plus 1.1% per annum; and (iii) the commencement date for the repayment of principal shall be postponed from July 2007 to September 2009. The terms of the MOU are subject to a commitment of TIC to the Banks to invest $100,000 in the Company's capacity expansion as described above in Note 1C. The MOU is further subject to reaching a definitive amendment to the Facility Agreement based on the terms of the MOU.

As of the balance sheet date, the Company was in full compliance with all of the financial ratios and covenants under the amended Facility Agreement. As of the approval date of the financial statements, the Company anticipates that it will be in compliance with all of the financial ratios and covenants under the amended Facility Agreement through the third quarter of 2006, however, under the current terms of the Facility Agreement, if not amended, it will not be in compliance with all of the financial ratios and covenants under the amended Facility Agreement from the fourth quarter of 2006. According to the Facility Agreement, satisfying the financial ratios and covenants is a material provision. The amended Facility Agreement provides that if, as a result of any default, the Banks were to accelerate the Company's obligations, the Company would be obligated, among other matters, to immediately repay all loans made by the Banks (which as of the balance sheet date amounted to $526,693) plus penalties, and the Banks would be entitled to exercise the remedies available to them under the Facility Agreement, including enforcement of their lien against all of the Company's assets.

NOTE 5 - OTHER RECENT DEVELOPMENTS

A. CLASS ACTION

In August 2004, the United States District Court dismissed the class action filed in July 2003 by certain of the Company's shareholders in the United States against the Company and certain of its directors, Wafer Partners and Equity Investors (the "Defendants"). The plaintiffs had asserted claims arising under the Securities Exchange Act of 1934, alleging misstatements and omissions made by the Defendants in materials sent to the Company's shareholders in April 2002 with respect to the approval of an amendment to the Company's investment agreements with its Fab 2 investors. In December 2004, one of the lead plaintiffs filed an appeal of the decision dismissing the complaint. The Company believes that the complaint is without merit and is vigorously contesting it.

B. SHARE OPTION PLANS

(1) OPTIONS GRANTED TO THE CHIEF EXECUTIVE OFFICER ("CEO")

In May 2006, the Audit Committee and Board of Directors approved the grant of options to the CEO of the Company, who also serves as a director, in addition to the options granted to him in April 2005, such that in total, the CEO will hold options to purchase shares that represent 4% of the Company's shares on a fully diluted basis during the two-year period from the approval of the Audit Committee. The exercise price of the initial grant of additional options will be $1.45, the 90 day average closing price of the Company's shares prior to the Board of Directors' approval. In the event of a future equity financing, additional options will be granted to the CEO as described above with an exercise price equal to the price per share of such investment.

The vesting period of the new options will be identical to the vesting period of the existing options. No additional options will be granted under the CEO's employment agreement, which was approved by the Company's shareholders in October 2005. The new grant of options and its terms are subject to the approval of the Company's shareholders.

(2) RE-PRICING OF EMPLOYEE OPTIONS

The Board of Directors approved a plan to re-price the exercise price of existing options held by the Company's employees at each employee's discretion. The new exercise price of the options will be $1.45, which is the 90 day average closing price of the Company's shares prior to the Board of Directors' approval. The new options will be granted based on terms similar to the existing option plan with new vesting periods. The Board of Directors further approved that if the total number of employee options, including the options to the CEO, during the coming 24 months will represent less than 8% of the Company's shares on a fully diluted basis, additional options will be allocated for grants to be made to the Company's employees.

No options have been granted under such plan as of the date of the approval of the financial statements.

NOTE 5 - OTHER RECENT DEVELOPMENTS (cont.)

C. 2005 RIGHTS OFFERING

In December 2005, the Company filed in Israel and the U.S. a prospectus for the distribution of transferable rights to purchase up to $50,000 U.S. dollar denominated debentures that are convertible into up to 45,454,545 of the Company's Ordinary Shares. The rights were distributed to the shareholders of record of the Company on December 20, 2005 (the record date), and to certain employees who on the record date held options to purchase the Company's Ordinary Shares under share option plans that entitle the option holders to participate in a rights offering. Each 138.98 Ordinary Shares and/or eligible employee options held on the record date entitled their holder to one right. The rights were exercisable until January 12, 2006. Each right entitled its holder to purchase, at a subscription price of $100.00, 100 U.S. dollar denominated convertible debentures.

In connection with the exercise of the rights, the Company issued 48,169,300 convertible debentures, with each debenture of $1.00 in principal amount, or total of $48,169 principal amount of debentures, which bear annual interest at the rate of 5%. The principal of the debentures, together with accrued interest, is payable in one installment on January 12, 2012.

The debentures are convertible into the Company's Ordinary Shares at a rate of one ordinary share per $1.10 aggregate principal amount of debentures. The conversion price is subject to downward adjustment under certain circumstances in which the Company sells securities in future financings at a price per share which is lower than the conversion price, provided that such financings close through December 2006 (or under certain conditions, through June 2007).

During the first quarter of 2006, 6,600,812 convertibles debentures were converted into 6,000,737 ordinary shares of the Company.

Subject to the Facility Agreement, the Company may at its option announce the early redemption of the debentures, provided that the outstanding aggregate balance of principal on account of the debentures is equal to or less than $500.

The debentures are listed and quoted on the NASDAQ Capital Market and the Tel Aviv Stock Exchange.

Certain of the Company's Equity Investors and Wafer Partners invested $27,811 in the framework of the rights offering.

The debentures and interest thereon are unsecured and rank behind the Company's existing and future secured indebtedness, including indebtedness to the Banks under the Facility Agreement, as well as to the government of Israel in connection with grants the Company received under its approved enterprise programs and to Siliconix.

NOTE 5 - OTHER RECENT DEVELOPMENTS (cont.)

C. 2005 RIGHTS OFFERING (cont.)

If on the payment date of the principal and interest on the debentures, there exists an infringement of certain covenants and conditions under the Facility Agreement, the date for payment of the interest and principal on the debentures may be postponed, depending on various scenarios under the Facility Agreement until such covenant or condition is settled.

See Note 6 for the presentation of the rights offering in accordance with U.S. GAAP.

D. AUTHORIZED SHARES

In March 2006, the Board of Directors of the Company approved the increase of the Company's authorized shares from 500,000,000 to 800,000,000. This increase is subject to the approval of the Company's shareholders.

NOTE 6 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP

With regard to the Company's interim financial statements, the material differences between GAAP in Israel and in the U.S. relate to the following. See H below for the presentation of the Company's unaudited balance sheet as of March 31, 2006 in accordance with U.S. GAAP.

A. RECENT ACCOUNTING PRONOUNCEMENTS BY THE FASB

SFAS NO. 155. ACCOUNTING FOR CERTAIN HYBRID FINANCIAL INSTRUMENTS -

In February 2006, the FASB issued SFAS 155, "Accounting for Certain Hybrid Financial Instruments". Key provisions of SFAS 155 include: (1) a broad fair value measurement option for certain hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation; (2) clarification that only the simplest separations of interest payments and principal payments qualify for the exception afforded to interest-only strips and principal-only strips from derivative accounting under paragraph 14 of FAS 133 (thereby narrowing such exception); (3) a requirement that beneficial interests in securitized financial assets be analyzed to determine whether they are freestanding derivatives or whether they are hybrid instruments that contain embedded derivatives requiring bifurcation; (4) clarification that concentrations of credit risk in the form of subordination are not embedded derivatives; and (5) elimination of the prohibition on a QSPE holding passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. In general, these changes will reduce the operational complexity associated with bifurcating embedded derivatives, and increase the number of beneficial interests in securitization transactions, including interest-only strips and principal-only strips, required to be accounted for in accordance with FAS 133. Management does not believe that SFAS 155 will have a material effect on the financial condition, results of operations, or liquidity of the Company.

NOTE 6 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (cont.)

B. PRESENTATION OF DESIGNATED CASH AND SHORT-TERM INTEREST-BEARING DEPOSITS

In accordance with U.S. GAAP, the Company's designated cash and short-term interest-bearing deposits should be excluded from current assets and presented separately as a non-current asset. Accordingly, as of March 31, 2006, $15,126 was reclassified from current assets to a long-term asset (as of December 31, 2005 - $31,661, was reclassified from current assets and long-term investments, respectively, to a long-term asset).

C. PRESENTATION OF NET LONG-TERM LIABILITIES IN RESPECT OF EMPLOYEES

Under U.S. GAAP, assets and liabilities relating to severance arrangements are to be presented separately and are not to be offset, while according to Israeli GAAP such an offset is required. Accordingly, as of March 31, 2006, an amount of $13,587 was reclassified from other long-term liabilities to long-term investments (as of December 31, 2005 - $13,658).

D. HEDGING ACTIVITIES IN ACCORDANCE WITH U.S. GAAP (SFAS 133)

Complying with SFAS 133 as amended and the related interpretations thereon with respect to the Company's hedging transactions as of March 31, 2006 would have resulted in: an increase in other long-term investments in the amount of $2,493; a decrease in other comprehensive loss for the three months ended March 31, 2006 in the net amount of $1,058; an accumulated other comprehensive loss component of equity balance as of March 31, 2006 in the amount of $496; and in a decrease of $ 2,959 in property and equipment, net as of March 31, 2006.

E. DEFERRED FINANCING CHARGES

Under U.S. GAAP, deferred-financing charges are to be presented in other assets, while according to Israeli GAAP effective January 1, 2006 such amount is required to be offset from the related long-term debt. Accordingly, as of March 31, 2006, an amount of $11,727 was reclassified from long-term debt to other assets.

F. SALE OF CONVERTIBLE DEBENTURES

Under Accounting Principles Board Opinion No. 14 ("APB 14"), the proceeds from the sale of the securities in January 2002 are to be allocated to each of the securities issued based on their relative fair value, while according to Israeli GAAP such treatment was not required. Complying with APB 14, based on the average market value of each of the components issued in the first three days following their issuance (in January 2002), would have resulted in an increase in shareholders' equity as of the issuance date in the amount of $2,363 (net of $196 related issuance expenses), and a decrease in convertible debentures as of such date in the amount of $2,559. The accumulated effect of amortization of the discount on the convertible debentures under U.S.GAAP as of March 31, 2006 would have been $2,099.

NOTE 6 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (cont.)

F. SALE OF CONVERTIBLE DEBENTURES (cont.)

Under US GAAP, convertible debentures have to be evaluated to determine if they contain embedded derivative that warrant bifurcation. Conversion feature embedded in convertible debentures will need to be evaluated as to whether they can be classified as equity based on the criteria established in EITF Issue 00-19 and 05-2. The Company evaluated the conversion features embedded in both debentures (i.e., sale of convertible debentures in 2002 - "2002 debentures" and sale of convertible debentures in 2005 and 2006- "2005 debentures") and concluded that the conversion feature embedded in the 2005 debentures warrant bifurcation while the conversion feature embedded in the 2002 debentures is scoped out (for the discussion on the accounting for the debentures under Israeli GAAP see Note 1A(3)b).

2002 DEBENTURES:

Under US GAAP, the equity component, in the amount of $1,681, classified in equity under Israeli GAAP was reclassified to liability.

2005 DEBENTURES:

Under US GAAP, the equity component, in the amount of $17,517 classified as equity under Israeli GAAP was reclassified to liability and the conversion feature was bifurcated from the debt host and marked to market through earnings. The initial amount allocated to the bifurcated conversion feature was determined using the "with and without" method based on the fair value of the embedded derivative prescribed in DIG Issue B6.

All the above resulted as of March 31, 2006 mainly in: an increase in convertible debentures in the amount of $13,283; an increase in the shareholder's deficit in the amount of $11,370 and an increase in other assets in the amount of $1,561. The Company's loss for the three months period ended March 31, 2006 would have decreased in the amount of $5,434.

G. EMPLOYEE STOCK BASED COMPENSATION

The Company adopted effective January 1, 2006 SFAS 123R according to which the compensation expense related to employee and directors share option awards would have been resulted in an increase in the compensations expenses for the period ending March 31, 2006 and an increase in the unearned compensation as of such date in the amount of $602. The Company elected the modified prospective method as its transition method.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARY
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
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(dollars in thousands, except share data and per share data)

NOTE 6 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (cont.)

H. BALANCE SHEETS IN ACCORDANCE WITH U.S. GAAP

		AS OF MARCH 31, 2006			AS OF DECEMBER 31, 2005		
	U.S. GAAP EMARK	AS PER ISRAELI GAAP	ADJUST-MENTS	AS PER U.S. GAAP	AS PER ISRAELI GAAP	ADJUST-MENTS	AS PER U.S. GAAP
A S S E T S							
CURRENT ASSETS							
CASH AND CASH EQUIVALENTS		$ 17,570	$	$ 17,570	$ 7,337	$	$ 7,337
DESIGNATED CASH AND SHORT-TERM INTEREST-BEARING DEPOSITS	B	15,126	(15,126)	--	31,661	(31,661)	--
TRADE ACCOUNTS RECEIVABLE:							
RELATED PARTIES		6,938		6,938	5,309		5,309
OTHERS		11,944		11,944	11,467		11,467
OTHER RECEIVABLES		8,937		8,937	9,043		9,043
INVENTORIES		28,684		28,684	24,376		24,376
OTHER CURRENT ASSETS		1,350		1,350	1,048		1,048
TOTAL CURRENT ASSETS		90,549	(15,126)	75,423	90,241	(31,661)	58,580
OTHER LONG-TERM INVESTMENT	C,D	--	16,080	16,080	--	15,425	15,425
		--	16,080	16,080	--	15,425	15,425
PROPERTY AND EQUIPMENT, NET	D,F	484,289	(2,133)	482,156	510,645	(3,291)	507,354
DESIGNATED CASH AND SHORT-TERM INTEREST-BEARING DEPOSITS	B	--	15,126	15,126	--	31,661	31,661
OTHER ASSETS, NET:							
TECHNOLOGY		59,724		59,724	61,441		61,441
OTHER	E,F	1,477	13,288	14,765	16,359	(196)	16,163
		61,201	13,288	74,489	77,800	(196)	77,604
TOTAL ASSETS		$ 636,039	$ 27,235	$ 663,274	$ 678,686	$ 11,938	$ 690,624
LIABILITIES AND SHAREHOLDERS' EQUITY		--			--		
CURRENT LIABILITIES							
CURRENT MATURITIES OF LONG-TERM DEBT		$ --	$	$ --	$ 21,103	$	$ 21,103
CURRENT MATURITIES OF CONVERTIBLE DEBENTURES	F	5,734	474	6,208	6,453	(640)	5,813
TRADE ACCOUNTS PAYABLE		52,028		52,028	59,741		59,741
OTHER CURRENT LIABILITIES		8,913		8,913	8,972		8,972
TOTAL CURRENT LIABILITIES		66,675	474	67,149	96,269	(640)	95,629
LONG-TERM DEBT	E	514,966	11,727	526,693	497,000		497,000
CONVERTIBLE DEBENTURES	F	34,429	13,283	47,712	19,358	23,574	42,932
LONG-TERM LIABILITY IN RESPECT OF CUSTOMERS' ADVANCES		54,537		54,537	59,621		59,621
OTHER LONG-TERM LIABILITIES	C	10,238	13,587	23,825	11,012	13,658	24,670
TOTAL LIABILITIES		680,845	39,071	719,916	683,260	36,592	719,852
CONVERTIBLE DEBENTURES	F	--	--	--	25,493	(25,493)	--
SHAREHOLDERS' EQUITY (DEFICIT)							
ORDINARY SHARES, NIS 1.00 PAR VALUE - AUTHORIZED 500,000,000 SHARES; ISSUED 76,946,189 AND 68,232,056 SHARES, RESPECTIVELY		18,403		18,403	16,548		16,548
ADDITIONAL PAID-IN CAPITAL	F	531,123	2,394	533,517	522,237	2,363	524,600
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES AND CUMULATIVE STOCK BASED COMPENSATION	F,G	19,550	(18,596)	954	(26)		(26)
ACCUMULATED OTHER COMPREHENSIVE LOSS	D	--	(496)	(496)	--	(1,554)	(1,554)
ACCUMULATED DEFICIT	D,F,G	(604,810)	4,862	(599,948)	(559,754)	30	(559,724)
		(35,734)	(11,836)	(47,570)	(20,995)	839	(20,156)
TREASURY STOCK, AT COST - 1,300,000 SHARES		(9,072)		(9,072)	(9,072)		(9,072)

TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	(44,806)	(11,836)	(56,642)	(30,067)	839	(29,228)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 636,039	$ 27,235	$ 663,274	$ 678,686	$ 11,938	$ 690,624

(dollars in thousands, except share data and per share data)

NOTE 6 - MATERIAL DIFFERENCES BETWEEN ISRAELI AND U.S. GAAP (cont.)

I. STATEMENTS OF OPERATIONS IN ACCORDANCE WITH U.S. GAAP

Complying with SFAS 133, APB 14(F above) and SFAS 123R (G above) would have resulted in a decrease in the loss for the three months period ended March 31, 2006 in the amount of $4,861. Giving effect to all the above, the loss for the three months period ended March 31, 2006 would be $ 40,195. No material affect on the result of operation for the three-month period ended March 31, 2005.

J. COMPREHENSIVE INCOME (LOSS) IN ACCORDANCE WITH U.S. GAAP (SFAS 130)

Comprehensive income (loss) represents the change in shareholder's equity during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a reporting period except those resulting from investments by owners and distributions to owners. Other comprehensive income (loss) represents gains and losses that under U.S. GAAP are included in comprehensive income but excluded from net income. Following are statements of comprehensive loss in accordance with U.S. GAAP:

	Three months ended March 31,	
	2006	2005
	(unaudited)	
Loss for the period, according to U.S. GAAP (see I above)	$(40,195)	$(55,320)
Other comprehensive loss:		
Reclassification of unrealized losses on derivatives	332	332
Unrealized gains on derivatives	726	2,837
Net comprehensive loss for the period	$(39,137)	$(52,151)

K LOSS PER SHARE IN ACCORDANCE WITH U.S. GAAP (SFAS 128)

In accordance with SFAS 128, the basic and diluted loss per share for the three-month periods ended March 31, 2006 and 2005 would be $0.56 and $0.84, respectively.

L. STATEMENTS OF CASH FLOWS IN ACCORDANCE WITH U.S. GAAP (SFAS 95)

Complying with SFAS 95 would not have materially affected the cash flows of the Company for the three-month period ended March 31, 2006 and 2005.

EXHIBIT 99.2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

THE INFORMATION CONTAINED IN THIS SECTION SHOULD BE READ IN CONJUNCTION WITH (1) OUR UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2006 AND FOR THE THREE MONTHS THEN ENDED AND RELATED NOTES INCLUDED IN THIS REPORT AND (2) OUR CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2005 AND RELATED NOTES FOR THE YEAR THEN ENDED AND (3) OUR REPORT OF FORM 6-K, FILED FEBRUARY 2, 2006. OUR FINANCIAL STATEMENTS HAVE BEEN PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") IN ISRAEL. DIFFERENCES BETWEEN ISRAELI GAAP AND US GAAP AS THEY RELATE TO OUR FINANCIAL STATEMENTS ARE DESCRIBED IN NOTE 6 TO OUR UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2006 AND IN NOTE 20 TO OUR CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2005.

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED MARCH 31, 2006	2005
STATEMENT OF OPERATIONS DATA:		
Total revenues	100.0%	100.0%
Cost of total revenues	170.8	264.2
Gross loss	(70.8)	(164.2)
Research and development expenses, net	9.3	20.6
Marketing, general and administrative expenses	14.8	19.5
Operating loss	(95.0)	(204.3)
Financing expense, net	(32.1)	(35.3)
Other income, net	1.5	0.8
Loss	(125.6)%	(238.8)%

THREE MONTHS ENDED MARCH 31, 2006 COMPARED TO THREE MONTHS ENDED MARCH 31, 2005

REVENUES. Revenues for the three months ended March 31, 2006 increased by 54.7% to $35.9 million from $23.2 million for the three months ended March 31, 2005. This $12.7 million increase was mainly attributable to higher volume of wafer shipments.

During the three months ended March 31, 2006, we had four significant customers who contributed between 11% and 18% to our revenues.

COST OF TOTAL REVENUES. Cost of total revenues for the three months ended March 31, 2006 amounted to $61.3 million, compared with $61.2 million for the three months ended March 31, 2005. This similar cost of revenues despite the 54.7% increase in sales is attributed mainly to cost reductions and efficiency measures taken by the Company.

GROSS LOSS. Gross loss for the three months ended March 31, 2006 was $25.4 million compared to a gross loss of $38.0 million for the three months ended March 31, 2005. The decrease in gross loss was mainly attributable to the increase in revenues and cost reductions and efficiency measures taken by the Company.

RESEARCH AND DEVELOPMENT. Research and development expenses for the three months ended March 31, 2006 decreased to $3.4 million from $4.8 million for the three months ended March 31, 2005. The decrease was mainly attributable to cost reductions and efficiency measures taken by the Company. Research and development expenses are reflected net of participation grants received from the Israeli government ($0.4 million and $0.1 million, for the three months ended March 31, 2006 and 2005, respectively).

MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES. Marketing, general and administrative expenses for the three months ended March 31, 2006 increased to $5.3 million from $4.5 million for the three months ended March 31, 2005, primarily due to increased activity.

OPERATING LOSS. Operating loss for the three months ended March 31, 2006 was $34.1 million, compared to $47.3 million for the three months ended March 31, 2005. The decrease in the operating loss is attributable mainly to the decrease in the gross loss.

FINANCING EXPENSES, NET. Financing expenses, net for the three months ended March 31, 2006 were $11.5 million compared to financing expenses, net of $8.2 million for the three months ended March 31, 2005. This increase is mainly due to an increase of $2.6 million in connection with our Fab 2 credit facility agreement with our banks attributable mainly to an increase in LIBOR from an average of approximately 2.6% per annum for the three months ended March 31, 2005 to an average of approximately 4.5% per annum for the three months ended March 31, 2006 (under the current Facility Agreement, our long-term loans bear interest at a rate of LIBOR + 2.5% per annum).

OTHER INCOME, NET. Other income, net, for the three months ended March 31, 2006 was $0.6 million compared to $0.2 million for the three months ended March 31, 2005.

LOSS. Our loss for the three months ended March 31, 2006 was $45.1 million, compared to $55.3 million for the three months ended March 31, 2005. This decrease is primarily attributable to the decrease in the operating loss of $13.3 million offset by the increase in financing expenses of $3.3 million.

IMPACT OF INFLATION AND CURRENCY FLUCTUATIONS

The dollar cost of our operations in Israel is influenced by the timing of any change in the rate of inflation in Israel and the extent to which such change is not offset by the change in valuation of the NIS in relation to the dollar. During the three months ended March 31, 2006, the exchange rate of the dollar in relation to the NIS increased by 1.4%, and the Israeli Consumer Price Index, or CPI, increased by 0.6% (during the three months ended March 31, 2005 there was an increase of 1.2% in the exchange rate of the dollar in relation to the NIS and a decrease of 0.6% in the CPI).

We believe that the rate of inflation in Israel has not had a material effect on our business to date. However, our dollar costs will increase if inflation in Israel exceeds the devaluation of the NIS against the dollar, or if the timing of such devaluation lags behind inflation in Israel.

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

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2006, we had an aggregate of $32.7 million in cash, cash equivalents, and short-term interest-bearing deposits, of which $15.1 million was contractually restricted for Fab 2 use only. This compares to $52.1 million we had as of March 31, 2005 in cash, cash equivalents, and short-term interest-bearing deposits, of which $5.0 million was contractually restricted for Fab 2 use only and $12.6 million was contractually restricted for exclusive use in the Siliconix project. In addition, as of March 31, 2005, we had $5.1 million in long-term interest-bearing deposits which was contractually restricted for Fab 2 use only.

During the three months ended March 31, 2006, we received $8.6 million from bank loans, $22.2 million in proceeds from the issuance of convertible debentures, net, $0.9 million from Investment Center grants and $0.6 million in proceeds from the sale and disposal of property and equipment. These liquidity resources partially financed our operating activities (net amount of $15.1 million), our investments made during the three months ended March 31, 2006, which aggregated to $16.9 million, mainly in connection with the construction, purchase and installation of equipment and other assets for Fab 2 and repayment of convertible debentures in the amount of $6.5 million.

As of March 31, 2006, we had long-term loans in the amount of $526.7 million we obtained in connection with the establishment of Fab 2 (presented in the balance sheet net of $11.7 million deferred financing charges). As of such date, we had convertible debentures in the aggregate of $59.4 million, of which $5.7 million are presented as current maturities and $19.2 million are presented as equity component of the convertible debentures as part of the shareholders' equity.