

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-8
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Tower Semiconductor Ltd.
(Exact Name of Registrant as Specified in Its Charter)

Israel
(State or Other Jurisdiction of Incorporation or Organization)

Not Applicable
(I.R.S. Employer Identification No.)

Ramat Gavriel Industrial Park
Migdal Haemek, Israel 23105
(Address of Principal Executive Offices)

Employee Share Option Plan 2004
(Full Title of Plan)

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.
Yigal Arnon & Co.
1 Azrieli Center
Tel Aviv, 67021 Israel
Tel: 972-3-608-7856

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

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Ordinary Shares, par value NIS 1.00 per share ("Ordinary Shares") (relating to 2004 Plan)	2,071,578 (2)(3)	\$5.29	\$10,958,648	\$1388.46

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(1) Calculated solely for the purpose of determining the registration fee based upon the assumed offering prices of the shares determined pursuant to Rule 457(h) under the Securities Act of 1933, based upon the weighted average per share exercise price of the options assumed by the Registrant. With respect to 323,500 shares purchasable upon exercise of outstanding options granted to date under the Registrant's Employee Share Option Plan 2004, the Proposed Maximum Offering Price Per Share is \$ 6.35, the weighted average exercise price per share of such options. With respect to the shares that may be issued pursuant to options which may be granted in the future pursuant to such Plan, the Proposed Maximum Offering Price Per Share is \$5.09, which represents the average of the high and low sales prices of the Ordinary Shares as quoted through the Nasdaq National Market on July 20, 2004.

(2) Represents shares that may be issued pursuant to options which have been or may be granted pursuant to the Registrant's Employee Share Option Plan 2004.

(3) This Registration Statement also registers an indeterminate number of Ordinary Shares which may become issuable pursuant to the anti-dilution provisions of the plans and options to which this Registration Statement relates.

PART I

INFORMATION REQUIRED IN THE SECTION 10(A) PROSPECTUS

EXPLANATORY NOTE

As permitted by the rules of the Securities and Exchange Commission, this Registration Statement omits the information specified in Part I of Form S-8.

THE COMPANY HAS APPLIED TO THE SECURITIES AUTHORITY OF THE STATE OF ISRAEL FOR AN EXEMPTION FROM THE OBLIGATION TO PUBLISH THIS PROSPECTUS IN THE MANNER REQUIRED PURSUANT TO THE PREVAILING LAWS OF THE STATE OF ISRAEL. NOTHING IN SUCH EXEMPTION OF THE SECURITIES AUTHORITY OF THE STATE OF ISRAEL, IF RECEIVED, SHALL BE CONSTRUED AS AUTHENTICATING THE MATTERS CONTAINED IN THIS PROSPECTUS OR AS AN APPROVAL OF THEIR RELIABILITY OR ADEQUACY OR AS AN EXPRESSION OF OPINION AS TO THE QUALITY OF THE SECURITIES OFFERED HEREBY.

PART II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

ITEM 3. INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed with the Securities and Exchange Commission (the "Commission") by the Registrant, Tower Semiconductor Ltd., a company organized under the laws of the State of Israel (the "Company"), pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are incorporated by reference in this registration statement:

- o Annual Report on Form 20-F for the year ended December 31, 2003 (filed on March 2, 2004).
- o Report on Form 6-K dated March 2004 (filed on March 16, 2004).
- o Report on Form 6-K dated April 2004 (filed on April 30, 2004).
- o Report on Form 6-K dated June 2004 (filed on June 28, 2004).
- o Report on Form 6-K dated July 2004 No.1 (filed on July 13, 2004).
- o Report on Form 6-K dated July 2004 No.2 (filed on July 22, 2004).
- o The description of the Company's Ordinary Shares which is contained in its Registration Statement on Form 8-A declared effective on October 25, 1994.

All documents subsequently filed by the Company pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act, prior to the filing of a post-effective amendment which indicates that all shares offered hereby have been sold or which deregisters all then remaining unsold, shall be deemed to be incorporated by reference in this registration statement and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this registration statement to the extent that a statement contained herein or in any other subsequently filed document which also is incorporated or deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this registration statement.

ITEM 4. DESCRIPTION OF SECURITIES.

Not Applicable.

ITEM 5. INTERESTS OF NAMED EXPERTS AND COUNSEL.

Not Applicable

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Israeli Companies Law, or the Companies Law, provides that a company may include in its articles of association provisions allowing it to:

1. partially or fully exempt, in advance, an office holder of the company from his responsibility for damages caused by the breach of his duty of care to the company;

2. enter into a contract to insure the liability of an office holder of the company by reason of acts or omissions committed in his capacity as an office holder of the company with respect to the following:
 - (a) the breach of his duty of care to the company or any other person;
 - (b) the breach of his duty of loyalty to the company to the extent he acted in good faith and had a reasonable basis to believe that the act or omission would not prejudice the interests of the company; and
 - (c) monetary liabilities or obligations which may be imposed upon him in favor of other persons;
3. indemnify an office holder of the company for:
 - (a) monetary liabilities or obligations imposed upon him in favor of other persons pursuant to a court judgment, including a compromise judgment or an arbitrator's decision approved by a court, by reason of acts or omissions of such person in his capacity as an office holder of the company; and
 - (b) reasonable litigation expenses, including attorney's fees, actually incurred by such office holder or imposed upon him by a court, in an action, suit or proceeding brought against him by or on behalf of the company or by other persons, or in connection with a criminal action from which he was acquitted, or in connection with a criminal action which does not require criminal intent in which he was convicted, in each case by reason of acts or omissions of such person in his capacity as an office holder.

The Companies Law provides that a company's articles of association may provide for indemnification of an office holder post-factum and may also provide that a company may undertake to indemnify an office holder in advance, provided such undertaking is limited to types of occurrences, which, in the opinion of the company's board of directors, are, at the time of the undertaking, foreseeable and to an amount the board of directors has determined is reasonable in the circumstances.

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

- o a breach of his duty of loyalty, except to the extent described above;
- o a breach of his duty of care, if such breach was done intentionally, recklessly or with disregard of the circumstances of the breach or its consequences;
- o an act or omission done with the intent to unlawfully realize personal gain; or
- o a fine or monetary settlement imposed upon him.

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

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

Our Articles of Association have been amended to allow for indemnification of, and procurement of insurance coverage for our officers and directors to the maximum extent provided for by the Companies Law.

We have entered into an insurance contract for directors and officers and have procured indemnification insurance for our office holders to the extent permitted by our Articles of Association. We have approved the indemnification of our office holders up to 25% of our then current fully paid up equity (in addition to any amounts paid under an insurance coverage) with respect to each case of indemnification (including all matters connected therewith), by authorizing and empowering us to enter into Exemption and Indemnification Agreements with our office holders. We have never had the occasion to indemnify any of our office holders.

ITEM 7. EXEMPTION FROM REGISTRATION CLAIMED.

Not Applicable

ITEM 8. EXHIBITS.

- 4.2. Articles of Association of the Registrant (incorporated by reference to Exhibit 1.1 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2000) and Amendment to the Articles of Association of the Registrant (approved by shareholders on December 7, 2003) filed herewith
- 4.3. Employee Share Option Plan 2004
- 4.4. Form of Grant Letter to Israeli Employees
- 4.5. Form of Grant Letter to U.S. Employees
- 5.1. Opinion of Yigal Arnon & Co.
- 15.1. Awareness letter of Brightman Almagor & Co.
- 23.1. Consent of Yigal Arnon & Co. (included in the opinion filed as Exhibit 5.1)
- 23.2. Consent of Brightman Almagor & Co.
- 24.1. Power of Attorney (included on signature page)

ITEM 9. UNDERTAKINGS

- (a) The undersigned Registrant hereby undertakes:
- (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:
 - (i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;
 - (ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement;
 - (iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement; provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the Registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Registration Statement.
 - (2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
 - (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
- (b) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities and Exchange Act of 1934) that is incorporated by reference in the Registration Statement shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- (c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8, and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Migdal Haemek, Israel, on the 21st day of July, 2004.

Tower Semiconductor Ltd.

By: /s/Carmel Vernia

Carmel Vernia
Chairman of the Board of Directors and
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in their respective capacities and on the respective dates indicated. Each person whose signature appears below hereby authorizes Carmel Vernia with full power of substitution, to execute in the name and on behalf of such person any amendment or any post-effective amendment to this Registration Statement and to file the same, with exhibits thereto, and other documents in connection therewith, making such changes in this Registration Statement as the Registrant deems appropriate, and appoints Carmel Vernia, with full power of substitution, attorney-in-fact to sign any amendment and any post-effective amendment to this Registration Statement and to file the same, with exhibits thereto, and other documents in connection therewith.

/s/ Carmel Vernia

Carmel Vernia, Chairman and Chief Executive Officer
July 21, 2004

/s/ Amir Harel

Amir Harel, Vice President and Chief Financial Officer (principal financial and accounting officer) July 21, 2004

/s/ Idan Ofer

Idan Ofer, Director
July 21, 2004

Ehud Hillman, Director
July 21, 2004

/s/ Eli Harari

Eli Harari, Director
July 21, 2004

Miin Wu, Director
July 21, 2004

/s/ N.D. Reddy

N.D. Reddy, Director
July 21, 2004

Zehava Simon, Director
July 21, 2004

/s/ Hans Rohrer

Hans Rohrer, Director
July 21, 2004

AUTHORIZED REPRESENTATIVE IN THE UNITED STATES
Tower Semiconductor USA

/s/ Doron Simon

Doron Simon
President
July 21, 2004

Exhibit Index

Exhibit No.	Exhibit
4.2	Amendment to the Articles of Association of the Registrant (approved by shareholders on December 7, 2003)
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5.1	Opinion of Yigal Arnon & Co.
15.1	Awareness letter of Brightman Almagor & Co.
23.1	Consent of Yigal Arnon & Co. (included in the opinion filed as Exhibit 5.1)
23.2	Consent of Brightman Almagor & Co.
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AMENDMENT TO THE ARTICLES OF ASSOCIATION

At the shareholders' meeting that was held on December 7, 2003, it was proposed that for the purpose of reserving sufficient quantities of shares to permit the issuance of shares in connection with the raising of capital for the Fab 2 project, Tower Semiconductor Ltd. increase its authorized share capital from 100,000,000 shares NIS 1.00 per share to 150,000,000, NIS 1.00 per share.

The shareholders of Tower Semiconductor Ltd. resolved the following:

"That the increase in the number of the Company's authorized ordinary shares to 150,000,000 and authorized share capital to NIS 150,000,000 and the amendment of the Company's Articles of Association to reflect such increase, is hereby approved."

The above resolution was adopted by a majority of the Shareholders present in person or by proxy.

TOWER SEMICONDUCTOR LTD.

EMPLOYEE SHARE OPTION PLAN 2004

A PLAN UNDER SECTION 102 OF THE INCOME TAX ORDINANCE AND THE UNITED STATES
INTERNAL REVENUE CODE OF 1986

1. Name and Purpose:

1.1 This plan, as amended from time to time, shall be known as the Tower Semiconductor Limited Employee Share Option Plan 2004 (the "2004 Plan" or the "Plan").

1.2 The purpose and intent of the Plan is to provide incentives to employees of Tower Semiconductor Ltd. (the "Company") and its wholly-owned subsidiaries (each, a "Subsidiary") by providing them with options ("Options") to purchase shares in the Company, pursuant to a plan approved by the Board of Directors of the Company (the "Board"). Options granted under this Plan to the Company's employees will be made pursuant to the provisions of Section 102 ("Section 102") of the Israeli Income Tax Ordinance (New Version), 1961 as amended from time to time and, most recently, by the Law Amending the Income Tax Ordinance (Number 132) 2002 (as amended, the "Ordinance") and the rules promulgated thereunder (the "Rules"). Options granted under this Plan to United States residents who are employees of the Company's United States Subsidiary, Tower Semiconductor USA, Inc. ("TSU") will be made pursuant to the United States Internal Revenue Code of 1986, as amended (the "Code").

2. Section 102 Election:

Options granted pursuant to Section 102(b) shall be granted pursuant to either (a) Section 102(b)(2) thereof as capital gains track options, pursuant to which income resulting from the sale of shares derived from such Options is taxed as a capital gain ("102 Capital Gains Track Options"), or (b) Section 102(b)(1) thereof as ordinary income track options, pursuant to which income resulting from the sale of shares derived from such Options is taxed as ordinary income ("102 Ordinary Income Track Options"; together with 102 Capital Gains Track Options, "102 Trustee Options"). Pursuant to the Company's election filed with the Israeli Tax Authorities to issue 102 Capital Gains Track Options under the Company's Employee Share Option Plan 2003/1, the Company may only grant 102 Capital Gains Track Options at any given time unless it elects to change such election, which may be made no earlier than January 1, 2005 and following the approval of the Board, all in accordance with the provisions of Section 102(g).

3. Types of Options granted under the Code:

Options granted to US residents who are employees of TSU under the Code shall be either an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code ("ISO"), or an Option not intended to qualify as an ISO ("NSO").

4. Scope:

The total number of Options which can be granted under this Plan are Options to purchase up to 2,071,578 Ordinary Shares of the Company (nominal value NIS 1.00 per share), subject to adjustments as provided in Section 13 below.

5. Administration:

5.1. The Plan will be administered by the Board of Directors of the Company, taking into account the recommendations of the Compensation and Options Committee (the "Committee"), a sub-committee of the Board.

5.2. No member of the Board shall be liable for any action or determination made in good faith with respect to the Plan or any Option granted hereunder.

6. Eligible Grantees:

- 6.1. Subject to the provisions of the Plan and any restriction imposed by any applicable law, Options may be granted to any employee of the Company or any Subsidiary ("Grantee"). No option award under this Plan (an "Option Award") may be granted to any person serving as a member of the Board. The grant of an Option Award to a Grantee hereunder, shall neither entitle such Grantee to participate, nor disqualify him/her from participating, in any other grant of Options pursuant to this Plan or any other share incentive or share option plan of the Company or any Subsidiary.

- 6.2. Grants of ISO's shall be made only to US residents who are employees of TSU eligible to receive them under Section 422 of the Code. If (i) a Grantee of ISO's at the time of the Option Award owns shares representing more than 10% of the voting power of the Company or its parent or a Subsidiary, (ii) the aggregate Fair Market Value (as defined hereunder), as at the time of the grant, of the shares underlying ISOs which first become exercisable during any calendar year exceeds \$100,000 (taking such Options into account in the order in which they were granted) or (iii) such Options otherwise fail to fully comply with the requirements for ISO's under the Code, such Options shall be treated as NSOs. Options designated as ISO's will be treated as NSOs if a disposition of underlying shares exercisable under the Option is made within two years from the date of the granting of the Option or within one year after the exercise of the Option.

7. Trustee; Required Holding Periods:

- 7.1. Option Awards and/or shares in the Company which will be issued upon the exercise of the Option Awards will be held in trust by David H. Schapiro Legal Services (the "Trustee") in accordance with Section 102 and the regulations, rules, orders or procedures promulgated thereunder with respect to Israeli residents, and with respect to non-Israeli residents, the Trustee shall hold such Options, and any shares issued upon the exercise of any of such Options, in trust pursuant to the Company's instructions from time to time and according to all applicable laws.
- 7.2. 102 Trustee Options and any shares received following exercise of 102 Trustee Options shall be held by the Trustee for the requisite period prescribed by the Ordinance and the Rules, or such other period as may be required or unless otherwise permitted by the Israeli Income Tax Authorities (the "Required Holding Period").
- 7.3. The Trustee and each Grantee shall comply with the applicable laws and the terms and conditions of the Trust Agreement entered into between the Company and the Trustee.
- 7.4. In the event that the Company issues securities as bonus shares (ioeau aaaa) on shares which derive from 102 Trustee Options, such bonus shares shall also be subject to the provisions of this Section and the Required Holding Period for such bonus shares shall be measured from the commencement of the Required Holding Period for the 102 Trustee Option from which the bonus shares were issued.
- 7.5. The Trustee shall not use the voting rights vested in such shares issuable upon exercise of Options, unless the Trustee believes, after consulting with the Committee and the Grantees who hold a majority of the issued Options, that the said rights should be exercised for the protection of the Grantees as a minority among the Company's shareholders.
- 7.6. The Company shall be entitled to replace the Trustee with another appointee from time to time and shall notify the Grantees of such replacement.

8. Reserved Shares:

- 8.1 The Company has reserved 2,071,578 authorized but unissued Ordinary Shares (nominal value NIS 1.00 per share) for purposes of the Plan, subject to adjustments as provided in Section 13 below. If any Options granted under the Plan terminate, expire or otherwise cease to exist, they shall again be available for grant through Option Awards under the Plan or under any other incentive plan that the Company may adopt.
- 8.2 The Company will maintain a sufficient quantity of Ordinary Shares, NIS 1.00 nominal value, in its registered capital to ensure the execution of the exercise right hereunder, and if necessary it will cause its registered capital to be increased.

9. Option Awards:

- 9.1. Option Awards may be granted as of the Effective Date (as defined hereunder), provided that Option Awards to the Company's employees may be granted as of the Effective Date and 30 (thirty) days from the filing of this Plan with the Israeli Income Tax Authorities in accordance with applicable law. The date of grant of each Option Award shall be the date of the Option Award letter issued to the Grantee (the "Date of Grant").
- 9.2. The instrument granting the Option Award shall state, inter alia, the number of shares covered thereby, the dates when it may be exercised, the option price and such other terms and conditions as the Committee at its discretion may prescribe, provided that they are consistent with this Plan and with applicable laws.

9.3. The Options hereunder will not be listed in any stock exchange and are not transferable (except to the Grantee's legal heirs or estate).

9.4. The Grantee shall have no right to vote or receive dividends (subject to Section 13.1) or any other rights of a shareholder prior to its exercise of the Options and until the issuance of the stock certificate evidencing such shares.

10. Options' Exercise Prices:

The purchase price in \$US of each share will be the closing sales price of the Company's shares as reported by NASDAQ or the principal national securities exchange upon which the Company's shares are listed or traded for the last market trading day (the "Fair Market Value") prior to the Date of Grant.

11. Vesting and Exercise of Option Award:

11.1. Option Awards shall become exercisable (vest) pursuant to the terms under which they were awarded, subject to the terms and conditions of this Plan: one-quarter (1/4) of the Options granted in each Option Award shall vest and become exercisable 12 months after the Date of Grant, one-quarter (1/4) of the Options granted in each Option Award shall vest and become exercisable 24 months after the Date of Grant, one-quarter (1/4) of the Options granted in each Option Award shall vest and become exercisable 36 months after the Date of Grant, and one-quarter (1/4) of the Options granted in each Option Award shall vest and become exercisable 48 months after the Date of Grant, subject to the Grantee's continuing to be an Employee on such dates. Each option will be exercisable into one Ordinary Share.

11.2. The consideration to be paid for the shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Company and may consist entirely of (1) cash, (2) check, or (3) cashless in case of same day sale. The procedure for exercise of the Options shall be published in the Company's website. The Company may change the procedures for exercise of the Options at its discretion, by giving notice thereof to the Grantees.

11.3. Anything herein to the contrary notwithstanding, if any Option Award, or any part thereof, has not been exercised within ten (10) years after the Date of Grant (or any shorter period set forth in the instrument granting such Option Award), such Option Award, or such part thereof, shall terminate, and all interests and rights of the Grantee in and to the Option Award or such part thereof shall expire.

12. Termination of Employment; Termination of Right to Exercise:

- 12.1. Subject to the provisions of paragraph 12.2 and 12.3 hereof, unless determined otherwise by the Board of Directors if a Grantee should cease to be employed by the Company for any reason, all of the Grantee's rights which have vested and are exercisable in respect of all Option Awards granted to the Grantee under the Plan, and which are not exercised within sixty (60) days after the date of termination of the employee-employer relationship, shall terminate upon the expiration of such sixty-day period. Options which are unvested at the time of termination of the Grantee's employment with the Company will become void and unexercisable at the time of such termination.
- 12.2. Notwithstanding paragraph 12.1, in the event the employment of a Grantee is terminated by the Company under circumstances that entitle the Company (1) not to pay severance pay, or to pay only part of the severance pay, pursuant to the provisions of the Severance Pay Law, 5723-1963, or (2) to terminate the Grantee for Cause as such term is defined in such Grantee's employment agreement, vested Options shall lapse and become void and unexercisable on the last day of the Grantee's employment with the Company or on such date as set forth in the Grantee's employment agreement.
- 12.3. Anything herein to the contrary notwithstanding, if a Grantee should die, or become unable to continue to be employed by the Company by reason of becoming incapacitated while in the employ of the Company due to an accident, illness or other cause approved by the Committee, or if a Grantee should retire at the legal retirement age, vested Options can be exercised by the Grantee or the Grantee's estate or legal representative, as the case may be, within one (1) year after the Grantee's last day of employment with the Company. Thereafter, such Options shall lapse and become void and unexercisable. In the case of an ISO, if such disability is not a "disability" as such term is defined in Section 22(e)(3) of the Code, such ISO shall be treated for tax purposes as an NSO as of three months and one day from the date of such termination.

13. Adjustments:

- 13.1. In the event that the Company shall issue any of its Ordinary Shares or other securities as bonus shares (ioeau aaaa) upon or with respect to any shares which shall at the time be subject to a right of purchase by a Grantee hereunder, each Grantee upon exercising such right shall be entitled to receive (for the purchase price payable upon such exercise), the shares as to which he is exercising such right and, in addition thereto (at no additional cost), such number of shares of the class or classes in which such bonus shares (stock dividend) were declared, as the Grantee would have received had he been the holder of the shares as to which he is exercising his right at all times between the date of the granting of such right and the date of its exercise. No fractional shares will be issued under this Section. All resulting fractional shares may be aggregated and sold by the Company, who will be entitled to the proceeds of the sale thereof.
- 13.2. If securities of any kind are offered to the Company's shareholders by means of a rights offering, the exercise price of the Options will not be adjusted but the number of shares into which the Options are exercisable ("Underlying Shares") will be increased to take into account the element of economic benefit of the rights issue ("i0eea aaaaa"), as such element is calculated by the Tel-Aviv Stock Exchange (the "TASE") in accordance with its rules.

- 13.3. If the Company consolidates its Ordinary Shares, NIS 1.00 nominal value, into shares having a larger nominal value, or if it splits them into a larger number of shares having a lesser nominal value, then the number of Underlying Shares that is allotted due to the Options' exercise will be decreased or increased, as the case may be, after such an action.
- 13.4. In the event that the Company is a party to any agreement or arrangement for exchanging shares (such as a merger or reorganization) (hereinafter, the "Exchange Transaction"), in which the holders of the Company's ordinary shares are offered the opportunity to exchange their shares for the securities of any other corporation, the Company will cause such other corporation to allot such securities as were offered to its ordinary shareholders as aforesaid to any Grantee who exercises his/her options during the exercise period and subject to the exercise conditions, as if that Grantee was the holder of the Underlying Shares on the determining date for purposes of the said Exchange Transaction.
- 13.5. Voluntary Liquidation: In the event of a decision to voluntarily liquidate the Company, each Grantee will be deemed to have used his exercise right immediately prior to the decision having been taken, without having to pay the exercise price. In this event, the Grantee will be entitled to a payment which is equal to the amount that he would receive in liquidation if he were a holder of Underlying Shares immediately prior to the decision to liquidate, less the exercise price.
- 13.6. In any event in which the execution of an adjustment is actually required as detailed in this Section 13, the Committee is authorized to implement the actual adjustment and to execute the required calculations, all subject to the principles in this Section 13.

14. Continuation of Employment:

Neither the Plan nor the Option Award letter shall impose any obligation on the Company or a Subsidiary, to continue any Grantee in its employ or as a member of its Board of Directors, and nothing in the Plan or in any Option Award pursuant thereto shall confer upon any Grantee any right to continue in the employ or as a member of the Board of Directors of the Company or a Subsidiary, or restrict the right of the Company or a Subsidiary, to terminate such employment or position as a member of its Board of Directors at any time.

15. Governing Law:

- 15.1. The Plan and all instruments issued hereunder in connection with Options granted pursuant to the provisions of Section 102, shall be governed by, and interpreted in accordance with, the laws of the State of Israel.
- 15.2. The Plan and all instruments issued hereunder in connection with Options granted pursuant to the provisions of the Code, shall be governed by, and interpreted in accordance with, the laws of the State of California.

16. Application of Funds:

The proceeds received by the Company from the sale of shares pursuant to Option Awards granted under the Plan will be used for general corporate purposes of the Company or any Subsidiary.

17. Tax Consequences:

17.1. Any tax consequences arising from the grant or exercise of any Option Award, from the payment for shares covered thereby or from any other event or act (of the Company or the Grantee) hereunder, and commissions and other expenses relating thereto shall be borne solely by the Grantee. Furthermore, the Grantee shall agree to indemnify the Company and/or any of its Subsidiaries and/or the Trustee and hold them harmless against and from any and all liability for any such tax or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to the Grantee. The Company and/or any of its Subsidiaries and/or the Trustee may withhold any taxes, expenses and commissions from the exercise of the Options and/or the sale of the underlying shares.

17.2. The Grantee will confirm in writing that he/she (1) understands that the Options are granted pursuant to a Plan under Section 102, (2) is aware which taxation track applies to the Options and (3) will undertake that he/she will not exercise the Options prior to the end of the Required Holding Period unless otherwise permitted.

18. Amendment and Termination of the Plan

The Plan shall become effective upon its adoption by the Company's shareholders (the "Effective Date"), and the Company may issue Options under this Plan until the date that is ten (10) years from the Effective Date. The Board may, at any time and from time to time, terminate, alter, adjust or amend the Plan in any respect, except that if at any time the approval of the shareholders of the Company is required, the Board may not effect such modification or amendment without such approval.

RE: GRANT OF OPTIONS UNDER SECTION 102 - 2004 PLAN TO ISRAELI EMPLOYEES

Dear: _____

We are pleased to grant you options ("Options") to purchase up to _____ Ordinary Shares, nominal value NIS 1.00 each, of Tower Semiconductor Ltd. (the "Company"), pursuant to the Employee Share Option Plan 2004 of the Company, (the "Plan"), as of _____ (the "Date of Grant").

The Plan is a Plan under Section 102 of the Income Tax Ordinance ("Section 102") and the United States Internal Revenue Code of 1986, as amended, and the grant and issuance of Options pursuant to this letter is subject to the receipt of all the approvals required under applicable law. The Options will be issued to David H. Schapiro Legal Services (the "Trustee").

The exercise price of the Options shall be \$_____ per share. The terms and conditions set forth in this letter are subject to and supplemented by the terms and conditions set forth in the Plan posted on our website. You are urged to review the Plan and shall be deemed to be fully aware of all the terms and conditions governing the Options set forth in the Plan. By your signature below, you agree to be bound by the terms and conditions of the Plan.

The Options pursuant to this letter will be issued once you sign: (I) this letter, (II) the attached Employee's Declaration, and (III) any other form which is required under Section 102 and which will be provided to you by the Company, and return them to the Company. The forms referred to above must be SENT to the Human Resources Manager only, no later than _____ on 15:00. No options will be granted to you if the forms are not returned by such date. If you are unable to return the forms by such date, you may contact the CFO or VP Human Resources of the Company, who is authorized, at his/her discretion, to extend such date, but in any event no later than _____.

The issuance of the Options is subject to the main terms and conditions set out below. The full terms and conditions of the Options are set out in the Plan.

1. ISSUANCE OF OPTIONS.

The Options are hereby issued to the Trustee for your benefit, subject to the terms and conditions hereunder.

The Options will not be listed in any stock exchange and are not transferable (except to your legal heirs or estate).

2. VESTING; PERIOD OF EXERCISE.

2.1. Subject to the terms and conditions of the Plan and this letter, the Options granted pursuant to this letter shall become exercisable (vest) in accordance with the following schedule:

- (a) _____ of the Options shall vest 12 months from the Date of Grant;
- (b) _____ of the Options shall vest 24 months from the Date of Grant;
- (c) _____ of the Options shall vest 36 months from the Date of Grant; and
- (d) _____ of the Options shall vest 48 months from the Date of Grant;

2.2. The above Options will vest and become exercisable only if on the date of vesting you are still employed by the Company.

2.3. Vested Options may be exercised in whole or in part, at any time within a period of ten (10) years from the Date of Grant (the "Exercise Period"). Any Option not exercised within the Exercise Period shall lapse and become void and unexercisable.

2.4. Options which are unvested at the time of termination of your employment with the Company will become void and unexercisable at the time of such termination. In addition, if your employment with the Company is terminated voluntarily by you or is terminated by the Company for any reason, vested Options can be exercised by you within sixty (60) days after your last day of employment with the Company. Thereafter, such options shall lapse and become void and unexercisable.

2.5. The procedure for exercise of the Options shall be as it appears on the web-site of the Company. However, the Company may change the procedure for exercise of Options at its discretion. The Company will notify you of any changes in the procedure.

3. NOTICES.

All notices, consents and other communications under this Agreement shall be sent in writing and shall be deemed to have been given when (a) delivered by hand, (b) mailed by certified or registered mail, return receipt requested or express delivery service, or (c) when received by the addressee, if sent by Express Mail, Federal Express or other express service, in each case to the appropriate addresses set forth below (or to such other addresses as a party may designate as to itself by notice to the other parties).

(a) If to you, at your address listed beneath your signature below;

(b) If to the Company: Human Resources Department, Tower Semiconductor, P.O. Box 619, Migdal Ha'emek, Israel;

(c) If with respect to Option exercise procedures: benefit@mybenefit.co.il or facsimile no.: 09-766-5080.

4. NO WAIVER.

The delay or failure on the part of any party hereto to insist, in any one instance or more, upon strict performance of any of the terms or conditions of this Agreement, or to exercise any right or privilege herein conferred shall not be construed as a waiver of any such terms, conditions, rights or privileges but the same shall continue and remain in full force and effect.

Sincerely,

Tower Semiconductor Limited

Name of Employee: _____

Date: _____

Employee signature: _____

Employee ID number: _____

Employee address: _____

EMPLOYEE'S DECLARATION

1. I, the undersigned, confirm that the contents of this letter, dated _____ are acceptable and agreed to by me.
2. All taxes, commissions and other expenses and payments payable in connection with the grant of the Options, the exercise thereof, the sale of the shares purchased by way of exercise of the Options (to the extent payable) and/or the transfer of funds (including currency conversions) will be borne by me. I will promptly indemnify the Company in the event it makes any of such payments.
3. I acknowledge and agree that in the event that bonus shares are issued by the Company in respect of the shares granted to me pursuant to this letter, such bonus shares shall be transferred by the Company to the Trustee, and the terms and provisions of the Income Tax Rules mentioned above shall apply to the bonus shares, as shall the Trustee's undertakings under the Agreement between the Trustee and the Company.
4. Without derogating from the former provisions, I acknowledge that the ultimate liability for income tax, social insurance or other tax-related withholding in connection with this grant or its exercise is my responsibility. I specifically acknowledge that any and all applicable laws and regulations in Israel pertaining to the granting of options including but not limited to the provisions set forth in Section 102 of the Income Tax Ordinance [New Version] - 1961 (the "Ordinance") and any rules promulgated thereunder including any amendment thereto, any interpretation published by the Israeli tax authorities in their official guidelines and any judicial interpretation of the Israeli courts, shall each apply with respect to my Options and may affect the terms of my Options. Any exercise of an Option and sale of shares received upon the exercise of my Options (the "Shares"), which deviates from the rules set forth in Section 102 of the Ordinance or in regulations promulgated thereunder (the "Rules") may result in adverse tax consequences for me. I further acknowledge that each of the Company, brokers effecting transactions relating to my Options and the Trustee (as defined below) is under no obligation to inform me as to whether a particular transaction I may consider effecting complies with the Rules. I further acknowledge that the Company has not, nor does it intend to, provide tax advice with respect to the tax ramifications of an Option grant under the laws of any jurisdiction, including Section 102 of the Ordinance or any Rules promulgated thereunder, and that I am urged to seek my own personal tax advice.
5. I acknowledge that a trustee (the "Trustee") has been appointed to administer my Options in accordance with Section 102 of the Ordinance and the Income Tax Rules (Tax Benefits Regarding the Grant of Options to Employees), 2003 (the "Rules") and pursuant to an agreement with the Trustee that may be amended from time to time (the "Trust Agreement"). In accordance with the terms of this Option Agreement, the Company and/or the Trustee are responsible, among other things, to: (a) withhold and pay any applicable taxes owed to the tax authorities in Israel in connection with my Options, including as a result of an exercise of my Options and sale of the Shares by me, prior to releasing any funds owed to me, (b) provide the tax authorities in Israel with an annual report in accordance with the Rules and (c) provide the Israeli tax authorities with a report regarding the grant of Options under the Plan, within ninety (90) days from the Grant Date in accordance with the Rules. Any fees associated with the exercise of my Options as specified in the Trust Agreement will be borne solely by me. In accordance with the approval granted by the Israel Tax authorities in connection with this Plan, certain of the functions related to the administration of my options may be performed by the Company.

6. In accepting this grant, I acknowledge that unless otherwise permitted by the Income Tax Authorities, the Rules as of the Option Date prohibit me from selling Shares issued upon exercise of my Options during a period of twenty-four months from the end of the tax year in which the grant took place in the event that my Options are subject to the "capital gains track" as set forth in Section 102(b)(2) (the "Capital Gains Track") of the Ordinance (the "Capital Gains Track"), or during a period of twelve months from the end of the tax year in which the grant took place in the event that my Options are subject to the "employment income track" as set forth in Section 102(b)(1) of the Ordinance (the "Required Holding Period"). Notwithstanding the above, if I elect to sell my Shares during the Required Holding Period, I hereby acknowledge that the sale of the Shares will be taxed in accordance with the relevant provisions of Section 102 of the Ordinance and the Rules regarding a breach of the terms of the Required Holding Period. For the avoidance of doubt, in the event that my Options are subject to the "capital gains track", a sale of the shares issued upon exercise of my Options during the Required Holding Period will forfeit my right to receive the tax benefits of the "capital gains track" under Section 102(b)(2) of the Ordinance and the income derived from the exercise of the Options and the sale of the Shares will be taxed as regular employment income (and not at the reduced capital gains tax rate, if applicable) and will be subject to National Insurance and Health tax.
7. I hereby acknowledge that Options granted pursuant to Section 102 as capital gains track options, pursuant to which income resulting from the sale of shares derived from such Options is taxed as a capital gain ("102 Capital Gains Track Options"), or as ordinary income track options, pursuant to which income resulting from the sale of shares derived from such Options is taxed as ordinary income ("102 Ordinary Income Track Options"; together with 102 Capital Gains Track Options, "102 Trustee Options"), shares issuable upon exercise of 102 Trustee Options or proceeds arising from the sale of such shares may be released to an Israeli resident Grantee only in compliance with the Ordinance, the Rules, and the terms and conditions of the Trust Agreement entered into between the Company and the Trustee, including without derogation, the withholding of any applicable tax due pursuant to the Ordinance and Rules.
8. I am aware that 102 Trustee Options may be granted before the Plan has been approved by the Income Tax Authorities as a plan under Section 102, but not prior than 30 (thirty) days from the filing of the Plan with the Income Tax Authorities; however, in the event that the Income Tax Authorities may require certain changes to the Plan, the Option Awards shall be subject to these changes

9. I am aware that: (i) the Company intends to issue additional shares and options in the future to various entities and individuals, as the Company in its sole discretion shall determine; and (ii) the Company may increase its share capital by new securities in such amount as it finds expedient; and I hereby waive any claim I might or may have regarding such issuance or increase.
10. I am aware that pursuant to Section 102(b)(3), if my Options are issued on the Capital Gains Track with an exercise price lower than the average closing price of the Company's shares on the 30 (thirty) trading days preceding the issuance of the Options, a part of any benefit ultimately derived from the exercise of the Options and the sale of the shares issued upon exercise of my Options, up to the amount equivalent to the difference between these prices, will be taxed as regular employment income and not at the reduced capital gains tax rate and will be subject to National Insurance and Health tax.
11. I hereby consent to the transfer of information that the Company is required to report to the tax authorities and to the Trustee relating to the Options in accordance with the provisions of Section 102 of the Ordinance and the Rules.

Name of Employee: _____

Signature: _____

I.D. Number: _____

Date: _____

RE: GRANT OF OPTIONS UNDER THE INTERNAL REVENUE CODE
OF 1986 - 2004 PLAN TO U.S. EMPLOYEES

Dear: _____

We are pleased to grant you options ("Options") to purchase Ordinary Shares, nominal value NIS 1.00 each (the "Shares"), of Tower Semiconductor Ltd. (the "Company"), pursuant to the Employee Share Option Plan 2004 of the Company, (the "Plan"), as of _____ (the "Date of Grant"), as follows:

1. Total Number of Options Granted _____
2. Type of Option:

 Option intended to qualify as an incentive stock option ("ISO") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended ("Code").

 Option not intended to qualify as an Incentive Stock Option ("NSO").
3. The exercise price of the Options shall be \$_____ per Share.
4. The Options are hereby issued (the "Option Award") to the Trustee (as defined in the Plan) for your benefit, subject to the terms and conditions hereunder and the Plan which we have posted on our website. You are urged to review the Plan and shall be deemed to be fully aware of all the terms and conditions governing the Options set forth in the Plan. By your signature below, you agree to be bound by the terms and conditions of the Plan.
5. Subject to the terms and conditions of the Plan and this letter, the Options granted pursuant to this letter shall become exercisable (vest) in accordance with the following schedule:
 - (a) _____ of the Options shall vest 12 months from the Date of Grant;
 - (b) _____ of the Options shall vest 24 months from the Date of Grant;
 - (c) _____ of the Options shall vest 36 months from the Date of Grant;
and
 - (d) _____ of the Options shall vest 48 months from the Date of Grant.
6. The above Options will vest and become exercisable only if on the date of vesting you are still employed by the Company. Vested Options may be exercised in whole or in part, at any time within a period of ten (10) years from the Date of Grant (the "Exercise Period"). Any Option not exercised within the Exercise Period shall lapse and become void and unexercisable. In addition, Options which are unvested at the time of termination of your employment with the Company will become void and unexercisable at the time of such termination. In addition, if your employment with the Company is terminated voluntarily by you or is terminated by the Company for any reason (other than as set forth in the Plan), vested Options can be exercised by you within sixty (60) days after your last day of employment with the Company. Thereafter, such options shall lapse and become void and unexercisable.
7. The procedure for exercise of the Options shall be as detailed on our website. However, the Company may change the procedures for exercise of the Options at its discretion. The Company will notify you of any changes in the procedure.
8. Any tax consequences arising from the grant or exercise of any Option Award, from the payment for Shares covered thereby or from any other event or act (of the Company, its subsidiaries or you) hereunder, and commissions and other expenses relating thereto shall be borne solely by you. Furthermore, you shall agree to indemnify the Company and/or any of its subsidiaries and/or the Trustee and hold them harmless against and from any and all liability for any such tax or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to you. The Company and/or any of its subsidiaries and/or the Trustee

may withhold any taxes, expenses and commissions from the exercise of the Options and/or the sale of the underlying Shares.

9. While we are not providing you any tax advice with respect to the grant of Options, we understand that:

a. In the case of an ISO, the exercise of the Option, under current applicable law that is subject to change, will not be subject to U.S. federal income tax, although the excess, if any, of the Fair Market Value (as defined below) of the Shares on the date of exercise over the Fair Market Value of the Shares on the date of grant will be included in computing the alternative minimum tax for federal income tax purposes and may subject you to the alternative minimum tax in the year of exercise.

b. The exercise of an NSO will be subject to U.S. federal income tax liability (at ordinary tax rates) upon the excess, if any, of the fair market value of the Shares on the date of exercise over their exercise price. If you are an employee or a former employee, we will be required to treat such excess as compensation income and withhold from your compensation or collect from you and pay to the applicable taxing authorities an amount in cash equal to a percentage of this compensation income at the time of exercise. We may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

c. In the case of an NSO, if Shares are held for at least one year after exercise, any gain realized on disposition of the Shares, i.e. the excess of the sale proceeds over the basis in the Shares (which will generally be equal to the Fair Market Value of the Shares on the date of exercise), will be treated as long-term capital gain for U.S. federal income tax purposes. In the case of an ISO, if Shares transferred pursuant to the Option are held for at least one year after exercise and for at least two years after the Date of Grant, any gain realized on disposition of the Shares will also be treated as long-term capital gain for U.S. federal income tax purposes. If Shares purchased under an ISO are disposed of within one year after exercise or within two years after the Date of Grant, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the difference between the lesser of (1) the Fair Market Value of the Shares on the date of exercise, or (2) the sale price of the Shares and the exercise price. Any additional gain will be taxed as capital gain.

d. In the case of an ISO, if a Grantee sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (1) the date two years after the Date of Grant, or (2) the date one year after the date of exercise, such Grantee shall immediately notify the Company in writing of such disposition. You agree that you may be subject to income tax withholding by the Company or the Subsidiary on the compensation income recognized by you.

e. In the case of an ISO, the Option shall not be considered an ISO to the extent that the aggregate Fair Market Value (determined at the time each ISO is granted) of the Shares with respect to which Options designated as ISOs are exercisable for the first time by you during any calendar year exceeds \$100,000 or if you own shares representing more than 10% of the voting power of the Company or the Subsidiary ISO's at the time of the Option Award; such Options shall be treated as NSOs. Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted. For the purposes of this letter, "Fair Market Value" means the last reported sales price of the Company's Shares as reported by NASDAQ or the principal national securities exchange upon which the Company's Shares are listed or traded.

f. You are hereby informed that other and/or additional tax consequences may be applicable to you with respect to the particular circumstances relating to the grant or exercise of any Option Award or from the payment for Shares covered thereby or from a change in your residence or from any other event or act under applicable law, and the above provisions are not a comprehensive description of all tax law provisions which may apply to you and do not replace professional tax advice in these matters.

10. The Options pursuant to this letter will be issued once you sign and return to the Company: (I) this letter and (II) any other form which is required under applicable law and which will be provided to you by the Company. The forms referred to above must reach the Human Resources Manager only, no later than _____ on 15:00. No options will be granted to you if the forms are not returned by such date. If you are unable to return the forms by such date, you may contact the CFO or VP, Human Resources of the Company, who is authorized, at his/her discretion, to extend such date, but in any event no later than _____.

11. All notices, consents and other communications under this Agreement shall be sent in writing and shall be deemed to have been given when (a) delivered by hand, (b) mailed by certified or registered mail, return receipt requested or express delivery service, or (c) when received by the addressee, if sent by Express Mail, Federal Express or other express service, in each case to the appropriate addresses set forth below (or to such other addresses as a party may designate as to itself by notice to the other parties).

(a) If to you, at your address listed beneath your signature below;

(d) If to the Company: Human Resources Department, Tower Semiconductor, P.O. Box 619, Migdal Ha'emek, Israel;

(e) If with respect to Option exercise procedures: benefit@mybenefit.co.il or facsimile no.: 972-9-766-5080.

Sincerely,

Tower Semiconductor Limited

I HEREBY ACKNOWLEDGE THAT A COPY OF THE PLAN HAS BEEN POSTED ON THE COMPANY'S WEBSITE AND REPRESENT THAT I AM FAMILIAR WITH THE TERMS AND PROVISIONS THEREOF, AND HEREBY ACCEPT THIS OPTION SUBJECT TO ALL OF THE TERMS AND PROVISIONS THEREOF. I FURTHER ACKNOWLEDGE THAT I AM AWARE THAT (I) THE COMPANY INTENDS TO ISSUE ADDITIONAL SHARES AND OPTIONS IN THE FUTURE TO VARIOUS ENTITIES AND INDIVIDUALS, AS THE COMPANY IN ITS SOLE DISCRETION SHALL DETERMINE; AND (II) THE COMPANY MAY INCREASE ITS SHARE CAPITAL BY NEW SECURITIES IN SUCH AMOUNT AS IT FINDS EXPEDIENT; AND I HEREBY WAIVE ANY CLAIM I MIGHT OR MAY HAVE REGARDING SUCH ISSUANCE OR INCREASE. I HAVE REVIEWED THE PLAN AND THIS OPTION IN THEIR ENTIRETY, HAVE HAD AN OPPORTUNITY TO OBTAIN THE ADVICE OF COUNSEL PRIOR TO EXECUTING THIS OPTION AND FULLY UNDERSTAND ALL PROVISIONS OF THE OPTION. I HEREBY AGREE TO ACCEPT AS BINDING, CONCLUSIVE AND FINAL ALL DECISIONS OR INTERPRETATIONS OF THE BOARD OF DIRECTORS UPON ANY QUESTIONS ARISING UNDER THE PLAN OR THIS OPTION. I FURTHER AGREE TO NOTIFY THE COMPANY UPON ANY CHANGE IN THE ADDRESS INDICATED BELOW.

Name of Employee: _____

Date: _____

Employee signature: _____

Employee Social Security number: _____

Employee address: _____

July 21, 2004

Tower Semiconductor Ltd.
P.O. Box 619
Migdal Haemek, Israel 10556

Re: Registration Statement on Form S-8

Dear Sirs:

We have acted as Israeli counsel for Tower Semiconductor Ltd., a company organized under the laws of Israel (the "Company"), in connection with the Registration Statement on Form S-8 (the "Registration Statement") being filed by the Company under the Securities Act of 1933 for the purposes of registering 2,071,578 of its Ordinary Shares, par value New Israeli Shekel 1.00 per share. These shares are all shares that may be issued pursuant to options that have been, or may hereafter be, granted pursuant to the plan ("Plan") identified in the Registration Statement (the "Option Shares").

On the basis of such investigation as we have deemed necessary, we are of the opinion that the Option Shares have been duly and validly authorized for issuance and, when issued upon due exercise of options granted or hereafter granted under the Plan in accordance with the provisions of the Plan and the related option agreements (including payment of the option exercise price provided for therein), will be fully paid and non-assessable.

We hereby consent to the filing of this opinion as an Exhibit to the Registration Statement. In giving this consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or the Rules and Regulations of the Securities and Exchange Commission thereunder.

The above opinion is based on facts existing on the date hereof and of which we are aware. We express no opinion as to any laws other than the laws of the State of Israel as the same are in force on the date hereof and we have not, for purpose of giving this opinion, made any investigation of the laws of any other jurisdiction.

Very truly yours,

/s/ Yigal Arnon & Co.

Date: July 21, 2004

Tower Semiconductor Ltd.

Migdal Ha'emek

Israel

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We have made a review, in accordance with standards established by the Institute of Certified Public Accountants in Israel, of the unaudited interim consolidated financial statements of Tower Semiconductor Ltd. (the "Company") and its subsidiary for the six-month and three-month periods ended June 30, 2004, as indicated in our report dated July 21, 2004; because we did not perform an audit, we expressed no opinion on such interim financial statements.

We are aware that our report relating to the Company's unaudited interim consolidated financial statements for the six-month and three-month periods ended June 30, 2004 is incorporated by reference to the Registration Statement (Form S-8) pertaining to the Company's Employee Share Option Plan 2004 and the registration of 2,071,578 ordinary shares of the Company.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a "part" of the Registration Statement prepared or certified by an accountant, or a "report" prepared or certified by an accountant, within the meaning of Sections 7 and 11 of that Act.

/s/ Brightman Almagor & Co.

Certified Public Accountants

A Member Firm of Deloitte Touche Tohmatsu

Tel Aviv, Israel

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in this Registration Statement on Form S-8 (pertaining to the Employee Share Option Plan 2004 of Tower Semiconductor Ltd. ("the Company") and the registration of 2,071,578 ordinary shares of the Company) of our report dated February 2, 2004, appearing in the annual report on Form 20-F of the Company for the year ended December 31, 2003.

/s/ Brightman Almagor & Co.

Certified Public Accountants

A Member Firm of Deloitte Touche Tohmatsu

Tel Aviv, Israel
July 21, 2004