

(TSEM^{5,6,7,8} \$0.89) Hold

April 28, 2008

Q1 Preview: Downgrading due to risks from U.S. Consumer sector.

■ Downgrading Tower from BUY to Hold

We are downgrading Atheros, along with a number of other names in our coverage due to their exposure to the consumer sector in the U.S. and the potential adverse impact that may have to the company's growth for the rest of the year. Please see our separately published note titled "*Turning more selective on our names*". Even as the company has out-performed the overall semiconductor industry, and its foundry peers in recent years, we think valuations in the foreseeable future will be depressed due to the expected weakness in the U.S. economy. Some of Tower's customers such as Sandisk (SNDK, \$26.84, NR) and Atheros have a meaningful exposure into the consumer sector, which could result in constraining growth from those customers. Tower has been increasing its focus on specialty niches such as medical X-ray imaging which have allowed the company to differentiate its offerings from traditional foundries, and result in significantly improved financial performance. However, this is still a relatively small portion of the company's business at this time.

■ Expect March results and June guidance to be in-line

While we see very limited risks to our estimates, macro-economic risks will likely result in depressed valuations. We expect the company will report its Q1 results by mid-May. Our Q1 GAAP EPS estimate is \$(0.20) on sales of \$57.6M (-7% Q/Q). For Q2 our estimates are \$(0.16)/ \$63.4M (+10% Q/Q), and we are comfortable with our estimates. We are projecting 18% Y/Y top-line growth for the company in 2008, and the company should be close to GAAP EPS profitability by year-end.

■ U.S. Economy needs to improve for valuations to rebound

Since we expect valuations to be depressed due to concerns about the U.S. economy, we would look to become more constructive on TSEM when macroeconomic conditions have established a bottom, and signs of growth resumption start emerging. We would therefore be on the sidelines until then.

■ Risks

Risk factors include weakness in the foundry sector, Tower's ability to gain new customers and ramp production at the 0.13micron node, wafer pricing volatility, execution risks, and industry-wide issues such as competitive threats and a deeper than expected cyclical downturn in the industry that could further lower valuation multiples. In addition Tower has a significant debt burden that may constrain the company's financial flexibility.

Key Data

52-Week Range	\$0.74 - \$1.94		
Shares Outstanding (MM)	124		
Float (MM)	33		
% Held Institutionally	4%		
Market Capitalization (MM)	\$110		
Average Daily Volume (000)	130		
Revenues – LTM (MM)	\$231		
Total Debt (MM)	\$420		
Cash per Share	\$0.36		
Long Term Growth Rate	15%		
Previous Price Target	\$2		

Fiscal Year Ends: Dec.	2007A	2008E	2009E
Revenue (MM)	\$230.9	\$272.2	\$343.8
Earnings per Share			
Q1	\$(0.36)A	\$(0.20)	\$(0.03)
Q2	\$(0.28)A	\$(0.16)	\$0.01
Q3	\$(0.27)A	\$(0.10)	\$0.04
Q4	<u>\$(0.20)A</u>	<u>\$(0.03)</u>	<u>\$0.06</u>
Year	\$(1.11)	\$(0.49)	\$0.08
PE	NA	NA	11.1x
Diluted Shares (MM)	118.8	125.4	127.4



Tower Semiconductor is a wafer foundry based in Israel, and was established in 1993. The company's technology portfolio includes mixed-signal, CMOS and RF Integrated Circuit production. The company recently expanded its technology offering down to 0.13-micron, which should drive growth in 2008. Tower has two fabs—Fab 1 has been in production since 1993, while production at Fab 2 commenced in late 2002. Tower's products have historically catered primarily to the Consumer sector, but communications, industrial, and medical imaging are becoming key drivers.

Disclaimers regarding the content of this report as well as full disclosure of Collins Stewart LLC's ratings and information on the firm's position(s) in securities mentioned herein appear on the final page of this report.

Contact

Ramesh Misra, Ph.D.

(415) 659-2289

rmisra@collinsstewartLLC.com

New York
Collins Stewart LLC
350 Madison Avenue
New York
NY 10017
(212) 389 8000

San Francisco
Collins Stewart LLC
22nd Floor
456 Montgomery Street
San Francisco, CA 94104
415 659 2222

Israel
Collins Stewart LLC
4 Shenkar Street
Hertzlia Pituach
Israel, 46120
+972 (9) 961 3000

London
Collins Stewart Europe Limited
9th Floor
88 Wood Street
London EC2V 7QR
+44 (0)20 7523 8000

Tower Semiconductor Ltd. (NASDAQ: TSEM)
Quarterly Income Statement
Ramesh Misra; Collins Stewart LLC

(\$ in Millions, except EPS)	FY2007					FY2008E					FY2009E				
	Q1 Mar-07	Q2 Jun-07	Q3 Sep-07	Q4 Dec-07	FYE 2007	Q1E Mar-08	Q2E Jun-08	Q3E Sep-08	Q4E Dec-08	FYE 2008	Q1E Mar-09	Q2E Jun-09	Q3E Sep-09	Q4E Dec-09	FYE 2009
Total Revenue	55.6	57.1	56.6	61.6	230.9	57.6	63.4	70.3	80.9	272.2	79.0	83.0	89.6	92.3	343.8
Depreciation	36.6	33.3	32.1	34.7	136.7	37.0	39.0	35.0	35.0	146.0	35.0	35.0	35.0	35.0	140.0
Cost of Goods Sold	34.9	38.1	36.1	38.9	147.9	26.4	24.4	28.3	29.7	108.7	28.2	27.2	29.5	29.6	114.5
Gross Profit	(15.9)	(14.3)	(11.7)	(11.9)	(53.8)	(5.8)	0.0	7.0	16.2	17.4	15.8	20.7	25.1	27.7	89.3
R&D	3.6	3.4	3.3	3.5	13.8	3.4	3.6	3.7	4.0	14.7	4.0	4.1	4.2	4.3	16.6
SG&A	7.8	7.4	7.8	7.9	30.8	7.8	7.9	8.1	8.4	32.2	8.3	8.4	8.5	8.6	33.8
Amortization					0.0					0.0					0.0
Restructuring/Other					0.0					0.0					0.0
Operating Expenses	11.4	10.7	11.1	11.4	44.6	11.2	11.5	11.9	12.4	46.9	12.3	12.5	12.8	12.9	50.5
Operating Income	(27.3)	(25.0)	(22.7)	(23.3)	(98.4)	(16.9)	(11.5)	(4.8)	3.8	(29.5)	3.5	8.3	12.3	14.8	38.8
EBITDA	9.3	8.3	9.4	11.4	38.3	20.1	27.5	30.2	38.8	116.5	38.5	43.3	47.3	49.8	178.8
Interest Income / (Expense)	(10.1)	(9.4)	(10.7)	(2.0)	(32.2)	(8.0)	(8.0)	(8.0)	(8.0)	(32.0)	(7.0)	(7.0)	(7.0)	(7.0)	(28.0)
Other	0.1				0.1					0.0					0.0
Pretax Income	(37.4)	(34.4)	(33.4)	(25.3)	(130.5)	(24.9)	(19.5)	(12.8)	(4.2)	(61.5)	(3.5)	1.3	5.3	7.8	10.8
Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	(37.4)	(34.4)	(33.4)	(25.3)	(130.5)	(24.9)	(19.5)	(12.8)	(4.2)	(61.5)	(3.5)	1.3	5.3	7.8	10.8
GAAP EPS	(\$0.36)	(\$0.28)	(\$0.27)	(\$0.20)	(\$1.11)	(\$0.20)	(\$0.16)	(\$0.10)	(\$0.03)	(\$0.49)	(\$0.03)	\$0.01	\$0.04	\$0.06	\$0.08
Fully Diluted Shares (m)	105.1	122.0	124.0	124.1	118.8	124.6	125.1	125.6	126.1	125.4	126.6	127.1	127.6	128.1	127.4
Basic Shares (m)															

MARGIN ANALYSIS	FY2007					FY2008E					FY2009E				
	Q1 Mar-07	Q2 Jun-07	Q3 Sep-07	Q4 Dec-07	FYE 2007	Q1E Mar-08	Q2E Jun-08	Q3E Sep-08	Q4E Dec-08	FYE 2008	Q1E Mar-09	Q2E Jun-09	Q3E Sep-09	Q4E Dec-09	FYE 2009
Cost of Sales (excl. Depreciation)	62.7%	66.8%	63.8%	63.1%	64.1%	45.8%	38.4%	40.2%	36.7%	39.9%	35.7%	32.8%	32.9%	32.1%	33.3%
Gross Margin	-29%	-25%	-21%	-15%	-23.3%	-10%	0%	10%	20%	6.4%	20%	25%	28%	30%	26.0%
GM ex-depreciation	37.3%	33.2%	36.2%	36.9%	36%	54.2%	61.6%	59.8%	63.3%	60%	64.3%	67.2%	67.1%	67.9%	67%
R & D	6.5%	5.9%	5.8%	5.7%	6.0%	5.9%	5.6%	5.3%	5.0%	5.4%	5.0%	4.9%	4.7%	4.7%	4.8%
Selling, G & A	14.1%	12.9%	13.7%	12.8%	13.3%	13.5%	12.5%	11.5%	10.3%	11.8%	10.5%	10.1%	9.5%	9.3%	9.8%
Operating Margin	-49.1%	-43.9%	-40.2%	-37.9%	-42.6%	-29.4%	-18.1%	-6.9%	4.7%	-10.8%	4.4%	10.0%	13.7%	16.0%	11.3%
Interest Income	-18.3%	-16.5%	-18.9%	-3.2%	-14.0%	-13.9%	-12.6%	-11.4%	-9.9%	-11.8%	-8.9%	-8.4%	-7.8%	-7.6%	-8.1%
Pre Tax Income	-67.2%	-60.3%	-59.1%	-41.0%	-56.5%	-43.3%	-30.8%	-18.2%	-5.2%	-22.6%	-4.4%	1.5%	5.9%	8.4%	3.2%
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	-67.2%	-60.3%	-59.1%	-41.0%	-56.5%	-43.3%	-30.8%	-18.2%	-5.2%	-22.6%	-4.4%	1.5%	5.9%	8.4%	3.2%

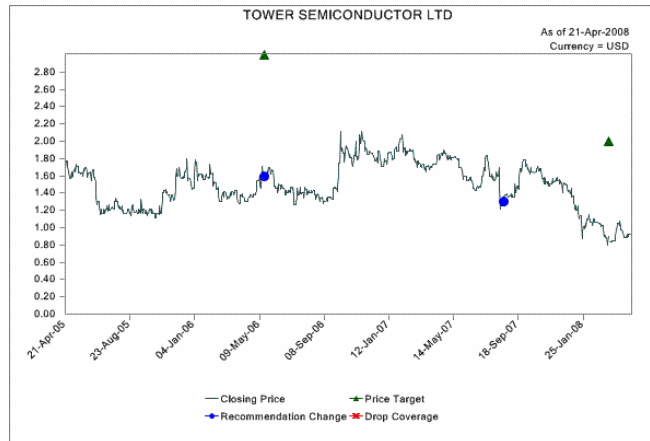
Growth Rates:															
Year to Year % Change:															
Sales	55%	28%	10%	11%	23%	4%	11%	24%	31%	18%	37%	31%	27%	14%	26%
Gross Profit	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	257%	71%	412%
Operating Profit	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	290%	NM
Pretax Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Earnings Per Share	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Qtr/Qtr % Change:															
Sales	0.2%	2.6%	-0.9%	8.9%		-6.5%	10.0%	11.0%	15.0%		-2.3%	5.0%	8.0%	3.0%	
Gross Profit	NM	NM	NM	NM		NM	NM	NM	130%		-2%	31%	21%	10%	
Operating Profit	-1%	-8%	-9%	3%		-27%	-32%	-58%	-179%		-8%	136%	49%	20%	
Pretax Income	NM	NM	NM	NM		NM	NM	NM	NM		NM	NM	323%	47%	
Earnings Per Share	-11%	-21%	-4%	-24%		-2%	-22%	-34%	-67%		-17%	-136%	321%	46%	

Source: Company Reports & Collins Stewart LLC estimates

Tower Semiconductor Ltd. (NASDAQ: TSEM)
Balance Sheet
Ramesh Misra; Collins Stewart LLC

(\$ millions)	FY2006				FY2007E				FY2008E				FY2009E			
	Q1 Mar-06	Q2 Jun-06	Q3 Sep-06	Q4 Dec-06	Q1 Mar-07	Q2 Jun-07	Q3 Sep-07	Q4 Dec-07	Q1E Mar-08	Q2E May-08	Q3E Aug-08	Q4E Nov-08	Q1E Feb-09	Q2E May-09	Q3E Aug-09	Q4E Nov-09
ASSETS																
Cash & Short Term Invsts.	32.7	11.5	61.7	40.9	43.6	20.7	56.5	44.5	58.1	64.2	66.3	84.9	83.5	87.5	95.6	104.2
Cash	17.6	8.6	61.7	40.9	43.6	20.7	56.5	44.5	58.1	64.2	66.3	84.9	83.5	87.5	95.6	104.2
ST Investments	15.1	2.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables	27.8	60.2	38.4	36.9	41.3	48.2	41.6	49.7	50.2	51.5	54.5	58.6	63.2	67.5	71.6	74.1
Inventories	28.7	34.4	38.5	34.8	38.2	37.7	35.4	27.8	43.0	44.1	46.7	50.2	54.2	57.8	61.4	63.5
Other current assets	1.4	1.6	1.7	1.5	1.7	1.5	1.0	1.6	1.6	1.6	1.7	1.9	2.0	2.1	2.3	2.4
Current Assets	90.5	107.7	140.4	114.1	124.8	108.1	134.6	123.6	152.8	161.5	169.2	195.7	202.9	214.9	230.9	244.0
Net PP&E	484.3	460.3	522.0	532.8	519.9	507.4	494.4	502.3	485.3	466.3	451.3	436.3	436.3	436.3	436.3	436.3
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-term Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	61.2	55.9	50.7	67.2	43.9	40.8	37.7	60.8	61.4	63.0	66.7	71.7	77.4	82.5	87.6	90.6
Total Assets	636.0	624.0	713.2	714.1	688.6	656.3	666.6	686.8	699.5	690.8	687.1	703.7	716.6	733.7	754.8	771.0
LIABILITIES & S. E.																
Short Term Debt	5.7	6.2	-	6.9	6.6	6.6	7.3	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
Accounts Payable	52.0	50.4	59.7	55.1	57.9	55.9	39.5	49.0	49.4	50.8	53.7	57.8	62.3	66.5	70.6	73.0
Other Current Liabilities	8.9	11.5	21.9	22.1	20.2	20.9	20.0	20.0	20.2	20.7	21.9	23.6	25.5	27.2	28.8	29.8
Current Liabilities	66.7	68.1	81.6	84.1	84.7	83.4	66.9	76.9	77.5	79.4	83.5	89.3	95.7	101.6	107.3	110.7
Long Term Debt	549.4	515.8	355.1	460.6	358.8	360.7	362.2	419.7	419.7	389.7	359.7	339.7	314.7	289.7	264.7	234.7
Other	64.8	115.9	127.2	129.9	123.3	120.1	168.3	145.4	145.4	145.4	145.4	145.4	145.4	145.4	145.4	145.4
Total Liabilities	680.8	699.8	563.9	674.6	566.8	564.2	597.4	642.1	642.7	614.6	588.7	574.4	555.8	536.7	517.5	490.9
Shareholder's Equity	(44.8)	(75.9)	149.3	39.5	121.8	92.1	69.2	44.7	56.8	76.3	98.5	129.3	160.8	197.0	237.3	280.1
Total Liabilities & Shareholders' Equity	636.0	624.0	713.2	714.1	688.6	656.3	666.6	686.8	699.5	690.8	687.1	703.7	716.6	733.7	754.8	771.0
RATIO ANALYSIS:																
Book Value/Share	(0.62)	(0.96)	1.75	0.4	1.16	0.75	0.56	0.36	0.46	0.61	0.78	1.0	1.27	1.55	1.86	2.2
Tangible Book Value/Share	-0.62	-0.96	1.75	0.4	1.16	0.75	0.56	0.36	0.46	0.61	0.78	1.0	1.27	1.55	1.86	2.2
Cash/Share	0.24	0.11	0.73	0.4	0.41	0.17	0.46	0.36	0.47	0.51	0.53	0.7	0.66	0.69	0.75	0.8
Current Ratio	1.36	1.58	1.72	1.4	1.47	1.30	2.01	1.61	1.97	2.03	2.03	2.2	2.12	2.12	2.15	2.2
Quick Ratio	0.91	1.05	1.23	0.9	1.00	0.83	1.47	1.23	1.40	1.46	1.45	1.6	1.53	1.53	1.56	1.6
Net Working Capital (\$MM)	23.87	39.61	58.88	30.0	40.11	24.68	67.70	46.71	75.26	82.11	85.65	106.4	107.23	113.32	123.54	133.3
Sales/Total Assets	5.6%	7.1%	7.2%	7.8%	8.1%	8.7%	8.5%	9.0%	8.2%	9.2%	10.2%	11.5%	11.0%	11.3%	11.9%	12.0%
LT Debt/Capital	108.9%	117.3%	70.4%	92.1%	74.7%	79.7%	84.0%	90.4%	88.1%	83.6%	78.5%	72.4%	66.2%	59.5%	52.7%	45.6%
LT Debt/Equity	-1226.2%	-679.6%	237.9%	1165.6%	294.5%	391.7%	523.1%	938.7%	739.1%	510.8%	365.3%	262.8%	195.8%	147.0%	111.5%	83.8%
Return on Sales*	-166.4%	-120.1%	-98.0%	-89.1%	-71.2%	-65.1%	-62.2%	-56.5%	-47.6%	-38.2%	-29.9%	-22.6%	-8.9%	-2.7%	1.2%	3.2%
Return on Assets*	-21.8%	-20.7%	-19.7%	-24.9%	-16.4%	-16.0%	-15.7%	-19.4%	-12.2%	-10.1%	-8.3%	-8.8%	-2.9%	-0.9%	0.4%	1.5%
Return on Equity*	1245.2%	320.6%	-1356.5%	-980.7%	-111.7%	-129.6%	-111.5%	-159.3%	-147.0%	-117.6%	-74.2%	-68.1%	-15.9%	-4.0%	1.5%	5.0%
Days of Receivables*	99.15	127.62	88.89	61.1	113.96	94.07	84.63	68.50	102.16	93.03	99.41	72.7	90.97	91.64	94.48	70.4
Days of Receivables (Single Pt Qtr)	70.57	123.03	67.93	60.5	67.59	76.94	66.85	73.44	79.24	73.98	70.49	66.0	72.84	74.00	72.73	73.0
Days of Receivables (Double Pt Qtr)	68.03	89.92	87.18	61.8	64.01	71.40	72.23	67.41	78.90	73.01	68.57	63.6	70.18	71.68	70.62	71.8
Inventory Turns*	2.90	2.67	2.58	3.81	2.66	2.75	3.11	4.73	2.51	2.25	2.12	2.79	1.75	1.63	1.52	2.01
Days of Inventory*	125.66	136.86	141.65	95.72	137.19	132.86	117.46	77.19	145.29	162.09	172.06	131.02	208.22	224.07	239.88	181.24
Days of Inventory (Single Pt Qtr)	111.33	113.66	116.67	99.7	99.80	90.05	89.31	65.08	148.40	164.93	150.15	153.9	174.89	193.33	189.29	195.2
Days of Inventory (Double Pt Qtr)	102.97	104.22	110.43	105.1	95.26	90.71	92.16	74.01	122.20	162.75	146.07	148.5	168.51	187.28	183.81	192.0

Source: Company Reports & Collins Stewart LLC estimates



TOWER SEMICONDUCTOR LTD

Currency = USD			Currency = USD		
Date	Closing Price	Recommendation Change	Date	Closing Price	Price Target
21-Aug-2007	1.31	BUY	12-Mar-2008	0.90	2.00
19-May-2006	1.60	BUY	19-May-2006	1.60	3.00

Collins Stewart LLC Ratings

Collins Stewart LLC assigns research equity ratings of Buy, Hold or Sell. For Buys, we will publish a 12-month price target for any stock with an estimated appreciation potential of 20% or more. For Sells, we also publish a 12-month price target for any stock with an estimated underperformance potential of 20% or more.

- Buy: 12 months, estimated 20% or more appreciation
- Hold: Performance in line with the market averages anticipated.
- Sell: 12 months, estimated underperformance of 20% or more

Disclaimers

This report is for informational purposes only, and the information herein is obtained from sources that we believe to be reliable, but its accuracy and completeness, and that of the opinions based thereon, are not guaranteed. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Further, this report is not intended as an offer or solicitation to buy or sell any securities or related instruments. The investments discussed or recommended in this report may not be suitable for the specific investment objectives, financial situation or needs of the reader, and should not be relied upon without consultation with an investment professional. Opinions expressed in this report are subject to change without notice. Collins Stewart LLC accepts no liability whatsoever for any loss or damage of any kind arising out of the use of any part, or all, of this report. This report is for distribution only under such circumstances as may be permitted by applicable law, and may not be reproduced or distributed in any form without the specific consent of Collins Stewart LLC. Redistribution of this, via the Internet or otherwise, report without permission is specifically prohibited, and Collins Stewart LLC accepts no liability for the actions of third parties in this regard.

From time to time, Collins Stewart LLC or its employees may have a long or short position in the securities of company (ies) discussed herein and, at any time, may make purchases and/or sales as principal or agent.

	% of CSTI Universe with this rating	% of rating tier for which CSTI provided IB services
Buy	54%	63%
Hold	45%	38%
Sell	1%	0%

The research analyst who is primarily responsible for the research contained in this research report and whose name is listed first on this report: (1) attests that all of the views expressed in this research report accurately reflect that research analyst's personal views about any and all of the securities and issuers that are the subject of this research report; and (2) attests that no part of that research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst in this research report.

All Collins Stewart LLC ("CSTI") employees, including research associates, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by CSTI's investment banking department.

Footnotes for CSTI, a member of SIPC and NASD

- 1 - The research analyst or a member of his/her household has a financial interest in the securities of this company.
- 2 - The research analyst or a member of his/her household is an officer, director or advisory board member of this company.
- 3 - The research analyst or a member of his/her household received compensation in the past 12 months from this company.
- 4 - CSTI officers, other than research associates, serve as officers, directors or advisory board members of this company.
- 5 - CSTI makes a market in this company's securities. CSTI, in its market making capacity, sells to or buys from customers the securities of this company on a principal basis.
- 6 - CSTI has managed or co-managed a public offering and/or private placement of securities for this company in the past 12 months.
- 7 - CSTI has received compensation for investment banking services from this company in the past 12 months.
- 8 - CSTI expects to receive, or intends to seek, compensation for investment banking services from this company in the next three months.
- 9 - This company is, or during the past 12 months prior to distribution was, a client of CSTI.
- 10 - CSTI received compensation for products or services other than Investment Banking services from this company in the past 12 months.
- 11 - CSTI beneficially owns 1% or more of an equity security of this company.