

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Schedule 13D

Under the Securities Exchange Act of 1934

Tower Semiconductor Ltd.

(Name of Issuer)

Ordinary Shares, NIS 1.00 Per Share

(Title of Class of Securities)

M87915100

(CUSIP Number)

Charles Van Orden, Esq.
Vice President and General Counsel
SanDisk Corporation
140 Caspian Court
Sunnyvale, CA 94089
(408) 542-0500

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

January 26, 2001

(Date of Event which Requires Filing of this Statement)

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

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

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

NAMES OF REPORTING PERSONS.

1 SanDisk Corporation

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

IRS I.D. # 77-0191793

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)

(a)

(b)

3 SEC USE ONLY

4 SOURCE OF FUNDS

WC

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS
2(d) OR 2(e)

6 CITIZENSHIP OR PLACE OF ORGANIZATION

State of Delaware

7 SOLE VOTING POWER

NUMBER OF

5,400,001 (1)

SHARES

8 SHARED VOTING POWER

20,268,728 (2) (with respect to certain matters as set forth in the Consolidated Shareholders Agreement, dated as of January 18, 2001, filed as Exhibit 4 to this Schedule 13D)

OWNED BY

EACH

9 SOLE DISPOSITIVE POWER

REPORTING

5,400,001 (1)

PERSON

10 SHARED DISPOSITIVE POWER

WITH

20,268,728 (2) (with respect to certain matters as set forth in the Consolidated Shareholders Agreement, dated as of January 18, 2001, filed as Exhibit 4 to this Schedule 13D)

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

20,268,728 (2)

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES
(SEE INSTRUCTIONS)

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

13

74.6% (based on the number of shares of Issuer Ordinary Shares outstanding as of January 18, 2001 as represented by the Issuer)

TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

14

CO

(1) Represents 866,551 shares currently held of record by SanDisk Corporation ("SanDisk") plus 4,533,450 shares purchasable by SanDisk within sixty (60) days of the date hereof upon the exercise of Warrants (as defined in Item 4 below) held by SanDisk. Such shares are subject to certain voting and disposition restrictions and obligations as described more fully in footnote (2) and Item 4 below.

(2) 20,268,728 shares of Tower Semiconductor Ltd. ("Issuer") ordinary shares are subject to a Consolidated Shareholders Agreement ("Consolidated Shareholders Agreement") dated as of January 18, 2001 by and among SanDisk Corporation ("SanDisk") and certain shareholders of Issuer (discussed in Item 4 below). The Consolidated Shareholders Agreement attached hereto as Exhibit 4 provides certain obligations and restrictions with respect to the voting and disposition of the Issuer Shares held by the Shareholders (as defined below). The terms of the Consolidated Shareholders Agreement are hereby specifically incorporated by reference herein. Neither the filing of this Schedule 13D nor any of its contents shall be deemed to constitute an admission by SanDisk that it is the beneficial owner of any of the shares of Issuer covered by the Consolidated Shareholders Agreement, other than the shares held of record by SanDisk, for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Act"), or for any other purpose, and such beneficial ownership is expressly disclaimed. The reporting person expressly disclaims (i) the existence of any group and (ii) beneficial ownership with respect to any shares other than the shares currently held of record or purchasable within sixty (60) days of the date hereof by such reporting person (see Item 5). Based on the number of ordinary shares of Issuer outstanding as of January 18 2001(as represented by Issuer on January 28, 2001), the number of ordinary shares of Issuer covered by the Shareholders Agreement represents approximately 74.6% of the outstanding ordinary shares of Issuer.

Item 1. Security and Issuer.

This statement on Schedule 13D relates to the ordinary shares, par value NIS 1.00 per share ("Issuer Shares"), of Tower Semiconductor Ltd., an Israeli corporation. The principal executive offices of the Issuer are located at P.O. Box 619, Migdal Haemek, Israel 23105.

Item 2. Identity and Background.

(a)-(c), (f) The name of the person filing this statement is SanDisk Corporation, Inc., a Delaware corporation. The address of the principal office and principal business of SanDisk is 140 Caspian Court, Sunnyvale, CA 94089. SanDisk designs, manufactures and markets flash memory storage products that are used in a wide variety of electronic systems. Set forth in Schedule A is the name and present principal occupation or employment and the name, principal business and address of any corporation or other organization in which such employment is conducted, of each of SanDisk's directors and executive officers, as of the date hereof. The information contained in Schedule A is incorporated herein in its entirety by reference.

To the best knowledge of SanDisk, set forth in Schedule B is the name and present principal occupation or employment and the name, principal business and address of any corporation or other organization in which such employment is conducted, of the directors and executive officers, as of the date hereof, of each corporation which, along with SanDisk, may be deemed to constitute a "group" within the meaning of Section 13(d)(3) of the Act, although neither the fact of this filing nor anything contained herein shall be deemed to be an admission by SanDisk that a group exists. The information contained in Schedule B is incorporated herein in its entirety by reference.

The Israel Corporation ("TIC") is an Israeli corporation and is one of Israel's major holding companies. TIC's principal executive office is located at Millennium Tower, 23rd and 24th Floors, 23 Aranha Street, Tel-Aviv, 61070.

Alliance Semiconductor Corporation ("Alliance") is a Delaware corporation that designs, develops and markets high performance memory and memory intensive logic products to the personal computer, networking, telecommunications, instrumentation and consumer markets. Alliance's principal executive office is located at 2575 Augustine Drive, Santa Clara, California 95054-2914.

Macronix International Co., Ltd. ("Macronix") is a Taiwanese corporation that is a provider of customer/application drive non-volatile memory requiring state-of-the-art technology. Macronix's principal executive office is located at 6F, No. 196, Sec 2, Cheng Kuo North Road, Taipei, Taiwan, R.O.C.

(d) - (e) During the past five years, neither SanDisk nor, to SanDisk's knowledge, TIC, Alliance, Macronix, or any person named in Schedule A or B to this Statement, has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or was a party to a civil proceeding of a judicial or administrative body of competent jurisdiction as a result of which such person was or is subject to a judgment, decree or final order enjoining future violations of or prohibiting or mandating activity subject to Federal or State securities laws or finding any violation with respect to such laws.

(f) Not applicable.

Item 3. Source and Amount of Funds or Other Consideration.

Effective January 26, 2001, Issuer satisfied the closing conditions of the share purchase agreements (as described below) it entered into with each of SanDisk, TIC, Alliance and Macronix (each a "Shareholder" and collectively the "Shareholders"), pursuant to which the Shareholders purchased an aggregate of 3,629,873 Issuer Shares. On January 18, 2001, SanDisk transferred \$20 million of its working capital to purchase 866,551 Issuer Shares and pre-paid wafer credits in the amount of \$8,786,827 from Issuer in a private transaction. On August 29, 2000, Alliance entered into a share purchase agreement with Issuer to purchase 866,551 Issuer Shares in a private transaction for an aggregate purchase price of \$20 million. On December 12, 2000, Macronix entered into a share purchase agreement with Issuer to purchase 866,551 Issuer Shares in a private transaction for an aggregate purchase price of \$20 million. On December 12, 2000, TIC entered into a share purchase agreement with Issuer to purchase 1,030,220 Issuer Shares in a private transaction for an aggregate purchase price of \$13,333,300. SanDisk has no knowledge as to the source of funds used by Alliance or Macronix to purchase such shares.

Item 4. Purpose of Transaction.

(a), (d) SanDisk entered into a Share Purchase Agreement ("Purchase Agreement"), dated as of July 4, 2000, by and between SanDisk and Issuer to make a \$20 million strategic investment in Issuer, and thereby acquire 866,551 Issuer Shares and pre-paid wafer credits in the amount of \$8,786,827 from Issuer. Also on July 4, 2000 and pursuant to the Purchase Agreement, SanDisk and Issuer entered into an Additional Purchase Obligation Agreement ("Additional Purchase Agreement"), and, on January 18, 2001, SanDisk entered into the Registration Rights Agreement ("Registration Rights Agreement"), dated as of January 18, 2001, by and between SanDisk, TIC, Alliance, Macronix and QuickLogic Corporation. On August 13, 2000, SanDisk entered into a Shareholders Agreement ("Shareholders Agreement") with TIC. On January 18, 2001, SanDisk entered into the Consolidated Shareholders Agreement ("Consolidated Shareholders Agreement") by and among SanDisk, TIC, Alliance and Macronix, such Consolidated Agreement superseding the Shareholders Agreement. The foregoing summary of the Purchase Agreement is qualified in its entirety by reference to the Purchase Agreement included as Exhibit 1 to this Schedule 13D and incorporated herein in its entirety by reference. To the best of SanDisk's knowledge, and except as described in Item 3 above, TIC, Alliance and Macronix each entered into a share purchase agreement with Issuer in substantially the same form and upon substantially the same terms as the SanDisk Purchase Agreement.

Under the terms of Section 2 of the Additional Purchase Agreement, Issuer will deliver to SanDisk (i) warrants that must be exercised by SanDisk within thirty (30) days of the satisfaction of the milestones specified in Section 5 thereof for the purchase, in the aggregate, of up to 1,833,450 additional Issuer Shares at an exercise price of \$30, as adjusted pursuant to Section 4 thereof, and (ii) warrants that SanDisk has the option to exercise within thirty (30) days of the occurrence of the events specified in Section 5 thereof for the purchase, in the aggregate, of up to 2,700,000 additional Issuer Shares at an exercise price of \$30, as adjusted pursuant to Section 4 thereof (clauses (i) and (ii) above, collectively, "Warrants"). SanDisk has the right to exercise the Warrants immediately and to purchase an aggregate of 4,533,450 Issuer Shares thereunder. The foregoing summary of the Additional Purchase Agreement is qualified in its entirety by reference to the Additional Purchase Agreement

included as Exhibit 2 to this Schedule 13D and incorporated herein in its entirety by reference. To the best of SanDisk's knowledge, TIC, Alliance and Macronix each entered into an additional purchase agreement in substantially the same form and upon substantially the same terms as the SanDisk Additional Purchase Agreement, except that such additional purchase agreement is limited to the purchase of warrants similar to those described in (i) above.

Under the terms of the Registration Rights Agreement by and between SanDisk, TIC, Alliance, Macronix and QuickLogic, each of SanDisk, TIC, Alliance, Macronix and QuickLogic

has demand and piggy-back registration rights with respect to Issuer Shares purchased by it pursuant to the Stock Purchase Agreement and the Additional Purchase Agreement. The foregoing summary of the Registration Rights Agreement is qualified in its entirety by reference to the Registration Rights Agreement included as Exhibit 3 to this Schedule 13D and incorporated herein in its entirety by reference.

Under the terms of the Consolidated Shareholders Agreement, the Shareholders have agreed to vote (or cause to be voted) at general meetings of Shareholders all of their respective Issuer Shares, in the manner set forth in Section 2 thereof, (i) for the election to the board of directors of Issuer ("Board") of (a) nominees designated by each Shareholder, (b) nominees recommended by the Board, (c) a member of management of Issuer, and (d) such other directors as agreed to by Shareholders; (ii) for the election of a TIC nominee, who will be one of the nominees in clause (i)(a) above, as chairman of the Board; (iii) for any other resolution which is necessary in order to facilitate the matters specified in clauses (i) through (iii) of this paragraph; and (iv) against the election of any other person to the Board. In addition, pursuant to Section 3, and subject to certain exceptions as set forth therein, each Shareholder has agreed to certain restrictions on its ability to transfer Issuer Shares for three years, and has agreed to retain a minimum number of Issuer Shares for a period of five years. Furthermore, pursuant to Section 4, each Shareholder has a right of first offer with respect to any Issuer Shares any Shareholder proposes to transfer. Moreover, subject to the provisions of Section 3, the proposed transfer of any Shareholder of Issuer Shares to certain specified parties is subject to a right of first refusal, as provided in Section 5. Finally, to the extent the right of first refusal with respect to the proposed transfer of Issuer Shares pursuant to Section 4 or Section 5, as described above, is not fully exercised, each Shareholder shall have a right of co-sale as provided in Section 6. The foregoing summary of the Consolidated Shareholders Agreement is qualified in its entirety by reference to the Consolidated Shareholders Agreement included as Exhibit 4 to this Schedule 13D and incorporated herein in its entirety by reference.

(j) To SanDisk's knowledge, other than described above, none.

Item 5. Interest in Securities of the Issuer.

(a)-(b) As a result of the Consolidated Shareholder Agreement, each Shareholder may be deemed to be the beneficial owner of at least 20,268,728 Issuer Shares. Such shares constitute approximately 74.6% of the outstanding shares of Issuer Shares, based on the capitalization of the Issuer as of January 18, 2001 as represented to SanDisk by the Issuer and calculated in accordance with Rule 13d-3(d)(i). Such beneficial ownership is based on the ownership, as represented to SanDisk by the Issuer, by each of SanDisk, Alliance and Macronix of 866,551 Issuer Shares, and of TIC of 6,698,380 Issuer Shares, and the right of SanDisk to purchase an additional 4,533,450 Issuer Shares, of Alliance and Macronix to each purchase an additional 1,833,450 Issuer Shares, and of TIC to purchase an additional 2,770,345 Issuer Shares within sixty (60) days of the date hereof upon the exercise of the Warrants.

SanDisk may be deemed to have the shared power to vote and dispose of the Issuer Shares held by it and the other Shareholders pursuant to the Consolidated Shareholders Agreement with respect to those matters described in Item 4 above. However, SanDisk (i) is not entitled to any rights as a shareholder of Issuer as to the Issuer Shares covered by the Consolidated Shareholders Agreement and which are not currently held of record by SanDisk, and (ii) disclaims beneficial ownership of all Issuer Shares held by or purchasable within sixty (60) days of the date hereof by the Shareholders other than SanDisk.

To SanDisk's knowledge, no shares of Issuer Shares are beneficially owned by any of the persons named in Schedule A or Schedule B.

(c) Other than as otherwise described herein, neither SanDisk nor, to SanDisk's knowledge, any person named in Schedule A or Schedule B, has effected any transaction in the Issuer Shares during the past 60 days.

(d) Not applicable.

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

Other than the Purchase Agreement, Additional Purchase Agreement, the Registration Rights Agreement and the Consolidated Shareholders Agreement described above (and incorporated herein in its entirety by reference), to the knowledge of SanDisk, there are no contracts, arrangements, understandings or relationships (legal or otherwise) among the persons named in Item 2 and between such persons and any person with respect to any securities of the Issuer, including but not limited to transfer or voting of any of the securities, finder's fees, joint ventures, loan or option arrangements, puts or calls, guarantees of profits, division of profits or loss, or the giving or withholding of proxies.

Item 7. Materials to be Filed as Exhibits.

The following documents are filed as exhibits:

1. Share Purchase Agreement, dated as of July 4, 2000, by and between SanDisk Corporation and Tower Semiconductor Ltd.
2. Additional Purchase Obligation Agreement, dated as of July 4, 2000, by and between SanDisk Corporation and Tower Semiconductor Ltd.
3. Registration Rights Agreement, dated as of January 18, 2001, by and between SanDisk Corporation, The Israel Corporation, Alliance Semiconductor Ltd., Macronix International Co., Ltd. and QuickLogic Corporation.
4. Consolidated Shareholders Agreement, dated as of January 18, 2001 by and among SanDisk Corporation, The Israel Corporation, Alliance Semiconductor Ltd. and Macronix International Co., Ltd.

SIGNATURE

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

Dated: February 1, 2001

SANDISK CORPORATION

By: /s/ Eli Harari

Eli Harari
Chief Executive Officer

Schedule A

DIRECTORS AND EXECUTIVE OFFICERS OF
SANDISK CORPORATION

Present Principal Occupation
Including Name of Employer (if other than SanDisk Corporation)
Address of Employer

Executive Officers of SanDisk Corporation:

(name)	(title)	(address)
Dr. Eli Harari	President, Chief Executive Officer and Director	c/o SanDisk Corporation 140 Caspian Court Sunnyvale, CA 94089
Frank Calderoni	Chief Financial Officer, Senior Vice President, Finance and Administration	c/o SanDisk Corporation 140 Caspian Court Sunnyvale, CA 94089
Ralph Hudson	Senior Vice President, Worldwide Operations	c/o SanDisk Corporation 140 Caspian Court Sunnyvale, CA 94089
Sanjay Mehrotra	Senior Vice President, Engineering	c/o SanDisk Corporation 140 Caspian Court Sunnyvale, CA 94089
Nelson Chan	Senior Vice President, Marketing	c/o SanDisk Corporation 140 Caspian Court Sunnyvale, CA 94089
Jocelyn Scarborough	Vice President, Human Resources	c/o SanDisk Corporation 140 Caspian Court Sunnyvale, CA 94089

Outside Directors of SanDisk Corporation:

Irwin Federman	General Partner, U.S. Venture Partners, Menlo Park, CA
William V. Campbell	Entrepreneur, Mountain View, CA
Catherine P. Lego	General Partner, The Photonics Fund, Woodside, CA
Dr. James D. Meindl	Professor, Georgia Institute of Technology in Atlanta, GA
Alan F. Shugart	President, Chairman and CEO, Al Shugart International, Santa Cruz, CA

Schedule B

DIRECTORS AND EXECUTIVE OFFICERS

Present Principal Occupation
Including Name of Employer
Address of Employer

Executive Officers of The Israel Corporation Ltd.:

(name)	(title)	(address)
Yossi Rosen	President and Chief Executive Officer	c/o Israel Corporation Ltd. Millenium Tower 23 Aranha Street Tel Aviv, Israel 61070
Udi Hillman	Executive Vice President and Chief Financial Officer	c/o Israel Corporation Ltd. Millenium Tower 23 Aranha Street Tel Aviv, Israel 61070
Noga Yatziv, Adv.	Company Secretary	c/o Israel Corporation Ltd. Millenium Tower 23 Aranha Street Tel Aviv, Israel 61070

Outside Directors of The Israel Corporation Ltd.:

Idan Ofer	Entrepreneur, Israel	
Ehud Angel	Managing Director. Ofer (Ships Holdings) Ltd., Israel	
Prof. Avishay Braverman	President, Ben-Gurion University of the Negev, Israel	
Dan Goldstein	CEO and Chairman of the Board, Formula Systems (1985) Ltd., Israel	
Zvi Itskovitch	First Executive Vice President, Member of Management and Head of Domestic Subsidiaries Division, Bank Leumi le-Israel B.M., Israel	
Irit Izakson	Entrepreneur, Israel	
Ari Levy	Chief Financial Officer, Ofer Brothers, Israel	
Amnon Lion	Managing Director, Zodiac Maritime Agencies Ltd., Israel	
Doron Ofer	Managing Director, Ofer Brothers Properties (1975) Ltd., Israel	
Zvi Zamir	Entrepreneur, Israel	

Executive Officers of Alliance Semiconductor Corporation:

(name)	(title)	(address)
N. Damodar Reddy	Chairman, President and Chief Executive Officer	c/o Alliance Semiconductor 2575 Augustine Drive Santa Clara, CA 95054

C.N. Reddy	Executive Vice President, Chief Operating Officer Director and Secretary	c/o Alliance Semiconductor 2575 Augustine Drive Santa Clara, CA 95054
David Eichler	Vice President, Finance and Administration and Chief Financial Officer	c/o Alliance Semiconductor 2575 Augustine Drive Santa Clara, CA 95054
Bradley Perkins	Vice President and General Counsel	c/o Alliance Semiconductor 2575 Augustine Drive Santa Clara, CA 95054
Ritu Shrivastava	Vice President, Technology Department	c/o Alliance Semiconductor 2575 Augustine Drive Santa Clara, CA 95054

Outside Directors of Alliance Semiconductor Corporation:

John B. Minnis	President, Milpitas Materials Company, CA
Sanford L. Kane	President, Kane Concepts Incorporated, CA

Executive Officers of Macronix International Co., Ltd.:

(name)	(title)	(address)
Miin Wu	President and Chief Executive Officer	c/o Macronix International 6F, No. 196, Sec 2, Cheng Kuo North Road, Taipei, Taiwan, R.O.C.

Outside Directors of Macronix International Co., Ltd.:

No Information

EXHIBIT INDEX

Exhibit Number -----	Description of Document -----
1.	Share Purchase Agreement, dated as of July 4, 2000, by and between SanDisk Corporation and Tower Semiconductor Ltd.
2.	Additional Purchase Obligation Agreement, dated as of July 4, 2000, by and between SanDisk Corporation and Tower Semiconductor Ltd.
3.	Registration Rights Agreement, dated as of January 18, 2001, by and between SanDisk Corporation, The Israel Corporation, Alliance Semiconductor Ltd., Macronix International Co., Ltd. and QuickLogic Corporation.
4.	Consolidated Shareholders Agreement, dated as of January 18, 2001 by and among SanDisk Corporation, The Israel Corporation, Alliance Semiconductor Ltd. and Macronix International Co., Ltd.

SHARE PURCHASE AGREEMENT

This Share Purchase Agreement ("Agreement") is made as of July 4, 2000, by SanDisk Corporation, a Delaware corporation ("Buyer"), and Tower Semiconductor Ltd., an Israeli corporation (the "Company").

RECITALS

The Company desires to sell, and Buyer desires to purchase, an interest in the Company through the acquisition of 866,551 ordinary shares, par value NIS1.00 each (the "Shares") of the Company and through the issuance and delivery of Additional Purchase Obligations for the purchase by Buyer of additional Ordinary Shares of the Company, on the terms and subject to the conditions set forth in this Agreement and in the Additional Purchase Obligation Agreement in the form of Exhibit B hereto.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Definitions

For purposes of this Agreement, the following terms have the meanings specified or referred to in this Section 1:

"Additional Financings" - as defined in Section 3.5.

"Additional Financing Plan" - a detailed written plan, approved by the Board and detailing, among other things, the significant financial terms and timetable under which the Company will obtain the financings listed in Section 7.6 hereto, all as set forth in Section 10 to the Business Plan.

"Ancillary Agreements" - as defined in Section 3.2.4.

"Applicable Contract"- any Contract (a) under which the Company or any Subsidiary has or may acquire any rights, (b) under which the Company or any Subsidiary has or may become subject to any obligation or liability, or (c) by which the Company or any Subsidiary or any of the assets owned or used by them is or may become bound.

"Assets" - as defined in Section 3.6.

"Balance Sheet"- as defined in Section 3.4.2.

"Business Plan" means the Business Plan, dated July 4, 2000, of the Company with respect to the proposed construction, deployment and operation by the Company of Fab 2.

"Buyer"- as defined in the first paragraph of this Agreement.

"Closing"- as defined in Section 2.3.

"Closing Date"- the date and time as of which the Closing actually takes place.

"Company"- as defined in the first paragraph of this Agreement.

"Consent"- any approval, consent, ratification, waiver, or other authorization (including any Governmental Authorization).

"Contemplated Transactions"- all of the transactions contemplated by this Agreement, the Transaction Documents and the Ancillary Agreements.

"Contract"- any agreement, contract, obligation, promise, or undertaking whether oral or written that is legally binding.

"Damages"- as defined in Section 10.2.

"Encumbrance"- any charge, claim, community property interest, condition, equitable interest, lien, option, pledge, security interest, right of first refusal, or restriction of any kind, including any restriction on use, voting, transfer, receipt of income, or exercise of any other attribute of ownership.

"Escrow Agreement"- as defined in Section 2.4.

"Escrow Agent"- as defined in the Escrow Agreement.

"Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended, and any rules or regulations issued pursuant to that Act or any successor law.

"Excluded Securities" means Ordinary Shares or options to purchase Ordinary Shares issued to bona fide employees, directors or consultants of the Company or any Subsidiary thereof.

"Fab 2" - The Company's new Fab project to be constructed in Migdal Haemek in Israel, all as further set forth in the Business Plan.

"Facilities"- any real property, leaseholds, or other interests currently owned operated by the Company and any buildings, plants, structures, or equipment currently owned or operated by the Company.

"GAAP"- generally accepted Israel accounting principles, applied on a basis consistent with the basis on which the Balance Sheet and the other financial statements referred to in Section 3.4 were prepared.

"Governmental Authorization"- any approval, consent, license, permit, waiver, or other authorization issued, granted, given, or otherwise made available by or under the authority of any Governmental Body or pursuant to any Legal Requirement.

"Governmental Body"- any U.S. or Israeli federal, state, local, municipal or other government, governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official or entity and any court or other tribunal), or body exercising or entitled to exercise any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power of any nature.

"Intellectual Property Assets" - as defined in Section 3.20.

"Interim Balance Sheet"- as defined in Section 3.4.2.

"Investment Center" - the Investment Center of the Ministry of Trade and Commerce of the Israeli Government.

"Knowledge" or "knowledge"- a person will be deemed to have "Knowledge" or "knowledge" of a particular fact or other matter if any individual who is serving as a Named Director or Officer has, or at any time had, knowledge of such fact or other matter.

"Legal Requirement"- any U.S. or Israeli federal, state, local, municipal or administrative or other order, constitution, law, ordinance, principle of common law, regulation, statute, or treaty.

"Named Officers and Directors"- as defined in Section 3.3.2.

"OCS" - as defined in Section 3.21.

"Order"- any award, decision, injunction, judgment, order, ruling, subpoena, or verdict entered, issued, made, or rendered by any court, administrative agency, or other Governmental Body or by any arbitrator.

"Ordinary Course of Business"- an action taken by a Person will be deemed to have been taken in the "Ordinary Course of Business" only if:

Such action is consistent with the past practices of such Person and is taken in the ordinary course of the normal day-to-day operations of such Person; and

Such action is similar in nature and magnitude to actions customarily taken in the ordinary course of the normal day-to-day operations of other Persons that are in the same line of business as such Person.

"Ordinary Shares" - the ordinary shares of the Company, par value NIS1.00 per share.

"Organizational Documents"- (a) the memorandum of association, articles of association, certificate of incorporation and/or the bylaws of a corporation; (b) the partnership agreement and any statement of partnership of a general partnership; (c) the limited partnership agreement and the certificate of limited partnership of a limited partnership; (d) any charter or similar document adopted or filed in connection with the creation, formation, or organization of a Person; and (e) any amendment to any of the foregoing.

"Person"- any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union, or other entity or Governmental Body.

"Proceeding"- any action, arbitration, audit, hearing, investigation, litigation, or suit (whether civil, criminal, administrative, investigative, or informal) commenced, brought, conducted, or heard by or before, or otherwise involving, any Governmental Body or arbitrator.

"Representative"- with respect to a particular Person, any director, officer, employee, agent, consultant, advisor, or other representative of such Person, including legal counsel, accountants, and financial advisors.

"Schedule" means a schedule comprising part of the disclosure schedule delivered by the Company to Buyer concurrently with the execution and delivery of this Agreement.

"Securities Act"- the U.S. Securities Act of 1933 as amended, and regulations and rules issued pursuant to that Act or any successor law.

"Shares"- as defined in the Recitals of this Agreement.

"Steering Committee" - a committee to be formed immediately upon the signing of this Agreement and dissolved upon the Closing and comprised of three members including one representative of each of the Buyer, TIC and the Company, none of whom needs to be a member of the Board. The Steering Committee shall oversee the development, assessment and implementation, and, if applicable, any modification of the Business Plan as specified in Sections 5.6.5 of this Agreement. The Steering Committee shall not be deemed to be a committee of the Board and its members shall not have a fiduciary duty to the Company. The Steering Committee shall consider, in making decisions pursuant to Sections 5.6.5 and 7.3 hereunder, (a) the construction schedule of Fab 2 as set forth in the Business Plan and any changes thereto, (b) the Additional Financing Plan as set forth in the Business Plan and any failure to comply with the schedule for such financings or changes to the Additional Financing Plan, (c) any significant increase in the cost of Fab 2 beyond that set forth in the Business Plan and (d) the production capacity schedule of Fab 2 as set forth in the Business Plan and any changes thereto.

"Subsidiary"- any corporation or other Person of which securities or other interests having the power to elect a majority of that corporation's or other Person's board of directors or similar governing body, or otherwise having the power to direct the business and policies of that corporation or other Person (other than securities or other interests having such power only upon the happening of a contingency that has not occurred) are held by the Company or one or more of its Subsidiaries.

"Tax Return"- any return (including any information return), report, statement, schedule, notice, form, or other document or information filed with or submitted to, or required to be filed with or submitted to, any Governmental Body in connection with the determination, assessment, collection, or payment of any Tax or in connection with the administration, implementation, or enforcement of or compliance with any Legal Requirement relating to any Tax.

"TIC"- The Israel Corporation Ltd.

"Threatened"- a claim, Proceeding, dispute, action, or other matter will be deemed to have been "Threatened" if either (a) any demand or statement has been made in writing or any notice has been given in writing or any other event has occurred or any other circumstance exists, that actually leads any Named Officer and Director to believe that such a claim, will be filed or otherwise pursued in the future or (b) any demand or statement has been made orally or any notice has been given orally to the effect that such a claim, Proceeding, dispute, action or other matter will be asserted, commenced, taken or otherwise pursued in the future.

"Transaction Documents" - collectively, the Foundry Agreement, the Additional Purchase Obligation Agreement, the Escrow Agreement (all as defined in Section 2.4), the Shareholders Agreement and the Registration Rights Agreement (as defined in Section 2.5.1.5.).

"Wafer Partner" - a wafer manufacturer that either invests in the equity of the Company and enters into an agreement with the Company providing for a wafer order right or that enters into a wafer manufacturing agreement with the Company on a "take or pay" basis or on a "pre-payment" basis, in each case in accordance with the provisions of Sections 7.6(ii) and 7.7 hereof.

"Additional Purchase Obligations" - Conditional obligations to purchase Ordinary Shares of the Company issued under the Additional Purchase Obligation Agreement.

Additional Defined Terms

6K Reports	Section 3.4.1	Material Adverse Effect	Section 3.1.1
Additional Incentive Plans	Section 1.14	Offered Securities	Section 11.8.1
Additional Purchase Obligation Agreement	Section 2.4	Patents	Section 3.20.1
Additional Purchase Obligation Shares	Section 2.4	Project Committee	Section 11.4
Additional Wafer Partner Financing Date	Section 7.6	Pro Rata Share	Section 11.8.1
Annual Report	Section 3.4.1	Purchase Price	Section 2.2
Articles	Section 2.5.1.2	Registration Right Agreement	Section 2.5.1.5
Board	Section 2.4	Rights in Mask Works	Section 3.10.1
Copyrights	Section 3.20.1	SEC	Section 3.4.1
Debt Financing Term Sheet	Section 5.6.4	Shareholders Agreement	Section 2.5.1.5
Environmental Study	Section 3.5.1	SEC Documents	Section 3.4.1
Executed Transaction Documents	Section 3.2.1	Steering Committee	Section 5.10
Grants	Section 3.2.1	Taxes	
Indemnified Persons	Section 10.2	Toshiba Agreement	Section 3.2.3
Foundry Agreement	Section 2.4	Wafer Commitments	Section 7.7
Marks	Section 3.20.1	Wafer Partner Differential	Section 7.6

2. Sale and Transfer of Shares; Purchase Price; Closings

2.1. Delivery. Subject to the terms and conditions of this Agreement, at -----
the Closing, the Company shall issue to the Buyer the Shares, validly authorized, duly issued, fully paid and nonassessable entitled to all rights and privileges assigned to such Shares in this Agreement and in the Articles and free of any Encumbrances (other than arising solely by or through actions of Buyer), in consideration for the release of the Purchase Price (as defined below) from the Escrow Agent to the Company.

2.2. Purchase Price. The per share purchase price will be \$23.08 (all -----
references herein to "\$" are to United States dollars) representing an aggregate purchase price (the "Purchase Price") for the Shares of \$20,000,000. Within 14 days of the execution of this Agreement, the Purchase Price will be deposited in escrow pursuant to the terms and conditions of the Escrow Agreement with an escrow agent to be appointed by the parties. At the Closing, subject to the fulfillment or waiver of all closing conditions hereto, the Purchase Price will be released from escrow to the Company all in accordance with the terms and conditions of this Agreement and the Escrow Agreement and all interest accrued with respect to the Purchase Price during the escrow period will be released to the Company.

2.3. Closing. The closing provided for in this Agreement (the " Closing")

will take place at the offices of Meitar, Liguornik, Geva & Co. at 16 Abba Hillel Silver Road, Ramat Gan, 52506, Israel at 10:00 a.m. (local time) on the date that is seven days following satisfaction of all the conditions specified in Sections 7 and 8, unless the parties otherwise agree, provided that the Closing may not, in any event, take place after January 31, 2001, unless the parties otherwise agree. In the event that the Closing fails to take place by January 31, 2001, or such later date as the parties may agree, or otherwise terminates pursuant to section 9.1, then all interest accrued with respect to the Purchase Price and the Purchase Price shall be retained by Buyer.

2.4. Other Agreements; Company's Resolutions. Concurrently with the

execution of this Agreement, (a) the parties hereto are executing and entering into the Foundry Agreement in the form of Exhibit A hereto (the "Foundry Agreement") and the Additional Purchase Obligation Agreement in the form of Exhibit B hereto (the "Additional Purchase Obligation Agreement"), each of which shall provide that they shall only be effective upon the Closing, (b) the Company is delivering to the Buyer certified resolutions of the Company's board of directors (the "Board") authorizing and approving the execution, delivery and performance of the Transaction Documents and the consummation of the Contemplated Transactions, including without limitation, the issuance of the Shares to the Buyer and all shares issuable upon exercise of the Additional Purchase Obligations under the Additional Purchase Obligation Agreement (the "Additional Purchase Obligation Shares") (subject, in relation to the issuance of the Shares and the Additional Purchase Obligation Shares, to Company shareholder approval pursuant to a general meeting of the Company) and (c) the Company is delivering to the Buyer a certificate dated the date hereof signed by the co-Chief Executive Officer of the Company identified in Schedule 7.15 to the effect set forth in Section 7.15. The parties shall enter into the Escrow Agreement in the form of Exhibit C hereto (the "Escrow Agreement") within 14 days of the date hereof. Buyer and TIC will execute and enter into the Shareholders Agreement in the form of Exhibit D hereto (the "Shareholders Agreement") within 14 days of the date hereof.

2.5. Closing Obligations. At the Closing:

2.5.1. The Company will deliver to Buyer:

- 2.5.1.1. Certified copies of resolutions of the Company's shareholders relating to, among other things, an increase in the Company's registered share capital and the issuance of the Shares and the Additional Purchase Obligation Shares, and the Board authorizing and approving the Ancillary Agreements and the transactions contemplated therein;
- 2.5.1.2. Certified copies of the Company's Articles of Association (the "Articles") as amended through the Closing Date;
- 2.5.1.3. A certificate duly executed by two executive officers of the Company in the form set forth in Schedule 2.5.1.3, dated as of the date of the Closing;

- 2.5.1.4. The opinion of Yigal Arnon & Co., counsel to the Company, in the form reasonably satisfactory to Buyer and its counsel to be attached hereto as Schedule 2.5.1.4, dated as of the date of the Closing;
- 2.5.1.5. Executed copies of the Registration Rights Agreement substantially in the form of Exhibit E hereto (the "Registration Rights Agreement"), which shall provide an equal number of Demand Rights (as defined in such agreement) to Buyer and TIC.
- 2.5.1.6. Validly executed certificates representing the Shares, issued in the name of the Buyer and a certificate of the secretary of the Company confirming that the Shares were registered in the share register of the Company in the name of Buyer;
- 2.5.1.7. Copies of documents evidencing all Consents and approvals required under Section 7.3 hereof;
- 2.5.1.8. Copies of all the Ancillary Agreements duly executed and delivered and in accordance with Section 7 hereof;
- 2.5.1.9. The written consent of the OCS and the Investment Center to the execution of this Agreement and the issuance of the Shares to the Buyer.
- 2.5.1.10. The certificate required to be delivered under Section 7.15 hereof.

2.5.2. Buyer will deliver to the Company:

- 2.5.2.1. A copy of a letter from Buyer to the Escrow Agent irrevocably authorizing the release of the Purchase Price to the account of the Company pursuant to the terms of the Escrow Agreement;
- 2.5.2.2. A certificate duly executed by two executive officers of Buyer in the form set forth in Schedule 2.5.2.2, dated as of the date of the Closing.
- 2.5.2.3. Executed copies of the Shareholders Agreement and the Registration Rights Agreement.

3. Representations and Warranties of the Company

The Company hereby represents and warrants to Buyer as of the date hereof and as of the Closing and as otherwise provided in the Additional Purchase Obligation Agreement as follows:

3.1. Organization and Good Standing

3.1.1. The Company and each Subsidiary is a corporation duly organized, validly existing, and in good standing under the laws of its jurisdiction of incorporation, with full corporate power and authority to conduct its business as it is now being conducted and as currently approved by the Board to be conducted in the future and to own or use its properties and assets. The Company has all requisite corporate power to perform all its obligations under Applicable Contracts including, but not limited to, the Ancillary Agreements, subject, with respect to the issuance of the Shares and the Additional Purchase Obligation Shares, to receipt of the shareholder resolutions referred to in Section 2.5.1.1. The Company and each Subsidiary is duly qualified to do business as a foreign corporation and is in good standing under the laws of each state or other jurisdiction in which either the ownership or use of the properties owned or used by it, or the nature of the activities conducted by it or proposed to be conducted by it, requires such qualification, unless such non-qualifications would not have a material adverse affect on the business, financial conditions, assets, operations and prospects of the Company and its Subsidiaries taken as a whole (a "Material Adverse Effect"). Schedule 3.1 contains a complete and accurate list for the Company and each Subsidiary of its name, its jurisdiction of incorporation, other jurisdictions in which it is authorized to do business, and its capitalization, including (i) in connection with each Subsidiary, the identity of each shareholder and the number of shares held by such shareholder, and (ii) in connection with the Company, the identity of each shareholder who to the knowledge of the Company holds more than 5% of the issued and outstanding share capital of the Company and the number of shares of the Company held by each such shareholders. Also enclosed in Schedule 3.1 is a copy of the list of shareholders maintained by the Company's transfer agent as of a date within 5 days prior to the date hereof.

3.1.2. The Company has delivered to Buyer copies of (i) the Organizational Documents of the Company and each Subsidiary, as currently in effect, and (ii) minutes of all meetings of the directors and shareholders of the Company and each Subsidiary held since January 1, 1995 and all resolutions passed by the directors or shareholders since January 1, 1995.

3.2. Authority; No Conflict; Consents and Approvals

3.2.1. Each of this Agreement, the Additional Purchase Obligation Agreement, the Additional Purchase Obligations, the Escrow Agreement and the Foundry Agreement (the "Executed Transaction Documents") has been duly authorized, executed and delivered by the Company (subject, with respect to the increase in the Company's registered share capital and issuance of the Shares and the Additional Purchase Obligation Shares, to receipt of shareholder approval by Closing) and, assuming the due execution and delivery hereof and thereof by Buyer, constitutes the legal, valid, and binding obligation of the Company, enforceable against the Company in accordance with its terms. Upon the execution and delivery by the Company of the Transaction Documents and the other Ancillary Agreements (where applicable), and assuming the due

execution and delivery thereof by the other parties thereto, the Transaction Documents and the other Ancillary Agreements (where applicable) will constitute the legal, valid, and binding obligations of the Company, enforceable against the Company in accordance with their respective terms. The Company has the absolute and unrestricted right, power, authority, and capacity to execute and deliver this Agreement and the Transaction Documents and the other Ancillary Agreements (where applicable) and to perform its obligations under this Agreement, the Transaction Documents and the other Ancillary Agreements (where applicable) (subject, with respect to the issuance of the Shares and the Additional Purchase Obligation Shares, to receipt of Company shareholder approval by Closing) and has taken all corporate action necessary to consummate the transactions contemplated hereby and thereby and to perform its obligations hereunder and thereunder.

- 3.2.2. Except as set forth in Schedule 3.2, neither the execution and delivery of this Agreement, any of the Transaction Documents or any of the other Ancillary Documents nor the consummation or performance of any of the foregoing is or will, directly or indirectly (with or without notice or lapse of time):
- 3.2.2.1. contravene, conflict with, or result in a violation of (A) any provision of the Organizational Documents of the Company or any Subsidiary, or (B) any resolution adopted by the board of directors or the shareholders of the Company or any Subsidiary; or
 - 3.2.2.2. contravene, conflict with, or result in a violation of, or give any Governmental Body or other Person the right to challenge or to exercise any remedy or obtain any relief under, any Legal Requirement or any Order to which the Company or any Subsidiary, or any of the assets owned or used by the Company or any Subsidiary, may be subject, the breach of or default under which could have a Material Adverse Effect or could materially adversely affect the consummation of the Contemplated Transactions; or
 - 3.2.2.3. contravene, conflict with, or result in a violation of any of the terms or requirements of, or give any Governmental Body the right to revoke, withdraw, suspend, cancel, terminate or modify any Governmental Authorization that is held by the Company or any Subsidiary or that otherwise relates to the business of, or any of the assets owned or used by, the Company or any Subsidiary, the effect of which would have a Material Adverse Effect or materially adversely affect the consummation of the Contemplated Transactions; or
 - 3.2.2.4. contravene, conflict with, or result in a violation or breach of any provision of, or give any Person the right to declare a default or exercise any remedy under, or to accelerate the

maturity or performance of, or to cancel, terminate, or modify, any Applicable Contract, the effect of which could have a Material Adverse Effect or materially adversely affect the consummation of the Contemplated Transactions; or

3.2.2.5. result in the imposition or creation of any Encumbrance upon or with respect to any of the Asset owned or used by the Company or any Subsidiary, the effect of which could have a Material Adverse Effect or materially adversely affect the consummation of the Contemplated Transactions.

3.2.3. Except as set forth in Schedule 3.2.3, no notice to, filing with or Consent from any Person or Governmental Body is or will be required to be made or obtained in connection with the execution and delivery of (i) this Agreement, (ii) the Transaction Documents, (iii) the Technology License Agreement, effective April 7, 2000 between the Company and Toshiba Corporation (the "Toshiba Agreement") and (iv) the Additional Incentive Plans (as defined in Section 7.14) or the consummation or performance of any of the transactions contemplated hereby or thereby.

3.2.4. To the best knowledge of the Company and based on the Company's investigation as of the date hereof, except as set forth in Section 5.2 to the Business Plan and Schedule 3.2.3, no notice to, filing with or Consent from any Person or Governmental Body is or will be required to be made or obtained in connection with (a) the construction, deployment and operation of Fab 2 in accordance with the Business Plan, (b) the implementation of the Additional Financing Plan (as defined), provided that the representation made in this clause (b) is given to the actual knowledge of the Company on the date hereof in respect of equity financings to be provided by Wafer Partners, and (c) the execution, delivery and performance of the agreements entered into or to be entered into by the Company in connection therewith (such agreements, together with the agreements referred to in clauses (i)-(iv) of Section 3.2.3, the "Ancillary Agreements"), other than, in respect of each of the foregoing clauses, notices, filings or Consents, the failure of which to be made or obtained would not, individually or in the aggregate have a material adverse effect on the construction and operation of Fab 2.

3.3. Capitalization; Issuance of Shares; Officers and Directors.

3.3.1. The authorized share capital of the Company, immediately prior to the Closing, including the proposed increase in share capital referred to in Section 2.4, will consist of 70,000,000 Ordinary Shares, of which 12,207,007 shares are issued and outstanding and 1,784,804 are reserved for issuance of outstanding options to employees, officers and directors and 1,615,500 are reserved for future grants of options to employees, officers and directors. All of the outstanding Ordinary Shares have been duly authorized and validly issued and are fully paid and nonassessable. Schedule 3.3 sets forth the list of the Company's shareholders of record

as maintained by the transfer agent and a list of all the options outstanding, the vesting schedules of such options and the exercise prices thereof. Except as set forth in Schedule 3.3, there are no Contracts relating to the issuance, or to the Knowledge of the Company, sale, transfer, or Encumbrance (other than arising solely by or through actions of Buyer) of any equity securities or securities convertible or exchangeable into equity securities of the Company. When the Shares shall have been issued and delivered to Buyer as part of the Closing, such Shares will: (i) have been duly authorized for issuance by the Company's Board, (ii) upon delivery of the consideration therefor in accordance with the terms of this Agreement and the Escrow Agreement, be duly and validly issued, fully paid and nonassessable and (iii) be free and clear of any Encumbrances, and not the subject of any preemptive or other participation rights.

- 3.3.2. The Company's and its Subsidiaries current officers and directors are those persons whose names are set forth in Schedule 3.3.2 (the "Named Officers and Directors").
- 3.3.3. Neither the Company nor any Subsidiary has any agreement, obligation or commitment with respect to the election of any Person to the Company's Board and/or any Subsidiary's board of directors and to the actual knowledge of the Company, there is no voting agreement or other arrangement among the Company's shareholders or the Subsidiaries' shareholders, and there are no agreements or arrangements between any Person which affects or relates to the voting or giving written consents with respect to the Company's or any Subsidiaries' securities including with respect to the nomination of a director and/or officer of the Company and/or the Subsidiary.
- 3.3.4. There are no agreements, commitments and understandings, whether written or oral, with respect to any compensation to be provided by the Company and/or the Subsidiary to any of the Named Officers and Directors, and, to the best knowledge of the Company, to be provided by any third party to any of the Named Officers and Directors, except as set forth in Schedule 3.3.4.
- 3.3.5. Except as set forth in Schedule 3.3.5 (a) and in the Registration Rights Agreement to be entered into hereunder, the Company is not under any obligation to register for trading on any securities exchange any of its currently outstanding securities or any of its securities which may hereafter be issued. Since its incorporation there has been no declaration or payment by the Company of dividends, or any distribution by the Company of any assets of any kind to any of its shareholders in redemption of or as the purchase price for any of the Company's securities except as set forth in Schedule 3.3.5 (b).

3.4. SEC Documents; Financial Statements

- 3.4.1. The Company has furnished to Buyer copies of the Company's Annual Report on Form 20-F for the year ended December 31, 1999 (the

"Annual Report") as filed with the U.S. Securities and Exchange Commission ("SEC") on March 20, 2000. The Company represents and warrants to Buyer that: (i) the Annual Report has been duly filed with the SEC, and when filed was in compliance in all material respects with the requirements of the Exchange Act and the rules and regulations of the SEC applicable to such Annual Report; and (ii) the Annual Report was complete and correct in all material respects as of its date and, as of its date, did not contain any untrue statement of material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The Company has provided the Buyer with a copy of each document submitted to the SEC on Form 6-K since January 1, 1999 (the "6K Reports" and together with the Annual Report, the "SEC Documents"). The Company represents and warrants to Buyer that: (i) the 6K Reports have been duly submitted to the SEC, and when submitted were in compliance in all material respects with the requirements of the Exchange Act and the rules and regulations of the SEC applicable to such 6K Reports; and (ii) the 6K Reports were complete and correct in all material respects as of their respective dates and, as of such dates, did not contain any untrue statement of material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The Company represents that it has filed all the reports that the Company was required to file with the SEC since January 1, 1998, according to the requirements of the Exchange Act.

3.4.2. The Company has delivered to Buyer: (a) audited consolidated balance sheets of the Company as at December 31 in each of the years 1998 through 1999 (the December 31, 1999 balance sheet being hereinafter referred to as the "Balance Sheet") and the related audited consolidated statements of income, changes in shareholders' equity, and cash flow for each of the fiscal years then ended, together with the report thereon of Brightman Almagor, independent certified public accountants, and (b) an unaudited consolidated balance sheet of the Company as at March 31, 2000 (the "Interim Balance Sheet") and the related unaudited consolidated statements of income, changes in shareholders' equity, and cash flow for the three months then ended, including in each case the notes thereto. Such financial statements and notes fairly present the financial condition and the results of operations, changes in shareholders' equity, and cash flow of the Company as at the respective dates of and for the periods referred to in such financial statements, all in accordance with GAAP, subject, in the case of interim financial statements, to normal recurring year-end adjustments (the effect of which will not, individually or in the aggregate, be materially adverse); the financial statements referred to in this Section 3.4.2 reflect the consistent application of such accounting principles throughout the periods involved.

3.5. Business Plan; Additional Financing Plan

True and correct copies of the Business Plan and of the Environmental Study submitted to the District Zoning Authority (the "Environmental Study") are attached hereto as Schedule 3.5. The Company has conducted reasonable research and surveys in preparing the Business Plan and the Environmental Study and consulted with reputable experts in the field as is reasonably appropriate in these circumstances. The Company believes that the opinions, assumptions and timetables contained in the Business Plan (including both the alternate case assumptions and the base assumptions, as defined therein, and without giving effect to any risk factors included therein) and in the Environmental Study are reasonable. The financial, business and other projections set out in the Business Plan (including both the alternate case assumptions and the base assumptions, as defined therein, and without giving effect to any risk factors included therein) have been reasonably prepared with due diligence, care and consideration. To the Company's knowledge, each of the Business Plan and the Environmental Study is complete and correct in all material respects and does not contain any untrue statement of material fact. To the best of the Company's knowledge, after conducting reasonable research and surveys as is reasonably appropriate in these circumstances and after consulting with reputable experts in the field, the financings contemplated in Section 7.6 hereto (the "Additional Financings") together with the Purchase Price and the proceeds to be paid to the Company upon exercise of the Additional Purchase Obligations, will be sufficient to complete the construction, deployment and operation of Fab 2 in accordance with the Business Plan according to the base scenario under which management of the Company currently contemplates implementing the Business Plan. There are no other facts or matters of which the Company is aware which could render any such opinions, assumptions, timetables or projections materially misleading; provided, however, that no assurance can be or is given that any of the forecast projections will be attained or that the assumptions contained therein will not change.

3.6. Title to Properties; Encumbrances. Except as set forth in

Schedule 3.6, the Company and its Subsidiaries have good and marketable title, free and clear of all Encumbrances (other than Encumbrances for current Taxes not yet due and minor Encumbrances, if any, which in the aggregate do not materially detract from the value of the Assets (as hereinafter defined) or materially impair the conduct of business of the Company as currently conducted and as currently approved by the Board to be conducted in the future), to all of the assets, real property, interests in real property, rights, franchises, patents, trademarks, copyrights, mask works, trademarks, trade names, licenses and properties tangible or intangible, real or personal, wherever located which are used in the conduct of the business conducted and as currently approved by the Board to be conducted in the future by the Company (the "Assets"), other than property that is leased or licensed. Except as set forth in Schedule 3.6, the Company has valid and enforceable leases or licenses, as the case may be, with respect to the Assets consisting of property that is leased or licensed, under which there exists no default, event of default or event which, with notice or lapse of time or both, would constitute a default, except for such defaults which could not have a Material Adverse Effect. Except as set forth on Schedule 3.6, with respect to real property owned or leased by the Company or any Subsidiary, there are not any rights of way, building use restrictions exceptions, variances, reservations, or limitations of any nature which materially impair or could reasonably be expected to materially impair the business of the Company as conducted and as currently approved by the Board to be conducted in the future, other than such which would not have a Material Adverse Effect. All buildings,

plants, and structures owned or leased by the Company or any Subsidiary do not encroach upon the property of, or otherwise conflict with the property rights of, any other Person in a material manner.

3.7. Condition and Sufficiency of Assets. The buildings, plants, -----
structures, and equipment of the Company and its Subsidiaries are structurally sound, are in good operating condition and repair, and are adequate for the uses to which they are being put, and none of such buildings, plants, structures, or equipment is in need of maintenance or repairs except for ordinary, routine maintenance and repairs that are not material in nature or cost. Except as set forth in Schedule 3.7, the building, plants, structures and equipment of the Company and its Subsidiaries are sufficient for the continued conduct of the Company's businesses after the Closing in substantially the same manner as conducted prior to the Closing.

3.8. Customers and Suppliers. Since January 1, 2000, there has not -----
been any adverse change in the business relationship of the Company with any material customer or material supplier of the Company.

3.9. Inventory. Inventories of raw materials, work in progress and -----
finished goods of the Company and its Subsidiaries are in good condition and of a quality useable and saleable in the Ordinary Course of Business or have had appropriate financial reserves established.

3.10. No Undisclosed Liabilities. Except as set forth in Schedule -----
3.10, neither the Company nor any Subsidiary has any liabilities or obligations of any nature (whether absolute, accrued, contingent or otherwise) except for liabilities or obligations reflected or reserved against in the Balance Sheet or the Interim Balance Sheet and current liabilities incurred in the Ordinary Course of Business since the respective dates thereof.

3.11. Taxes

3.11.1. The Company and each Subsidiary has filed or caused to be filed (on a timely basis since January 1, 1994) all Tax Returns that are or were required to be filed by or with respect to it, pursuant to applicable Legal Requirements. The Company and each Subsidiary has paid, or made provision for the payment of, all Taxes that have or may have become due pursuant to those Tax Returns or otherwise, or pursuant to any assessment received by the Company, except such Taxes, if any, as are listed in Schedule 3.11 and are being contested in good faith and as to which adequate reserves (determined in accordance with GAAP) have been provided in the Balance Sheet and the Interim Balance Sheet.

3.11.2. Except as set forth in Schedule 3.11.2, the relevant state tax authorities have audited all such Tax Returns or such Tax Returns are closed by the applicable statute of limitations for all taxable years through December 31, 1999. All deficiencies proposed as a result of such audits have been paid, reserved against, settled, or, as described in Schedule 3.11, are being contested in good faith by appropriate proceedings. Except as described in Schedule 3.11, neither the Company nor any Subsidiary has given or been requested to give waivers or extensions (or is or would be

subject to a waiver or extension given by any other Person) of any statute of limitations relating to the payment of Taxes of the Company or for which the Company may be liable.

3.11.3. All Taxes that the Company and any Subsidiary is or was required by Legal Requirements to withhold or collect have been duly withheld or collected and, to the extent required, have been paid to the proper Governmental Body or other Person.

3.11.4. All Tax Returns filed by (or that include on a consolidated basis) the Company and any Subsidiary are true, correct, and complete in all material respects. There is no tax sharing agreement that will require any payment by the Company after the date of this Agreement.

3.12. No Material Adverse Change. Except as set forth in Schedule 3.12,

since the date of the Balance Sheet, there has not been any material adverse change in the business, operations, properties, assets or condition of the Company (financial or other), including in the prospects of the construction, deployment and operation of Fab 2 in accordance with the Business Plan, and no event or development has occurred or circumstance exists that may result in such a material adverse change.

3.13. Employee Benefits; Labor

3.13.1 Except as set forth in Schedule 3.13.1, neither the Company nor any Subsidiary is a member of any employers union or a party to any collective bargaining contract, collective labor agreement or other contract or arrangement with a labor union, trade union or other organization or body involving any of its employees, or is otherwise required (under any legal requirement, including under any profit sharing, bonus, deferred compensation, savings, insurance, pension, retirement, or other employee benefit plan for or with any employees of the Company or any of its Subsidiaries, except for the respective personal employment agreements) to provide benefits or working conditions beyond the minimum benefits and working conditions required by law. Neither the Company nor any Subsidiary has recognized or received a demand for recognition from any collective bargaining representative with respect to any of its employees. Except as set forth in Schedule 3.13.1, neither the Company nor any Subsidiary are subject to, and no employee of the Company or any Subsidiary benefits from, any extension order (tzavei harchava) or any arrangement or custom with respect to employment or termination thereof. All of the Company's and the Subsidiaries' employees are "at will" employees and neither the Company nor any Subsidiary has any obligation to employ any employee for a specified period.

3.13.2. Except as set forth in Schedule 3.13.2, there are no claims or complaints that are pending or that have been threatened against the Company or any Subsidiary by any person who is or has been an employee or director of the Company or any Subsidiary, that may, individually or in the aggregate, have a Material Adverse Effect.

- 3.13.3. Since January 1, 1995, (i) there has been no labor strike, slowdown or stoppage pending or threatened against or affecting the Company or any Subsidiary and (ii) there has been no material dispute between the Company or any Subsidiary and any group of its employees which was not resolved.
- 3.13.4. Except as set forth in Schedule 3.13.4, the Company's and its Subsidiaries' obligations to provide severance pay to its employees are fully funded or have been properly provided for in the Financial Statements in accordance with GAAP including, by contribution to appropriate insurance funds. All other liabilities of the Company or any Subsidiary (absolute or contingent) relating to their employees were properly accrued in the Financial Statements in accordance with GAAP.
- 3.13.5. All amounts that the Company or any Subsidiary is legally or contractually required either (i) to deduct from its employees' salaries or to transfer to such employees' pension or provident, life insurance, manager insurance, incapacity insurance, continuing education fund or other similar fund or (ii) to withhold from their employees' salaries and pay to any Governmental Entity as required by Israeli Legal Requirements relating to any tax or any other compulsory payment have, in each case, been duly deducted, transferred, withheld and paid.
- 3.13.6. The Company and each Subsidiary is in compliance in all material respects with all applicable Legal Requirements and contracts relating to employment, employment practices, wages, bonuses and other compensation matters and terms and conditions of employment.
- 3.13.7. Schedule 3.13.7 sets forth true and complete details of payment by the Company or any of its Subsidiaries since January 1, 2000 of any bonuses, salaries or other compensation to any shareholder or Named Director or Officer (except in the Ordinary Course of Business) or entry into any employment, severance, or similar Contract with any Named Director or Officer.

3.14. Compliance with Legal Requirements; Governmental Authorizations

- 3.14.1. Except as set forth in Schedule 3.14 (i) the Company and its Subsidiaries are, and at all times since January 1, 1997 have been, in full compliance with each Legal Requirement that is or was applicable to them or to the conduct or operation of their business or the ownership or use of any of their assets, except for such non-compliance which would not have a Material Adverse Effect and (ii) neither the Company nor any of its Subsidiaries have received, at any time since January 1, 1997, any notice or other communication (whether oral or written) from any Governmental Body or any other Person regarding any actual, alleged, possible, or potential violation of, or failure to comply with, any Legal Requirement except for such notices and communications which could not have a Material Adverse Effect.

3.14.2. The Company and each Subsidiary has all Governmental Authorizations necessary to permit the Company and its Subsidiaries to lawfully conduct and operate their business as currently conducted and as approved by the Board to be conducted in the future, except for such authorizations, the failure to possess which would not have a Material Adverse Effect. The Company and its Subsidiaries are and have been in full compliance with all of the terms and requirements of each Governmental Authorization that is held by the Company and its Subsidiaries or that otherwise relates to the business of the Company and its Subsidiaries as presently conducted and as approved by the Board to be conducted in the future, or to any of the assets owned or used by the Company and its Subsidiaries, except for such non-compliance which would not have a Material Adverse Effect. Each Governmental Authorization referred to in the foregoing sentence is valid and in full force and effect. No event has occurred or circumstance exists that may constitute or result directly or indirectly in a violation of or a failure to comply with any term or requirement of any such Governmental Authorization or result directly or indirectly in the revocation, withdrawal, suspension, non-renewal, cancellation, or termination of, or any modification to, any such Governmental Authorization and no notice has been received by the Company or any Subsidiary with respect to the foregoing, other than those events, circumstances or notices which would not have a Material Adverse Effect. To the best knowledge of the Company, the Company and its Subsidiaries can obtain all such renewals and Governmental Authorizations on a timely basis as needed for their respective operations and business, other than those the failure of which to be obtained could not have a Material Adverse Effect.

3.15. Legal Proceedings; Orders. Except as set forth in Schedule 3.15,

there is no pending Proceeding (i) that has been commenced by or against the Company or that otherwise relates to or may affect the business of, or any of the assets owned or used by, the Company or any Subsidiary in a material manner; or (ii) that challenges, or that may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Contemplated Transactions.

3.15.1. In addition, (A) no such Proceeding has been Threatened, and (B) no event has occurred or circumstance exists that may give rise to or serve as a basis for the commencement of any such Proceeding.

3.15.2. Except as set forth in Schedule 3.15, (i) there is no Order to which the Company or any of its Subsidiaries, or any of the assets owned or used by the Company or any of its Subsidiaries, is subject; and (ii) the Company or any of its Subsidiaries are not subject to any Order that relates to its business as presently conducted or as approved by the Board to be conducted, or any of the assets owned or used by, the Company or any of its Subsidiaries.

3.15.3. Except as set forth in Schedule 3.15, the Company and all its Subsidiaries are, and at all times have been, in full compliance with all of the terms and requirements of each Order to which it, or any of the

assets owned or used by it, is or has been subject, other than any non-compliance which would not have a Material Adverse Effect

3.16. Absence of Certain Changes and Events. Except as set forth in

Schedule 3.16, since the date of the Balance Sheet, the Company and all its Subsidiaries have conducted their businesses only in the Ordinary Course of Business and there has not been any:

- 3.16.1. entry into, termination of, or receipt of notice of termination of (i) any license, distributorship, dealer, sales representative, joint venture, credit, or similar agreement, or (ii) any Contract or transaction involving a total remaining commitment by or to the Company or any of its Subsidiaries of at least \$2,000,000; or
- 3.16.2. sale (other than sales of inventory in the Ordinary Course of Business), lease, or other disposition of any asset or property of the Company or any of its Subsidiaries for at least \$2,000,000 or mortgage, pledge, or imposition of any lien or other encumbrance on any material asset or property of the Company or any of its Subsidiaries, including the sale, lease, or other disposition of any of the Intellectual Property Assets except in the Ordinary Course of Business; or
- 3.16.3. cancellation or waiver of any claims or rights with a value to the Company or any of its Subsidiaries in excess of \$2,000,000; or
- 3.16.4. material change in the accounting methods used by the Company or any of its Subsidiaries; or
- 3.16.5. agreement, whether oral or written, by the Company or any of its Subsidiaries to do any of the foregoing.

3.17. Contracts; No Defaults

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- 3.17.1. Except as set forth in Schedule 3.17.1 and except for agreements, instruments, arrangements and contracts which are exhibits to the SEC Documents, as of the date of this Agreement, there is no Applicable Contract that:
 - 3.17.1.1. involves performance of services or delivery of goods or materials by or to the Company or any of its Subsidiaries of an amount or value in excess of \$1,000,000; or
 - 3.17.1.2. was not entered into in the Ordinary Course of Business and that involves expenditures or receipts of the Company or any of its Subsidiaries in excess of \$2,000,000; or
 - 3.17.1.3. affects the ownership of, leasing of, title to, use of, or any leasehold or other interest in, any real or personal property (except personal property leases and installment and conditional sales agreements having a value per item or aggregate payments of less than \$500,000 and with terms of less than one year); or

- 3.17.1.4. relates to patents, trademarks, copyrights, or other intellectual property, except for standard agreements with current or former employees, consultants, or contractors regarding the appropriation or the non-disclosure of any of the Intellectual Property Assets; or
 - 3.17.1.5. constitutes a collective bargaining agreement or other commitment to or with any labor union or other employee representative of a group of employees; or
 - 3.17.1.6. involves a sharing of profits, losses, costs, or liabilities by the Company or any of its Subsidiaries with any other Person; or
 - 3.17.1.7. contains covenants that in any way purport to restrict the business activity of the Company or any of its Subsidiaries or limit the freedom of the Company or any of its Subsidiaries to engage in any line of business or to compete with any Person; or
 - 3.17.1.8. provides for payments to or by any Person based on sales, purchases, or profits, other than direct payments for goods; or
 - 3.17.1.9. constitutes a currently effective and outstanding power of attorney; or
 - 3.17.1.10. was entered into other than in the Ordinary Course of Business and that contains or provides for an express undertaking by the Company or any of its Subsidiaries to be responsible for consequential damages; or
 - 3.17.1.11. is for capital expenditures of the Company or any of its Subsidiaries in excess of \$1,000,000; or
 - 3.17.1.12. represents a written warranty, guaranty, and or other similar undertaking with respect to contractual performance extended by the Company or any of its Subsidiaries other than in the Ordinary Course of Business.
- 3.17.2 Each Contract identified in Schedule 3.17.1 is in full force and effect in all respects and is valid and enforceable in accordance with its terms. No event has occurred or circumstance exists that (with or without notice or lapse of time) may materially contravene, conflict with, or result in a material violation or breach of, or give the Company or any other Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify, any Contract listed on Schedule 3.17.1,
- 3.17.3. Except as set forth in Schedule 3.17.3, there are no renegotiations of any material amounts paid or payable to the Company or any of its

Subsidiaries under current or completed Contracts listed on Schedule 3.17.1 with any Person and no such Person has made written demand for such renegotiations.

3.18. Insurance. The properties, assets, employees, business and operations

of the Company and its Subsidiaries are insured by policies which are in full force and effect against such risks, casualties and contingencies and of such types and amounts as are reasonable and customary for the size and scope of the Company's and its Subsidiaries business as now conducted and as approved to be conducted by the Board in the future. All premiums due and payable for insurance policies held by the Company have been duly paid; and, except as listed in Schedule 3.18, such policies or extensions, renewals or replacements thereof (on comparable terms to the extent available) in such amounts will be outstanding and in full force and effect without interruption until the Closing Date. The Company or any of its Subsidiaries have not received any notice from any insurer, agent or broker with respect to any pending or threatened terminations or increases in premiums other than increases contemplated by existing policies, and the consummation of the transactions contemplated by this Agreement and the Transaction Documents will not result in the termination of any such policy, or cause a material increase in any premiums thereunder, pursuant to the express terms of such policy.

3.19. Environmental Matters. Except for (i) matters disclosed in the SEC

Documents or (ii) matters disclosed in Schedule 3.19:

3.19.1. The Company and its Subsidiaries are in material compliance with all applicable Environmental Laws and Environmental Permits. Neither the Company or any of its Subsidiaries has received any written communication from a Governmental Body or Person that alleges that the Company is not in compliance with or has liability under any applicable Environmental Law, nor does the Company or any of its Subsidiaries have a basis to expect any such actual or Threatened communication. On the date of this Agreement, there are no circumstances or conditions that may prevent or interfere with compliance in the future with Environmental Laws and Environmental Permits in effect as of the date of this Agreement. The Company and its Subsidiaries have all Environmental Permits required under applicable Environmental Laws to operate the business of the Company as presently conducted and as approved by the Board to be conducted in the future, except as would not have a Material Adverse Effect.

3.19.2. There is no Environmental Claim pending or, to the best of the Company's knowledge, Threatened against the Company or its Subsidiaries or against any Person whose liability for such an Environmental Claim the Company or its Subsidiaries have or may have retained or assumed whether contractually or by operation of law.

3.19.3. To the best of the Company's knowledge, there are no Materials of Environmental Concern present in or at the facilities of the Company or any of its Subsidiaries or at any geologically or hydrological adjoining property, including any Materials of Environmental Concern contained in barrels, above or underground storage tanks, landfills, land deposits,

dumps, equipment (whether moveable or fixed) or other containers, either temporary or permanent, and deposited or located in land, water, sumps, or any other part of the facilities of the Company or any of its Subsidiaries or such adjoining property, or incorporated into any structure therein or thereon.

3.19.4. The Company has delivered to Buyer true and complete copies and results of any reports, studies, analyses, tests, or monitoring possessed or initiated by the Company pertaining to Materials of Environmental Concern in, on, or under the facilities of the Company or any of its Subsidiaries, or concerning compliance by the Company, or any other Person for whose conduct it is or may be held responsible, with Environmental Laws.

3.19.5. As used herein, the following terms shall have the meaning set forth below:

"Environmental Claim" means any claim, action, cause of action, administrative proceeding, investigation or notice by any Person alleging potential liability (including, without limitation, potential liability for investigative costs, cleanup costs, governmental response costs, natural resources damages, property damages, personal injuries, or penalties) arising out of, based on or resulting from (a) the presence, or release into the environment, of any Materials of Environmental Concern at any location, whether or not owned by the Company or its Subsidiaries or (b) circumstances or conditions forming the basis of any violation, or alleged violation, of any Environmental Law.

"Environmental Laws" means all U.S. and Israeli laws, regulations, ordinances, codes, rules, orders, decrees, directives and standards relating to pollution or protection of human health or the environment (including, without limitation, ambient air, surface water, ground water, land surface, subsurface strata), including, without limitation, laws, regulations, ordinances, codes, rules, orders, decrees, directives and standards relating to the manufacture, processing, distribution, use, treatment, storage, transport, planning and building or handling of Materials of Environmental Concern.

"Environmental Permits" means permits, licenses, authorizations and registrations required pursuant to the Environmental Laws.

"Materials of Environmental Concern" means any hazardous chemicals, pollutants, contaminants, hazardous wastes, toxic substances, hazardous substances, as defined under applicable Environmental Laws or any other substance defined or regulated pursuant to Environmental Laws, including, without limitation, fluoride, asbestos, PCBs, petroleum or petroleum derived substances.

"Release" means any spilling, leaking, pumping, pouring, emitting, discharging, injecting, escaping, leaching, dumping or disposing into the environment, including, without limitation, the abandonment or

discarding of barrels, containers and other closed receptacles containing Materials of Environmental Concern.

3.20. Intellectual Property

3.20.1. Intellectual Property Assets- The term "Intellectual Property Assets" means all such rights set forth in Sections 3.20.1.1 - 3.20.1.4, and all know-how, trade secrets, confidential information, customer lists, software, technical information, data, process technology, plans, drawings, and blue prints (collectively, "Trade Secrets"); owned, used or licensed by the Company or its Subsidiaries as licensee or licensor which are, in each case, used in or are necessary for the conduct of the Company's and its Subsidiaries' respective businesses as now conducted and as approved by the Board to be conducted, including, without limitation, the operation of Fab-2 in accordance with the Business Plan. Schedule 3.20.1 sets forth a list of the Intellectual Property Rights, other than Trade Secrets and unregistered Copyrights:

3.20.1.1. trading names, registered and unregistered trademarks, service marks, and applications (collectively, "Marks");

3.20.1.2. all patents, patent applications, and inventions and discoveries that may be patentable (collectively, "Patents"); and

3.20.1.3. all copyrights in both published works and unpublished works (collectively, "Copyrights").

3.20.2. Agreements- Schedule 3.20.2 contains a complete and accurate list and summary description, including any royalties paid or received by the Company or its Subsidiaries, of all Contracts relating to the Intellectual Property Assets to which the Company or its Subsidiaries is a party or by which the Company or its Subsidiaries are bound, except for any license implied by the sale of a product and perpetual, paid-up licenses for commonly available software programs with a value of less than \$5,000,000 under which the Company or any of its Subsidiaries is the licensee. There are no outstanding or Threatened disputes or disagreements with respect to any such agreement.

3.20.3. Know-How Necessary for the Business

3.20.3.1. To the Company's best knowledge, the Intellectual Property Assets are all those necessary for the operation of the Company's and its Subsidiaries' business as it is currently conducted and as is approved by the Board to be conducted, including, without limitation, in connection with the operation of Fab-2 in accordance with the Business Plan, except as would not have a Material Adverse Effect. Except as set forth in Schedule 3.20.3, the Company is the owner

of all right, title, and interest in and to each of the Intellectual Property Assets, to the Company's best Knowledge, free and clear of all, Encumbrances, equities, and other adverse claims, and has the right to use without payment to a third party all of the Intellectual Property Assets, except as would not have a Material Adverse Effect.

3.20.3.2. Except as set forth in Schedule 3.20.3.2, all former and current employees of the Company and all other Persons having access to any Intellectual Property Asset have executed written Contracts with the Company and its Subsidiaries respectively, that assign to the Company and its Subsidiaries, respectively, all rights to Intellectual Property Asset including any inventions, improvements, discoveries, or information relating to the business of the Company. To the Company's Knowledge, no employee of the Company and its Subsidiaries has entered into any Contract which requires the employee to transfer, assign or disclose information concerning his work for the Company and its Subsidiaries to anyone other than the Company and its Subsidiaries.

3.20.4. Patents; Trademarks; Copyrights; Mask Works

3.20.4.1. Schedule 3.20.1 contains a complete and accurate list and summary description of all Patents, Trademarks and registered Copyrights. The Company owns all right, title, and interest in and to each of the Patents, Trademarks and Copyrights, free and clear of all liens, security interests, charges, encumbrances, entities, and other adverse claims.

3.20.4.2. Except as set forth in Schedule 3.20.4.2, all of the (i) issued Patents, (ii) Marks that have been registered with any trademark office and (iii) registered Copyrights are (with respect to issued Patents relating to wafer fabrication technology, to the best Knowledge of the Company) currently in compliance with formal legal requirements, are valid and enforceable, and are not subject to any maintenance fees or taxes.

3.20.4.3. No Patent has been or is now involved in any interference, reissue, reexamination, or opposition proceeding. To the best of the Company's knowledge, there is no potentially interfering patent or patent application or trademark or trademark application of any third party. No Mark has been or is now involved in any opposition, invalidation, or cancellation and no such action is Threatened with the respect to any of the Marks.

3.20.4.4. No Patent, Mark or Copyright is (with respect to issued Patents relating to wafer fabrication technology, to the best

knowledge of the Company) infringed or, to the best of the Company's knowledge, has been challenged or threatened in any way. To the best knowledge of the Company, none of the products manufactured and sold, nor any process or know-how used, by the Company infringes or is alleged to infringe any patent or other proprietary right of any other Person; to the best knowledge of the Company, none of the Marks used by the Company or any of its Subsidiaries infringes or is alleged to infringe any trade name, trademark, or service mark of any third party; and to the best knowledge of the Company, none of the subject matter of any of the Copyrights infringes or is alleged to infringe any copyright of any third party or is a derivative work based on the work of a third party.

3.20.5. Trade Secrets

- 3.20.5.1. With respect to each Trade Secret, the documentation relating to such Trade Secret is current, accurate, and sufficient in detail and content to identify and explain it and to allow its full and proper use without reliance on the knowledge or memory of any individual.
- 3.20.5.2. The Company and its Subsidiaries have taken all reasonable precautions to protect the secrecy, confidentiality, and value of its Trade Secrets to the extent that the maintenance of any such Trade Secret as a legally protectible trade secret under applicable law is material to the Company.
- 3.20.5.3. The Company and its Subsidiaries have good title and an absolute (but not necessarily exclusive) right to use the Trade Secrets to the extent that the maintenance of any such Trade Secret as a legally protectible trade secret under applicable law is material to the Company. The Trade Secrets, the maintenance of any of which as a legally protectible trade secret under applicable law are material to the Company, are not part of the public knowledge or literature, and, to the Company's Knowledge, have not been used, divulged, or appropriated either for the benefit of any Person or to the detriment of the Company or its Subsidiaries. No Trade Secret, the maintenance of which as a legally protectible trade secret under applicable law is material to the Company, is subject to any adverse claim or has been challenged or threatened in any way.

3.21. Grants, Incentives and Subsidies. Schedule 3.21 provides a correct

and complete list of the aggregate amount of pending and outstanding grants from each Governmental Body of the State of Israel, or from any other Governmental Body, to the Company or any Subsidiary, net of royalties paid, and any tax incentive or subsidy granted to the Company or any Subsidiary, including the material terms and benefit periods thereof (collectively, "Grants") including, without limitation, (i) Approved

Enterprise Status from the Israeli Investment Center; and (ii) Grants from the Office of the Chief Scientist of the Israel Ministry of Industry and Trade ("OCS"). The Company has made available to Buyer, prior to the date hereof, correct and complete copies of all letters of approval, and supplements thereto, granted to the Company or any Subsidiary relating to Approved Enterprise Status from the Investment Center and Grants under from the OCS. Except for undertakings set forth in such letters of approval and undertakings under applicable laws and regulations, there are no material undertakings of the Company or any Subsidiary given in connection with the Grants. The Company and each of Subsidiary are in compliance, in all material respects, with the terms and conditions of such Grants and, except as disclosed in Schedule 3.21, have duly fulfilled, in all material respects, all the undertakings relating thereto. The Company's application to the Israeli Investment Center with respect to Fab-2 was submitted on May 17, 2000 and was previously provided to Buyer (the "Investment Center Application"). To the extent that there are changes to the assumptions contained in the Investment Center Application as submitted, they are reflected in the Business Plan. The Investment Center Application complies as to form with all Legal Requirements.

3.22. Disclosure

3.22.1. No representation or warranty of the Company in this Agreement and no statement in the Schedules omits to state a material fact necessary to make the statements herein or therein, in light of the circumstances in which they were made, not misleading.

3.22.2. No notice given pursuant to Section 5.5 will contain any untrue statement or omit to state a material fact necessary to make the statements therein or in this Agreement, in light of the circumstances in which they were made, not misleading.

3.23. Relationships with Related Persons. Except as described on Schedule

3.23 or in the SEC Documents, and except for any employment and consulting contracts listed on Schedule 3.23, there are no loans, guarantees, contracts, transactions, understandings or other arrangements of any nature outstanding between or among the Company or any of its Subsidiaries, on the one hand, and any shareholder, or any current or former director, officer or controlling person of the Company or any of their respective Affiliates, on the other hand. Except as set forth on Schedule 3.23 or in the SEC Documents, since the date of the Annual Report, no event has occurred that would be required to be reported by Company pursuant to Item 13 of Form 20-F promulgated by the SEC under the Exchange Act.

3.24. Brokers or Finders. The Company and its agents have incurred no

obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payment in connection with the Contemplated Transactions.

4. Representations and Warranties of Buyer

Buyer represents and warrants to the Company as of the date hereof and as of the Closing and except as otherwise provided in the Additional Purchase Obligation Agreement as follows:

4.1. Organization and Good Standing. Buyer is a corporation duly

organized, validly existing, and in good standing under the laws of the State of Delaware with full corporate power and authority to conduct its business as it is now being conducted and as currently proposed to be conducted, to own or use the properties and assets that it purports to own or use, and to perform all its obligations under the Transaction Documents.

4.2. Authority; No Conflict

4.2.1. This Agreement constitutes the legal, valid, and binding obligation of Buyer, enforceable against Buyer in accordance with its terms. Upon the execution and delivery by Buyer of the Transaction Documents, and assuming the due execution and delivery thereof by the other parties thereto, the Transaction Documents will constitute the legal, valid, and binding obligations of Buyer, enforceable against Buyer in accordance with their respective terms. Buyer has the absolute and unrestricted right, power, and authority to execute and deliver this Agreement and the Transaction Documents and to perform its obligations under this Agreement and the Transaction Documents.

4.2.2. Except as set forth in Schedule 4.2, neither the execution and delivery of this Agreement by Buyer nor the consummation or performance of any of the Contemplated Transactions by Buyer will give any Person the right to prevent, delay, or otherwise interfere with any of the Contemplated Transactions pursuant to:

4.2.2.1. any provision of Buyer's Organizational Documents;

4.2.2.2. any resolution adopted by the board of directors or the stockholders of Buyer;

4.2.2.3. any Legal Requirement or Order to which Buyer may be subject; or

4.2.2.4. any Contract to which Buyer is a party or by which Buyer may be bound.

Except as set forth in Schedule 4.2, Buyer is not and will not be required to obtain any Consent from any Person in connection with the execution and delivery of this Agreement or the consummation or performance of any of the Contemplated Transactions.

4.3. Investment Intent; No Registration

4.3.1. Buyer is acquiring the Shares for its own account and not with a view to their distribution within the meaning of Section 2(11) of the Securities Act. Buyer has requisite knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of an investment in the Company and is an accredited investor as defined

under Regulation D as promulgated by the United States Securities and Exchange Commission; and

- 4.3.2. Buyer understands that none of the Shares have been registered under the Securities Act, the Israeli Securities Law or the laws of any jurisdiction, and agrees that the Shares may not be sold, offered for sale, transferred, pledged, hypothecated or otherwise disposed of except in compliance with the Securities Act, Israeli Securities Law or any applicable securities laws of any jurisdiction and the terms of this Agreement. Buyer also acknowledges that the Shares, upon issuance, will bear the following legend:

THESE SECURITIES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE OR OTHER JURISDICTION'S SECURITIES LAWS. THESE SECURITIES MAY NOT BE SOLD, OFFERED FOR SALE OR PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER THE ACT OR AN OPINION OF COUNSEL (SATISFACTORY IN FORM AND SUBSTANCE TO THE COMPANY) THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OF THE ACT.

- 4.4. Certain Proceedings. There is no pending Proceeding that has been

commenced against Buyer and that challenges, or may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Contemplated Transactions. To Buyer's knowledge, no such Proceeding has been Threatened.
- 4.5. Due Diligence. Subject to compliance by the Company with Section

3.22 and provision to the Buyer of all materials and information requested in its due diligence review of the Company and assuming that all information and material provided to the Buyer in its due diligence review was true and accurate and did not include any material misstatement or omit to include any information requested by Buyer, (a) the Buyer has had an opportunity to ask questions and receive answers concerning the legal, financial and technical condition of the Company and has had full access to such information concerning the Company as the Buyer has requested and (b) the Buyer hereby represents and warrants that the legal, technical and financial due diligence of Buyer has been completed and that the results of the Buyer's business, technical, legal and financial review of the books, records, agreements and other legal documents and business organization of the Company are satisfactory to the Buyer. Notwithstanding the foregoing representations and warranties of the Buyer, nothing in this Section 4.5 shall derogate from the representations and warranties of the Company in Section 3 above.
- 4.6. Brokers or Finders. Buyer and its officers and agents have incurred

no obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payment in connection with the Contemplated Transactions.

5. Covenants of the Company Prior to Closing

5.1. Access and Investigation. Between the date of this Agreement and the

Closing Date, the Company will, and will cause its Representatives to, (i) afford Buyer and its Representatives (collectively, "Buyer's Advisors") full and free access to the Company's personnel, properties, contracts, books and records, and other documents and data, (ii) furnish Buyer and Buyer's Advisors with copies of all such contracts, books and records, and other existing documents and data as Buyer may reasonably request, and (iii) furnish Buyer and Buyer's Advisors with such additional financial, operating, technical and other data and information as Buyer may reasonably request. All information so provided to Buyer and its representatives will be subject to the Non-Disclosure Agreement dated April 4, 2000 between the parties (except for Section 6 thereof which shall expire upon signing of this Agreement).

5.2. Operation of the Company's Business. Between the date of this

Agreement and the Closing Date, the Company will:

5.2.1. conduct its business only in the Ordinary Course of Business; and

5.2.2. use its best efforts to preserve intact the current business organization of the Company and its Subsidiaries, keep available the services of the current Named Officers, employees, and agents of the Company and its Subsidiaries, and maintain the relations and good will with suppliers, customers, landlords, creditors, employees, agents, and others having business relationships with the Company and its Subsidiaries; and

5.2.3. otherwise report periodically to Buyer concerning the status of the business, operations, finances and prospects of the Company and its Subsidiaries; and

5.2.4. not (i) take or agree or commit to take any action other than in the Ordinary Course of Business that would make any representation or warranty of the Company hereunder inaccurate in any respect at, or as of any time prior to, the Closing Date, provided that no such action taken in the Ordinary Course of Business that Buyer has not consented to in writing shall be taken into account in consideration of whether the conditions set forth in Section 7 below have been complied with or (ii) omit or agree or commit to omit to take any action within its control necessary to prevent any such representation or warranty from being inaccurate in any material respect at any such time.

5.3. Negative Covenant. Except as otherwise expressly permitted by this

Agreement or as is consistent with the Ordinary Course of Business, between the date of this Agreement and the Closing Date, the Company will not, without the prior written consent of Buyer, take any affirmative action, or fail to take any reasonable action within their or its control, as a result of which any of the changes or events listed in Section 3.16 is likely to occur.

5.4. Consents; Required Approvals; Construction. The Company will, as

promptly as practicable after the date of this Agreement, take all action required to obtain as promptly as practicable all necessary Consents and agreements of, and to give all

notices and make all other filings with, any third parties, including Governmental Bodies, necessary to authorize, approve or permit the consummation of the transactions contemplated hereby, the Contemplated Transactions and the transactions contemplated by the Ancillary Agreements, including, without limitation, all Consents, approvals and waivers referred to in Section 5.2 to the Business Plan and all Consents, approvals and waivers referred to in Section 7.3 hereof and the updated Business Plan referred to in Section 7.17 (which the parties shall endeavor to complete within 60 days from the date hereof). The Company will periodically update Buyer as to the matters discussed in the preceding sentence. Between the date of this Agreement and the Closing Date, the Company will (i) cooperate with Buyer with respect to all filings that Buyer elects to make or is required by Legal Requirements to make in connection with the Contemplated Transactions, and (ii) cooperate with Buyer in obtaining all consents identified in Schedule 4.2. In addition, the Company will, as promptly as practicable after the date of this Agreement, take all action required to select contractors and other experts and enter into agreements with such parties and take other necessary actions in order to facilitate the implementation of the construction of Fab 2 in accordance with the time table set forth in the Business Plan.

5.5. Notification. Between the date of this Agreement and the Closing

Date, the Company will promptly notify Buyer in writing if the Company becomes aware of any fact or condition that causes or constitutes a material breach of any of the Company's representations and warranties as of the date of this Agreement (except that such representations and warranties specifically qualified by materiality shall be read for purposes of this Section 5.5 so as not to require an additional degree of materiality), or if the Company becomes aware of the occurrence after the date of this Agreement of any fact or condition that could (except as expressly contemplated by this Agreement) cause or constitute a breach of any such representation or warranty had such representation or warranty been made as of the time of occurrence or discovery of such fact or condition (except for such representations and warranties that are expressly correct as of the date of this Agreement). Should any such fact or condition require any change in the Schedules if the Schedules were dated the date of the occurrence or discovery of any such fact or condition, the Company will promptly deliver to Buyer a supplement to the Schedules specifying such change. During the same period, the Company will promptly notify Buyer of the occurrence of any breach of any covenant of the Company in this Section 5 or of the occurrence of any event that may make the satisfaction of the conditions in Section 7 below impossible or unlikely.

5.6. Financings.

5.6.1. Between the date of this Agreement and the Closing Date, the Company will use its best efforts to achieve each of the conditions set forth in Section 7.4 and 7.6 in relation to the Additional Financings.

5.6.2. The Company shall provide to the Investment Center such other information and data, in addition to the information and data contained in the Investment Center Application, as reasonably necessary in order to secure the approval of the grant referred to in Section 7.4.

- 5.6.3. The proceeds from each of the equity financing sources referred to in clauses (ii) and (iii) of Section 7.6 with respect to Wafer Partners shall be obtained only from parties acceptable to Buyer upon Buyer's prior approval. In addition, in the event that the underlying agreements with respect thereto contain any terms or conditions (including, without limitation, (a) pricing terms and (b) other economic terms taken as a whole) more favorable (the "Terms of the Other Agreements") than those provided hereunder and in the Transaction Agreements, the terms and conditions of this Agreement and the Transaction Agreements, as the case may be, shall be automatically amended, without further action by the parties hereto and thereto, to provide such terms and conditions that are at least equally favorable to the Buyer as the Terms of the Other Agreements. The Company shall not enter into any agreement with respect to the equity financings referred to in clauses (ii) and (iii) of Section 7.6 if any of such agreements contain provisions that would impede the ability of the Company to effect the terms of the preceding sentence.
- 5.6.4. The proceeds from each of the debt financing sources referred to in clause (i) of Section 7.6 and the underlying agreements with respect thereto shall be obtained only on terms and conditions that are materially consistent with the terms and conditions to be set forth in a term sheet or similar agreement or document relating to such financing (a "Debt Financing Term Sheet"). The Company shall consult with Buyer in advance of execution of any Debt Financing Term Sheet and shall enter into such Debt Financing Term Sheet only upon the consent of Buyer which shall not be unreasonably withheld. The terms and conditions of such debt financing shall not be in conflict with the terms of the Contemplated Transactions and shall be consistent with the terms and conditions contained in the Additional Financing Plan and the Business Plan. The Company shall provide to the Buyer the transaction documents of each debt financing (the "Debt Financing Documents") in the form presented to the Board for its approval, at least 10 business days prior to the execution thereof, in order to enable Buyer to review such documents and confirm that the terms thereof are consistent with the Debt Financing Term Sheet previously approved by Buyer. The Buyer shall deliver to the Company its written approval or other response to the Debt Financing Documents within 5 business days from its receipt of the Debt Financing Documents; Buyer's failure to provide its written response to the Company within such period of time shall be deemed Buyer's approval of the Debt Financing Documents.
- 5.6.5. Between the date of this Agreement and the Closing Date, the Company shall not change or modify or agree to change or modify any of the terms and conditions listed in the Additional Financing Plan, the Business Plan or the Investment Center Application without the prior written unanimous approval of all members of the Steering Committee if any such change, modification or agreement would or would reasonably be expected to (a) change the construction schedule of Fab 2 as set forth in the Business Plan, (b) change the Additional Financing Plan as set forth in the Business Plan or result in a failure to comply with the schedule for the financings described therein, (c) significantly

increase the cost of Fab 2 beyond that set forth in the Business Plan or (d) change the production capacity schedule of Fab 2 as set forth in the Business Plan. Any change, modification or agreement to change or modify the Business Plan, the Additional Financing Plan or the Investment Center Application which does not require written unanimous approval of all members of the Steering Committee pursuant to the preceding sentence shall require written approval of a majority of the members of the Steering Committee.

- 5.7. Shareholders Agreement. The Company will use its best efforts to -----
ensure that any entity purchasing equity securities or securities exchangeable or convertible into equity securities comprising five percent (5%) or more of the outstanding Ordinary Shares of the Company pursuant to the Additional Financing Plan (other than investors purchasing any such securities in connection with a public offering conducted by the Company as part of the Additional Financing) shall execute the Shareholders Agreement as a counterparty or a similar agreement whose provisions, among other things, provide for such entity to take such actions as may be necessary to vote for the election of Buyer's, TIC's, and any other entity's representative(s) to the Board, in accordance with the terms of the Shareholders Agreement.
- 5.8. No Negotiation. Until the later of (i) such time, if any, as this -----
Agreement is terminated pursuant to Section 9, and (ii) the Closing Date, the Company will not, and will cause its Representatives not to, directly or indirectly solicit, initiate, or encourage any inquiries or proposals from, discuss or negotiate with, provide any non-public information to, or consider the merits of any unsolicited inquiries or proposals from, any Person (other than Buyer) relating to any transaction involving the sale of all or a substantial portion of the business or assets, or any of the capital stock of the Company (other than (i) in the Ordinary Course of Business; (ii) in connection with issuances of stock options or shares upon the exercise thereof under the Company's employee stock incentive plans and (iii) in connection with issuances of equity securities in accordance with Section 7.6 (ii) and (iii) below pursuant to the Additional Financing Plan and in accordance therewith), or any merger, consolidation, business combination, or similar transaction involving the Company or any of its Subsidiaries pursuant to which the shareholders of the Company immediately prior to such merger, consolidation, business combination, or similar transaction do not continue to hold a majority of the outstanding equity of the continuing or resulting entity.
- 5.9. Board of Directors. As long as Buyer has a representative on the -----
Board, each committee of the Board shall include at least one representative of Buyer and, so long as TIC has a representative on the Board, one representative of TIC. The Company will ensure that the time period between each annual shareholders meeting shall not exceed 15 months. The Board shall meet at least once in every three months and notice of each Board meeting shall be provided in writing in English to all Board members at least 10 days in advance. All communications to the Directors will be provided in English. The quorum for each meeting of the Board shall include at least one representative of Buyer, so long as Buyer has at least two representatives on the Board. Notwithstanding the preceding sentence, in the event that quorum is not present at a meeting of the Board solely because a representative of Buyer was not present and such meeting is adjourned, the failure of a representative of Buyer to be present at the adjourned meeting shall not constitute lack of quorum. The Company acknowledges that the representatives of Buyer on the Board may at any time

participate or fail to participate in any Board action concerning this Agreement if in their view such action is appropriate under applicable law.

5.10. Steering Committee. The Steering Committee shall be established

within fifteen days after the date hereof. The Steering Committee will receive from the Company's management reports on the progress on the Fab 2 project, the Business Plan and the approvals necessary for commencement of construction and for the operation of Fab 2. The Steering Committee shall meet at least once in every four weeks.

5.11. Company Shareholders Meeting. As soon as practicable after the

date hereof, the Company shall take all necessary action to call an extraordinary general meeting of the Company's shareholders and shall solicit proxies in order to obtain the approval of the Company's shareholders to the issuance of the Shares and the Additional Purchase Obligation Shares to Buyer in accordance with all applicable laws, regulations and rules of any stock exchange and to an amendment to the Articles which shall provide that the Chairman of the Board shall be appointed by the Shareholders and to obtain any other shareholder approval which is necessary in order to execute, and consummate the transactions contemplated by, this Agreement and the Transaction Documents.

6. Covenants of Buyer Prior to Closing Date

6.1. Approvals of Governmental Bodies. As promptly as practicable after

the date of this Agreement, Buyer will make all filings required by Legal Requirements to be made by it to consummate the Contemplated Transactions. Between the date of this Agreement and the Closing Date, Buyer will cooperate with the Company with respect to all filings that the Company is required by Legal Requirements to make in connection with the Contemplated Transactions, and will cooperate with the Company in obtaining all consents identified in Section 5.2 to the Business Plan.

7. Conditions Precedent to Buyer's Obligation at Closing

Buyer's obligation to take the actions required to be taken by Buyer at the Closing is subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by Buyer, in whole or in part, in its sole discretion):

7.1. Accuracy of Representations. All of the Company's representations and

warranties in this Agreement and the Transaction Agreements (considered collectively, without giving effect to any supplement to the Schedules), and each of these representations and warranties (considered individually) must have been accurate in all material respects as of the date of this Agreement and must be accurate in all material respects as of the Closing Date as if made on the Closing Date (except to the extent such representations and warranties are only given as of the date hereof), without giving effect to any supplement to the Schedules, provided that any inaccuracies in such representations and warranties will be disregarded if the circumstances giving rise to all such inaccuracies (considered collectively) do not constitute, and are not reasonably expected to result in, a Material Adverse Effect (it being understood that any materiality qualifications contained in such representations and warranties shall be disregarded for this purpose).

7.2. Company's Performance

- 7.2.1. All of the covenants and obligations that the Company is required to perform or to comply with pursuant to this Agreement at or prior to the Closing (considered collectively), and each of these covenants and obligations (considered individually), must have been duly performed and complied with in all material respects.
- 7.2.2. Each of the Transaction Documents and the Ancillary Agreements shall have been duly executed by the Company and shall have been in full force and effect and no party to such document (other than Buyer) shall be in a breach thereof. The Shareholders Agreement shall have been executed by Buyer and The Israel Corporation.
- 7.2.3. Each document required to be delivered by the Company pursuant to Section 2.5.1 must have been delivered.

7.3. Consents; Approvals; Other Requirements. (i) Each of the Consents,

approvals or other requirements identified in Section 5.2 of the Business Plan, shall have been duly obtained or satisfied (in accordance with the schedule set forth therein), (ii) the Company shall have entered into construction agreements with respect to the supervising, management and implementation of the construction of Fab 2 in accordance with the Business Plan in accordance with the schedule contained therein, and (iii) the Business Plan, the financial data and project cost included therein, the list of necessary approvals and Consents included in Section 5.2 of the Business Plan, the timetable for construction of Fab 2 and the Financial Plan, all as set forth in the Business Plan attached to this Agreement as amended from time to time with the unanimous or majority consent, as the case may be, of the Steering Committee in accordance with Section 5.6.5 hereof, shall continue to be true and correct in all material respects. The condition included in this Section 7.3 shall be deemed to be satisfied only if the Steering Committee shall have unanimously decided, first, that all of the conditions included in clauses (i) - (iii) have been satisfied and second, to the extent that any of (i) - (iii) are not satisfied, that construction of Fab 2 by the Company in accordance with the Business Plan should properly commence. The Steering Committee shall consider, in its decision of whether the conditions set forth in this Section 7.3 have been met, the factors listed in Section 1 hereto under the definition of "Steering Committee."

7.4. Investment Center Approval. The Company shall have obtained a final

Certificate of Approval from the Investment Center which shall be comprised of the following factors (i) granting an "Approved Enterprise" status to Fab 2 within the Grant Course under the Law for the Encouragement of Capital Investments - 1959; (ii) providing for governmental grants of at least \$250,000,000, which shall constitute at least 20% of the entire qualified project cost for the construction, deployment and operation of Fab 2 in accordance with the Business Plan as it exists on the date of this Agreement, provided that in the event that such project cost changes after the date of this Agreement in accordance with Section 5.6.5, the aggregate of such grants provided for in the Certificate of Approval shall equal at least 20% of the changed total project cost; (iii) the maximum required percentage of capital investments in Fab 2 which is required to be financed by equity will be 30%; and (iii) providing that the performance term under the Certificate of Approval shall be at least 5 years from the Closing.

7.5. OCS Approval. The Company has obtained the approval of the OCS with

respect to the consummation of the Contemplated Transactions.

7.6. Additional Financings. The Company shall have (i) entered into

binding definitive agreements in accordance with Section 5.6.4 providing for loans in an aggregate amount of at least \$550,000,000 from reputable financial institutions solely for the purposes of the construction of Fab 2, as described in Section 10.4 of the Financing Plan, (ii) entered into binding definitive agreements providing for at least \$225,000,000 in wafer partner pre-payments or equity financing from Wafer Partners (other than Buyer) obtained in accordance with the terms of Section 5.6.3 and provided to the Company by Wafer Partners pursuant to which all closing conditions have been satisfied and at least 15% of the equity of each equity investor has been transferred to or placed in escrow for the benefit of the Company subject only to the closing of this Agreement and the balance of such financing shall be forwarded automatically upon the occurrence of specified milestones relating to the construction and operation of Fab-2, which milestones are generally similar to the

milestones described in the Additional Purchase Obligation Agreement, (iii) in the event that the Company only satisfies the condition in the preceding clause (ii) in relation to at least \$150,000,000 of the \$225,000,000 referred to above (such difference being the "Wafer Partner Differential"), entered into binding definitive agreements providing for at least the Wafer Partner Differential through non-Wafer Partner equity investors; provided, however, that the Company shall be required no later than October 1, 2001 (the "Additional Wafer Partner Financing Date") to enter into binding definitive agreements with respect to the Wafer Partner Differential from additional Wafer Partners as a condition to the exercise of Additional Purchase Obligations not exercised prior to such time pursuant to the Additional Purchase Obligation Agreement on the Additional Wafer Partner Financing Date, pursuant to which agreement(s) all closing conditions have been satisfied and at least 15% of the equity of each equity investor has been transferred to or placed in escrow for the benefit of the Company and the balance of such financing shall be forwarded automatically upon the occurrence of specified milestones relating to the construction and operation of Fab-2, which milestones are generally similar to the milestones described in the Additional Purchase Obligation Agreement and (iv) provided to Buyer a commitment in writing to provide \$100,000,000 from the Company's own cash resources, including, but not limited to, proceeds from the exercise of employee stock options, existing cash reserves, proceeds from sales of private equity securities, royalties and sales; in the event that the Company shall close on the basis of section (iii) above, at such time as the Wafer Partner Differential shall have been raised by the Additional Wafer Partner Financing Date, the Company's commitment to provide \$100,000,000 under this clause (iv) shall be reduced by the Wafer Partner Differential.

7.7. Wafer Partners. The Company shall have entered into binding

agreements, either on a "take or pay" basis or a "pre-payment" basis or, if the other party to any such agreement is making an equity investment pursuant to Section 7.6(ii), providing a wafer order right, for a term of at least 3 years ("Wafer Commitments") providing for the sale of a minimum capacity in Fab 2 of at least 12,000 wafers per month if the Closing shall occur under Section 7.6 (ii) above or at least 8,000 wafers per month if the Closing shall occur under Section 7.6 (iii) above, in which case the Company shall have entered into Wafer Commitments providing that the aggregate Wafer Commitments shall equal at least 12,000 wafers per month by the Additional Wafer Partner Financing Date and such agreements shall be in full force and effect.

7.8. Toshiba Agreement. The Toshiba Agreement shall be in full force

and effect and shall not have been breached by any party thereto.

7.9. Certificates. In addition to the documents the Company is obligated

to deliver to Buyer under Section 2.5 and this Section 7, the Company shall furnish Buyer with such other documents as Buyer may reasonably request for the purpose of (i) evidencing the accuracy of any of the Company's representations and warranties, (iii) evidencing the performance by the Company of, or the compliance by the Company with, any covenant or obligation required to be performed or complied with by the Company, (iv) evidencing the satisfaction of any condition referred to in this Section 7, or (v) otherwise facilitating the consummation or performance of any of the Contemplated Transactions.

- 7.10. No Proceedings. Since the date of this Agreement, there must not

have been commenced or Threatened by a third party against Buyer or the Company, or against any Person affiliated with Buyer or the Company, any Proceeding (a) involving any challenge to, or seeking material damages or other relief in connection with, any of the Contemplated Transactions, or (b) that may have the effect of making illegal, materially preventing, delaying, or otherwise interfering with any of the Contemplated Transactions.
- 7.11. No Prohibition. Neither the consummation nor the performance of any

of the Contemplated Transactions will, directly or indirectly (with or without notice or lapse of time), materially contravene, or conflict with, or result in a material violation of, or cause the Company, Buyer or any Person affiliated with the Company or Buyer to suffer any material adverse consequence under, (a) any applicable Legal Requirement or Order, or (b) any Legal Requirement or Order that has been published, introduced, or otherwise formally proposed by or before any Governmental Body.
- 7.12. Directors. The Board of Directors of the Company shall have been

reformed in accordance with the provisions of Section 2 of the Shareholders Agreement.
- 7.13. No Material Adverse Change. There shall have been no material

adverse change in the business, financial condition, results of operations, assets, operations or prospects of the Company.
- 7.14. Incentive Plan. The Company shall have adopted stock based incentive

plans (the "Additional Incentive Plans") reserving 1,500,000 Ordinary Shares or such other number as may be approved by the Board for the purpose of the work force and human resources employed in Fab 2, such plans being satisfactory to Buyer, and the Company shall have submitted to Buyer a plan satisfactory to Buyer setting forth the Company's efforts to recruit the required work force and human resources for Fab 2.
- 7.15. Closing Disclosure. There shall be no fact known to the co-Chief

Executive Officer of the Company identified in Schedule 7.15. that has specific application to the Company or any of its Subsidiaries (other than general economic or industry conditions) and that materially adversely affects the assets, business, financial condition, results of operations or prospects of the Company or any of its Subsidiaries that has not been set forth in this Agreement or the Schedules or the Business Plan (without giving effect to any risk factors included therein).
- 7.16. Shareholder Approval. Shareholders of the Company shall have

approved the increase in registered share capital, the issuance of the Shares hereunder, the issuance of the Shares and Additional Purchase Obligations under the Additional Purchase Obligation Agreement and the reconstitution of the Board.
- 7.17. Updated Business Plan. Without derogating from sections 5.6 and

7.3, Buyer and the Company shall have agreed to updates to the Business Plan (which thereafter shall be deemed to be the Business Plan for all purposes of this Agreement) which shall, among other things (a) provide that water rights approvals satisfactory to the Steering Committee in the manner set forth in Section 7.3 shall have been obtained prior to Closing, (b) indicate that Seller provided the relevant Governmental Authority with an environmental study which had been prepared in 1995 and

updated recently to reflect changes from the date of the original survey, which survey shall be acceptable to the relevant Governmental Authority and (c) include wafer costs data as part of the financial plan assumptions as part of the base case.

8. Conditions Precedent to the Company's Obligation at Closing

The Company's obligation to take the actions required to be taken by the Company at the Closing is subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by the Company, in whole or in part, in its sole discretion):

8.1. Accuracy of Representations. All of Buyer's representations and

warranties in this Agreement (considered collectively), and each of these representations and warranties (considered individually), must have been accurate in all material respects as of the date of this Agreement and must be accurate in all material respects as of the Closing Date as if made on the Closing Date.

8.2. Buyer's Performance

8.2.1. All of the covenants and obligations that Buyer is required to perform or to comply with pursuant to this Agreement at or prior to the Closing (considered collectively), and each of these covenants and obligations (considered individually), must have been performed and complied with in all material respects.

8.2.2 Each of the Executed Transaction Documents shall have been duly executed by the Buyer and shall have been in full force and effect and no party to such document (other than the Company) shall be in a breach thereof. Buyer must have executed and delivered the each of the documents required to be delivered by Buyer pursuant to Section 2.5.2.

8.3. Additional Documents

8.3.1. In addition to the documents required to be delivered in accordance with Section 2.5.2 by Buyer, Buyer shall have furnished such other documents as the Company may reasonably request for the purpose of (i) evidencing the accuracy of any representation or warranty of Buyer, (ii) evidencing the performance by Buyer of, or the compliance by Buyer with, any covenant or obligation required to be performed or complied with by Buyer, (iii) evidencing the satisfaction of any condition referred to in this Section 8, or (iv) otherwise facilitating the consummation of any of the Contemplated Transactions.

8.4. No Injunction. There must not be in effect any Legal Requirement or

any injunction or other Order that (i) prohibits the issuance and sale of the Shares the Company to Buyer, and (ii) has been adopted or issued, or has otherwise become effective, since the date of this Agreement.

8.5. Shareholder Approval. Shareholders of the Company shall have approved

the increase in registered share capital, the issuance of the Shares hereunder,

the issuance of the Shares and Additional Purchase Obligations under the Additional Purchase Obligation Agreement and the reconstitution of the Board.

9. Termination

9.1 Termination Events This Agreement may, by written notice given prior

to or at the Closing, be terminated:

- 9.1.1. by either Buyer or the Company if a material breach of any provision of this Agreement has been committed by the other party and such breach has not been waived;
- 9.1.2. (i) by Buyer if any of the conditions in Section 7 has not been satisfied in all material respects by January 31, 2001 (unless extended by Buyer in its discretion), and Buyer has not waived such condition on or before the Closing Date; or (ii) by the Company, if any of the conditions in Section 8 has not been satisfied in all material respects by January 31, 2001; or
- 9.1.3. by mutual consent of Buyer and the Company.

9.2. Effect of Termination. Each party's right of termination under

Section 9.1 is in addition to any other rights it may have under this Agreement or otherwise, and the exercise of a right of termination will not be an election of remedies. If this Agreement is terminated pursuant to Section 9.1, all further obligations of the parties under this Agreement will terminate, except that the obligations in Sections 12.1 and 12.3 will survive; provided, however, that if this Agreement is terminated by a party because of the breach of the Agreement by the other party or because one or more of the conditions to the terminating party's obligations under this Agreement is not satisfied as a result of the other party's failure to comply with its obligations under this Agreement, the terminating party's right to pursue all legal remedies will survive such termination unimpaired.

10. Indemnification; Remedies

10.1. Survival; Right to Indemnification not Affected by Knowledge. All

representations, warranties, covenants, and obligations in this Agreement and the Additional Purchase Obligation Agreement, the schedules, the supplements to the schedules, the certificate delivered pursuant to Section 2.5.1.9, and any other certificate or document delivered pursuant to this Agreement or the Additional Purchase Obligation Agreement will survive the Closing until the expiration of six full months in which Fab 2 is fully operated at a capacity of at least 8,000 wafers per month in compliance with the Foundry Agreement, provided, that in the event that any of the Additional Purchase Obligations is not exercised, such survival shall only be until the date that is nine months from the last date on which Buyer could have been required to mandatorily exercise the Additional Purchase Obligation under the terms and conditions of the Additional Purchase Obligation Agreement (after giving effect to all applicable grace periods and extensions under the Additional Purchase Obligation Agreement). The right to indemnification, payment of Damages or other remedies based on such representations, warranties, covenants, and obligations will not be affected by any investigation conducted with respect to, or any knowledge acquired

(or capable of being acquired) at any time, whether before or after the execution and delivery of this Agreement or the Closing Date, with respect to the accuracy or inaccuracy of or compliance with, any such representation, warranty, covenant, or obligation.

10.2 Indemnification and Payment of Damages by the Company. The Company

will indemnify and hold harmless Buyer and its Representatives, controlling persons, and affiliates (collectively, the "Buyer Indemnified Persons") for, and will pay to the Buyer Indemnified Persons the amount of, any loss, liability, claim, damage, expense (including costs of investigation and defense and reasonable attorneys' fees) or diminution of value, whether or not involving a third- party claim (collectively, "Damages"), arising, directly or indirectly, from or in connection with:

- 10.2.1. any breach of any representation or warranty made by the Company in this Agreement or in any other Transaction Document (without giving effect to any materiality qualification), the Schedules, the supplements to the Schedules, or any other certificate or document delivered by the Company pursuant to this Agreement, provided, however, that the determination of any breach of any representation or warranty made by the Company with respect to information contained in the Business Plan shall only be assessed when considering the Business Plan in its entirety and to any changes or modifications thereto which were made with Buyer's approval, and that the Company shall not be liable under this clause 10.2.1 for an amount of Damages exceeding the aggregate proceeds actually provided by the Buyer to the Company pursuant to this Agreement and the Additional Purchase Obligation Agreement, as the case may be, at the time the Company becomes required to make payment pursuant hereto; or
- 10.2.2. any breach by the Company of any covenant or obligation of the Company in this Agreement; or
- 10.2.3. any claim by any Person for brokerage or finder's fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by any such Person with the Company (or any Person acting on its behalf) in connection with any of the Contemplated Transactions.

10.3. The remedies provided in Section 10.2 will be the exclusive source of remedies that may be available to Buyer or the other Indemnified Persons in relation to any financial or pecuniary damages which may be available, however Buyer shall be free to pursue all other equitable remedies available under applicable law, including without limitation, any injunctive relief.

10.4 Notwithstanding anything to the contrary contained in Section 10.2, the Buyer shall not be entitled to seek indemnification from the Company under this Agreement with respect to any damages arising out of or resulting from Section 10.2, until the aggregate amount of such damages exceeds two hundred and fifty thousand US dollars (\$250,000), and where such damages exceed two hundred and fifty thousand US dollars (\$250,000), the Buyer shall be entitled to indemnification in full

(including the amount of the two hundred and fifty thousand US dollars (\$250,000) referred to above).

10.5. Indemnification and Payment of Damages by Buyer. Buyer will indemnify

and hold harmless the Company, its Representatives, controlling persons and affiliates (the "Company Indemnified Persons") and will pay to the Company Indemnified Persons the amount of any Damages arising, directly or indirectly, from or in connection with (i) any breach of any representation or warranty made by Buyer in this Agreement or in any certificate delivered by Buyer pursuant to this Agreement, (ii) any breach by Buyer of any covenant or obligation of Buyer in this Agreement, or (iii) any claim by any Person for brokerage or finder's fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by such Person with Buyer (or any Person acting on its behalf) in connection with any of the Contemplated Transactions.

10.6. Procedure for Indemnification - Third Party Claims

10.6.1 Promptly after receipt by an indemnified party under Section 10.2 or 10.3 of notice of the commencement of any Proceeding against it, such indemnified party will, if a claim is to be made against an indemnifying party under such Section, give notice to the indemnifying party of the commencement of such claim, but the failure to notify the indemnifying party will not relieve the indemnifying party of any liability that it may have to any indemnified party, except to the extent that the indemnifying party demonstrates that the defense of such action is prejudiced by the indemnifying party's failure to give such notice.

10.6.2. If any Proceeding referred to in Section 10.6.1 is brought against an indemnified party and it gives notice to the indemnifying party of the commencement of such Proceeding, the indemnifying party will, unless the claim involves Taxes, be entitled to participate in such Proceeding and, to the extent that it wishes (unless (i) the indemnifying party is also a party to such Proceeding and the indemnified party determines in good faith that joint representation would be inappropriate, or (ii) the indemnifying party fails to provide reasonable assurance to the indemnified party of its financial capacity to defend such Proceeding and provide indemnification with respect to such Proceeding), to assume the defense of such Proceeding with counsel reasonably satisfactory to the indemnified party and, after notice from the indemnifying party to the indemnified party of its election to assume the defense of such Proceeding, the indemnifying party will not, as long as it diligently conducts such defense, be liable to the indemnified party under this Section 10 for any fees of other counsel or any other expenses with respect to the defense of such Proceeding, in each case subsequently incurred by the indemnified party in connection with the defense of such Proceeding, other than reasonable costs of investigation. If the indemnifying party assumes the defense of a Proceeding, (i) it will be conclusively established for purposes of this Agreement that the claims made in that Proceeding are within the scope of and subject to indemnification; (ii) no compromise or settlement of such claims may be effected by the indemnifying party without the indemnified party's

consent unless (A) there is no finding or admission of any violation of Legal Requirements or any violation of the rights of any Person and no effect on any other claims that may be made against the indemnified party, and (B) the sole relief provided is monetary damages that are paid in full by the indemnifying party; and (iii) the indemnified party will have no liability with respect to any compromise or settlement of such claims effected without its consent. If notice is given to an indemnifying party of the commencement of any Proceeding and the indemnifying party does not, within ten days after the indemnified party's notice is given, give notice to the indemnified party of its election to assume the defense of such Proceeding, the indemnifying party will be bound by any determination made in such Proceeding or any compromise or settlement effected by the indemnified party.

10.6.3. Notwithstanding the foregoing, if an indemnified party determines in good faith that there is a reasonable probability that a Proceeding may adversely affect it or its affiliates other than as a result of monetary damages for which it would be entitled to indemnification under this Agreement, the indemnified party may, by notice to the indemnifying party, assume the exclusive right to defend, compromise, or settle such Proceeding, but the indemnifying party will not be bound by any determination of a Proceeding so defended or any compromise or settlement effected without its consent.

10.6.4. The Company hereby consents to the non-exclusive jurisdiction of any court in which a Proceeding is brought against any Buyer Indemnified Person for purposes of any claim that a Buyer Indemnified Person may have under this Agreement with respect to such Proceeding or the matters alleged therein, and agree that process may be served on the Company with respect to such a claim anywhere in the world.

10.7. Procedure for Indemnification - Other Claims. A claim for -----
indemnification for any matter not involving a third-party claim may be asserted by notice to the party from whom indemnification is sought. Any claim for indemnification which may be brought under this Section 10 may be brought until 30 days after expiration of the relevant survival period.

11. Covenants of the Company Subsequent to the Closing Date

11.1. Additional Financing. The Company shall comply with all terms, -----
conditions, covenants and obligations of the Company under the agreements entered into in connection with the Additional Financings.

11.2. Ancillary Agreements. The Company shall comply with all terms, -----
conditions, covenants and obligation of the Company under the Ancillary Agreements. The Company shall not change or modify or agree to change or modify any of the terms and conditions of this Agreement, the Transaction Documents and the Toshiba Agreement without the prior written approval of Buyer (other than the Business Plan pursuant to Section 11.3).

- 11.3. Business Plan. The Company shall use the proceeds of this Agreement,

the Additional Purchase Obligations and the Additional Financings solely in order to finance the construction, deployment and operation of Fab 2 in accordance with the Business Plan and the timetable included therein. The Company shall not change or modify or agree to change or modify the Business Plan and shall not deviate materially from the Business Plan (whether or not it is changed) without the prior written approval of Buyer (which shall not be unreasonably withheld) if any such change, modification or agreement would or reasonably be expected to (a) materially change the construction schedule of Fab 2 as set forth in the Business Plan, (b) significantly increase the cost of Fab 2 beyond that set forth in the Business Plan or (c) materially change the production capacity schedule of Fab 2 as set forth in the Business Plan. In addition, the Company shall not change or modify or agree to change or modify the Business Plan and shall not deviate materially from the Business Plan (whether or not it is changed) if any such change, modification or agreement would or reasonably be expected to materially change the Additional Financing Plan as set forth in the Business Plan or result in a material failure to comply with the schedule for the financings described therein unless such change, modification or agreement has been approved by the Company's Board, provided, however that such approval shall not be deemed granted if two or more members of the Board shall have voted against such change, modification or agreement.
- 11.4. Project Committee. As of the Closing and thereafter the Company

shall create a committee of its Board (the "Project Committee") to oversee and bear managerial responsibility for the Fab 2 Project. The Project Committee shall consist of four directors, including the Chief Executive Officer of the Company then serving on the Board, a representative of Buyer on the Board, so long as the Buyer is entitled to appoint a member of the Board, a representative of TIC, so long as TIC is entitled to appoint a member to the Board, and one statutory external director, so long as the Company is required to appoint such an external director either to such committee or to the Board pursuant to Applicable Law.
- 11.5. Project Progress Reports; Liaison Officer. The Company shall, on a

monthly basis starting immediately subsequent to the date hereof, and in any other date requested by Buyer, provide to Buyer with a written report describing, in reasonable detail, the progress and status of the Fab 2 and the Additional Financings. The Buyer may appoint a liaison officer with respect to the Fab 2 project that will be an employee or consultant of the Buyer and will be permitted to obtain from the Company and its officers, directors consultants and contractors, ongoing information with respect to the progress of the project, will have free access to all relevant information and documents and will be permitted to participate in internal meetings and discussions of the Company with respect to the progress of the project. The Company will coordinate with the liaison officer any requests in accordance with the foregoing and shall fully cooperate with such officer.
- 11.6. Information Rights. As long as Buyer, together with its Affiliates,

holds at least 3% of the outstanding share capital of the Company, the Company shall deliver to Buyer copies of each report filed or furnished by the Company to the SEC, within no later than five days after such report is filed or furnished to the SEC.
- 11.7. Pre-emptive Rights.

11.7.1. Until the later of such time as (a) the Series B-1 Additional Purchase Obligation shall have expired in accordance with its terms and (b) Buyer shall have exercised the Series B-1 Additional Purchase Obligation and thereafter shall no longer own ten percent of the issued and outstanding share capital of the Company, if the Company proposes to issue any of its equity securities or securities convertible into such equity securities (the "Offered Securities"), other than Excluded Securities, then the Buyer shall have the right, but not the obligation, to purchase a portion of such Offered Securities, on the same terms and conditions and for the same consideration as the Offered Securities which are sold, equal to the percentage of the Company's issued and outstanding share capital as is owned by the Buyer on the date on which Buyer responds to the notice to be provided under Section 11.7.2 (the "Pro Rata Share").

11.7.2. If the Company proposed to issue Offered Securities, it shall give the Buyer written notice of its intention (the "Pre-emptive Notice") and shall, in such notice, fully describe the Offered Securities and any other relevant securities and the terms and conditions and total consideration upon and for which the Company proposes to issue them. Upon receipt of such notice, the Buyer shall have 15 business days to decide and notify the Company of its decision to purchase Offered Securities in an amount not exceeding Buyer's then current Pro Rata Share. If the Company fails to issue and sell the Offered Securities or any portion of them within 90 days from the date of the Pre-emptive Notice upon terms and conditions and for consideration that are no more favorable to the purchasers of the Offered Securities than specified in the Pre-emptive Notice, the Company shall not thereafter issue or sell such Offered Securities without again complying with the provisions of this Section 11.7.2.

12. General Provisions

12.1. Expenses. Except as otherwise expressly provided in this Agreement,

each party to this Agreement will bear its respective expenses incurred in connection with the preparation, execution, and performance of this Agreement and the Contemplated Transactions, including all fees and expenses of agents, representatives, counsel, and accountants, provided that upon the Closing the Company shall reimburse Buyer for its reasonable legal expenses in connection with the negotiation and execution of this Agreement in an amount of up to \$30,000 plus VAT. The Company shall pay all stamp tax duties in connection with the issuance of the Shares and any shares upon exercise of the Additional Purchase Obligations and otherwise in connection with this Agreement.

12.2. Public Announcements. Any public announcement or similar publicity

with respect to this Agreement or the Contemplated Transactions will be issued, if at all, by mutual agreement by the parties, except as required by applicable law or the regulations of the securities exchange upon which the securities of either party are traded or quoted. The Company and Buyer will consult with each other concerning the means by which the Company's employees, customers, and suppliers and others having dealings with the Company will be informed of the Contemplated

Transactions, and Buyer will have the right to be present for any such communication.

12.3. Confidentiality. From the date hereof, Buyer and the Company will

maintain in confidence, and will cause the directors, officers, employees, agents, and advisors of Buyer and the Company to maintain in confidence, any written information stamped "confidential" when originally furnished by another party in connection with this Agreement or the Contemplated Transactions (including information furnished prior to the date hereof), unless (a) such information is already known to such party or to others not bound by a duty of confidentiality or such information becomes publicly available through no fault of such party, (b) the use of such information is necessary or appropriate in making any filing or obtaining any consent or approval required for the consummation of the Contemplated Transactions, or (c) the furnishing or use of such information is required by Legal Requirements.

If the Contemplated Transactions are not consummated, each party will return or destroy as much of such written information as the other party may reasonably request.

12.4. Notices. All notices, consents, waivers, and other communications

under this Agreement must be in writing and will be deemed to have been duly given when (a) delivered by hand (with written confirmation of receipt), (b) sent by telecopier (with written confirmation of receipt), provided that a copy is mailed by registered mail, return receipt requested, or (c) when received by the addressee, if sent by a recognized overnight delivery service (receipt requested), in each case to the appropriate addresses and telecopier numbers set forth below (or to such other addresses and telecopier numbers as a party may designate by notice to the other parties):

Company:
Attention: Co-Chief Executive Officer
P.O. Box 619
Migdal Haemek 23105 Israel
Facsimile No.: 972-6-654-7788

with a copy to: Yigal Arnon & Co.
3 Daniel Frisch Street
Tel Aviv, Israel
Attention: David H. Schapiro, Adv.
Facsimile No.: 972-3-608-7714

Buyer:
Attention: President and CEO
SanDisk Corporation
140 Caspian Court
Sunnyvale, California 94089
Facsimile No.: (408) 542-0600

with a copy to: SanDisk Corporation
140 Caspian Court
Sunnyvale, California 94089
Attention: Vice President and General Counsel
Facsimile No.: (408) 548-0385

- 12.5. Jurisdiction; Service of Process. Any action or proceeding seeking

to enforce any provision of, or based on any right arising out of, this Agreement may be brought against any of the parties solely in the courts of the State of California, and each of the parties consents to the jurisdiction of such courts (and of the appropriate appellate courts) in any such action or proceeding and waives any objection to venue laid therein. Process in any action or proceeding referred to in the preceding sentence may be served on any party anywhere in the world.
- 12.6. Further Assurances. The parties agree (a) to furnish upon request

to each other such further information, (b) to execute and deliver to each other such other documents, and (c) to do such other acts and things, all as the other party may reasonably request for the purpose of carrying out the intent of this Agreement and the documents referred to in this Agreement.
- 12.7. Waiver. The rights and remedies of the parties to this Agreement

are cumulative and not alternative. Neither the failure nor any delay by any party in exercising any right, power, or privilege under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. To the maximum extent permitted by applicable law, (a) no claim or right arising out of this Agreement or the documents referred to in this Agreement can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party; (b) no waiver that may be given by a party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one party will be deemed to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Agreement or the documents referred to in this Agreement.
- 12.8. Entire Agreement and Modification. This Agreement supersedes all

prior agreements between the parties with respect to its subject matter (including the term sheet between Buyer and the Company dated March 15, 2000 and all drafts hereof and thereof) and constitutes (along with the documents referred to in this Agreement) a complete and exclusive statement of the terms of the agreement between the parties with respect to its subject matter. This Agreement may not be amended except by a written agreement executed by the party to be charged with the amendment.
- 12.9. Disclosure Schedules

- 12.9.1. The disclosures in the Schedules, and those in any supplement thereto, must relate only to the representations and warranties in the Section of the Agreement to which they expressly relate and not to any other representation or warranty in this Agreement.
- 12.9.2. In the event of any inconsistency between the statements in the body of this Agreement and those in the Schedules (other than an exception expressly set forth as such in the Schedules with respect to a specifically identified representation or warranty), the statements in the body of this Agreement will control.

- 12.10. Assignments, Successors, and no Third-Party Rights. Neither party

may assign any of its rights under this Agreement without the prior consent of the other parties, except that Buyer may assign any of its rights under this Agreement to any wholly owned Subsidiary of Buyer or to any Subsidiary which is wholly owned other than a nominal interest, so long as such ownership shall be maintained. Subject to the preceding sentence, this Agreement will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the parties. Nothing expressed or referred to in this Agreement will be construed to give any Person other than the parties to this Agreement any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement. This Agreement and all of its provisions and conditions are for the sole and exclusive benefit of the parties to this Agreement and their successors and assigns.
- 12.11. Severability. If any provision of this Agreement is held invalid or

unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.
- 12.12. Section Headings, Construction. The headings of Sections in this

Agreement are provided for convenience only and will not affect its construction or interpretation. All references to "Section" or "Sections" refer to the corresponding Section or Sections of this Agreement. All words used in this Agreement will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the word "including" does not limit the preceding words or terms.
- 12.13. Time of Essence. With regard to all dates and time periods set

forth or referred to in this Agreement, time is of the essence.
- 12.14. Governing Law. This Agreement will be governed by the laws of the

State of California without regard to conflicts of law principles.
- 12.15. Counterparts. This Agreement may be executed in one or more

counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first written above.

SanDisk Corporation:

By: /s/ Eli Harari

Chief Executive Officer

Tower Semiconductor Ltd.:

By: /s/ Yoav Nissan Cohen

Co-Chief Executive Officer

ADDITIONAL PURCHASE OBLIGATION AGREEMENT, dated as of July 4, 2000, between Tower Semiconductor Ltd., an Israeli corporation ("T"), and SanDisk Corporation, a Delaware corporation ("S").

WHEREAS, T and S are parties to that certain Share Purchase Agreement dated July 4, 2000, relating to the sale by T to S of 866,551 of T's Ordinary Shares (the "Share Purchase Agreement") and parties to that certain Foundry Agreement dated July 4, 2000, relating to the production of certain silicon wafers by T for delivery to S; and

WHEREAS, as a condition to the closing of the sale of certain of T's shares under the Share Purchase Agreement and the effectiveness of the Foundry Agreement, T and S have each agreed to enter into this Agreement providing for the issuance and delivery of conditional additional purchase obligations for the purchase by S of Ordinary Shares of T, subject to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and for the purpose of defining the terms and provisions of the Additional Purchase Obligations and the respective rights and obligations thereunder of T and S, T and S hereby agree as follows:

1. Definitions

1.1. Certain Definitions. As used in this Agreement, terms not defined

herein shall have the meaning ascribed to them in the Share Purchase Agreement and the following terms shall have the following respective meanings:

"A Additional Purchase Obligation Certificates" shall have the meaning ascribed to it in Section 2.2.

"A Additional Purchase Obligations" shall have the meaning ascribed to it in Section 2.1.

"Additional Purchase Obligation Certificates" shall have the meaning ascribed to it in Section 2.2.

"Additional Purchase Obligations" shall have the meaning ascribed to it in Section 2.1.

"B Additional Purchase Obligation Certificates" shall have the meaning ascribed to it in Section 2.2.

"B Additional Purchase Obligations" - shall have the meaning ascribed to it in Section 2.1.

"Equity Securities" means (a) Ordinary Shares and securities convertible into, or exercisable or exchangeable for, Ordinary Shares or rights or options to acquire Ordinary Shares or such other securities, and (b) shares of any other class or series of capital shares and securities convertible into, or exercisable or exchangeable for,

shares of such other class or series and rights or options to acquire shares of such other class or series or such other securities, in each case, excluding the Additional Purchase Obligations.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exercise Price" means the purchase price per Ordinary Share to be paid upon the exercise of each Additional Purchase Obligation in accordance with the terms hereof, which price shall initially be \$30 per share, as each may be adjusted from time to time pursuant to Section 4 hereof.

"Expiration Date" means the fifth anniversary of the date of this Agreement subject to earlier termination of one or more of the Additional Purchase Obligations pursuant to Section 5.1.

"Exercise Notice" - shall have the meaning ascribed to in Section 2.1.3.

"Grace Period" - shall have the meaning ascribed to it in Section 5.1.

"Mandatory Exercise Event" shall have the meaning ascribed to it in Section 5.1.

"Missed Exercise" - shall have the meaning ascribed to it in Section 5.1.

"Nasdaq" means the Nasdaq National Market.

"B Additional Purchase Obligation Certificates" shall have the meaning ascribed to it in Section 2.2.

"B Additional Purchase Obligations" - shall have the meaning ascribed to it in Section 2.1.

"Ordinary Shares" means the ordinary shares, par value NIS1.00 per share of T and any other capital shares of T into which such ordinary shares may be converted or reclassified or that may be issued in respect of, in exchange for, or in substitution of, such ordinary shares by reason of any share splits, shares dividends, distributions, mergers, consolidations or other like events.

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended.

"Share Purchase Agreement" - as defined in the recitals to this Agreement.

"T" means T, an Israeli corporation, and its successors and assigns.

"Underlying Ordinary Shares" means the Ordinary Shares issuable or issued upon the exercise of the Additional Purchase Obligations.

2. Original Issue of Additional Purchase Obligations

2.1. The Additional Purchase Obligations.

2.1.1. A Additional Purchase Obligations. On the basis of the

representations, warranties and agreements contained in this Agreement, but subject to the terms and conditions hereof, concurrently with the execution of this Agreement, T shall issue and deliver to S warrants mandatorily exercisable under Section 5.1 hereof for the purchase of up to an aggregate of 1,833,450 Ordinary Shares of T by S subject to adjustment as set forth herein (the "A Additional Purchase Obligations").

2.1.2. B Additional Purchase Obligations. On the basis of the

representations, warranties and agreements contained in this Agreement, but subject to the terms and conditions hereof, concurrently with the execution of this Agreement, T shall issue and deliver to S Additional Purchase Obligations for the purchase of up to an aggregate of 2,700,000 Ordinary Shares of T by S subject to adjustment as set forth herein. Pursuant to the election of S to exercise the B Additional Purchase Obligations as provided in Section 2.1.3 below, the B Additional Purchase Obligations shall become mandatorily exercisable under Section 5.1 hereof (the "B Additional Purchase Obligations" and together with the A Additional Purchase Obligations, the "Additional Purchase Obligations").

2.1.3. B Additional Purchase Obligations Exercise Notice. In the event

that S elects to exercise the B Additional Purchase Obligations, S is required to deliver to T, no later than October 1, 2001 (the "Exercise Date"), a written notice (the "Exercise Notice") of its election to exercise the B Additional Purchase Obligations under Section 5.1 hereof. The Exercise Notice shall be accompanied by a payment for such number of B Additional Purchase Obligations as shall have been exercised in the A Additional Purchase Obligation series through the Exercise Date. For instance, if by the Exercise Date the A-1, A-2 and A-3 Additional Purchase Obligations shall have been exercised, on the Exercise Date S shall make a payment for the B-1, B-2 and B-3 Additional Purchase Obligations. For the avoidance of all doubt, the B Additional Purchase Obligations shall not become exercisable until the delivery of the Election Notice

and failure to deliver the Election Notice to T within the above date shall cause the B Additional Purchase Obligations to terminate and become void.

2.2. Form of Additional Purchase Obligation Certificates. The A Additional

Purchase Obligations shall be designated in five series (Series A1 - A5), each evidenced by an Additional Purchase Obligation certificate in the form of Exhibits A1 - A5 attached hereto (the "A Additional

Purchase Obligation Certificates"). The B Additional Purchase Obligations shall be designated in five series (Series B1 - B5), each evidenced by an Additional Purchase Obligation certificate in the form of Exhibits B1 - B5 attached hereto (the "B Additional Purchase

Obligation Certificates" and together with the A Additional Purchase Obligation Certificates, the "Additional Purchase Obligation Certificates"). Each A Additional Purchase Obligation series shall contain Additional Purchase Obligations to purchase up to an aggregate of 366,690 Ordinary Shares of T. Each B1- to B-5 Additional Purchase Obligation series shall contain Additional Purchase Obligations to purchase 540,000 Ordinary Shares of T. Each Additional Purchase Obligation Certificate shall be dated the date hereof and shall bear the legend set forth in Exhibit C, together with such other legends and endorsements thereon as may be required to comply with any law or with any rule or regulation pursuant thereto or with any rule or regulation of any securities exchange on which the Ordinary Shares may be listed, or to conform to customary usage.

3. Exercise Price; Exercise of Additional Purchase Obligations Generally

3.1. Payment of Exercise Price. Each Additional Purchase Obligation

Certificate shall entitle the holder thereof, subject to the provisions thereof and of this Agreement, to receive up to the number of Ordinary Shares stated therein, subject to adjustment as herein provided, upon payment of the Exercise Price for each of such shares. The Exercise Price shall be payable by wire transfer of immediately available funds to T in accordance with written wiring instructions provided by T, or by such other means as may be mutually agreed by the parties.

3.2. Exercise Periods of A and B Additional Purchase Obligations

3.2.1. Exercise Period of A Additional Purchase Obligations.

Subject to the terms and conditions set forth herein, the A Additional Purchase Obligations shall be exercisable at any time on or after the Closing Date under the Share Purchase Agreement and on or prior to the Expiration Date.

3.2.2. Exercise Period of B Additional Purchase Obligations.

Subject to the terms and conditions set forth herein, the B Additional Purchase Obligations shall be exercisable at any

time after the delivery of the Exercise Notice, pursuant to Section 2.1.3, and on or prior to the Expiration Date.

3.3. Expiration of Additional Purchase Obligations. The Additional

Purchase Obligations shall terminate and become void as of the close of business on the Expiration Date.

3.4. Exercise Generally. Subject to Section 5, in order to exercise an

Additional Purchase Obligation, S must surrender the Additional Purchase Obligation Certificate evidencing such Additional Purchase Obligation to T, with one of the forms on the reverse of or attached to the Additional Purchase Obligation Certificate duly executed. Subject to the terms of Section 5, each Additional Purchase Obligation may be exercised in whole or in part, provided that no Additional Purchase Obligation may be exercised for the purchase of less than an aggregate of 100,000 Ordinary Shares. If fewer than all of the Additional Purchase Obligations represented by an Additional Purchase Obligation Certificate are surrendered, such Additional Purchase Obligation Certificate shall be surrendered and a new Additional Purchase Obligation Certificate substantially in the form of the Additional Purchase Obligation Certificate surrendered for partial exercise thereof providing for purchase by S of the number of Ordinary Shares that were not exercised shall be executed by T and issued to S.

Upon surrender of an Additional Purchase Obligation Certificate and payment of the Exercise Price in conformity with the foregoing provisions, T shall promptly issue to S appropriate evidence of ownership of the Ordinary Shares or other securities or property to which S is entitled, including share certificates in the name of S and evidence of such Ordinary Shares having been registered in the share register of T in the name of S. Such Shares shall bear the same legend as set forth in Section 4.3.2 of the Share Purchase Agreement.

4. Adjustments

4.1. Adjustment of Exercise Price and Number of Shares of Ordinary Shares

The (a) number and kind of shares purchasable upon the exercise of Additional Purchase Obligations and (b) Exercise Price shall both be subject to adjustment from time to time as follows:

4.1.1. Stock Dividends, Share-Splits, Combinations, etc. In case T

shall hereafter (a) pay a stock dividend or make a distribution (whether in Ordinary Shares or capital shares of any other class on its Ordinary Shares), (b) subdivide its outstanding Ordinary Shares, (c) combine its outstanding Ordinary Shares into a smaller number of shares, or (d) issue by reclassification of its Ordinary Shares any capital shares of T, the Exercise Price in effect immediately prior

to such action (after giving effect to all other adjustments under this Section 4) shall be adjusted so that, in relation to any Additional Purchase Obligation thereafter exercised, S shall be entitled to receive the number of Ordinary Shares or of other capital shares which S would have owned immediately following such action had such Additional Purchase Obligation been exercised immediately prior thereto. An adjustment made pursuant to this paragraph shall become effective immediately after the record date in the case of a dividend and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification.

- 4.1.2. Reclassification, Combination, Mergers, etc. In case of any -----
reclassification or change of outstanding Ordinary Shares issuable upon exercise of the Additional Purchase Obligations (other than (i) as set forth in paragraph 4.1.1 above, and (ii) a change in par value, or from par value to no par value, or from no par value to par value or (iii) as a result of a subdivision or combination), or in case of any consolidation or merger of T with or into another corporation (other than a merger in which T is the continuing corporation and which does not result in any reclassification or change of the then outstanding Ordinary Shares or other capital shares issuable upon exercise of the Additional Purchase Obligations (other than a change in par value, or from par value to no par value, or from no par value to par value or as a result of a subdivision or combination), or in case of any sale or conveyance to another corporation of the property of T as an entirety or substantially as an entirety, then, as a condition of such reclassification, change, consolidation, merger, sale or conveyance, T or such a successor or purchasing corporation, as the case may be, shall forthwith make lawful and adequate provision whereby S shall have the right thereafter to receive on exercise of such Additional Purchase Obligation the kind and amount of shares and other securities and property receivable upon such reclassification, change, consolidation, merger, sale or conveyance by a holder of the number of Ordinary Shares issuable upon exercise of such Additional Purchase Obligation immediately prior to such reclassification, change, consolidation, merger, sale or conveyance. Such provisions shall include provision for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 4. The above provisions of this paragraph 4.1.2 shall similarly apply to successive reclassification and changes of Ordinary Shares and to successive consolidations, mergers, sales or conveyances.

4.1.3. Deferral of Certain Adjustments. No adjustment to the Exercise

Price (including the related adjustment to the number of Ordinary Shares purchasable upon the exercise of each Additional Purchase Obligation) shall be required hereunder unless such adjustment, together with other adjustments carried forward as provided below, would result in an increase or decrease of at least one percent of the Exercise Price, provided, however, that any adjustments which by reason of this

paragraph 4.1.3 are not required to be made shall be carried forward and taken into account in any subsequent adjustment. No adjustment need be made for a change in the par value of the Ordinary Shares.

4.1.4. Other Adjustments. In the event that at any time, as a result

of an adjustment made pursuant to this Section 4, S shall become entitled to receive any securities of T other than Ordinary Shares thereafter the number of such other securities so receivable upon exercise of the Additional Purchase Obligations and the Exercise Price applicable to such exercise shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Ordinary Shares contained in this Section 4.

4.2. Notice of Adjustment. Whenever the number of Ordinary Shares or

other Equity Securities or property issuable upon the exercise of each Additional Purchase Obligation or the Exercise Price is adjusted, as herein provided, T shall promptly mail by first class mail, postage prepaid, to S notice of such adjustment or adjustments and shall deliver to S a certificate of T's chief financial officer setting forth the number of Ordinary Shares or other Equity Securities or property issuable upon the exercise of each Additional Purchase Obligation or the Exercise Price after such adjustment, setting forth a brief statement of the facts requiring such adjustment and setting forth the computation by which such adjustment was made.

4.3. Statement on Additional Purchase Obligations. Irrespective of any

adjustment in the number or kind of shares issuable upon the exercise of the Additional Purchase Obligations or the Exercise Price, Additional Purchase Obligations theretofore or thereafter issued may continue to express the same number and kind of shares as are stated in the Additional Purchase Obligations initially issuable pursuant to this Agreement.

4.4. Fractional Interest. T shall not be required to issue fractional

Ordinary Shares upon the exercise of Additional Purchase Obligations. If more than one Additional Purchase Obligation shall be presented for exercise in full at the same time, the number of full Ordinary Shares which shall be issuable upon such exercise shall be computed on the basis of the aggregate number of Ordinary Shares acquirable on exercise of the Additional Purchase Obligations so

presented. If any fraction of an Ordinary Share would, except for the provisions of this section, be issuable on the exercise of any Additional Purchase Obligation (or specified portion thereof), T shall pay an amount in cash calculated by it to equal to the then current market value per share multiplied by such fraction computed to nearest whole cent. S, by its acceptance of the Additional Purchase Obligation Certificates, expressly waive any and all rights to receive any fraction of an Ordinary Share or a share certificate representing a fraction of an Ordinary Share.

5. Mandatory Exercise

5.1. Mandatory Exercise Events; Termination of Obligation. Subject to the

terms and conditions contained herein, S shall be obligated to exercise each Additional Purchase Obligation within thirty days of the following events (each a "Mandatory Exercise Event"):

- 5.1.1. In respect of the Series A-1 Additional Purchase Obligation (and the B-1 Additional Purchase Obligation if an Exercise Notice was delivered prior to the date the Series A-1 Additional Purchase Obligation is mandatorily exercisable), upon receipt of written notice from T signed by the two Co-CEOs (or by the CEO, in the event that at the relevant time the Company shall employ only one CEO) and the Chairman of the Board of T certifying that the Board of Directors of T has authorized commencement of construction of Fab 2 at the site set forth in the Business Plan, which approval shall not occur prior to obtaining all regulatory approvals necessary for the construction start as described in the Business Plan, provided that such event must occur no later than one month after the Closing under the Share Purchase Agreement;
- 5.1.2. In respect of the Series A-2 Additional Purchase Obligation and the Series B-2 Additional Purchase Obligation (if an Exercise Notice was delivered prior to the date the Series A-2 Additional Purchase Obligation is mandatorily exercisable), upon receipt of written notice from T signed by the two Co-CEOs or the CEO, as the case may be, and the Chairman of the Board of T certifying the commencement of construction of the shell of the Fab 2 building in accordance with the Business Plan provided that such event must occur no later than three months after the Closing under the Share Purchase Agreement;
- 5.1.3. In respect of the Series A-3 Additional Purchase Obligation and the Series B-3 Additional Purchase Obligation (if an Exercise Notice was delivered prior to the date the Series A-3 Additional Purchase Obligation is mandatorily exercisable), upon receipt of written notice from T signed by the two Co-CEOs or the CEO, as the case

may be, and the Chairman of the Board of T certifying the completion of the construction of the first phase of the cleanroom of Fab 2 in accordance with the Business Plan provided that such event must occur no later than 12 months after the Closing under the Share Purchase Agreement;

- 5.1.4. In respect of the Series A-4 Additional Purchase Obligation and the Series B-4 Additional Purchase Obligation (if an Exercise Notice was delivered prior to the date the Series A-4 Additional Purchase Obligation is mandatorily exercisable), upon receipt of written notice from T signed by the two Co-CEOs or the CEO, as the case may be, and the Chairman of the Board of T certifying the completion of successful pilot production in Fab 2 in accordance with the Business Plan provided that such event must occur no later than 18 months after the Closing under the Share Purchase Agreement; and
- 5.1.5. In respect of the Series A-5 Additional Purchase Obligation and the Series B-5 Additional Purchase Obligation (if an Exercise Notice was delivered prior to the date the Series A-5 Additional Purchase Obligation is mandatorily exercisable), upon receipt of written notice from T signed by the two Co-CEOs or the CEO, as the case may be, and the Chairman of the Board of T certifying that Fab 2 has successfully produced wafers at the rate of 5,000 per month for two full consecutive months in accordance with the Business Plan provided that such event must occur no later than 22 months after the Closing under the Share Purchase Agreement.

Each of the Mandatory Exercise Events shall be deemed to have occurred if the Mandatory Exercise Event occurs within seven and one-half months from its original exercise date set forth above (such seven and one-half month period, a "Grace Period"). In the event that one of the Mandatory Exercise Events does not occur by the last date set forth in the relevant clause of clauses 5.1.1 - 5.1.5, including during the corresponding Grace Period (a "Missed Exercise"), then, if the subsequent Mandatory Exercise Event does not occur by no later than the end of its corresponding Grace Period, S shall not be obligated to effect the Missed Exercise and any subsequent series of Additional Purchase Obligations and the Additional Purchase Obligation relating to the Missed Exercise, to the extent such Additional Purchase Obligations are unexercised, shall automatically expire. However, if such subsequent Mandatory Exercise Event does occur within the applicable Grace Period, then S shall be obligated to exercise the Additional Purchase Obligation related to that subsequent Mandatory Exercise Event and shall be required to either effect the Missed Exercise within thirty days of the occurrence of the relevant

subsequent Mandatory Exercise Event or the Additional Purchase Obligation relating to the Missed Exercise shall expire.

In addition, and without limiting any other remedies available to T, in the event that S fails to exercise an Additional Purchase Obligation in connection with a Mandatory Exercise Event which it is obligated to effect pursuant to this Section 5, any Additional Purchase Obligations unexercised at such time shall automatically expire

5.2. Percentage Ownership Delay. Notwithstanding the provisions -----
of Section 5.1, S may delay the exercise of any Additional Purchase Obligation if any such exercise would result in S owning more than 19.9% of the outstanding share capital of T.

5.3. Other Conditions to Mandatory Exercise. In addition to the -----
conditions to Mandatory Exercise contained in Section 5.1, S's obligation to effect a Mandatory Exercise shall be subject to satisfaction of the following conditions (any of which may be waived by S, in whole or in part, in S's discretion) in relation to each Mandatory Exercise:

5.3.1. Accuracy of Representations. All of T's -----
representations and warranties in Section 6.1(i) of this Agreement must have been accurate in all material respects (except that such representations and warranties specifically qualified by materiality shall be read for purposes of this Section so as not to require an additional degree of materiality) as of the date of this Agreement, and must be accurate in all material respects as of the date of the relevant Mandatory Exercise, after giving effect, with respect to the representations made in Section 3.1 and 3.3 of the Share Purchase Agreement, to the issuance of Ordinary Shares contemplated by the Business Plan and Additional Financing Plan and without giving effect to any supplement to the Schedules other than supplements disclosing events and facts not existing at the time of the Closing and arising in the Ordinary Course of Business.

5.3.2. Additional Financings. T shall have raised all the -----
funds under the Additional Financings required thereunder to have been raised or obtained either prior to or simultaneously with the date of the relevant Mandatory Exercise as described in the Additional Financing Plan (each, a "Target Date"), including those funds required to have been raised by the relevant Target Date under (i) the debt or equity financing described in Section 10 of the Business Plan and (ii) under the grant from the Investment Center, in each case on terms and conditions which do not significantly deviate from the terms and conditions agreed upon in accordance with Section 5.6 of the Share Purchase Agreement, provided, however, that this condition shall be

deemed to have been not satisfied only if the failure to raise such funds causes a material change in the timetable or cost of the Fab 2 project in relation to the Business Plan as determined by S. Notwithstanding the foregoing, the conditions set forth in this Section 5.2.2 shall be deemed to have been met if the funds which were not raised as of the relevant Target Date are raised within 90 days of such Target Date on terms and conditions substantially similar to the terms and conditions upon which such funds were supposed to have been raised in accordance with Section 5.6 of the of the Share Purchase Agreement.

- 5.3.3. Transaction Documents; Ancillary Agreements. Each of -----
the Transaction Documents and the Toshiba Agreement shall be in full force and effect and shall not have been materially breached by any party thereto.
- 5.3.4. Certificates. In addition to the documents T is -----
obligated to deliver to S under this Section 5, T shall furnish S with such other documents as T may reasonably request for the purpose of (i) evidencing the performance by T of, or the compliance by T with, any covenant or obligation required to be performed or complied with by T in relation to the relevant Mandatory Exercise and (ii) evidencing the satisfaction of any condition referred to in this Section 5.
- 5.3.5. No Proceedings. Since the date of this Agreement, -----
there must not have been commenced by a third party against S or T, or against any Person affiliated with S or T, any Proceeding (a) involving any challenge to, or seeking damages or other relief in connection with, any of the Contemplated Transactions, or (b) that may have the effect of preventing, delaying, making illegal, or otherwise interfering with any of the Contemplated Transactions.
- 5.3.6. Bankruptcy-Related Events. None of the following -----
events shall have occurred for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary, or come about or be effected by operation of law, or pursuant to or in compliance with any judgement, decree or order of any court or any order, rule or regulation of any administrative or governmental body):
 - 5.3.6.1. T shall be unable to pay its debts generally as they become due; file a petition to take advantage of any insolvency statute; make an assignment for the benefit of its creditors; commence a proceeding for the appointment of a receiver, trustee, liquidator or conservator of itself or of the whole or any substantial part of its property; file a petition or answer seeking

reorganization or arrangement or similar relief under applicable bankruptcy laws; or

5.3.6.2. A court of competent jurisdiction shall have entered an order, judgement or decree appointing a custodian, receiver, trustee, liquidator or conservator of T or of the whole or any substantial part of its properties, or approve a petition filed against T seeking reorganization or arrangement or similar relief under applicable bankruptcy, or if, under the provisions of any law for the relief or aid of debtors, a court of competent jurisdiction shall assume custody or control of T or of the whole or any substantial part of its properties, or if there was commenced against T any proceeding or petition seeking reorganization or arrangement or similar relief under applicable bankruptcy laws, or if T shall have taken any action to indicate its consent to or approval of any such proceeding or petition, and any one of which proceedings shall not have been vacated or abandoned within 30 days.

5.3.6.3. A default shall have occurred in any agreement or instrument under or pursuant to which any material indebtedness of T shall have been issued, created, assumed, guaranteed or secured, and such default shall continue for more than the period of grace, if any, therein specified, or if such default shall permit the holder of such indebtedness to accelerate the maturity thereof, provided, however, that the condition contained in this Section 5.3.6.3 shall not be deemed to have been satisfied in the event that a default in any agreement or instrument under which any indebtedness of T has been issued could give rise to a cross default provision in in any agreement or instrument under or pursuant to which any material indebtedness of T shall have been issued, created, assumed, guaranteed or secured, or if the cumulative effect of any or all such defaults could be material to the Company.

6. Representations and Warranties

6.1. Representations and Warranties of T. (i) T hereby makes in favor

of S, as of the date hereof and as of the date of each exercise of each Additional Purchase Obligation, each of the representations and warranties made by the Company in Sections 3.1, 3.2, 3.3, 3.14.1(i), the first two sentences of 3.14.2 and clause (ii) of the first paragraph of 3.15 of the Share Purchase Agreement, provided that references to

"this Agreement" shall refer both to this Agreement and the Share Purchase Agreement; references, directly or indirectly, to the Escrow Agreement shall be ignored; references to "Shares" and the "Closing" shall be deemed to be references to the Ordinary Shares to be issued pursuant to the exercise of the Additional Purchase Obligation; and references to the "Closing Date" shall refer to the date that Ordinary Shares are actually issued and delivered to S pursuant to the relevant exercise of an Additional Purchase Obligation. Notwithstanding the foregoing, the representation contained in the first two sentences of Section 3.14.2 shall be read to relate to Fab 2. In the event that it is uncertain if a situation, event or fact that would otherwise be included in the scope of such representation relates to Fab 2, the matter shall be conclusively decided by the Project Committee.

6.2. Representations and Warranties of S. S hereby makes in favor

of T, as of the date hereof and as of the date of each exercise of an Additional Purchase Obligation, the representations and warranties made by S under Sections 4.1- 4.5 of the Share Purchase Agreement, provided that references to "this Agreement" shall refer both to this Agreement and the Share Purchase Agreement, references to Shares shall refer to the Additional Purchase Obligations and the Ordinary Shares issuable upon the exercise thereof and references, directly or indirectly, to the Escrow Agreement shall be ignored.

7. Covenants

7.1. Reservation of Shares. T will reserve for issuance such number of

Ordinary Shares as shall be sufficient for issuance and delivery thereof upon exercise of all outstanding Additional Purchase Obligations and will take any and all corporate action necessary to validly and legally issue fully paid and nonassessable Ordinary Shares.

7.2. Consents; Required Approvals. T and S will each, as promptly as

practicable after the date of this Agreement, take all action required of each of them, respectively, to obtain as promptly as practicable all necessary Consents and agreements of, and to give all notices and make all other filings with, any third parties, including Governmental Bodies, necessary to authorize, approve or permit the consummation of the transactions contemplated hereby, the Contemplated Transactions and the transactions contemplated by the Ancillary Agreements. Between the date of this Agreement and the date of the last issuance of Ordinary Shares pursuant to an exercise of a Additional Purchase Obligation, T will cooperate with S with respect to all filings that S elects to make or is required by Legal Requirements to make in connection with the performance of this Agreement and the Additional Purchase Obligations and S will likewise cooperate with T.

7.3. Operation of T's Business. Between the date of this Agreement and

the date of the last issuance of Ordinary Shares pursuant to a

Mandatory Exercise, T will not (i) take or agree or commit to take any action that would make any representation or warranty of T hereunder inaccurate in any respect at, or as of any time prior to, the date of the last issuance of Ordinary Shares pursuant to a Mandatory Exercise or (ii) omit or agree or commit to omit to take any action necessary to prevent any such representation or warranty from being inaccurate in any respect at any such time.

8. Miscellaneous

8.1. Payment of Taxes. T will pay all taxes and other governmental

charges (other than on the net income of S) that may be imposed or deliverable upon exercise of Additional Purchase Obligations and issuance of Ordinary Shares with respect thereto. T will not be required, however, to pay any tax or other charges which may be payable in respect of any transfer involved in the issue of any certificate for Ordinary Shares or other securities underlying the Additional Purchase Obligations or payment of cash or other property to any person other than the holder of an Additional Purchase Obligation Certificate surrendered upon the exercise thereof.

8.2. Mutilated, Destroyed, Lost and Stolen Additional Purchase

Obligation Certificates. If (a) any mutilated Additional Purchase

Obligation Certificate is surrendered to T or (b) T receives evidence to its satisfaction of the destruction, loss or theft of any Additional Purchase Obligation Certificate, then, T shall execute and deliver, in exchange for any such mutilated Additional Purchase Obligation Certificate or in lieu of any such destroyed, lost or stolen Additional Purchase Obligation Certificate, a new Additional Purchase Obligation Certificate of like tenor and for a like aggregate number of Additional Purchase Obligations.

Upon the issuance of any new Additional Purchase Obligation Certificate under this Section 8.2, T may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and other expenses in connection therewith and an appropriate indemnity with respect to losses related thereto.

Every new Additional Purchase Obligation Certificate executed and delivered pursuant to this Section 8.2 in lieu of any destroyed, lost or stolen Additional Purchase Obligation Certificate shall constitute an original contractual obligation of T, whether or not the destroyed, lost or stolen Additional Purchase Obligation Certificate shall be at any time enforceable by anyone, and shall be entitled to the benefits of this Agreement equally and proportionately with any and all other Additional Purchase Obligation Certificates duly executed and delivered hereunder.

The provisions of this Section 8.2 are exclusive and shall preclude (to the extent lawful) all other rights or remedies with respect to the

replacement of mutilated, destroyed, lost or stolen Additional Purchase Obligation Certificates.

8.3. Miscellaneous Rights. The rights of S upon the occurrence of the -----

events set forth in this Agreement are cumulative. If more than one such event shall occur and the periods following the occurrence of such events and prior to the closing of the transactions that are the subject of such events overlap, S may exercise such rights arising therefrom as S may elect without any condition imposed upon such exercise not contained in this Agreement.

8.4. Notices. Any notice, demand or delivery authorized by this -----

Agreement shall be sufficiently given or made when mailed if sent by first-class mail, postage prepaid, addressed to the parties as follows:

T:
Attention: Co-Chief Executive Officer
P.O. Box 619
Migdal Haemek 23105 Israel
Facsimile No.: 972-6-654-7788

with a copy to: Yigal Arnon & Co.
3 Daniel Frisch Street
Tel Aviv, Israel
Attention: David H. Schapiro, Adv.
Facsimile No.: 972-3-608-7714

S:
Attention: President and CEO
SanDisk Corporation
140 Caspian Court
Sunnyvale, California 94089
Facsimile No.: (408) 542-0600

with a copy to: SanDisk Corporation
140 Caspian Court
Sunnyvale, California 94089
Attention: Vice President and General Counsel

Facsimile No.: (408) 548-0385 or such other address as shall have been furnished to the party giving or making such notice, demand or delivery.

8.5. Assignments, Successors, and no Third-Party Rights. Neither party -----

may assign any of its rights under this Agreement without the prior consent of the other parties, except that S may assign any of its rights under this Agreement to any wholly owned Subsidiary of S or to any Subsidiary which is wholly owned other than a nominal interest, so long as such ownership shall be maintained. Subject to the preceding sentence, this Agreement will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the parties. Nothing expressed or referred to in this Agreement will

be construed to give any Person other than the parties to this Agreement any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement. This Agreement and all of its provisions and conditions are for the sole and exclusive benefit of the parties to this Agreement and their successors and assigns.

- 8.6. Counterparts. This Agreement may be executed in any number of ----- counterparts, each of which shall be deemed an original, but all of which together constitute one and the same instrument.
- 8.7. Entire Agreement and Modification. This Agreement supersedes all ----- prior agreements between the parties with respect to its subject matter (including the term sheet between S and T dated March 15, 2000 and all drafts hereof and thereof) and constitutes (along with the documents referred to in this Agreement) a complete and exclusive statement of the terms of the agreement between the parties with respect to its subject matter. This Agreement may not be amended except by a written agreement executed by the party to be charged with the amendment.
- 8.8. Termination. This Agreement (other than T's obligations with ----- respect to Additional Purchase Obligations previously exercised) and the indemnification provisions relating hereto appearing in Sections 10 of the Share Purchase Agreement, shall terminate and be of no further force and effect on the Expiration Date.
- 8.9. Applicable Law. This Agreement and each Additional Purchase ----- Obligation issued hereunder and all rights arising hereunder shall be governed by the law of the State of California, without giving effect to the conflict of laws provisions thereof.
- 8.10. Headings. The descriptive headings of the several Sections of ----- this Agreement are inserted for convenience and shall not control or affect the meaning or construction of any of the provisions hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, as of the day and year first above written.

Tower Semiconductor Ltd.

By: /s/ Yoav Nissan Cohen

Name: Yoav Nissan Cohen
Title: Co-Chief Executive Officer

SanDisk Corporation

By: /s/ Eli Harari

Name: Eli Harari
Title: Chief Executive Officer

This REGISTRATION RIGHTS AGREEMENT (this "Agreement"), is made as of January 18, 2001, by and between Tower Semiconductor Ltd., an Israeli corporation (the "Company" or "T"), SanDisk Corporation, a Delaware corporation ("S"), Alliance Semiconductor Corp. a Delaware corporation ("Alliance"), Macronix International Co., Ltd., a Taiwanese corporation (together with its affiliates referred to as "Macronix"), QuickLogic Corporation, a Delaware corporation ("QuickLogic") and The Israel Corporation Ltd., an Israeli corporation ("TIC").

WHEREAS, the Company and S entered into a Share Purchase Agreement dated as of July 4, 2000 (the "SPA") and an Additional Purchase Obligation Agreement dated as of July 4, 2000 (the "Additional Purchase Obligation Agreement");

WHEREAS, the Company and Alliance entered into a Share Purchase Agreement dated as of August 29, 2000 (the "Alliance SPA"), which includes certain provisions of the Additional Purchase Obligation Agreement (the "Alliance Additional Purchase Obligation Agreement");

WHEREAS, the Company and Macronix entered into a Share Purchase Agreement dated as of December 12, 2000 (the "Macronix SPA"), which includes certain provisions of the Additional Purchase Obligation Agreement (the "Macronix Additional Purchase Obligation Agreement");

WHEREAS, the Company and QuickLogic entered into a Share Purchase Agreement dated as of December 12, 2000 (the "QuickLogic SPA"), which includes certain provisions of the Additional Purchase Obligation Agreement (the "QuickLogic Additional Purchase Obligation Agreement");

WHEREAS, it is a condition precedent to the closing of the transactions contemplated in the SPA, the Alliance SPA, the Macronix SPA and the QuickLogic SPA that the parties hereto execute and deliver this Agreement;

NOW THEREFORE, in consideration of the premises, mutual promises and covenants contained in this Agreement and intending to be legally bound, the parties hereto hereby agree as follows:

1. DEFINITIONS

For purposes of this Agreement:

1.1 The term "Holder" shall mean a member of the Purchaser Group and/or TIC, as the case may be.

1.2 The term "Ordinary Shares" means the ordinary shares, par value NIS1.00 each of the Company (as may be adjusted for any stock split, stock combination, reclassification or any other recapitalization event).

1.3 The term "Closing" means Closing as such term is defined in the SPA.

1.4 The term "Purchaser Group" means S, Alliance, Macronix, QuickLogic and any additional parties that enter into share purchase agreements with T prior to the Closing and that close simultaneously with the SPA or any successors thereto or permitted assignees thereof.

1.5 The term "Registrable Securities" means the Purchaser Group Registrable Securities and/or the TIC Registrable Securities, as the case may be, and any securities issued as a dividend on or other distribution with respect to, or in exchange for or replacement of such securities.

1.6 The term "Purchaser Group Registrable Securities" means the Ordinary Shares (a) purchased at the Closing under the SPA by S, (b) purchased at the closing under the Alliance SPA by Alliance, (c) purchased at the closing under the Macronix SPA by

Macronix, (d) purchased at the closing under the QuickLogic SPA by QuickLogic, (e) purchased by any additional members of the Purchaser Group at the closing of any additional share purchase agreements with T that close simultaneously with the Closing of the SPA, (f) purchased by S pursuant to the Additional Purchase Obligation Agreement, (g) purchased by Alliance pursuant to the Alliance Additional Purchase Obligation Agreement, (h) purchased by Macronix pursuant to the Macronix Additional Purchase Obligation Agreement, (i) purchased by QuickLogic pursuant to the QuickLogic Additional Purchase Obligation Agreement, (j) purchased by any additional members of the Purchaser Group pursuant to an additional purchase obligation agreement entered into, prior to the Closing of the SPA, between T and such additional members of the Purchaser Group, (k) otherwise issued by the Company to S pursuant to the terms of the SPA or the Additional Purchase Obligation Agreement, (l) otherwise issued by the Company to Alliance pursuant to the terms of the Alliance SPA or the Alliance Additional Purchase Obligation Agreement, (m) otherwise issued by the Company to Macronix pursuant to the terms of the Macronix SPA or the Macronix Additional Purchase Obligation Agreement, (n) otherwise issued by the Company to QuickLogic pursuant to the terms of the QuickLogic SPA or the QuickLogic Additional Purchase Obligation Agreement, and (o) otherwise issued by the Company to any additional member of the Purchaser Group pursuant to the terms of any additional share purchase agreements with T that close simultaneously with the Closing or any additional purchase obligation agreement entered into, prior to the Closing of the SPA, between T and such additional members of the Purchaser Group. As to any particular Registrable Securities, such shares shall cease to be Registrable Securities for purposes of this Agreement when (i) a registration statement with respect to the sale of such shares shall have become effective under the Securities Act and such shares shall have been disposed of under such registration statement, (ii) such shares shall have been otherwise transferred or disposed of, and new certificates therefor not bearing a legend restricting further transfer shall have been delivered by the Company, and subsequent transfer or disposition of them shall not require their registration or qualification under the Securities Act or any similar state law then in force or (iii) such shares shall have ceased to be outstanding.

1.7 The terms "register," "registered" and "registration" refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the Securities Act, and the declaration or ordering by the SEC of effectiveness of such registration statement or document, or the equivalent under the laws of another jurisdiction.

1.8 The term "Securities Act" means the United States Securities Act of 1933, as amended.

1.9 The term "SEC" means the United States Securities and Exchange Commission.

1.10 The term "TIC" means The Israel Corporation Ltd.

1.11 The term "TIC Registrable Securities" means the Ordinary Shares held by TIC as of the date of the Closing. As to any particular TIC Registrable Securities, such shares shall cease to be TIC Registrable Securities for purposes of this Agreement when (i) a registration statement with respect to the sale of such shares shall have become effective under the Securities Act and such shares shall have been disposed of under such registration statement, (ii) such shares shall have been otherwise transferred or disposed of, and new certificates therefor not bearing a legend restricting further transfer shall have been delivered by the Company, and subsequent transfer or disposition of them shall not require their registration or qualification under the Securities Act or any similar state law then in force, (iii) such shares shall have ceased to be outstanding, or (iv) such shares have been sold pursuant to Rule 144 or Rule 144A under the Securities Act.

1.12 The term "Additional Purchase Obligation" means each of the additional obligations to purchase Ordinary Shares of the Company issued to S pursuant to the Additional Purchase Obligation Agreement, the additional obligations to purchase Ordinary Shares of the Company issued to Alliance pursuant to the Alliance Additional Purchase Obligation Agreement, the additional obligations to purchase Ordinary Shares of the Company issued to Macronix pursuant to the Macronix Additional Purchase Obligation Agreement, the additional obligations to purchase Ordinary Shares of the Company issued to QuickLogic pursuant to the QuickLogic Additional Purchase Obligation Agreement or any similar additional obligations to purchase Ordinary Shares of the Company issued to any additional members of the Purchaser Group pursuant to an additional purchase obligation agreement entered into, prior to the Closing of the SPA, between T and such additional member of the Purchaser Group.

2. DEMAND REGISTRATION

2.1 At any time following the third anniversary of the Closing (the "Demand Period"), TIC and each of S, Alliance and Macronix, may request in writing that all or part of their Registrable Securities be registered under the Securities Act and/or listed so as to be eligible for public trading on any securities exchange on which the Ordinary Shares are otherwise traded (a "Demand"); provided, however, the initiation of such a Demand may not be made by a Holder that holds under 1,500,000 Ordinary Shares. In addition, at any time during the Demand Period, members of the Purchaser Group holding a majority of the Purchaser Group Registrable Securities may jointly initiate an additional Demand. Notwithstanding the foregoing, in the event that, pursuant to Section 5.3 of the Additional Purchase Obligation Agreement, a member of the Purchaser Group that holds at least 800,000 Ordinary Shares does not exercise any of its Additional Purchase Obligations, the right of such member of the Purchaser Group to initiate a Demand shall be accelerated to the tenth day after the date upon which the event giving rise to the right of such member of the Purchaser Group not to exercise the Additional Purchase Obligation occurs. Upon receipt of a Demand of a member or members of the Purchaser Group, the Company will promptly give written notice of such Demand to TIC and to all other members of the Purchaser Group and the Company shall effect the registration of all Registrable Securities for which registration has been requested including Registrable Securities which the Company has been requested to register by TIC or members of the Purchaser Group by written request given to the Company within 30 days after the giving of such written notice by the Company. The Company shall use its best efforts to have a Demand become effective by the 60th day after a member of the Purchaser Group makes such Demand and, shall keep such Demand effective until the distribution of such Registrable Securities registered pursuant thereto is complete, if underwritten, or, otherwise, for 180 days. Upon receipt of a Demand of TIC, the Company will promptly give written notice of such Demand to all members of the Purchaser Group and the Company shall effect the registration of all Registrable Securities for which registration has been requested including Registrable Securities which the Company has been requested to register by members of the Purchaser Group by written request given to the Company within 30 days after the giving of such written notice by the Company. The Company shall use its best efforts to have a Demand become effective by the 60th day after TIC makes such Demand and, shall keep such Demand effective until the distribution of such Registrable Securities registered pursuant thereto is complete, if underwritten, or, otherwise, for 180 days.

- 2.2 In the event of a Demand by a member or members of the Purchaser Group in which the registration of Registrable Securities is underwritten and the managing underwriter of the offering advises the members of the Purchaser Group and TIC in writing that marketing factors require a limitation of the number of shares to be underwritten, then there shall be excluded from such registration and underwriting to the extent necessary to satisfy such limitation, first shares which the Company may wish to register for its own account or for the account of other shareholders of the Company, and then shares held by TIC, and then shares held by the members of the Purchaser Group on a pro rata basis to the number of shares that each member of the Purchaser Group included in the Demand. In the event of a Demand by TIC in which the registration of the Registrable Securities is underwritten and the managing underwriter of the offering advises TIC and the members of the Purchaser Group in writing that marketing factors require a limitation of the number of shares to be underwritten, then there shall be excluded from such registration and underwriting to the extent necessary to satisfy such limitation, first shares which the Company may wish to register for its own account or for the account of other shareholders of the Company, and then shares held by the members of the Purchaser Group on a pro rata basis to the number of shares that each member of the Purchaser Group included in the Demand, and then shares held by TIC. In the event that, following a receipt of a request by the members of the Purchaser Group and/or TIC, as the case may be, as detailed above, the managing underwriter advises the Company that due to marketing factors the shares requested to be registered for trading could not be sold, and accordingly the Company does not effect a registration statement, then such request by the members of the Purchaser Group and/or TIC, as the case may be, shall not be considered a Demand under this Section 2.
- 2.3 Any registration proceeding begun pursuant to Section 2.1 that is subsequently withdrawn at the request of the members of the Purchaser Group that initiated such registration proceeding and/or TIC, as the case may be, shall count toward the quota of registration statements which the members of the Purchaser Group and/or TIC, as the case may be, have the right to Demand pursuant to Section 2.1; provided, however, that such withdrawn registration shall not be so counted as a Demand if such withdrawal is based upon (a) material adverse information relating to the Company or its condition, business or prospects which is different from that generally known to the member(s) of the Purchaser Group that were to participate in such registration proceeding, in the event of a Demand by a member or members of the Purchaser Group and/or TIC, in the event of a Demand by TIC, as the case may be, at the time of its request or (b) general securities market conditions which are different from that generally known to the member(s) of the Purchaser Group that were to participate in such registration proceeding, in the event of a Demand by a member or members of the Purchaser Group and/or TIC, in the event of a Demand by TIC, as the case may be, at the time of its request, provided, in connection with this clause (b), that the member(s) of the Purchaser Group that were to participate in such registration proceeding, in the event of a Demand by a member or members of the Purchaser Group and/or TIC, in the event of a Demand by TIC, as the case may be, reimburse the Company for its expenses incurred in connection with effecting such withdrawn registration.

- 2.4 The Company may not cause any other registration of securities for sale for its own account (other than a registration of securities to be offered to employees, directors or consultants pursuant to a benefit plan on Form S-8 or a registration in connection with a merger, an exchange offer or any acquisition) to be initiated after a registration requested pursuant to Section 2.1 and to become effective less than 180 days after the effective date of the registration requested pursuant to Section 2.1.
- 2.5 Notwithstanding the other provisions of this Section 2, in the event that at any time during the Demand Period the Company shall receive from a Holder, or a group of Holders, a written request that the Company effect a registration on Form F-3 (or any equivalent or successor form) with respect to Registrable Securities (the "F-3") where the aggregate net proceeds from the sale of such Registrable Securities equals at least three million United States Dollars (US\$3,000,000), the Company will within twenty (20) days after receipt of any such request, file such registration and all such qualifications and compliance as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of the Registrable Securities as are specified in such request, and use its best efforts to have such registration on Form F-3 effective by the 60th day after the Holder, or group of Holders, make such request and keep such registration on Form F-3 effective until the distribution is complete, if underwritten, or, otherwise, for 270 days; provided, however, that the Company shall not be obligated to file any such registration, qualification or compliance, pursuant to this Section 2.5 if the Company has, within the 180 day period preceding the date of such request, already effected one (1) registration for a requesting Holder pursuant to this Section 2.5. The Company undertakes that it will use its best efforts to continue to comply with all necessary filings and other requirements so as to maintain its qualification to use Form F-3.
- 2.6 The Company shall not be required to effect more than three (3) registrations initiated by TIC under Section 2.1. The Company shall not be required to effect more than one (1) registration initiated by each of S, Alliance and Macronix under Section 2.1 and one (1) additional registration jointly initiated by members of the Purchaser Group holding a majority of the Purchaser Group Registrable Securities under Section 2.1. Concurrent registrations in respect of multiple exchanges shall be construed as a single registration for the purposes of this Section 2.6.
- 2.7 The Company shall have the right to defer filing a registration statement (a "Registration Deferral") under the Securities Act pursuant to this Section 2 not more than once in any 12-month period if (i) the Board of Directors of the Company shall determine that it would be seriously detrimental to the Company to file such registration statement at the date the filing would otherwise be required under this Agreement, or (ii) the Board of Directors of the Company determines in good faith that (A) the Company is in possession of material, non-public information concerning an acquisition, merger, recapitalization, consolidation, reorganization or other material transaction by or of the Company or concerning pending or threatened litigation and (B) disclosure of such information would jeopardize any such transaction or litigation or otherwise materially harm the Company.
- 2.8 A Registration Deferral shall end by the date that is 90 days from the date of such determination by the Company (the "90/th/ Day"), or, in the case described in Section 2.7(ii) above, the earlier of the 90/th/ Day and

the date such material information is disclosed to the public or ceases to be material, such transaction is completed or abandoned or such litigation is settled or finally determined. In the event a Registration Deferral is instituted, the members of the Purchaser Group and/or TIC, as the case may be, shall be entitled to withdraw such request. If such request is withdrawn, such registration shall not count as one of the permitted registrations under this Section 2. The Company shall promptly notify the members of the Purchaser Group and/or TIC of the expiration or earlier termination of any Registration Deferral.

3. INCIDENTAL REGISTRATION

3.1 If the Company at any time proposes to register (other than a registration of securities to be offered to employees, directors or consultants pursuant to a benefit plan on Form S-8 or a registration in connection with a merger, an exchange offer or any acquisition) any of its securities, it shall give notice to each Holder of such intention at least thirty (30) days prior to filing such registration statement. Upon the written request of any Holder within twenty (20) days after receipt of any such notice, the Company shall include in such registration all of the Registrable Securities indicated in such request, so as to permit the disposition of the shares so registered.

3.2 Notwithstanding any other provision of this Section 3, in the event that the Company is undertaking a registration of its securities other than pursuant to a Demand under Section 2 of this Agreement and the managing underwriter advises the Company in writing that marketing factors require a limitation of the number of shares to be underwritten, then there shall be excluded from such registration and underwriting, to the extent necessary to satisfy such limitation, first shares held by any shareholders other than the Holders, then shares held by the Holders pro rata to their respective shareholdings in the Company, provided that in the event that a Holder does not wish to include the full pro rata amount of shares it could include in the relevant registration, then the remaining Holders shall have the right to include in such registration an amount of shares equal to their pro rata portion plus the amount of the other Holder's pro rata portion that such Holder has chosen not to include; and then shares which the Company may wish to register for its own account.

4. OBLIGATIONS OF THE COMPANY

Whenever required under this Agreement to file a registration statement with respect to the Registrable Securities, the Company shall:

4.1 Prepare and file with the SEC (or other relevant body) a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective.

4.2 Promptly prepare and file with the SEC (or other relevant body) such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act (or other relevant legislation) with respect to the disposition of all securities covered by such registration statement.

4.3 Furnish to the Holders such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act (or other relevant legislation), and such other documents as it may reasonably request in order to facilitate the disposition of Registrable Securities owned by it.

4.4 Register and qualify the securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions as shall be reasonably requested by the Holders, provided, however, that the Company shall not be required to qualify to do business as a foreign corporation or to file any general consent to service of process in any jurisdiction in which it has not already so qualified or filed.

4.5 In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement with usual and customary terms that are generally satisfactory to the managing underwriter of such offer. The Holders shall also enter into and perform their obligations under such an agreement (the terms of which must be satisfactory to each Holder if such Holder is to participate in such offering).

4.6 Notify the Holders at any time when a prospectus relating to a registration statement filed pursuant hereto is required to be delivered under the Securities Act or the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, in which event the Holders shall forthwith discontinue disposition of its Registrable Securities pursuant to such prospectus until it is advised in writing by the Company that the use of such prospectus may be resumed or until such holder receives copies of any supplement or amendment to such prospectus.

4.7 Cause all Registrable Securities registered pursuant thereunder to be listed on each securities exchange on which similar securities issued by the Company are then listed.

4.8 Provide a transfer agent and registrar for all Registrable Securities registered pursuant hereunder and a CUSIP number for all such Registrable Securities not later than the effective date of such registration.

4.9 Afford the Holders and their representatives the opportunity to make such examination of the business affairs of the Company and its subsidiaries as the Holders may reasonably deem necessary to satisfy itself as to the accuracy of the registration statement (subject to a reasonable confidentiality undertaking on the part of the Holders and their representatives).

4.10 Furnish, at the request of the Holders in connection with the registration of Registrable Securities pursuant to this Agreement, on the date that such Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the registration statement with respect to such securities becomes effective, (i) an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holders, and (ii) a letter, dated such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holders.

5. INFORMATION

It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Agreement that each Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it, and the intended method of disposition of such securities as shall be required to effect the registration of their Registrable Securities.

6. EXPENSES OF REGISTRATION

All expenses incurred by the Company in connection with any registration pursuant to this Agreement (other than underwriter's commissions and fees) including without limitation all registration, filing and qualification fees, printers' and accounting fees and fees and disbursements of counsel for the Company and fees and disbursements of one counsel for the Holders, shall be borne by the Company.

7. INDEMNIFICATION

In the event any Ordinary Shares are included in a registration statement in accordance herewith:

7.1 To the extent permitted by law, the Company will indemnify and hold harmless the Holders, the officers and directors of any Holder, any underwriter (as defined in the Securities Act) for any Holder and each person, if any, who controls any Holder or underwriter within the meaning of the Securities Act or the 1934 Act against any losses, claims, damages, or liabilities to which they may become subject under the Securities Act, the Securities Exchange Act or other United States federal or state law or the securities laws of the State of Israel, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (i) any untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto; (ii) the omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading in light of the circumstances under which they were made, or (iii) any violation by the Company of the Securities Act, the Securities Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Securities Exchange Act or any state securities law, or any of the securities laws of the State of Israel or any rule or regulation thereunder; and the Company will reimburse each such Holder, officer or director, underwriter or controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this Section 7, shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable to a Holder, underwriter or controlling person in any such case for any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished to the Company expressly for use in connection with such registration by a Holder, underwriter or controlling person. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of a Holder, the underwriter or any controlling person of a Holder or the underwriter, and regardless of any sale in connection with such offering by a Holder.

7.2 To the extent permitted by law, each Holder will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed the registration statement, each person, if any, who controls the Company within the meaning of the Securities Act, any underwriter (within the meaning of the Securities Act) for the Company, any person who controls such underwriter, and any other parties selling securities in such registration statement or any directors or officers or any persons controlling such parties, against any losses, claims, damages, or liabilities to which the Company or any such director, officer, controlling person, or underwriter or controlling person may become subject under the Securities Act, the Securities Exchange Act or other United States federal or state law, or any of the securities laws of the State of Israel, insofar as such losses, claims, damages, liabilities (or actions in respect hereto) arise out of or are based upon any Violation, in each case to the extent

(and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by such Holder expressly for use in connection with such registration statement; and such Holder will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, underwriter or controlling person, in connection with investigating or defending any such loss, claim, damage, liability or action attributable to such Violation or alleged Violation; provided, however, that the indemnity agreement contained in this Section 7 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of such Holder, which consent shall not be unreasonably withheld. In no event shall the liability of a Holder hereunder exceed the net proceeds from the offering received by such Holder.

7.3 Promptly after receipt by an indemnified party under this Section 7.3 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 7, notify the indemnifying party in writing of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to notify an indemnifying party within a reasonable time of the commencement of any such action, if prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnifying party under this Section 7, but the omission to so notify the indemnifying party will not relieve such indemnifying party of any liability that it may have to any indemnified party otherwise than under this Section 7.

8. CONTRIBUTION

If for any reason the foregoing indemnity is unavailable, or is insufficient to hold harmless an indemnified party, then the indemnifying party shall contribute to the amount paid or payable by the indemnified party as a result of such losses, claims, damages, liabilities or expenses (i) in such proportion as is appropriate to reflect the relative benefits received by the indemnifying party on the one hand and the indemnified party on the other from the registration or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, or provides a lesser sum to the indemnified party than the amount hereinafter calculated, in such proportion as is appropriate to reflect not only the relative benefits received by the indemnifying party on the one hand and the indemnified party on the other but also the relative fault of the indemnifying party and the indemnified party as well as any other relevant equitable considerations; provided that in no event shall any amount paid or due by a Holder pursuant to Sections 7 and 8 hereunder exceed the net proceeds from the offering received by such Holder. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

9. DESIGNATION OF UNDERWRITER

9.1 In the case of any registration effected pursuant to Section 2.1, should the offering be underwritten, the Company and the relevant member of the Purchaser Group and/or TIC, as the case may be, shall confer as to the selection of a managing underwriter. Should they fail to reach agreement, the selection shall be made by the relevant member of the Purchaser Group and/or TIC, as the case may be.

9.2 In the case of any registration initiated by the Company, the Company shall have the right to designate the managing underwriter in any underwritten offering.

10. RULE 144 REPORTING

With a view to making available the benefits of certain rules and regulations of the SEC that may permit the sale of the Registrable Securities to the public without registration, the Company agrees to use its best efforts to:

10.1 make and keep public information regarding the Company available as those terms are understood and defined in Rule 144 under the Securities Act, at all times;

10.2 file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Securities Exchange Act at any time after it has become subject to such reporting requirements;

10.3 so long as a Holder owns any Registrable Securities, furnish to such Holder forthwith upon written request a written statement by the Company as to its compliance with the reporting requirements of Rule 144, and of the Securities Act and the Securities Exchange Act, a copy of the most recent annual or quarterly report of the Company, and such other reports and documents so filed as such Holder may reasonably request in availing itself of any rule or regulation of the SEC allowing such Holder to sell any such securities without registration.

11. ASSIGNMENT OF REGISTRATION RIGHTS

A Holder may assign its rights and obligations under this Agreement to any person or entity provided that such assignment may be made only in connection with sale of at least 300,000 Ordinary Shares by a Holder to a person or an entity and that the assignment relates only to those shares transferred to such person or entity, and further provided that such assignee agrees to be bound by the terms of this Agreement.

12. AMENDMENTS, WAIVERS, ETC.

This Agreement may not be amended, waived or otherwise modified or terminated except by an instrument in writing signed by the Company and a Holder, if the amendment is to be effective against such Holder.

13. MARKET STAND-OFF AGREEMENT.

Holder of Registrable Securities, if requested by the Company and the underwriters of the Company's securities, shall enter into an agreement (the "Market Stand-off Agreement") not to sell, sell any option, or otherwise transfer or dispose of any Ordinary Shares or other securities of the Company held by such holders during the 90-day period (or such shorter period as is required by the underwriters) following the effective date of a registration statement of the Company filed under the Securities Act, provided that such restrictions shall not apply to Ordinary Shares or other securities of the Company that are included in such registration statement, and shall apply only to the first firmly underwritten registered equity offering of the Company's securities occurring after the third anniversary of the date of the this Agreement and no such holder shall be obligated to enter into a Market Stand-off Agreement if any officer, director or holder of 5% or more of the outstanding Ordinary Shares of the Company is not subject to a Market Stand-off Agreement with substantially similar terms. The underwriters in connection with such registration statement are intended third party beneficiaries of this provision.

In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the securities held by each Holder (and the securities of every other person subject to the foregoing restriction) until the end of such period.

14. COUNTERPART

This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement. Each party need not sign the same counterpart.

15. ENTIRE AGREEMENT

This Agreement constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, including the Registration Rights Agreement, dated February 28, 1993, by and among the Company, National Semiconductor (IC) Ltd., and Tower Semiconductor Holdings (1993) Ltd.

16. GOVERNING LAW AND JURISDICTION

This Agreement shall be governed by, and construed in accordance with, the laws of the State of California regardless of the laws that might otherwise govern under applicable principles of conflicts of law thereof. Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement may be brought against any of the parties solely in the courts of the State of California, and each of the parties consents to the jurisdiction of such courts (and of the appropriate appellate courts) in any such action or proceeding and waives any objection to venue laid therein. Process in any action or proceeding referred to in the preceding sentence may be served on any party anywhere in the world.

17. ADDITIONAL PARTIES

The parties hereto agree that by the execution of a joinder to this Agreement, any additional parties that enter into share purchase agreements with T prior to the Closing of the SPA and that close simultaneously with the SPA may become parties to this Agreement and shall be members of the Purchaser Group.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed on its behalf by its officers thereunto duly authorized as of the date first written above.

Tower Semiconductor Ltd.

By: /s/ Yoav Nissan Cohen

Name: Yoav Nissan Cohen

Title: CEO

SanDisk Corporation

By: /s/ Eli Harari

Name: Eli Harari

Title: President and CEO

The Israel Corporation Ltd.

By: /s/ Yosi Rosen

Name: Yosi Rosen

Title: CEO

By: /s/ Udi Hillman

Name: Udi Hillman

Title: Executive VP and CEO

Alliance Semiconductor Corp.

By: /s/ N. Damodar Reddy

Name: N. Damodar Reddy

Title: CEO

Macronix International Co., Ltd.,
on behalf of itself and its affiliates

By: /s/ Miin Wu

Name: Miin Wu

Title: President

QuickLogic Corp.

By: /s/ E. Thomas Hart

Name: E. Thomas Hart

Title: President and CEO

CONSOLIDATED SHAREHOLDERS AGREEMENT

BY AND AMONG

THE ISRAEL CORPORATION,

SANDISK CORPORATION, ALLIANCE SEMICONDUCTOR

CORPORATION

AND

MACRONIX INTERNATIONAL CO., LTD.

AGREEMENT (the "Agreement"), dated as of January 18, 2001, by and among the Israel Corporation ("TIC"), SanDisk Corporation ("SanDisk"), Alliance Semiconductor Corporation ("Alliance"), and Macronix International Co., Ltd. (together with its affiliates referred to as "Macronix").

RECITALS

WHEREAS, SanDisk has entered into a share purchase agreement (the "SanDisk Share Purchase Agreement") with Tower Semiconductor Ltd. (the "Company") dated July 4, 2000; and

WHEREAS, Alliance has entered into a share purchase agreement with the Company dated August 29, 2000 (the "Alliance Share Purchase Agreement"); and

WHEREAS Macronix has entered into a share purchase agreement with the Company dated December 12, 2000 (the "Macronix Share Purchase Agreement"); and

WHEREAS TIC has entered into a share purchase agreement with the Company dated December 12, 2000; and

WHEREAS on August 13, 2000, TIC and SanDisk entered into a shareholders agreement (the "Shareholders Agreement"); and

WHEREAS on August 29, 2000, TIC and Alliance entered into the Shareholders Agreement; and

WHEREAS Macronix, SanDisk, Alliance and TIC have agreed to enter into this Agreement.

1. Definitions

The following terms will have the meaning ascribed to them in this paragraph when used in this Agreement:

- (1) "Agreement" - as defined prior to the Recitals of this Agreement.
- (2) "Affiliate" means any other person that directly, or -----
indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such specified Person. For the purposes of this definition, "person" shall mean any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity.
- (3) "Alliance" - as defined prior to the Recitals of this Agreement.
- (4) "Company" - as defined in the Recitals of this Agreement.
- (5) "Macronix" - as defined prior to the Recitals of this Agreement.
- (6) "SanDisk" - as defined prior to the Recitals of this Agreement.
- (7) "SanDisk Share Purchase Agreement" - as defined in the Recitals of this Agreement.
- (8) "TIC" - as defined prior to the Recitals of this Agreement.
- (9) "Shares" - Ordinary Shares, par value NIS 1.00 per share, of the Company duly authorized and issued by the Company.
- (A) "Permitted Transferee" - any entity at least the majority of the voting rights in which is held by the transferring shareholder, provided that (i) such entity is or becomes a party to this Agreement and agrees in writing to be bound by all the provisions of this Agreement, and (ii)

such transferring shareholder shall not be relieved of its obligations hereunder.

- (B) "Equity Securities" means any securities having voting rights in the election of the Board of Directors of the Company not contingent upon default, or any securities evidencing an ownership interest in the Company, or any securities convertible into or exercisable for any shares of the foregoing, or any agreement or commitment to issue any of the foregoing.
- (C) "SanDisk Share Purchase Agreement" shall have the meaning ascribed to it in the recitals to this Agreement.
- (D) "Shareholders" means SanDisk, TIC, Alliance, Macronix and all their Permitted Transferees.
- (E) "Major Holder" means any Shareholder holding at least 5% of the Company's outstanding Equity Securities and which is a party to this Agreement. For the purpose of this definition the holdings of a Shareholder and all its Permitted Transferees shall be calculated together.
- (F) "Closing" as defined as the closing referred to in each of the share purchase agreements entered into by the Company with each of SanDisk, Alliance, Macronix and TIC.

2. Board of Directors

- 3. Each Shareholder hereby agrees to attend and vote (or cause to be voted) at general meetings of shareholders of the Company all of its Shares (i) to vote for the election of the following persons to the Board of Directors of the Company and for any other resolution which is necessary in order to facilitate such election and (ii) to vote against the election of any other person to the Board of Directors of the Company or against any resolution the effect of

which is to prevent or impede such election, other than in accordance with this Agreement:

4. From the Closing and thereafter:

- (1) 1 nominee designated by SanDisk, provided that in the event that, from the date on which SanDisk exercises the Series A-3 Additional Purchase Obligations and thereafter, SanDisk and its Permitted Transferees hold together in the aggregate less than 5% of the outstanding Shares, then SanDisk shall not be entitled to designate any nominee, provided further that if subsequently SanDisk and its Permitted Transferees become together the holders of 5% of the outstanding Shares then SanDisk shall again be entitled to designate a nominee.
- (2) 1 nominee designated by Alliance, provided that in the event that, from the date on which Alliance exercises the Series A-3 Additional Purchase Obligations and thereafter, Alliance and its Permitted Transferees hold together in the aggregate less than 5% of the outstanding Shares, then Alliance shall not be entitled to designate any nominee, provided further that if subsequently Alliance and its Permitted Transferees become together the holders of 5% of the outstanding Shares then Alliance shall again be entitled to designate a nominee.
- (3) 1 nominee designated by Macronix, provided that in the event that, from the date on which Macronix exercises the Series A-3 Additional Purchase Obligations and thereafter, Macronix and its Permitted Transferees hold together in the aggregate less than 5% of the outstanding Shares, then Macronix shall

not be entitled to designate any nominee, provided further that if subsequently Macronix and its Permitted Transferees become together the holders of 5% of the outstanding Shares then Macronix shall again be entitled to designate a nominee.

- (4) 2 nominees designated by TIC, provided that, (i) in the event that TIC and its Permitted Transferees hold together in the aggregate less than 10% of the outstanding shares, then TIC shall be entitled to designate only one nominee, provided further that if subsequently TIC and its Permitted Transferees become together the holders of 10% of the outstanding shares then TIC shall again be entitled to designate two nominees and (ii) in the event that TIC and its Permitted Transferees hold together in the aggregate less than 5% of the outstanding shares, then TIC shall not be entitled to designate any nominee, provided further that if subsequently TIC and its Permitted Transferees become together the holders of 5% of the outstanding shares then TIC shall again be entitled to designate a nominee.
- (5) 2 External Directors (as defined in the Israeli Companies Law - 1999 (the "Companies Law")) recommended by the Board of Directors of Tower, assuming the Company is obliged under the Companies Law to nominate External Directors.
- (6) 1 other person who shall be a member of the Company's management, including either of the Company's co-CEOs, provided that it is understood that the two co-CEOs may alternate service on the Company's Board of Directors at intervals to be determined by the Board (excluding the management

director). In the event that the two co-CEOs do rotate service on the Board, the parties agree to cause the CEO not serving to have observer status.

(7) Such other directors as agreed upon between TIC and SanDisk, Alliance and Macronix.

(8) A representative of TIC (who will be one of the nominees under clause (d) above) as Chairman of the Board.

5. Each Shareholder further agrees that in the event that any party that is entitled to nominate a director under this Agreement decides to terminate or replace such director, then the Shareholders shall vote (or cause to be voted) all of his or its Shares to cause the termination of office or the replacement of such director, in accordance with the decision of the Shareholder who nominated such director pursuant to the provisions of this Section 2.1, and cause, if required, a general meeting of shareholders of the Company to be held for such purpose.

2.2 Each of TIC, SanDisk, Alliance and Macronix undertakes upon itself, for as long as it is entitled to nominate a director to the Board of Directors, as specified above, not to nominate to the Board of Directors of the Company a director who is an employee or consultant of the Company.

2.3 In the event that the number of nominees to the Board of Directors which a party is entitled to nominate is decreased or terminated as per Section 2.1 above, the respective Shareholder who nominated such director agrees to lawfully cause such director to immediately resign from the Board of Directors and in the absence of such resignation within 24 hours of such decrease or termination, all the Shareholders agree to take such action as is necessary to cause a general meeting of shareholders of the Company to be assembled, and to vote all their Shares in order to remove such director from the Board of Directors. In each such case the number of members of the Board of Directors shall decrease accordingly.

respective Shareholder who nominated such director agrees to lawfully cause such director to immediately resign from the Board of Directors and in the absence of such resignation within 24 hours of such decrease or termination, all the Shareholders agree to take such action as is necessary to cause a general meeting of shareholders of the Company to be assembled, and to vote all their Shares in order to remove such director from the Board of Directors. In each such case the number of members of the Board of Directors shall decrease accordingly.

3. Restrictions on Transfer of Equity Securities.

3.1 From the date of this Agreement and until the end of three years from the Closing (the "Initial Restricted Period") neither TIC, SanDisk, Alliance, Macronix and any of their Permitted Transferees shall sell, assign, transfer, pledge, hypothecate, or otherwise encumber or dispose of in any way (hereinafter referred to as "Transfer"), all or any part of or any interest in the Equity Securities now or hereafter owned or held by such parties.

3.1.1 Notwithstanding Section 3.1 hereof, during the Initial Restricted Period each Major Holder and any of its Permitted Transferees, to the extent it holds in excess of 2.7 million Shares, may transfer up to an aggregate of 1,200,000 Shares in excess of its holding of 2.7 million shares, subject to the following restrictions: (a) any Transfer made other than in accordance with clause (b) shall be effected only after compliance with Sections 4, 5 and 6 hereof; and (b) any Transfer made by a sale of Shares in the public markets pursuant to and in accordance with Rule 144 under the Securities Act (a "Public Sale") shall be effected only after the Shareholder offering to effect the Public Sale shall have given the other Major Holders, at least two business days prior to the

proposed Public Sale, written notice setting forth its intention to Transfer, the number of Shares proposed to be Transferred and the manner of disposition; the other Major Holders may, by written notice to the Shareholder proposing to make the Public Sale served on such Shareholder at least 12 hours prior to the Public Sale, exercise a right of first refusal to purchase their respective pro rata share of all or any part of the Shares proposed to be Transferred in the Public Sale at a price per share equal to the average closing price of the Shares in the seven trading days preceding the date of the notice. Each Major Holder's pro rata share of the Shares proposed to be Transferred in the Public Sale shall be a fraction of the Shares proposed to be Transferred in the Public Sale, of which the number of Shares owned by such Major Holder on the date of the above written notice shall be the numerator and the total number of Shares held by all such Major Holders (excluding the Shareholder offering to effect the Public Sale) on the date of the above written notice shall be the denominator. Any Shares with respect to which the other Major Holders have not exercised such right of first refusal, may be Transferred in accordance with such notice of Public Sale within a period of 45 days after the date of the notice of Public Sale at such price per share as determined by the Shareholder effecting such Public Sale.

- 3.1.2 From the end of the Initial Restricted Period any Transfer by any Major Holder and/or any of their Permitted Transferees may only be made pursuant to the provisions of Sections 4, 5 and 6 below.
- 3.1.3 In addition to the Major Holders' right to sell up to an aggregate of 1,200,000 Shares pursuant to Section 3.1.1 , the restrictions on the Major Holders' transfer of Equity Securities pursuant to this Section 3 shall not apply to an amount of the

Company's share capital held by such Major Holder in excess of 5.4 million shares. In addition, in the event that for any reason SanDisk does not exercise any series of Additional Purchase Obligations by its prescribed exercise date, TIC's restriction on the transfer of shares shall be decreased by an equivalent amount of shares represented by such non-exercised Additional Purchase Obligations.

- 3.2 From the end of the Initial Restricted Period and until the end of five years from the Closing (the "Subsequent Restricted Period") SanDisk, Alliance, Macronix and any of their Permitted Transferees agree not to Transfer, the amount of Equity Securities exceeding the product of (a) the cumulative number of quarters commencing with the first day of the Subsequent Restricted Period multiplied by (b) 6% (six percent) of the aggregate number of shares of the Company held by such Shareholder and any of its Permitted Transferees on the last day of the Initial Restricted Period ("the Committed Minimum Shareholdings").
 - 3.2.1 From the end of the Initial Restricted Period and until the end of the Subsequent Restricted Period, TIC shall not hold less than 2,100,000 (two million one hundred thousand) Ordinary Shares of the Company.
 - 3.2.2 For the removal of doubt, any Equity Securities purchased by TIC, SanDisk, Alliance and Macronix and any of their Permitted Transferees, other than pursuant to the SanDisk Share Purchase Agreement, the Alliance Share Purchase Agreement and the Macronix Share Purchase Agreement, respectively, and the B-1 to B-5 Additional Purchase Obligations pursuant to the Additional Purchase Obligation Agreement entered into between SanDisk and the Company shall not be included among the Committed Minimum Shareholdings.

4 Rights of First Offer.

4.1 Transfer Notice. Subject to the provisions of Sections 3 and 5,

if at any time, any Shareholder proposes to Transfer Equity Securities (a "Proposal"), then such Shareholder (a "Selling Shareholder") shall give the Company and each of the Major Holders, a written notice (the "Transfer Notice"), which Transfer Notice shall include (i) a description of the Equity Securities to be transferred ("Offered Shares") and (ii) the consideration and the material terms and conditions upon which the Proposal is to be made. Notwithstanding the foregoing, in the event that any Selling Shareholder proposes to pledge Shares to a banking institution, such pledge shall be permitted only if such Selling Shareholder effects the pledge subject to the provisions of Section 4 hereof, furnishes to the other parties hereto a written representation of the Selling Shareholder confirming that, and evidence which is reasonably satisfactory to indicate that, such pledge is subject to Section 4 and ensures that no voting rights with respect to the Shares are granted to the banking institution.

4.2 Major Holders' Option. Each Major Holder shall have an option for

a period of thirty (30) days from its receipt of the Transfer Notice to elect to purchase its respective pro rata share of the Offered Shares, and in the event that any other Major Holder does not exercise its right hereunder, its pro rata share of such Offered Shares not purchased by the other Major Holders (the "Excess Offered Shares"), at the same price and subject to the same terms and conditions as described in the Transfer Notice. Each Major Holder may exercise such purchase option and, thereby, purchase all or any portion of its pro rata share of

the Offered Shares, and in the event that any Major Holder does not exercise its right hereunder, its pro rata share of the Excess Offered Shares, by notifying the Selling Shareholder and the Company in writing, before expiration of the thirty (30) day period as to the number of Offered Shares and Excess Offered Shares, if any, which it wishes to purchase (the "Purchase Notice"). Failure to respond to the Transfer Notice (a) within the applicable period will be considered a waiver of the right to exercise the right set forth in this Section 4.2; and (b) within forty-five (45) days after receipt of the Transfer Notice will be considered a waiver of the right of co-sale set forth in Section 6.1 provided that the Transfer Notice clearly references such right of co-sale. Each Major Holder's pro rata share of the Offered Shares, or of the Excess Offered Shares, as the case may be, shall be a fraction of the Offered Shares, or of the Excess Offered Shares, as the case may be, of which the number of Shares owned by such Major Holder on the date of the Transfer Notice shall be the numerator and the total number of Shares held by all such Major Holders (excluding the Selling Shareholder) on the date of the Transfer Notice shall be the denominator.

- 4.3 If Major Holder(s) give the Selling Shareholder(s) Purchase Notice(s) pursuant to Section 4.2 above with respect to all and not part of the Offered Shares, then such Major Holder(s) shall purchase their respective pro rata share of the Offered Shares, on the terms aforementioned and then payment for the Offered Shares shall be by check or wire transfer to a bank account to be designated by the Selling Shareholder, against delivery of the Offered Shares to be purchased at a place agreed upon between the

parties and at the time of the scheduled closing therefor, which shall be no later than forty five (45) days after the Selling Shareholders' receipt of the Purchase Notice.

4.4 If the Major Holder(s) do not give the Selling Shareholder(s) Purchase Notice(s) pursuant to Section 4.2 above with respect to all of the Offered Shares, then the Major Holder(s) shall not be entitled to purchase the Offered Shares, and the Selling Shareholder, at the expiration of the aforementioned thirty (30) day period, shall be entitled to transfer all (but not less than all) of the Offered Shares, provided, however, that in no event shall the Selling Shareholder transfer any of the Offered Shares to any transferee on terms more favorable to such transferee(s) than those stated in the Transfer Notice, and provided further than any of the Offered Shares not transferred within forty-five (45) days after the expiration of such thirty (30) day period shall again be subject to the provisions of this Section 4.

4.5 Each Major Holder shall be entitled to apportion Offered Shares to be purchased among its Permitted Transferees, provided that such Purchaser notifies the Selling Shareholder of such allocation.

5. Right of First Refusal.

5.1 Transfer Notice. Subject to the provisions of Section 3, if at any time, any Shareholder proposes to Transfer Equity Securities to one or more of the parties set forth in Annex A hereto or any of their Affiliates pursuant to a proposed understanding with such third parties (a "Limited Proposal"), then such Shareholder (a "Limited Shareholder") shall give the Company and each of the Major Holders, a written notice (the "Limited Transfer

Notice"), with Limited Transfer Notice shall include (i) a description of the Equity Securities to be transferred ("Offered Limited Shares"), (ii) the identity of the prospective transferees(s) and (iii) the consideration and the material terms and conditions upon which the Limited Proposal is to be made. The Limited Transfer Notice shall certify that the Limited Shareholder has received a firm offer from prospective transferee(s) and in good faith believes a binding agreement for the Transfer is obtainable on the terms set forth in the Limited Transfer Notice. The Limited Transfer Notice shall also include a copy of any written proposal, term sheet or letter of intent or other agreement related to the proposed sale. Notwithstanding the foregoing, (a) in the event that a Shareholder is wholly merged with or is wholly acquired by any company headquartered in Taiwan, ROC or any Affiliate of such company headquartered in Taiwan, ROC, the provisions of this Section 5 shall not apply and/or (b) in the event that any Limited Shareholder proposes to pledge Shares to a banking institution, such pledge shall be permitted only if such Selling Shareholder effects the pledge subject to the provisions of Sections 4, 5 and 6 hereof, furnishes to the other parties hereto a written representation of the Selling Shareholder confirming that, and evidence which is reasonably satisfactory to indicate that, such pledge is subject to Sections 4, 5 and 6 and ensures that no voting rights with respect to the Shares are granted to the banking institution.

- 5.2 Major Holders' Option. Each Major Holder shall have an option for a period of thirty (30) days from its receipt of the Limited Transfer Notice to elect to purchase its

respective pro rata share of the Offered Limited Shares, and in the event that any other Major Holder does not exercise its right hereunder, its pro rata share of such Offered Limited Shares, and in the event that any other Major Holder does not exercise its right hereunder, its pro rata share of such Offered Limited Shares not purchased by the other Major Holders (the "Excess Limited Offered Shares"), at the same price and subject to the same terms and conditions as described in the Limited Transfer Notice. Each Major Holder may exercise such purchase option and thereby, purchase all or any portion of its pro rata share of the Offered Limited Shares, and in the event that any Major Holder does not exercise its right hereunder, its pro rata share of the Excess Limited Offered Shares, by notifying the Limited Shareholder and the Company in writing, before expiration of the thirty (30) day period as to the number of Offered Shares and Excess Limited Offered Shares, if any, which it wishes to purchase (the "Limited Purchase Notice"). Failure to respond to the Limited Transfer Notice within (a) the applicable period will be considered a waiver of the right to exercise the right set forth in this Section 5.2, and (b) within forty-five (45) days after receipt of the Limited Transfer Notice will be considered a Waiver of the right of co-sale set forth in Section 6.1, provided that the Limited Transfer Notice clearly references such right of co-sale. Each Major Holder's pro rata share of the Offered Limited Shares, or of the Excess Limited Offered Shares, as the case may be, shall be a fraction of the Offered Limited Shares, or of the Excess Limited Offered shares, as the case may be, of which the number of Shares owned by such Major Holder on the date of the Transfer Limited Notice shall be the numerator and the total

number of Shares held by all such Major Holders (excluding the Selling Shareholder) on the date of the Limited Transfer Notice shall be the denominator.

- 5.3 If Major Holder(s) give the Limited Shareholder(s) Limited Purchase Notice(s) pursuant to Section 5.2 above with respect to all and not part of the Offered Limited Shares, then the Limited Shareholder shall not effect the sale of shares to the third party transferee rather to the Major Holder(s) exercising their right of first refusal and then payment for the Offered Limited Shares shall be by check or wire transfer to a bank account to be designated by the Limited Shareholder, against delivery of the Offered Limited Shares to be purchased at a place agreed upon between the parties and at the time of the scheduled closing therefor, which shall be no later than forty-five (45) days after the Limited Shareholders' receipt of the Limited Purchase Notice.
- 5.4 If the Major Holder(s) do not give the Limited Shareholder(s) Limited Transfer Notice(s) pursuant to Section 5.2 above with respect to all of the Offered Limited Shares, then the Major Holder(s) shall not be entitled to purchase the Offered Limited Shares, and the Limited Shareholder, at the expiration of the aforementioned thirty (30) day period, shall be entitled to transfer all (but not less than all) of the Offered Limited Shares, provided, however, that in no event shall the Limited Shareholder transfer any of the Offered Limited Shares to any transferee on terms more favorable to such transferee(s) than those stated in the Transfer Notice, and provided further than any of the Offered Shares not transferred within forty-five (45) days after the expiration

of such thirty (30) day period shall again be subject to the provisions of this Section 5.4.

5.5 Each Major Holder shall be entitled to apportion Offered Limited Shares to be purchased among its Permitted Transferees, provided that such Purchaser notifies the Limited Shareholder of such allocation.

6. Right of Co-Sale.

6.1 To the extent the Major Holders do not exercise their right of first refusal in respect of all of the Offered Shares pursuant to Section 4 above or their right of first refusal in respect of all of the Limited Offered Shares pursuant to Section 5 above (for purposes of this Section 6, Offered Shares or Offered Limited Shares shall be referred to as "Offered Shares"), then each Major Holder (a "Co-Sale Holder" for purposes of this Section 6) shall be entitled to notify the Selling Shareholder or the Limited Shareholder, as the case may be (for purposes of this Section 6, a Selling Shareholder or a Limited Shareholder shall be referred to as a "Selling Shareholder") in writing and shall have the right to participate in the Disposition pursuant to Section 4 above or the Limited Proposal pursuant to Section 5 above on the same terms and conditions as specified in the Transfer Notice or the Limited Transfer Notice, as the case may be (for purposes of this Section 6, a Transfer Notice or a Limited Transfer Notice shall be referred to as a "Transfer Notice"), subject to the provisions of this Section 6. Such selling Co-Sale Holder's notice to the Selling Shareholder shall indicate the number of shares of Equity Securities the Co-Sale Holder wishes to sell under its right to participate.

- 6.2 The respective co-sale rights of the Selling Shareholder and each Co-Sale Holder shall be as follows: (A) the Selling Shareholder may sell all or any part of that number of Offered Shares equal to the product obtained by multiplying (i) the aggregate number of Offered Shares by (ii) a fraction, the numerator of which is 200% of the number of Shares owned by such Selling Shareholder on the date of the Transfer Notice and the denominator of which is the total number of Shares owned by all of the Co-Sale Holders (excluding the Selling Shareholder) and 200% of the number of Shares owned by the Selling Shareholder and (B) each Co-Sale Holder (excluding the Selling Shareholder) may sell all or any part of that number of Offered Shares equal to the product obtained by multiplying (i) the aggregate number of Offered Shares by (ii) a fraction, the numerator of which is the number of Shares owned by such Co-Sale Holder on the date of the Transfer Notice and the denominator of which is the total number of Shares owned by all of the Co-Sale Holders (excluding the Selling Shareholder) and 200% of the number of Shares owned by the Selling Shareholder on the date of the Transfer Notice (the "Co-Sale Shares"). The number of Co-Sale Shares to be sold shall be rounded to the nearest whole share, with one-half share or more being rounded up.
- 6.3 Each Co-Sale Holder shall effect its participation in the sale by promptly delivering to the Selling Shareholder for Transfer to the prospective purchaser one or more transfer deeds, properly executed for Transfer, which represent the number of Offered Shares which such Co-Sale Holder elects to sell. The transfer deeds that the Co-Sale Holder delivers to the Selling Shareholder as provided above shall be transferred to the prospective purchaser upon consummation of the sale of the Offered Shares pursuant to the terms and conditions specified in the Transfer Notice, and the Selling Shareholder shall concurrently therewith remit to such Co-Sale Holder that portion of the net sale proceeds to which such Selling Holder is entitled

by reason of its participation in such sale. To the extent that any prospective purchaser or purchasers prohibits such assignment or otherwise refuses to purchase shares or other securities from a Co-Sale Holder exercising its rights of co-sale hereunder, the Selling Shareholder shall not sell to such prospective purchaser or purchasers any Offered Shares unless and until, simultaneously with such sale, the Selling Shareholder shall purchase such shares or other securities from such Selling Holder for the same consideration and on the same terms and conditions as the proposed transfer described in the Transfer Notice.

6.4 Non-Exercise of Rights. To the extent that the Major Holders have not

exercised in full their rights to purchase all the Offered Shares within the time periods specified in Sections 4.2 and 5.2, as the case may be, the Selling Shareholder shall have a period of ninety (90) days from the expiration of the 45 day period set forth in Sections 4.2 and 5.2, as the case may be (the "Ninety Day Period") to sell the Offered Shares and the Co-Sale Shares, if any, upon terms and conditions (including the purchase price) no more favorable than those specified in the Transfer Notice to the third-party transferee(s) identified in the Transfer Notice. The third-party transferee(s) shall, as a condition to such transfer, become a party to Section 2 of this Agreement and become subject to all the provisions included therein unless waived by Major Holders, holding in the aggregate 75% of the aggregate number of shares of the Company held at such time by all Major Holders. In the event that the Selling Shareholder and the third-party transferee remain desirous of consummating the sale or disposition of the Offered Shares and the Co-Sale Shares, if any, yet due to a delay resulting from failure to obtain third party approvals, the sale or disposition of the

Offered Shares and the Co-Sale Shares, if any, cannot be consummated within the Ninety Day Period, the Ninety Day Period shall be extended by a further period of up to ninety (90) days (the "Second Ninety Day Period"). Notwithstanding the aforesaid in the previous sentence, in the event that the Selling Shareholder does not consummate the sale or disposition of the Offered Shares and the Co-Sale Shares, if any, within the Ninety Day Period or the Second Ninety Day Period, as the case may be, the Major Holders' first offer rights and first refusal rights and the Co-Sale Holders' co-sale rights shall continue to be applicable to any subsequent disposition of the Offered Shares by such Selling Shareholder until such right lapses in accordance with the terms of this Agreement.

6.5 Sale of Shares Under Rule 144. Notwithstanding the provisions of

Sections 4, 5 and 6, in the event of a Public Sale effected after the expiration of the Initial Restricted Period, the Selling Shareholder shall be permitted to effect the Public Sale subject to and in accordance with Rule 144 (including, without limitation, the volume limitations included therein), and such Public Sale shall not be subject to the rights of first offer, first refusal and co-sale set forth in Sections 4, 5 and 6.

6.6 Limitations to Rights of First Offer, First Refusal and Co-Sale.

Notwithstanding the provisions of Sections 3, 4, 5 and 6 of this Agreement, any Shareholder may sell or otherwise assign, with or without consideration, Equity Securities to any Permitted Transferee, provided, however, that any Permitted Transferee shall, prior to receiving any such Equity Securities and as a condition to the effectiveness of any such sale or assignation, become a party to this Agreement and undertake to return such

Equity Securities to its transferor in the event that the Permitted Transferee ceases to be a Permitted Transferee in relation to its transferor.

7. Term and Termination

This Agreement shall be in effect from the date hereof and until the earlier of (i) twelve (12) years from the Closing; or (ii) with respect to each of SanDisk, Alliance and Macronix, upon the termination of their respective share purchase agreement with the Company. In addition, this Agreement shall not have any further force and effect to any party of this Agreement from the date that such party holds less than 1,000,000 Ordinary Shares of the Company. Section 5 shall terminate five years following the end of the Restriction Period.

8. General Provisions

8.1 Expenses. Each party to this Agreement will bear its respective

expenses incurred in connection with the preparation, execution, and performance of this Agreement, including all fees and expenses of agents, representatives, counsel, and accountants.

8.2 Confidentiality. The parties to this agreement will maintain in

confidence, and will cause the directors, officers, employees, agents, and advisors to maintain in confidence, this Agreement and any written information furnished by another party in connection with this Agreement, unless (a) such information is already known to such party or to others not bound by a duty of confidentiality or such information becomes publicly available through no fault of such party, (b) the use of such information is necessary or appropriate in making any filing or obtaining any consent or approval required for the consummation of this Agreement, or (c) the furnishing or use of such information is required by any U.S., Israeli or other federal, state, local or administrative order, law, ordinance, or regulation or by the applicable rules of any stock exchange.

8.3 Notices. All notices, consents, waivers, and other communications

under this Agreement must be in writing and will be deemed to have been duly given when (a) delivered by hand (with written confirmation of receipt), (b) sent by telecopier (with written confirmation of receipt), provided that a copy is mailed by registered mail, return receipt requested, or (c) when received by the addressee, if sent by a recognized overnight delivery service (receipt requested), in each case to the appropriate addresses and telecopier numbers set forth below (or to such other addresses and telecopier numbers as a party may designate by notice to the other parties):

SanDisk:

Attention: Frank A. Calderoni

Facsimile No.: (408) 542-0600

with a copy to: Charles Van Orden, Esq.

Attention: Vice President and General Counsel

Facsimile No.: (408) 548-0385

TIC:

Attention: Udi Hillman

Facsimile No.: 972-3-695-3631

with a copy to: Zvi Ephrat, Adv.

6 Ramat Yam

Herzliya 46851

Facsimile No.: (972) 9-958-9594

Alliance:

Attention: David Eichler

Facsimile No.: (408) 855-4999

with a copy to: Alliance Semiconductor Corporation

Attention: Bradley A. Perkins, Esq.

Facsimile No.: (408) 855-4981

Macronix:

Attention: CEO

Facsimile No.: 886-2-2716-925-

with a copy to: Macronix International Co., Ltd.

Attention: Stacey G. M. Lee, Esq.

Facsimile No.: 886-3-564-1561

8.4 Jurisdiction; Service of Process. Any action or proceeding

seeking to enforce any provision of, or based on any right arising out of, this Agreement may be brought against any of the parties solely in the courts of the State of California, and each of the parties consents to the jurisdiction of such courts (and of the appropriate appellate courts) in any such action or proceeding and waives any objection to venue laid therein. Process in any action or proceeding referred to in the preceding sentence may be served on any party anywhere in the world.

8.5 Further Assurances. The parties agree (a) to furnish upon request

to each other such further information, (b) to execute and deliver to each other such other documents, and (c) to do such other acts and things, all as the other party may reasonably request for the purpose of carrying out the intent of this Agreement and the documents referred to in this Agreement.

8.6 Waiver. The rights and remedies of the parties to this Agreement

are cumulative and not alternative. Neither the failure nor any delay by any

party in exercising any right, power, or privilege under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. To the maximum extent permitted by applicable law, (a) no claim or right arising out of this Agreement or the documents referred to in this Agreement can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party; (b) no waiver that may be given by a party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one party will be deemed to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Agreement or the documents referred to in this Agreement.

8.7 Entire Agreement. This Agreement supersedes all prior

shareholders agreements between the parties, including the Shareholders Agreement between TIC and SanDisk dated August 13, 2000 and the Shareholders Agreement between TIC and Alliance dated August 29, 2000 with respect to its subject matter and constitutes (along with the documents referred to in this Agreement) a complete and exclusive statement of the terms of the agreement between the parties with respect to its subject matter.

8.8 Modification. This Agreement may not be amended except by a

written agreement executed only by the parties hereto (or their Permitted Transferees).

8.9 Adjustment. In each case in which this Agreement specifies a

number of Shares such number will be subject to the appropriate adjustment in accordance with applicable law for any reorganization, recapitalization, share split, share dividend and securities at any time issued by the Company in exchange for such shares or in connection with any

distribution, merger, sale of assets, consolidation or other action by the Company.

8.10 Assignments, Successors, and no Third-Party Rights. Neither

party may assign any of its rights under this Agreement, except for such assignments made to Permitted Transferees along with the transfer of Shares to such Permitted Transferees, without the prior consent of the other parties. Subject to the preceding sentence, this Agreement will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the parties.

Nothing expressed or referred to in this Agreement will be construed to give any person or entity other than the parties to this Agreement any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement. Subject to the above, this Agreement and all of its provisions and conditions are for the sole and exclusive benefit of the parties to this Agreement and their successors and assigns.

8.11 Severability. If any provision of this Agreement is held

invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

8.12 Section Headings, Construction. The headings of Sections in

this Agreement are provided for convenience only and will not affect its construction or interpretation. All references to "Section" or "Sections" refer to the corresponding Section or Sections of this Agreement. All words used in this Agreement will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the word "including" does not limit the preceding words or terms.

8.13 Time of Essence. With regard to all dates and time periods set

forth or referred to in this Agreement, time is of the essence.

8.14 Governing Law. Subject to such provisions of the Israeli

Companies Law which are applicable to this Agreement and which may not be stipulated, this Agreement will be governed by the laws of the State of California without regard to conflicts of law principles.

8.15 Counterparts. This Agreement may be executed in one or more

counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first written above.

SanDisk Corporation:

The Israel Corporation Ltd.:

By: /s/ Eli Harari

By: /s/ Yosi Rosen

Alliance Semiconductor Corporation:

Macronix International Co. Ltd.:

By: /s/ N. Damadar Reddy

By: /s/ Miin Wu