

SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549

FORM S-8

REGISTRATION STATEMENT
 UNDER
 THE SECURITIES ACT OF 1933

TOWER SEMICONDUCTOR LTD.
 (Exact Name of Registrant as Specified in Its Charter)

Israel
 (State or Other Jurisdiction of Incorporation or Organization)

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

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

Employee Share Option Plan 2005
 CEO Share Option Plan 2005
 (Full Title of Plan)

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

Copies of all Correspondence to:

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

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

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Ordinary Shares, par value NIS 1.00 per share ("Ordinary Shares") (relating to Employee Share Option Plan 2005)	9,824,660 (3) (5)	\$1.61 (1)	\$15,817,702.60 (1)	\$1,692.49
Ordinary Shares (relating to CEO Share Option Plan 2005)	12,068,988 (4) (5)	\$1.53 (2)	\$18,465,551.64 (2)	\$1,975.81
TOTAL:	21,893,648			\$3,668.30

(1) Calculated solely for the purpose of determining the registration fee based upon the assumed offering prices of the shares determined pursuant to Rule 457(h) under the Securities Act of 1933, based upon the weighted average per share exercise price of the options assumed by the Registrant. With respect to 8,266,616 shares purchasable upon exercise of outstanding options granted to date under the Registrant's Employee Share Option Plan 2005, the Proposed Maximum Offering Price Per Share is \$1.55, the weighted average exercise price per share of such options. With respect to the shares that may be issued pursuant to options which may be granted in the future pursuant to such Plan, the Proposed Maximum Offering Price Per Share is \$2.01 which represents the average of the high and low sales prices of

the Ordinary Shares as quoted through the Nasdaq Global Market on November 17, 2006.

- (2) Calculated solely for the purpose of determining the registration fee based upon the assumed offering prices of the shares determined pursuant to Rule 457(h) under the Securities Act of 1933, based upon the weighted average per share exercise price of the options assumed by the Registrant. With respect to 12,068,988 shares purchasable upon exercise of outstanding options granted to date under the Registrant's CEO Share Option Plan 2005, the Proposed Maximum Offering Price Per Share is \$1.53, the weighted average exercise price per share of such options.
- (3) Represents shares that may be issued pursuant to options which have been or may be granted pursuant to the Registrant's Employee Share Option Plan 2005.
- (4) Represents shares that may be issued pursuant to options which have been granted pursuant to the Registrant's CEO Share Option Plan 2005.
- (5) This Registration Statement also registers an indeterminate number of Ordinary Shares which may become issuable pursuant to the anti-dilution provisions of the plans and options to which this Registration Statement relates.

PART I

INFORMATION REQUIRED IN THE SECTION 10(A) PROSPECTUS

EXPLANATORY NOTE

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

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

PART II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

ITEM 3. INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

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

- o Annual Report on Form 20-F for the year ended December 31, 2005 (filed on July 13, 2006).
- o Report on Form 6-K dated July 2006 No. 1 (filed on July 24, 2006).
- o Report on Form 6-K dated July 2006 No. 2 (filed on July 24, 2006).
- o Report on Form 6-K dated July 2006 No. 3 (filed on July 26, 2006).
- o Report on Form 6-K dated August 2006 No. 1 (filed on August 2, 2006).
- o Report on Form 6-K dated August 2006 No. 2 (filed on August 9, 2006).
- o Report on Form 6-K dated August 2006 No. 3 (filed on August 24, 2006).
- o Report on Form 6-K dated August 2006 No. 4 (filed on August 28, 2006).
- o Report on Form 6-K dated September 2006 No. 1 (filed on September 5, 2006).
- o Report on Form 6-K dated September 2006 No. 2 (filed on September 12, 2006).
- o Report on Form 6-K dated September 2006 No. 3 (filed on September 13, 2006).
- o Report on Form 6-K dated September 2006 No. 4 (filed on September 18, 2006).
- o Report on Form 6-K dated September 2006 No. 5 (filed on September 25, 2006).
- o Report on Form 6-K dated September 2006 No. 6 (filed on September 26, 2006).
- o Report on Form 6-K dated September 2006 No. 7 (filed on September 28, 2006).
- o Report on Form 6-K dated October 2006 No. 1 (filed on October 18, 2006).
- o Report on Form 6-K dated October 2006 No. 2 (filed on October 30, 2006).
- o Report on Form 6-K dated November 2006 No. 1 (filed on November 1, 2006).
- o Report on Form 6-K dated November 2006 No. 2 (filed on November 1, 2006).
- o Report on Form 6-K dated November 2006 No. 3 (filed on November 2, 2006).
- o Report on Form 6-K dated November 2006 No. 4 (filed on November 6, 2006).
- o Report on Form 6-K dated November 2006 No. 5 (filed on November 7, 2006).
- o Report on Form 6-K dated November 2006 No. 6 (filed on November 7, 2006).
- o Report on Form 6-K dated November 2006 No. 7 (filed on November 15, 2006).
- o The description of the Company's Ordinary Shares which is contained in its Registration Statement on Form 8-A declared effective on October 25, 1994.

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

ITEM 4. DESCRIPTION OF SECURITIES.

Not Applicable.

ITEM 5. INTERESTS OF NAMED EXPERTS AND COUNSEL.

Not Applicable

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Israeli Companies Law-1999, or the Companies Law, provides that a company may include in its articles of association provisions allowing it to:

1. partially or fully, exempt in advance, an office holder of the company from his responsibility for damages caused by the breach of his duty of care to the company, except for damages caused to the Company due to any breach of such Office Holder's duty of care towards the company in a "distribution" (as defined in the Companies Law).
2. enter into a contract to insure the liability of an office holder of the company by reason of acts or omissions committed in his capacity as an office holder of the company with respect to the following:
 - (a) the breach of his duty of care to the company or any other person;
 - (b) the breach of his fiduciary duty to the company to the extent he acted in good faith and had a reasonable basis to believe that the act or omission would not prejudice the interests of the company; and
 - (c) monetary liabilities or obligations which may be imposed upon him in favor of other persons.
3. indemnify an office holder of the company for:
 - (a) monetary liabilities or obligations imposed upon, or actually incurred by, such officer holder in favor of other persons pursuant to a court judgment, including a compromise judgment or an arbitrator's decision approved by a court, by reason of acts or omissions of such officer holder in his or her capacity as an office holder of the company;

- (b) reasonable litigation expenses, including attorney's fees, actually incurred by such office holder or imposed upon him or her by a court, in an action, suit or proceeding brought against him or her by or on behalf of us or by other persons, or in connection with a criminal action from which he or she was acquitted, or in connection with a criminal action which does not require criminal intent in which he was convicted, in each case by reason of acts or omissions of such officer holder in his or her capacity as an office holder; and
- (c) reasonable litigation expenses, including attorneys' fees, actually incurred by such office holder due to an investigation or a proceeding instituted against such office holder by an authority competent to administrate such an investigation or proceeding, and that was finalized without the filing of an indictment against such office holder and without any financial obligation imposed on such office holder in lieu of criminal proceedings, or that was finalized without the filing of an indictment against such office holder but with financial obligation imposed on such office holder in lieu of criminal proceedings of a crime which does not require proof of criminal intent, in each case by reason of acts of such officer holder in his or her capacity as an office holder of the company.

The Companies Law provides that a company's articles of association may provide for indemnification of an office holder post-factum and may also provide that a company may undertake to indemnify an office holder in advance, as described in:

- i. sub-section 3(a) above, provided such undertaking is limited to and actually sets forth the types of occurrences, which, in the opinion of the company's board of directors based on the current activity of the company, are, at the time such undertaking is provided, foreseeable, and to an amount and degree that the board of directors has determined is reasonable for such indemnification under the circumstances; and
- ii. sub-sections 3(b) and 3(c) above.

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

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

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

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

We have entered into an insurance contract for directors and officers and have procured indemnification insurance for our office holders to the extent permitted by our Articles of Association. We have never had the occasion to indemnify any of our office holders.

ITEM 7. EXEMPTION FROM REGISTRATION CLAIMED.

Not Applicable

ITEM 8. EXHIBITS.

- 4.2 Articles of Association of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form F-1, File No. 33-126909, "Form F-1 No. 333-126909") and Amendment to the Articles of Association of the Registrant (approved by shareholders on September 28, 2006) filed herewith
- 4.3 Employee Share Option Plan 2005
- 4.4 Form of Grant Letter to Israeli Employees
- 4.5 Form of Grant Letter to U.S. Employees
- 4.6 CEO Share Option Plan 2005
- 4.7 Option Grant Letter Agreement - CEO Share Option Plan 2005 from the Registrant to Russell Ellwanger, dated July 15, 2005
- 4.8 Option Grant Letter Agreement - CEO Share Option Plan 2005 from the Registrant to Russell Ellwanger, dated September 28, 2006
- 4.9 Option Grant Letter Agreement - CEO Share Option Plan 2005 from Tower Semiconductor USA, Inc. to Russell Ellwanger, dated July 15, 2005
- 5.1 Opinion of Yigal Arnon & Co.
- 23.1 Consent of Yigal Arnon & Co. (included in the opinion filed as Exhibit 5.1)
- 23.2 Consent of Brightman Almagor & Co.
- 24.1 Power of Attorney (included on signature page)

ITEM 9. UNDERTAKINGS

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of this Registration Statement (or the most recent post-effective amendment hereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in this Registration Statement or any material change to such information in this Registration Statement;

provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in this Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) To file a post-effective amendment to the Registration Statement to include any financial statements required by item 8.A. of Form 20-F at the start of any delayed offering or throughout a continuous offering. Financial statements and information otherwise required by Section 10(a)(3) of the Act need not be furnished, PROVIDED, that the Registrant includes in the prospectus, by means of a post-effective amendment, financial statements required pursuant to this paragraph (a)(4) and other information necessary to ensure that all other information in the prospectus is at least as current as the date of those financial statements. Notwithstanding the foregoing, with respect to Registration Statements on Form F-3, a post-effective amendment need not be filed to include financial statements and information required by Section 10(a)(3) of the Act or rule 3-19 of Regulation S-X if such financial statements and information are contained in periodic reports filed with or furnished to the Commission by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Form F-3.

(5) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

- i. If the registrant is relying on Rule 430B (230.430B of this chapter):
 - A. Each prospectus filed by the registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and
 - B. Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date; or

- ii. If the registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(6) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities: The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

- i. Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;
- ii. Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
- iii. The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
- iv. Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(b) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual reports pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in this Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in such Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8, and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Migdal Haemek, Israel, on the 20th day of November, 2006.

Tower Semiconductor Ltd.

By: /s/ Russell Ellwanger

Russell Ellwanger
Director and Chief Executive Officer

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

/s/ Russell Ellwanger

Russell Ellwanger, Director and Chief Executive Officer
November 20, 2006

/s/ Oren Shirazi

Oren Shirazi, Acting Chief Financial Officer (Principal Financial and Accounting Officer)
November 20, 2006

/s/ Udi Hillman

Udi Hillman, Chairman of the Board of Directors
November 20, 2006

/s/ Yossi Rosen

Yossi Rosen, Director
November 20, 2006

/s/ Eli Harari

Eli Harari, Director
November 20, 2006

Miin Wu, Director
November 20, 2006

/s/ Melvin Keating

Melvin Keating, Director
November 20, 2006

/s/ Tal Yaron-eldar

Tal Yaron-Eldar, Director
November 20, 2006

Kalman Kaufman, Director
November 20, 2006

/s/ Hans Rohrer

Hans Rohrer, Director
November 20, 2006

AUTHORIZED REPRESENTATIVE IN THE UNITED STATES
Tower Semiconductor USA

/s/ Russell Ellwanger

Russell Ellwanger, Chief Executive Officer
November 20, 2006

EXHIBIT INDEX

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24.1	Power of Attorney (included on signature page)

AMENDMENT TO THE ARTICLES OF ASSOCIATION

At the shareholders' meeting that was held on September 28, 2006, it was proposed that for the purpose of ensuring the availability of a sufficient number of authorized shares for issuance in connection with the anticipated raising of additional capital, Tower Semiconductor Ltd. increase its authorized share capital from 500,000,000 shares NIS 1.00 per share to 800,000,000, NIS 1.00 per share.

The shareholders of Tower Semiconductor Ltd. resolved the following:

"[T]O INCREASE THE NUMBER OF THE COMPANY'S AUTHORIZED ORDINARY SHARES TO 800,000,000 AND AUTHORIZED SHARE CAPITAL TO NIS 800,000,000 AND TO AMEND THE COMPANY'S ARTICLES OF ASSOCIATION TO REFLECT SUCH INCREASE."

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

TOWER SEMICONDUCTOR LTD.
EMPLOYEE SHARE OPTION PLAN 2005
(AS AMENDED AND RESTATED EFFECTIVE AS OF MAY 17, 2006)

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

1. NAME AND PURPOSE:

- 1.1 This plan, as amended from time to time, shall be known as the Tower Semiconductor Ltd. Employee Share Option Plan 2005 (the "2005 PLAN" or the "PLAN").
- 1.2 The purpose and intent of the Plan is to provide incentives to employees of Tower Semiconductor Ltd. (the "COMPANY") and its wholly-owned subsidiaries (each, a "SUBSIDIARY") by providing them with options ("OPTIONS") to purchase ordinary shares ("ORDINARY SHARES") in the Company, pursuant to a plan approved by the Board of Directors of the Company (the "BOARD"). Options under this Plan will be granted to the Company's employees pursuant to the provisions of Section 102 ("SECTION 102") of the Israeli Income Tax Ordinance (New Version), 1961 as amended from time to time, the Law Amending the Income Tax Ordinance (Number 132) 2002 (as amended, the "ORDINANCE") and the rules promulgated thereunder (the "RULES"). Options under this Plan will be granted to United States residents who are employees of the Company's United States Subsidiary, Tower Semiconductor USA, Inc. ("TSU") pursuant to the United States Internal Revenue Code of 1986, as amended (the "CODE").
- 1.3 The Plan shall become effective upon its adoption by the Board and the Company's shareholders (the "EFFECTIVE DATE").

2. SCOPE:

- 2.1 The total number of Options that may be granted under this Plan is 9,824,660. Each Option shall be exercisable into one Ordinary Share of the Company (nominal value NIS 1.00 per share) (the "UNDERLYING SHARE").
- 2.2 The total number of ISO (as defined below) Options that may be granted under this Plan is 1,000,000 Options. Accordingly, the maximum number of Underlying Shares that may be issued as result of the exercise of ISO Options granted under this Plan is 1,000,000.

3. OPTIONS GRANTED UNDER SECTION 102:

Options granted pursuant to Section 102(b) shall be either (a) capital gains track options under Section 102(b)(2), in which income resulting from the sale of Underlying Shares is taxed as capital gain ("102 CAPITAL GAINS TRACK OPTIONS"), or (b) ordinary income track options under Section 102(b)(1), in which income resulting from the sale of Underlying Shares is taxed as ordinary income ("102 ORDINARY INCOME TRACK OPTIONS"; together with 102 Capital Gains Track Options, "102 TRUSTEE OPTIONS"). Pursuant to the Company's election filed with the Israeli Income Tax Authorities to issue 102 Capital Gains Track Options under the Company's Employee Share Option Plan 2003/1, the Company may currently grant only 102 Capital Gains Track Options. The Company may change such election not earlier than January 1, 2005, following the approval of the Board, all in accordance with the provisions of Section 102(g) of the Ordinance.

4. OPTIONS GRANTED UNDER THE CODE:

Options granted to US residents who are employees of TSU shall either qualify as Incentive Stock Options within the meaning of Section 422 of the Code ("ISOS"), or not qualify as ISOs and be classified as Non-qualified Stock Options ("NSOS") as designated in the Option Letter (as defined below). Options granted as ISO's shall comply with the requirements of Section 422 of the Code.

5. ELIGIBLE GRANTEEES:

- 5.1. Options may be granted to any employee of the Company or any Subsidiary ("GRANTEE"). No Option under this Plan may be granted to

any person serving as a member of the Board. The grant of an Option to a Grantee hereunder shall neither entitle such Grantee to participate, nor disqualify him/her from participating, in any other grant of Options pursuant to this Plan or any other share incentive or share option plan of the Company or any Subsidiary.

- 5.2. Options designated as ISOs will be treated as NSOs if (i) a Grantee of ISOs at the Date of Grant (as defined in Section 6.2 below) owns shares representing more than 10% of the voting power of the Company or its parent or a Subsidiary, (ii) at the Date of Grant, the aggregate Fair Market Value (as defined in Section 8 below) of the shares underlying ISOs which first become exercisable during any calendar year exceeds \$100,000 (taking such Options into account in the order in which they were granted), (iii) a disposition of Underlying Shares is made within two years from the Date of Grant of the Options or within one year from the exercise thereof, (iv) the Grantee was not an employee of the Company at all times during the period beginning on the Date of Grant and ending on the day 3 months before the date of exercise of such Grantee's Options, or (v) such Options otherwise fail to fully comply with the requirements for ISOs under the Code.

6. OPTIONS:

- 6.1. Options may be granted from the later of (i) the Effective Date; or (ii) 30 (thirty) days from the filing of this Plan with the Israeli Income Tax Authorities in accordance with applicable law.
- 6.2. Options may be granted until 10 (ten) years from the Effective Date.
- 6.3. Options shall be granted by issuance of an Option letter to the Grantee stating, inter alia, the number of Underlying Shares, the dates when the Options may be exercised, the Option exercise price and such other terms and conditions at the discretion of the Compensation and Options Committee (the "COMMITTEE"), provided that they are consistent with this Plan and with applicable law (the "OPTION LETTER"). The date of the Option Letter shall be the date of grant of the respective Options (the "DATE OF GRANT").
- 6.4. The Options will not be listed in any stock exchange and are not transferable (except to the Grantee's legal heirs or estate).
- 6.5. The Grantee shall have no right to vote or receive dividends (subject to Section 12.1) or any other rights of a shareholder prior to his/her exercise of the Options and until the issuance of the stock certificate evidencing the Underlying Shares.

7. VESTING AND EXERCISE OF OPTIONS:

- 7.1. Unless otherwise explicitly determined by the Board and stated in an individual Option Agreement, Options shall vest and become exercisable as follows, subject to the terms under which they were awarded: one-quarter (1/4) of the Options shall vest and become exercisable 12 months after the Date of Grant, one-quarter (1/4) of the Options shall vest and become exercisable 24 months after the Date of Grant, one-quarter (1/4) of the Options shall vest and become exercisable 36 months after the Date of Grant, and one-quarter (1/4) of the Options shall vest and become exercisable 48 months after the Date of Grant, all provided that the Grantee is employed by the Company or any Subsidiary on such dates.
- 7.2. The consideration to be paid for the Underlying Shares, including the method of payment, shall be determined by the Company and may consist entirely of (1) cash, (2) check, or (3) cashless in the case of same day sale. The procedure for exercise of the Options shall be provided to each Grantee together with the Option Letter. The Company may change the procedures for exercise of the Options at its discretion, by giving notice thereof to the Grantee.

7.3. If any Option has not been exercised within ten (10) years after the Date of Grant (or any shorter period set forth in the Option Letter), such Option shall immediately terminate and all of the Grantee's interests in and rights to such Option shall immediately expire.

8. OPTIONS' EXERCISE PRICE:

Unless otherwise explicitly determined by the Board and stated in an individual Option Agreement, the purchase price in \$US of each share will be the closing sales price of the Company's shares as reported by NASDAQ or the principal national securities exchange upon which the Company's shares are listed or traded on the last market trading day (the "FAIR MARKET VALUE") prior to the Date of Grant. To avoid doubt: (a) Options designated as ISOs must be granted with an exercise price equal to the Fair Market Value of the Company's shares on the date of grant in order to qualify for ISO treatment under the Code and (b) Options designated as 102 Capital Gains Track Options whose exercise price is less than the "102 Fair Market Value", shall be subject to Section 102(b)(3) of the Ordinance.

"102 FAIR MARKET VALUE" shall mean with respect to 102 Capital Gains Track Options only, and for the sole purpose of determining tax liability pursuant to Section 102(b)(3) of the Ordinance, the average value of the Company's shares on the thirty (30) trading days preceding the date of grant.

9. TRUSTEE; REQUIRED HOLDING PERIODS:

- 9.1. All Options and the Underlying Shares will be held in trust by David H. Schapiro Legal Services (the "TRUSTEE") (i) in accordance with Section 102 and the regulations, rules, orders and procedures promulgated thereunder with respect to Israeli residents; or (ii) pursuant to the Company's instructions and all applicable laws with respect to non-Israeli residents (all such Options shall be referred to as the "TRUSTEE OPTIONS").
- 9.2. 102 Trustee Options and the Underlying Shares shall be held by the Trustee for the requisite period prescribed by the Ordinance and the Rules, or such other period as may be required (the "REQUIRED HOLDING PERIOD").
- 9.3. The Trustee and each Grantee shall comply with the applicable laws and the terms and conditions of the Trust Agreement entered into between the Company and the Trustee.
- 9.4. In the event that the Company issues securities as bonus shares (ioeau aeaa), such bonus shares on shares which derive from Trustee Options shall be subject to the provisions of this Section and for bonus shares on shares which derive from 102 Trustee Options, the Required Holding Period for such bonus shares shall be measured from the commencement of the Required Holding Period for the 102 Trustee Options.
- 9.5. The Trustee shall not exercise the voting rights vested in the Underlying Shares, unless the Trustee believes, after consulting with the Committee and the Grantees who hold a majority of the issued Options, that said rights should be exercised for the protection of the Grantees as a minority among the Company's shareholders.
- 9.6. The Company shall be entitled to replace the Trustee with another appointee from time to time and shall notify the Grantees of such replacement.

10. RESERVED SHARES:

- 10.1. The Company has reserved 9,824,660 authorized but unissued Ordinary Shares (nominal value NIS 1.00 per share) for purposes of the Plan, subject to adjustments as provided in Section 12 below. If any Options granted under the Plan terminate, expire or otherwise cease to exist, such Options shall again be available for grant under the Plan or any other incentive plan that the Company may adopt.
- 10.2. The Company will maintain a sufficient quantity of Ordinary Shares, NIS 1.00 nominal value, in its registered capital and shall increase said quantity as appropriate to allow for the exercise of the Options under the Plan.

11. TERMINATION OF EMPLOYMENT; TERMINATION OF RIGHT TO EXERCISE:

- 11.1. Subject to the provisions of paragraph 11.2 and 11.3 hereof, unless determined otherwise by the Board, if a Grantee ceases to be employed by the Company for any reason, all of the Grantee's rights in respect of all Options that are vested and exercisable under the Plan on the date of termination shall terminate sixty (60) days from the date of termination. Options which are not vested and exercisable on the date of termination will become void and unexercisable as of such date.
- 11.2. Notwithstanding paragraph 11.1, in the event the Company terminates the employment of a Grantee under circumstances that entitle the Company (1) to withhold severance pay, in whole or in part, pursuant to the provisions of the Severance Pay Law, 5723-1963, or (2) to terminate the Grantee for Cause as such term is defined in such Grantee's employment agreement, all of the Grantee's exercisable Options shall become void and unexercisable on the last day of the Grantee's employment, unless otherwise set forth in the Grantee's employment agreement.
- 11.3. If a Grantee dies, becomes unable to continue to be employed by the Company due to incapacitation from an accident, illness or other cause approved by the Committee, or retires at the legal retirement age, all of the Grantee's exercisable Options as of such date can be exercised by the Grantee or the Grantee's estate or legal representative, as the case may be, within one (1) year after the Grantee's last day of employment with the Company. Thereafter, such Options shall become void and unexercisable. In the case of an ISO, if the Grantee's disability is not a "disability" as such term is defined in Section 22(e) (3) of the Code, such ISO shall be treated for tax purposes as an NSO as of three months and one day from the Grantee's last day of employment.

12. ADJUSTMENTS:

- 12.1. In the event that the Company shall issue any of its Ordinary Shares or other securities as bonus shares (ioeau aeaa), each Grantee who has been granted Options as of such date shall, upon exercising his/her Options, be entitled to receive, for the purchase price payable upon such exercise, bonus shares at no additional cost, in an amount and of such class, as the Grantee would have received had he been the holder of the Underlying Shares at the time the Company issued such bonus shares. No fractional shares will be issued under this Section. The Company may aggregate and sell all fractional shares and will be entitled to the proceeds of the sale thereof.

- 12.2. If securities of any kind are offered to the Company's shareholders by means of a rights offering, the exercise price of the Options will not be adjusted, however, the number of Underlying Shares will be increased to take into account the element of economic benefit of the rights issue ("i0eea aaeaa"), as is represented by the ratio between the price per share of the Company's Ordinary Shares on the effective date of the future rights offering and the base price per share of the Company's Ordinary Shares that is established by the Tel-Aviv Stock Exchange (the "TASE") on the following trading day. If the TASE does not establish a base price per share of the Company's Ordinary Shares, no adjustment in the number of Underlying Shares issuable upon exercise of the Options will be made with respect to such future rights offering.
- 12.3. If the Company consolidates its Ordinary Shares, NIS 1.00 nominal value, into shares with a higher nominal value, or if it splits them into a larger number of shares having a lower nominal value, the number of Underlying Shares issued upon exercise of the Options will be adjusted as appropriate.
- 12.4. In the event that the Company is a party to any agreement or arrangement in which the holders of the Company's ordinary shares are offered the opportunity to exchange their shares for the securities of any other corporation, such as a merger or reorganization (the "EXCHANGE TRANSACTION"), the Company will endeavor to cause such other corporation to issue such securities as those offered to the Company's ordinary shareholders to any Grantee who exercises his/her Options, as if said Grantee was the holder of the Underlying Shares on the determining date in connection with the Exchange Transaction.
- 12.5. VOLUNTARY LIQUIDATION: In the event of a decision to voluntarily liquidate the Company, each Grantee will be (i) deemed to have exercised his/her vested and exercisable Options immediately prior to such decision; and (ii) entitled to payment equal to the amount that he/she would receive in liquidation if he/she were a holder of the Underlying Shares immediately prior to the decision to voluntarily liquidate less the exercise price.
- 12.6. The Committee is authorized to implement all adjustments and execute the required calculations, pursuant to the principles in this Section 12.

13. CONTINUATION OF EMPLOYMENT:

Neither the Plan nor the Option Letter shall impose any obligation on the Company or any Subsidiary to continue employing any Grantee.

14. APPLICATION OF FUNDS:

The proceeds received by the Company from the sale of Underlying Shares will be used for general corporate purposes of the Company or any Subsidiary.

15. TAX CONSEQUENCES:

15.1. Any tax consequences arising from (i) the grant or exercise of any Option, (ii) the issuance of Underlying Shares and payment therefor, (iii) the sale, transfer or exchange of Underlying Shares, or (iv) any other event or act of the Company or the Grantee hereunder, and any commissions and other expenses related thereto, shall be borne solely by the Grantee. The Company, any of its Subsidiaries and/or the Trustee may withhold any taxes, expenses and commissions as required. The Grantee agrees to indemnify the Company, any of its Subsidiaries and/or the Trustee and hold them harmless from and against any and all liability for any such tax consequences, commissions, expenses or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to the Grantee.

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

16. ADMINISTRATION:

16.1. The Plan will be administered by the Board, taking into account the recommendations of the Committee.

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

17. AMENDMENT AND TERMINATION OF THE PLAN:

The Board may, at any time, terminate or amend the Plan in any respect, subject to the Company's shareholders' approval, if required.

18. GOVERNING LAW:

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

18.2. The Plan and all instruments issued hereunder in connection with Options granted pursuant to the Code shall be governed by, and interpreted in accordance with, the laws of the State of California.

Date: _____

RE: GRANT OF OPTIONS UNDER SECTION 102 - 2005 PLAN

Grant Number: _____

Dear: _____

We are pleased to grant you options ("Options") to purchase up to _____ Ordinary Shares, nominal value NIS 1.00 each, of Tower Semiconductor Ltd. (the "Company"), pursuant to the Employee Share Option Plan 2005 of the Company, (the "Plan"), as of _____ (the "Date of Grant").

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

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

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

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

1. ISSUANCE OF OPTIONS.

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

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

2. VESTING; PERIOD OF EXERCISE.

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

(a) _____ of the Options shall vest 12 months from the Date of Grant;

(b) _____ of the Options shall vest 24 months from the Date of Grant;

(c) _____ of the Options shall vest 36 months from the Date of Grant; and

(d) _____ of the Options shall vest 48 months from the Date of Grant;

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

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

2.4. Options which are unvested at the time of termination of your employment with the Company will become void and unexercisable at the

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

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

3. NOTICES.

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

- (a) If to you, at your address listed beneath your signature below;
- (b) If to the Company: Human Resources Department, Tower Semiconductor, P.O. Box 619, Migdal Ha'emek, Israel;
- (c) If with respect to Option exercise procedures: tafm@tamfish.com or facsimile no.: 03-6853773.

4. NO WAIVER.

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

Sincerely,

Tower Semiconductor Limited

Name of Employee: _____

Date: _____

Employee signature: _____

Employee ID number: _____

Employee address: _____

EMPLOYEE'S DECLARATION

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

5. I acknowledge that a trustee (the "Trustee") has been appointed to administer my Options in accordance with Section 102 of the Ordinance and the Income Tax Rules (Tax Benefits Regarding the Grant of Options to Employees), 2003 (the "Rules") and pursuant to an agreement with the Trustee that may be amended from time to time (the "Trust Agreement"). In accordance with the terms of this Option Agreement, the Company and/or the Trustee are responsible, among other things, to: (a) withhold and pay any applicable taxes owed to the tax authorities in Israel in connection with my Options, including as a result of an exercise of my Options and sale of the Shares by me, prior to releasing any funds owed to me, (b) provide the tax authorities in Israel with an annual report in accordance with the Rules and (c) provide the Israeli tax authorities with a report regarding the grant of Options under the Plan, within ninety (90) days from the Grant Date in accordance with the Rules. Any fees associated with the exercise of my Options as specified in the Trust Agreement will be borne solely by me. In accordance with the approval granted by the Israel Tax authorities in connection with this Plan, certain of the functions related to the administration of my options may be performed by the Company.

6. In accepting this grant, I acknowledge that unless otherwise permitted by the Income Tax Authorities, the Rules as of the Option Date prohibit me from selling Shares issued upon exercise of my Options during a period of twenty-four months from the end of the tax year in which the grant took place in the event that my Options are subject to the "capital gains track" as set forth in Section 102(b)(2) (the "Capital Gains Track") of the Ordinance (the "Capital Gains Track"), or during a period of twelve months from the end of the tax year in which the grant took place in the event that my Options are subject to the "employment income track" as set forth in Section 102(b)(1) of the Ordinance (the "Required Holding Period"). Notwithstanding the above, if I elect to sell my Shares during the Required Holding Period, I hereby acknowledge that the sale of the Shares will be taxed in accordance with the relevant provisions of Section 102 of the Ordinance and the Rules regarding a breach of the terms of the Required Holding Period. For the avoidance of doubt, in the event that my Options are subject to the "capital gains track", a sale of the shares issued upon exercise of my Options during the Required Holding Period will forfeit my right to receive the tax benefits of the "capital gains track" under Section 102(b)(2) of the Ordinance and the income derived from the exercise of the Options and the sale of the Shares will be taxed as regular employment income (and not at the reduced capital gains tax rate, if applicable) and will be subject to National Insurance and Health tax.

7. I hereby acknowledge that Options granted pursuant to Section 102 as capital gains track options, pursuant to which income resulting from the sale of shares derived from such Options is taxed as a capital gain ("102 Capital Gains Track Options"), or as ordinary income track options, pursuant to which income resulting from the sale of shares derived from such Options is taxed as ordinary income ("102 Ordinary Income Track Options"; together with 102 Capital Gains Track Options, "102 Trustee Options"), shares issuable upon exercise of 102 Trustee Options or proceeds arising from the sale of such shares may be released to an Israeli resident Grantee only in compliance with the Ordinance, the Rules, and the terms and conditions of the Trust Agreement entered into between the Company and the Trustee, including without derogation, the withholding of any applicable tax due pursuant to the Ordinance and Rules.

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

Name of Employee: _____

Signature: _____

I.D. Number: _____

Date: _____

Date: _____

RE: GRANT OF OPTIONS UNDER THE INTERNAL REVENUE CODE OF 1986 - 2005 PLAN

Dear: _____

We are pleased to grant you options ("Options") to purchase Ordinary Shares, nominal value NIS 1.00 each (the "Shares"), of Tower Semiconductor Ltd. (the "Company"), pursuant to the Employee Share Option Plan 2005 of the Company, (the "Plan"), as of _____ (the "Date of Grant"), as follows:

1. Total Number of Options Granted _____
2. Type of Option:
 - Option intended to qualify as an incentive stock option ("ISO") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended ("Code").
 - Option not intended to qualify as an Incentive Stock Option ("NSO").
3. The exercise price of the Options shall be \$_____ per Share.
4. The Options are hereby issued (the "Option Award") to the Trustee (as defined in the Plan) for your benefit, subject to the terms and conditions hereunder and the Plan which we have posted on our website. You are urged to review the Plan and shall be deemed to be fully aware of all the terms and conditions governing the Options set forth in the Plan. By your signature below, you agree to be bound by the terms and conditions of the Plan.
5. Subject to the terms and conditions of the Plan and this letter, the Options granted pursuant to this letter shall become exercisable (vest) in accordance with the following schedule:
 - (a) _____ of the Options shall vest 12 months from the Date of Grant;
 - (b) _____ of the Options shall vest 24 months from the Date of Grant;
 - (c) _____ of the Options shall vest 36 months from the Date of Grant; and
 - (d) _____ of the Options shall vest 48 months from the Date of Grant.
6. The above Options will vest and become exercisable only if on the date of exercise you are still employed by the Company. Vested Options may be exercised in whole or in part, at any time within a period of ten (10) years from the Date of Grant (the "Exercise Period"). Any Option not exercised within the Exercise Period shall lapse and become void and unexercisable. In addition, Options which are unvested at the time of termination of your employment with the Company will become void and unexercisable at the time of such termination. In addition, if your employment with the Company is terminated voluntarily by you or is terminated by the Company for any reason (other than as set forth in the Plan), vested Options can be exercised by you within sixty (60) days after your last day of employment with the Company. Thereafter, such options shall lapse and become void and unexercisable.
7. The procedure for exercise of the Options shall be as detailed in the Intranet. However, the Company may change the procedures for exercise of the Options at its discretion. The Company will notify you of any changes in the procedure.
8. Any tax consequences arising from the grant or exercise of any Option Award, from the payment for Shares covered thereby or from any other event or act (of the Company, its subsidiaries or you) hereunder, and commissions and other expenses relating thereto shall be borne solely by you. Furthermore, you shall agree to indemnify the Company and/or any of its subsidiaries and/or the Trustee and hold them harmless

against and from any and all liability for any such tax or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to you. The Company and/or any of its subsidiaries and/or the Trustee may withhold any taxes, expenses and commissions from the exercise of the Options and/or the sale of the underlying Shares.

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

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

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

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

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

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

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

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

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

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

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

(c) If with respect to Option exercise procedures: TAFM@TAMFISH.COM or facsimile no.: 972-3-6853773.

Sincerely,

Tower Semiconductor Limited

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

Name of Employee: _____

Date: _____

Employee signature: _____

Employee Social Security number: _____

Employee address: _____

TOWER SEMICONDUCTOR LTD.
 CEO SHARE OPTION PLAN 2005
 (AS AMENDED EFFECTIVE AS OF MAY 17, 2006)

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

1. NAME AND PURPOSE:

- 1.1 This plan, as amended from time to time, shall be known as the Tower Semiconductor Ltd. CEO Share Option Plan 2005 (the "PLAN").
- 1.2 The purpose and intent of the Plan is to provide incentives to the Chief Executive Officer ("CEO") of Tower Semiconductor Ltd. (the "COMPANY") who is also an officer of any of its wholly owned subsidiaries (each, a "SUBSIDIARY") by providing him/her with options ("OPTIONS") to purchase ordinary shares ("ORDINARY SHARES") of the Company, and was approved by the Company's Board of Directors (the "BOARD"). Options under this Plan may be granted either (i) pursuant to the provisions of Section 102 ("SECTION 102") of the Israeli Income Tax Ordinance (New Version), 1961 as amended from time to time, the Law Amending the Income Tax Ordinance (Number 132) 2002 (as amended, the "ORDINANCE") and the rules promulgated thereunder (the "RULES"); or (ii) pursuant to the United States Internal Revenue Code of 1986, as amended (the "CODE").
- 1.3 The Plan shall become effective upon its approval by the Board (the "EFFECTIVE DATE"). The Plan has been amended in accordance with resolutions of the Board dated May 17, 2006 (the "AMENDMENT DATE")

2. SCOPE:

The total number of Options that may be granted under this Plan, including grants granted prior to the Amendment Date is 12,068,988 __, of which the total number of ISO (as defined below) Options that may be granted under this Plan is 662,862 Options and the total number of 102 Trustee Options (as defined below) that may be granted under this Plan is 11,406,126_ Options. Each Option shall be exercisable into one Ordinary Share of the Company (nominal value NIS 1.00 per share) (the "UNDERLYING SHARE").

3. OPTIONS GRANTED UNDER SECTION 102:

Options granted pursuant to Section 102(b) shall be either (a) capital gains track options under Section 102(b)(2), in which income resulting from the sale of Underlying Shares is taxed as capital gain ("102 CAPITAL GAINS TRACK OPTIONS"), or (b) ordinary income track options under Section 102(b)(1), in which income resulting from the sale of Underlying Shares is taxed as ordinary income ("102 ORDINARY INCOME TRACK OPTIONS"; together with 102 Capital Gains Track Options, "102 TRUSTEE OPTIONS"). Pursuant to the Company's election filed with the Israeli Income Tax Authorities to issue 102 Capital Gains Track Options under the Company's Employee Share Option Plan 2003/1, the Company may currently grant only 102 Capital Gains Track Options. The Company may change such election, following the approval of the Board, all in accordance with the provisions of Section 102(g) of the Ordinance.

4. OPTIONS GRANTED UNDER THE CODE:

Options granted to US residents who are employees of Tower Semiconductor USA, Inc. shall either qualify as Incentive Stock Options within the meaning of Section 422 of the Code ("ISOS"), or not qualify as ISOs and be classified as Non-qualified Stock Options ("NSOS") as designated in the Option Letter (as defined below). Options granted as ISO's shall comply with the requirements of Section 422 of the Code.

5. ELIGIBLE GRANTEES:

- 5.1. Options may be granted to the CEO of the Company and of any Subsidiary (collectively referred to as the "GRANTEE"). The grant of an Option to the Grantee hereunder shall neither entitle such Grantee to participate, nor disqualify him/her from participating, in any other grant of Options pursuant to this Plan or any other share incentive or share option plan of the Company or any Subsidiary.

5.2. Options designated as ISOs will be treated as NSOs if (i) a Grantee of ISOs at the Date of Grant (as defined in Section 6.2 below) owns shares representing more than 10% of the voting power of the Company or its parent or a Subsidiary, (ii) at the Date of Grant, the aggregate Fair Market Value (as defined in Section 8 below) of the shares underlying ISOs which first become exercisable during any calendar year exceeds \$100,000 (taking such Options into account in the order in which they were granted), (iii) a disposition of Underlying Shares is made within two years from the Date of Grant of the Options or within one year from the exercise thereof, (iv) the Grantee was not an employee of the Company at all times during the period beginning on the Date of Grant and ending on the day 3 months before the date of exercise of such Grantee's Options, or (v) such Options fail to fully comply with any of the requirements for ISOs under the Code.

6. OPTIONS:

6.1. 102 Trustee Options may be granted from the later of (i) the Effective Date; or (ii) 30 (thirty) days from the filing of this Plan with the Israeli Income Tax Authorities in accordance with applicable law.

- 6.2. Options granted under the Code may be granted from the Effective Date.
- 6.3. Options may be granted until 10 (ten) years from the Effective Date.
- 6.4. Options shall be granted by issuance of an Option letter to the Grantee stating, inter alia, the number of Underlying Shares, the dates when the Options may be exercised, the Option exercise price and such other terms and conditions at the discretion of the Board, provided that they are consistent with this Plan and with applicable law (the "OPTION LETTER"). The Option Letter shall also list the date of grant of the respective Options (the "DATE OF GRANT").
- 6.5. The Options will not be listed in any stock exchange and are not transferable (except to the Grantee's legal heirs or estate).
- 6.6. The Grantee shall have no right to vote or receive dividends (subject to Section 12.1) or any other rights of a shareholder prior to his/her exercise of the Options and until the issuance of the share certificate evidencing the Underlying Shares.

7. VESTING AND EXERCISE OF OPTIONS:

- 7.1. Options shall vest and become exercisable as set forth in the Option Letter.
- 7.2. The consideration to be paid for the Underlying Shares, including the method of payment, shall be determined by the Company and may consist entirely of (1) cash, (2) check, or (3) cashless in the case of same day sale. The procedure for exercise of the Options shall be provided to each Grantee together with the Option Letter. The Company may change the procedures for exercise of the Options at its discretion, by giving notice thereof to the Grantee.
- 7.3. If any Option has not been exercised within ten (10) years after the Date of Grant (or any shorter period set forth in the Option Letter), such Option shall immediately terminate and all of the Grantee's interests in and rights to such Option shall immediately expire.

8. OPTIONS' EXERCISE PRICE:

The purchase price in \$US of each share will be the closing sales price of the Company's shares as reported by NASDAQ or the principal national securities exchange upon which the Company's shares are listed or traded on the last market trading day (the "FAIR MARKET VALUE") prior to the initial date the Board approved the Option grant, unless otherwise determined by the Board and set forth in the Option Letter.

To avoid doubt: (a) Options designated as ISOs must be granted with an exercise price equal to the Fair Market Value of the Company's shares on the date of grant in order to qualify for ISO treatment under the Code and (b) Options designated as 102 Capital Gains Track Options whose exercise price is less than the "102 Fair Market Value", shall be subject to Section 102(b)(3) of the Ordinance.

"102 FAIR MARKET VALUE" shall mean with respect to 102 Capital Gains Track Options only, and for the sole purpose of determining tax liability pursuant to Section 102(b)(3) of the Ordinance, the average value of the Company's shares on the thirty (30) trading days preceding the date of grant.

9. TRUSTEE; REQUIRED HOLDING PERIODS:

- 9.1. All Options and the Underlying Shares will be held in trust by David H. Schapiro Legal Services (the "TRUSTEE") (i) in accordance with Section 102 and the regulations, rules, orders and procedures promulgated thereunder with respect to Israeli residents; or (ii) pursuant to the Company's instructions and all applicable laws with respect to non-Israeli residents (all such Options shall be referred to as the "TRUSTEE OPTIONS").
- 9.2. The 102 Trustee Options and the Underlying Shares shall be held by the Trustee for the requisite period prescribed by the Ordinance and the Rules, or such other period as may be required (the "REQUIRED HOLDING PERIOD") and the Grantee shall not be entitled to sell or otherwise dispose of the Underlying Shares purchasable upon the exercise of such 102 Trustee Options during the Required Holding Period, unless permissible and in accordance with the Ordinance and the Rules.
- 9.3. The Trustee and Grantee shall comply with the applicable laws and the terms and conditions of the Trust Agreement entered into between the Company and the Trustee.
- 9.4. In the event that the Company issues securities as bonus shares (ioeau aaaa) or performs a share split or a similar dissolution, such bonus shares or other similar rights on shares which derive from 102 Trustee Options shall be subject to the provisions of this Section 9 and the Required Holding Period for such bonus shares or other similar rights shall be measured from the commencement of the Required Holding Period for the 102 Trustee Options. All such bonus shares and/or other similar rights shall be held by the Trustee in accordance with Section 102 and the regulations, rules, orders and procedures promulgated thereunder with respect to Israeli residents.

9.5. The Trustee shall not exercise the voting rights vested in the Underlying Shares, unless the Trustee believes, after consulting with the Company's Compensation and Options Committee and the Grantees who hold a majority of the issued Options, that said rights should be exercised for the protection of the Grantees as a minority among the Company's shareholders.

9.6. The Company shall be entitled to replace the Trustee with another appointee from time to time and shall notify the Grantee of such replacement.

10. RESERVED SHARES:

10.1. The Company has reserved 12,068,988 authorized but unissued Ordinary Shares (nominal value NIS 1.00 per share) for purposes of the Plan, subject to adjustments as provided in Section 12 below. If any Options granted under the Plan terminate, expire or otherwise cease to exist, they shall no longer be available for grant under this Plan.

10.2. The Company will maintain a sufficient quantity of Ordinary Shares, NIS 1.00 nominal value, in its registered capital and shall increase said quantity as appropriate to allow for the exercise of the Options under the Plan.

11. TERMINATION OF EMPLOYMENT; TERMINATION OF RIGHT TO EXERCISE:

11.1. Subject to the provisions of paragraph 11.2 and 11.3 hereof, unless determined otherwise by the Board, if a Grantee ceases to be employed by the Company for any reason, all of the Grantee's rights in respect of all Options that are vested and exercisable under the Plan on the date of termination shall terminate sixty (60) days from the date of termination. Options which are not vested and exercisable on the date of termination will become void and unexercisable as of such date, unless otherwise set forth in the Grantee's Option Letter.

11.2. Notwithstanding paragraph 11.1, in the event the Company terminates the employment of a Grantee under circumstances that entitle the Company (1) to withhold severance pay, in whole or in part, pursuant to the provisions of the Severance Pay Law, 5723-1963, or (2) to terminate the Grantee for Cause as such term is defined in such Grantee's employment agreement, all of the Grantee's exercisable Options shall become void and unexercisable on the last day of the Grantee's employment, unless otherwise set forth in the Grantee's Option Letter.

11.3. If a Grantee dies, becomes unable to continue to be employed by the Company due to incapacitation from an accident, illness or other cause approved by the Committee, or retires at the legal retirement age, all of the Grantee's exercisable Options as of such date can be exercised by the Grantee or the Grantee's estate or legal representative, as the case may be, within one (1) year after the Grantee's last day of employment with the Company. Thereafter, such Options shall become void and unexercisable. In the case of an ISO, if the Grantee's disability is not a "disability" as such term is defined in Section 22(e)(3) of the Code, such ISO shall be treated for tax purposes as an NSO as of three months and one day from the Grantee's last day of employment.

12. ADJUSTMENTS:

12.1. In the event that the Company shall issue any of its Ordinary Shares or other securities as bonus shares (ioeau aaaa), each Grantee who has been granted Options as of such date shall, upon exercising his/her Options, be entitled to receive, for the purchase price payable upon such exercise, bonus shares at no additional cost, in an amount and of such class, as the Grantee would have received had he been the holder of the Underlying Shares at the time the Company issued such bonus shares. No fractional shares will be issued under this Section. The Company may aggregate and sell all fractional shares and will be entitled to the proceeds of the sale thereof.

12.2. If securities of any kind are offered to the Company's shareholders by means of a rights offering, the exercise price of the Options will not be adjusted, however, the number of Underlying Shares will be increased to take into account the element of economic benefit of the rights issue ("i0eea aaaaa"), as is represented by the ratio between the price per share of the Company's Ordinary Shares on the effective date of the future rights offering and the base price per share of the Company's Ordinary Shares that is established by the Tel-Aviv Stock Exchange (the "TASE") on the following trading day. If the TASE does not establish a base price per share of the Company's Ordinary Shares, no adjustment in the number of Underlying Shares issuable upon exercise of the Options will be made with respect to such future rights offering.

12.3. If the Company consolidates its Ordinary Shares, NIS 1.00 nominal value, into shares with a higher nominal value, or if it splits them into a larger number of shares having a lower nominal value, the number of Underlying Shares issued upon exercise of the Options will be adjusted as appropriate.

12.4. In the event that the Company is a party to any agreement or arrangement in which the holders of the Company's ordinary shares are offered the opportunity to exchange their shares for the securities of any other corporation, such as a merger or reorganization (the "EXCHANGE TRANSACTION"), the Company will endeavor to cause such other corporation to issue such securities as those offered to the Company's ordinary shareholders to any Grantee who exercises his/her Options, as if said Grantee was the holder of the Underlying Shares on the determining date in connection with the Exchange Transaction.

12.5. VOLUNTARY LIQUIDATION: In the event of a decision to voluntarily liquidate the Company, each Grantee will be (i) deemed to have exercised his/her vested and exercisable Options immediately prior to such decision; and (ii) entitled to payment equal to the amount that he/she would receive in liquidation if he/she were a holder of the Underlying Shares immediately prior to the decision to voluntarily liquidate less the exercise price.

12.6. The Committee is authorized to implement all adjustments and execute the required calculations, pursuant to the principles in this Section 12.

13. CONTINUATION OF EMPLOYMENT:

Neither the Plan nor the Option Letter shall impose any obligation on the Company or any Subsidiary to continue employing any Grantee.

14. APPLICATION OF FUNDS:

The proceeds received by the Company from the sale of Underlying Shares will be used for general corporate purposes of the Company or any Subsidiary.

15. TAX CONSEQUENCES:

15.1. Any tax consequences arising from (i) the grant or exercise of any Option, (ii) the issuance of Underlying Shares and payment therefor, (iii) the sale, transfer or exchange of Underlying Shares, or (iv) any other event or act of the Company or the Grantee hereunder, and any commissions and other expenses related thereto, shall be borne solely by the Grantee. The Company, any of its Subsidiaries and/or the Trustee may withhold any taxes, expenses and commissions as required. The Grantee agrees to indemnify the Company, any of its Subsidiaries and/or the Trustee and hold them harmless from and against any and all liability for any such tax consequences, commissions, expenses or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to the Grantee.

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

16. ADMINISTRATION:

16.1. The Plan will be administered by the Board, taking into account the recommendations of the Committee.

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

17. AMENDMENT AND TERMINATION OF THE PLAN:

Subject to applicable law, the Board may, at any time, terminate or amend the Plan in any respect.

18. GOVERNING LAW:

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

18.2. The Plan and all instruments issued hereunder in connection with Options granted pursuant to the Code shall be governed by, and interpreted in accordance with, the laws of the State of California.

APPENDIX B

Option Grant Letter Agreement

RE: GRANT OF OPTIONS - CEO SHARE OPTION PLAN 2005

Dear : Mr. Russell Ellwanger

Tower Semiconductor Ltd. (the "Company") is pleased to grant you, subject to the receipt of the requisite corporate approvals, options ("Options") to purchase up to 662,862 Ordinary Shares, nominal value NIS 1.00 each, of the Company (the "Shares"), pursuant to the CEO Share Option Plan of the Company, (the "Plan"), as of July 15, 2005 (the "Date of Grant"). Capitalized terms not defined in this letter agreement (this "Option Agreement") shall have the meaning ascribed to them in the Plan.

The grant and issuance of Options pursuant to this Option Agreement is subject to the receipt of all the approvals required under Section 102 of the Income Tax Ordinance ("Section 102"). The Options will therefore be issued to the Trustee, as such term is defined in the Plan. The Options are granted as 102 Capital Gains Track Options.

The exercise price of the Options shall be \$1.56 per Share. The terms and conditions set forth in this Option Agreement are subject to and supplemented by the terms and conditions set forth in the Plan attached hereto. You are urged to review the Plan and shall be deemed to be fully aware of all the terms and conditions governing the Options set forth in the Plan. By your signature below, you agree to be bound by the terms and conditions of the Plan.

The Options granted pursuant to this Option Agreement will be issued once you sign and return to the Company: (I) this Option Agreement, (II) the attached Employee's Declaration, and (III) any other form which is required under Section 102 and which will be provided to you by the Company.

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

1. ISSUANCE OF OPTIONS.

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

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

2. VESTING; PERIOD OF EXERCISE.

2.1 VESTING SCHEDULE. Subject to the terms and conditions of the Plan and this Option Agreement, the Options granted pursuant to this Option Agreement shall become exercisable (vest) over a period of four years in accordance with the following vesting schedule:

- (a) Twenty five percent (25%) of the Options shall vest on May 1, 2006.
- (b) Twenty five percent (25%) of the Options shall vest on May 1, 2007.
- (c) Twenty five percent (25%) of the Options shall vest on May 1, 2008.
- (d) Twenty five percent (25%) of the Options shall vest on May 1, 2009.

2.2 Subject to Section 2.5(i), the above Options will vest and become exercisable only if on the date of vesting you serve as chief executive officer of the Company.

2.3 Other than as set forth in applicable law and Section 2.5 below, vested Options may be exercised in whole or in part, at any time within a period of ten (10) years from the Date of Grant (the "Exercise Period"). Any Option not exercised within the Exercise Period shall lapse and become void and unexercisable.

- 2.4 The Company will come to an agreement with you as to how to value the Ordinary Shares of the Company in the event that they are not publicly traded at the time of an option exercise.
- 2.5 In the event of the termination of your relationship with the Company as chief executive officer of the Company (the "Employment") subsequent to the Date of Grant, the Options will be treated as follows:
- (i) In the event the Company terminates you without cause (as defined in Section 7(a) of your employment agreement with the Company (the "Employment Agreement")), all Options that were to vest over the 12 months from the date of termination shall become fully vested and exercisable immediately upon such date of termination. All options that are vested and exercisable on the date of termination shall lapse and become unexercisable sixty (60) days from such date. Any remaining unvested options will terminate immediately upon termination.
 - (ii) In the event: (a) the Company terminates you for cause, or (b) you terminate your employment with the Company pursuant to Section 7(c) of the Employment Agreement, all of your Options (including vested Options) will terminate immediately upon the date of termination.
- 2.6 Notwithstanding anything to the contrary in the Plan and subject to any applicable law, upon the Company consummating of any transaction that results in the sale of all or substantially all of the assets or shares of the Company, all Options that were to vest over the next 12 months from the date such transaction is consummated shall become exercisable immediately prior to such date.

2.7 The procedure for exercise of the Options shall be as detailed on the website of the Company (www.towersemi.com). However, the Company may change the procedure for exercise of the Options at its discretion. The Company will notify you of any changes in the procedure.

3. NOTICES.

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

- (a) If to you, at your address listed beneath your signature below;
- (b) If to the Company: Human Resources Department, Tower Semiconductor, P.O. Box 619, Migdal Ha'emek, Israel;
- (c) If with respect to Option exercise procedures: sob@tomfish.com or facsimile no.: 972-3-6849282.

4. NO WAIVER.

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

Sincerely,

Tower Semiconductor Limited

Name of Employee: Mr. Russell Ellwanger

Date: _____

Employee signature: _____

Employee Passport Number: _____

Employee address: _____

EMPLOYEE'S DECLARATION

1. I, the undersigned, confirm that the contents of this Option Agreement are acceptable and agreed to by me.

2. Any tax consequences arising from (i) the grant or exercise of any Option, (ii) the issuance of Underlying Shares and payment therefor, (iii) the sale, transfer or exchange of Underlying Shares, or (iv) any other event or act of mine or of the Company hereunder, and any commissions and other expenses related thereto, shall be borne solely by me. The Company, any of its Subsidiaries and/or the Trustee may withhold any taxes, expenses and commissions as required. I agree to indemnify the Company, any of its Subsidiaries and/or the Trustee and hold them harmless from and against any and all liability for any such tax consequences, commissions, expenses or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to me.

3. I acknowledge and agree that in the event the Company issues securities as bonus shares or performs a share split or a similar dissolution, such bonus shares or other similar rights on the shares granted to me pursuant to this Option Agreement, shall be transferred by the Company to the Trustee, and the terms and provisions of the Ordinance and the Rules (as such terms are defined below) shall apply to the bonus shares and/or other similar rights, as shall the Trustee's undertakings under the Agreement between the Trustee and the Company.

4. Without derogating from the former provisions, I acknowledge that the ultimate liability for income tax, social insurance or other tax-related withholding in connection with this grant or its exercise is my responsibility. I specifically acknowledge that any and all applicable laws and regulations in Israel pertaining to the granting of options including but not limited to the provisions set forth in Section 102 of the Income Tax Ordinance [New Version] - 1961 (the "Ordinance") and any rules promulgated thereunder including any amendment thereto, any interpretation published by the Israeli tax authorities in their official guidelines and any judicial interpretation of the Israeli courts, shall each apply with respect to my options and may affect the terms of my options. Any exercise of an option and sale of shares received upon the exercise of my options (the "Shares"), which deviates from the rules set forth in Section 102 of the Ordinance or in regulations promulgated thereunder may result in adverse tax consequences for me. I further acknowledge that each of the Company, brokers effecting transactions relating to my options and the Trustee (as defined in the Plan) is under no obligation to inform me as to whether a particular transaction I may consider effecting complies with the provisions of Section 102 of the Ordinance or the rules promulgated thereunder. I further acknowledge that the Company has not, nor does it intend to, provide tax advice with respect to the tax ramifications of an option grant under the laws of any jurisdiction, including Section 102 of the Ordinance or any rules promulgated thereunder, and that I am urged to seek my own personal tax advice.

5. APPOINTMENT OF A TRUSTEE. I acknowledge that the Trustee has been appointed to administer my options in accordance with Section 102 of the Ordinance and the Income Tax Rules (Tax Benefits Regarding the Grant of Options to Employees), 2003 (the "Rules") and pursuant to an agreement between the Company and the Trustee that may be amended from time to time (the "Trust Agreement"). In accordance with the terms of this Option Agreement, the Company and/or the Trustee are responsible, among other things, to: (a) withhold and pay any applicable taxes owed to the tax authorities in Israel in connection with my options, including as a result of an exercise of my options and sale of the Shares by me, prior to releasing any funds owed to me, (b) provide the tax authorities in Israel with an annual report in accordance with the Rules, and (c) provide the Israeli tax authorities with a report regarding the grant of Options under the Plan, within ninety (90) days from the Grant Date in accordance with the Rules. Any fees associated with the exercise of my options as specified in the Trust Agreement will be borne solely by me. In accordance with the approval granted by the Israel tax authorities in connection with the Plan, certain of the functions related to the administration of my options may be performed by the Company.

6. REQUIRED HOLDING PERIOD. In accepting this grant, I acknowledge that unless otherwise permitted by the Income Tax Authorities, the Rules as of the Option Date, prohibit me from selling my Shares during a period of twenty-four months from the end of the tax year in which the grant took place as my options are subject to the "capital gains track" as set forth in Section 102(b)(2) of the Ordinance (the "Capital Gains Track"). Notwithstanding the above, if I elect to sell my Shares during the Required Holding Period, I hereby acknowledge that the sale of the Shares will be taxed in accordance with the relevant provisions of Section 102 of the Ordinance and the Rules regarding a breach of the terms of the Required Holding Period. For the avoidance of doubt, a sale of the Shares during the Required Holding Period will forfeit my right to receive the tax benefits of the Capital Gains Track and the income derived from the exercise of the Options and the sale of the Shares will be taxed as regular employment income (and not at the reduced capital gains tax rate, if applicable) and will be generally subject to National Insurance and Health Tax.

7. I am aware that: (i) the Company intends to issue additional shares and options in the future to various entities and individuals, as the Company in its sole discretion shall determine; and (ii) the Company may increase its share capital by new securities in such amount as it finds expedient; and I hereby waive any claim I might or may have regarding such issuance or increase other than any claim or right I may have pursuant to any written agreement between myself and the Company or its subsidiary Tower Semiconductor USA, Inc.

8. I am aware that pursuant to Section 102(b)(3) if my options are issued with an exercise price lower than the average closing price of the Company's shares on the 30 (thirty) trading days preceding the issuance of the options, a part of any benefit ultimately derived from the exercise of the Options and the sale of the Shares, generally up to the amount equivalent to the difference between these prices, will be taxed as regular employment income and not at the reduced capital gains tax rate and generally will be subject to National Insurance and Health Tax.

9. TRANSFER OF INFORMATION. I hereby consent to the transfer of information that the Company is required to report to the tax authorities and to the Trustee relating to the Options in accordance with the provisions of Section 102 of the Ordinance and the Rules.

Name of Employee: Mr. Russell Ellwanger

Signature: _____

Passport Number: _____

Date: _____

Option Grant Letter Agreement

RE: GRANT OF OPTIONS - CEO SHARE OPTION PLAN 2005

Dear: Mr. Russell Ellwanger

Tower Semiconductor Ltd. (the "Company") is pleased to grant you, subject to the receipt of the requisite corporate approvals, options ("Options") to purchase up to 10,743,264 Ordinary Shares, nominal value NIS 1.00 each, of the Company (the "Shares"), pursuant to the CEO Share Option Plan of the Company, (the "Plan"), as of September 28, 2006 (the "Date of Grant"). Capitalized terms not defined in this letter agreement (this "Option Agreement") shall have the meaning ascribed to them in the Plan.

The grant and issuance of Options pursuant to this Option Agreement is subject to the receipt of all the approvals required under Section 102 of the Income Tax Ordinance ("Section 102"). The Options will therefore be issued to the Trustee, as such term is defined in the Plan. The Options are granted as 102 Capital Gains Track Options.

The exercise price of the Options shall be as detailed in the attached Appendix. The terms and conditions set forth in this Option Agreement are subject to and supplemented by the terms and conditions set forth in the Plan attached hereto. You are urged to review the Plan and shall be deemed to be fully aware of all the terms and conditions governing the Options set forth in the Plan. By your signature below, you agree to be bound by the terms and conditions of the Plan.

The Options granted pursuant to this Option Agreement will be issued once you sign and return to the Company: (I) this Option Agreement, (II) the attached Employee's Declaration, and (III) any other form which is required under Section 102 and which will be provided to you by the Company.

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

1. ISSUANCE OF OPTIONS.

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

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

2. VESTING; PERIOD OF EXERCISE.

2.1 VESTING SCHEDULE. Subject to the terms and conditions of the Plan and this Option Agreement, the Options granted pursuant to this Option Agreement shall become exercisable (vest) over a period of four years in accordance with the following vesting schedule:

- (a) Twenty five percent (25%) of the Options shall vest on May 16, 2006.
- (b) Twenty five percent (25%) of the Options shall vest on May 16, 2007.
- (c) Twenty five percent (25%) of the Options shall vest on May 16, 2008.
- (d) Twenty five percent (25%) of the Options shall vest on May 16, 2009.

2.2 Subject to Section 2.5(i), the above Options will vest and become exercisable only if on the date of vesting you serve as chief executive officer of the Company.

2.3 Other than as set forth in applicable law and Section 2.5 below, vested Options may be exercised in whole or in part, at any time within a period of ten (10) years from the Date of Grant (the "Exercise Period"). Any Option not exercised within the Exercise Period shall lapse and become void and unexercisable.

- 2.4 The Company will come to an agreement with you as to how to value the Ordinary Shares of the Company in the event that they are not publicly traded at the time of an option exercise.
- 2.5 In the event of the termination of your relationship with the Company as chief executive officer of the Company (the "Employment") subsequent to the Date of Grant, the Options will be treated as follows:
- (i) In the event the Company terminates you without cause (as defined in Section 7(a) of your employment agreement with the Company (the "Employment Agreement")), all Options that were to vest over the 12 months from the date of termination shall become fully vested and exercisable immediately upon such date of termination. All options that are vested and exercisable on the date of termination shall lapse and become unexercisable sixty (60) days from such date. Any remaining unvested options will terminate immediately upon termination.
 - (ii) In the event: (a) the Company terminates you for cause, or (b) you terminate your employment with the Company pursuant to Section 7(c) of the Employment Agreement, all of your Options (including vested Options) will terminate immediately upon the date of termination.
- 2.6 Notwithstanding anything to the contrary in the Plan and subject to any applicable law, upon the Company consummating of any transaction that results in the sale of all or substantially all of the assets or shares of the Company, all Options that were to vest over the next 12 months from the date such transaction is consummated shall become exercisable immediately prior to such date.
- 2.7 The procedure for exercise of the Options shall be as detailed on the website of the Company (www.towersemi.com). However, the Company may change the procedure for exercise of the Options at its discretion. The Company will notify you of any changes in the procedure.

3. NOTICES.

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

- (a) If to you, at your address listed beneath your signature below;
- (b) If to the Company: Human Resources Department, Tower Semiconductor, P.O. Box 619, Migdal Ha'emek, Israel;
- (c) If with respect to Option exercise procedures:
 www.tamirfishman.com or Tel: +972-3-6849282 Fax: +972-3-6853773
 Email: sop@tamfish.com

4. NO WAIVER.

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

Sincerely,

Tower Semiconductor Limited

Name of Employee: Mr. Russell Ellwanger

Date: _____

Employee signature: _____

Employee Passport Number: _____

Employee address: _____

Appendix

NO. OF OPTIONS -----	EXERCISE PRICE- \$ -----
4,295,337	1.45
2,860,412	1.52
1,129,863	1.52
1,129,863	1.52
20,541	1.50
15,217	1.50
238,304	1.65
851,087	1.88
202,640	1.88
TOTAL -----	
10,743,264	

EMPLOYEE'S DECLARATION

1. I, the undersigned, confirm that the contents of this Option Agreement, dated September 28, 2006 are acceptable and agreed to by me.

2. Any tax consequences arising from (i) the grant or exercise of any Option, (ii) the issuance of Underlying Shares and payment therefor, (iii) the sale, transfer or exchange of Underlying Shares, or (iv) any other event or act of mine or of the Company hereunder, and any commissions and other expenses related thereto, shall be borne solely by me. The Company, any of its Subsidiaries and/or the Trustee may withhold any taxes, expenses and commissions as required. I agree to indemnify the Company, any of its Subsidiaries and/or the Trustee and hold them harmless from and against any and all liability for any such tax consequences, commissions, expenses or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to me.

3. I acknowledge and agree that in the event the Company issues securities as bonus shares or performs a share split or a similar dissolution, such bonus shares or other similar rights on the shares granted to me pursuant to this Option Agreement, shall be transferred by the Company to the Trustee, and the terms and provisions of the Ordinance and the Rules (as such terms are defined below) shall apply to the bonus shares and/or other similar rights, as shall the Trustee's undertakings under the Agreement between the Trustee and the Company.

4. Without derogating from the former provisions, I acknowledge that the ultimate liability for income tax, social insurance or other tax-related withholding in connection with this grant or its exercise is my responsibility. I specifically acknowledge that any and all applicable laws and regulations in Israel pertaining to the granting of options including but not limited to the provisions set forth in Section 102 of the Income Tax Ordinance [New Version] - 1961 (the "Ordinance") and any rules promulgated thereunder including any amendment thereto, any interpretation published by the Israeli tax authorities in their official guidelines and any judicial interpretation of the Israeli courts, shall each apply with respect to my options and may affect the terms of my options. Any exercise of an option and sale of shares received upon the exercise of my options (the "Shares"), which deviates from the rules set forth in Section 102 of the Ordinance or in regulations promulgated thereunder may result in adverse tax consequences for me. I further acknowledge that each of the Company, brokers effecting transactions relating to my options and the Trustee (as defined in the Plan) is under no obligation to inform me as to whether a particular transaction I may consider effecting complies with the provisions of Section 102 of the Ordinance or the rules promulgated thereunder. I further acknowledge that the Company has not, nor does it intend to, provide tax advice with respect to the tax ramifications of an option grant under the laws of any jurisdiction, including Section 102 of the Ordinance or any rules promulgated thereunder, and that I am urged to seek my own personal tax advice.

5. APPOINTMENT OF A TRUSTEE. I acknowledge that the Trustee has been appointed to administer my options in accordance with Section 102 of the Ordinance and the Income Tax Rules (Tax Benefits Regarding the Grant of Options to Employees), 2003 (the "Rules") and pursuant to an agreement between the Company and the Trustee that may be amended from time to time (the "Trust Agreement"). In accordance with the terms of this Option Agreement, the Company and/or the Trustee are responsible, among other things, to: (a) withhold and pay any applicable taxes owed to the tax authorities in Israel in connection with my options, including as a result of an exercise of my options and sale of the Shares by me, prior to releasing any funds owed to me, (b) provide the tax authorities in Israel with an annual report in accordance with the Rules, and (c) provide the Israeli tax authorities with a report regarding the grant of Options under the Plan, within ninety (90) days from the Grant Date in accordance with the Rules. Any fees associated with the exercise of my options as specified in the Trust Agreement will be borne solely by me. In accordance with the approval granted by the Israel tax authorities in connection with the Plan, certain of the functions related to the administration of my options may be performed by the Company.

6. REQUIRED HOLDING PERIOD. In accepting this grant, I acknowledge that unless otherwise permitted by the Income Tax Authorities, the Rules as of the Option Date, prohibit me from selling my Shares during a period of twenty-four months from the end of the tax year in which the grant took place as my options are subject to the "capital gains track" as set forth in Section 102(b)(2) of the Ordinance (the "Capital Gains Track"). Notwithstanding the above, if I elect to sell my Shares during the Required Holding Period, I hereby acknowledge that the sale of the Shares will be taxed in accordance with the relevant provisions of Section 102 of the Ordinance and the Rules regarding a breach of the terms of the Required Holding Period. For the avoidance of doubt, a sale of the Shares during the Required Holding Period will forfeit my right to receive the tax benefits of the Capital Gains Track and the income derived from the exercise of the Options and the sale of the Shares will be taxed as regular employment income (and not at the reduced capital gains tax rate, if applicable) and will be generally subject to National Insurance and Health Tax.

7. I am aware that: (i) the Company intends to issue additional shares and options in the future to various entities and individuals, as the Company in its sole discretion shall determine; and (ii) the Company may increase its share capital by new securities in such amount as it finds expedient; and I hereby waive any claim I might or may have regarding such issuance or increase other than any claim or right I may have pursuant to any written agreement between myself and the Company or its subsidiary Tower Semiconductor USA, Inc.

8. I am aware that pursuant to Section 102(b)(3) if my options are issued with an exercise price lower than the average closing price of the Company's shares on the 30 (thirty) trading days preceding the issuance of the options, a part of any benefit ultimately derived from the exercise of the Options and the sale of the Shares, generally up to the amount equivalent to the difference between these prices, will be taxed as regular employment income and not at the reduced capital gains tax rate and generally will be subject to National Insurance and Health Tax.

9. TRANSFER OF INFORMATION. I hereby consent to the transfer of information that the Company is required to report to the tax authorities and to the Trustee relating to the Options in accordance with the provisions of Section 102 of the Ordinance and the Rules.

Name of Employee: Mr. Russell Ellwanger

Signature: _____

Passport Number: _____

Date: _____

Date: July 15, 2005

RE: GRANT OF OPTIONS UNDER THE INTERNAL REVENUE CODE OF 1986 - 2005 PLAN

Dear: Mr. Russell Ellwanger

Tower Semiconductor USA, Inc. (the "Company") is pleased to grant you options ("Options") to purchase Ordinary Shares, nominal value NIS 1.00 each (the "Shares"), of Tower Semiconductor Ltd. ("TSL"), pursuant to the TSL CEO Share Option Plan 2005, (the "Plan"), as of July 15, 2005 (the "Date of Grant"), as follows:

1. Total Number of Options Granted 662,862.
2. Type of Option:
 - Option intended to qualify as an incentive stock option ("ISO") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended ("Code").
 - Option not intended to qualify as an Incentive Stock Option ("NSO").
3. The exercise price of the Options shall be \$1.56 per Share.
4. The Options are hereby issued (the "Option Award") to the Trustee (as defined in the Plan) for your benefit, subject to the terms and conditions hereunder and the Plan a copy of which was provided to you. You are urged to review the Plan and shall be deemed to be fully aware of all the terms and conditions governing the Options set forth in the Plan. By your signature below, you agree to be bound by the terms and conditions of the Plan.
5. Subject to the terms and conditions of the Plan and this letter, the Options granted pursuant to this letter shall become exercisable (vest) in accordance with the following schedule:
 - (a) 25% of the Options shall vest on May 1, 2006;
 - (b) 25% of the Options shall vest on May 1, 2007;
 - (c) 25% of the Options shall vest on May 1, 2008; and
 - (d) 25% of the Options shall vest on May 1, 2009.
6.
 - (a) Subject to Section 6(b), the above Options will vest and become exercisable only if on the date of vesting you are still employed by the Company. Vested Options may be exercised in whole or in part, at any time within a period of ten (10) years from the Date of Grant (the "Exercise Period"). Any Option not exercised within the Exercise Period shall lapse and become void and unexercisable.
 - (b) In the event of the termination of your relationship with the Company as its chief executive officer subsequent to the Date of Grant, the Options will be treated as follows:
 - (i) In the event the Company terminates you without Cause (as defined in your employment agreement with the Company), all Options that were to vest over the twelve (12) months from the date of termination (as defined below) shall become fully vested and exercisable immediately upon such date of termination. All options that are vested and exercisable on the date of termination shall lapse and become unexercisable sixty (60) days from such date. Any remaining unvested options will terminate immediately upon termination.
 - (ii) In the event: (a) the Company terminates you for Cause, or (b) you terminate your employment with the Company, all of your Options (including vested Options) will terminate immediately upon the date of termination.
 - (c) Notwithstanding anything to the contrary in the Plan and subject to any applicable law, upon the Company consummating of any transaction

that results in the sale of all or substantially all of the assets or shares of TSL, all Options that were to vest over the next twelve (12) months from the date such transaction is consummated shall become exercisable immediately prior to such date.

7. The procedure for exercise of the Options shall be as detailed in the Plan and on TSL's Intranet. However, the Company may change the procedures for exercise of the Options at its discretion. The Company will notify you of any changes in the procedure.
8. Any tax consequences arising from the grant or exercise of any Option Award, from the payment for Shares covered thereby or from any other event or act (of the Company, TSL, TSL's subsidiaries or you) hereunder, and commissions and other expenses relating thereto shall be borne solely by you. Furthermore, you shall agree to indemnify the Company, TSL and/or any of TSL's subsidiaries and/or the Trustee and hold them harmless against and from any and all liability for any such tax or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to you. The Company, TSL and/or any of TSL's subsidiaries and/or the Trustee may withhold any taxes, expenses and commissions from the exercise of the Options and/or the sale of the underlying Shares.

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

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

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

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

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

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

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

10. The Options pursuant to this letter will be issued once you sign and return to the Company: (I) this letter and (II) any other form which is required under applicable law and which will be provided to you by the Company.
11. All notices, consents and other communications under this Agreement shall be sent in writing and shall be deemed to have been given when (a) delivered by hand, (b) mailed by certified or registered mail, return receipt requested or express delivery service, or (c) when received by the addressee, if sent by Express Mail, Federal Express or other express service, in each case to the appropriate addresses set forth below (or to such other addresses as a party may designate as to itself by notice to the other parties).

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

(b) If to the Company: Human Resources Department, Tower Semiconductor USA, Inc., 2350 Mission College Blvd. #500, Santa Clara, CA 95054;

(c) If with respect to Option exercise procedures: sob@tamfish.com or facsimile no: 972-3-6849282.

Sincerely,

Tower Semiconductor USA, Inc.

Approved & accepted:

Tower Semiconductor Ltd.

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

Name of Employee: _____

Date: _____

Employee signature: _____

Employee Social Security number: _____

Employee address: _____

November 20, 2006

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

RE: REGISTRATION STATEMENT ON FORM S-8

Dear Sirs:

We have acted as Israeli counsel for Tower Semiconductor Ltd., a company organized under the laws of Israel (the "Company"), in connection with the Registration Statement on Form S-8 (the "Registration Statement") being filed by the Company under the Securities Act of 1933 for the purposes of registering 21,893,648 of its Ordinary Shares, par value New Israeli Shekel 1.00 per share that may be issued pursuant to options that have been, or may hereafter be, granted pursuant to the Employee Share Option Plan 2005 and CEO Share Option Plan 2005 (the "Plans") (the "Option Shares").

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

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

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

Very truly yours,

/s/ Yigal Arnon & Co.

Yigal Arnon & Co.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Registration Statement on Form S-8 (pertaining to the Employee Share Option Plan 2005 and CEO Share Option Plan 2005 of Tower Semiconductor Ltd. (the "Company") and the registration of 9,824,660 and 12,068,988 ordinary shares of the Company, respectively) of our report dated February 1, 2006, relating to the consolidated financial statements of the Company, appearing in the annual report on Form 20-F of the Company for the year ended December 31, 2005.

/s/ Brightman Almagor & Co.

Certified Public Accountants

A Member Firm of Deloitte Touche Tohmatsu

Tel Aviv, Israel

November 20, 2006