UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013 **Commission File number:** 0-24790

TOWER SEMICONDUCTOR LTD.

(Exact name of registrant as specified in its charter and translation of registrant's name into English)

Israel
(Jurisdiction of incorporation or organization)
Ramat Gavriel Industrial Park
P.O. Box 619, Migdal Haemek 23105, Israel

(Address of principal executive offices)

Nati Somekh, +972-4-6506109, natiso@towersemi.com;
Ramat Gavriel Industrial Park P.O. Box 619, Migdal Haemek 23105, Israel

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Ordinary Shares, par value New Israeli Shekels 15.00 per share	NASDAQ Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 47,869,150 Ordinary Shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP ☒	International Financial Reporting Standards as issued by the International Accounting Standards Board ☐	Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

FORWARD LOOKING STATEMENTS

This annual report on Form 20-F includes certain "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934. The use of the words "projects," "expects," "may," "plans" or "intends," or words of similar import, identifies a statement as "forward-looking". There can be no assurance, however, that actual results will not differ materially from our expectations or projections. Factors that could cause actual results to differ from our expectations or projections include the risks and uncertainties relating to our business described in this annual report in "Item 3. Key Information-Risk Factors".

EXPLANATORY INFORMATION

All references herein to "dollars" or "$" are to United States dollars, and all references to "Shekels" or "NIS" are to New Israeli Shekels.

On September 19, 2008, we completed a merger with Jazz Technologies, Inc. ("Jazz Technologies") and its wholly-owned subsidiary Jazz Semiconductor, Inc. ("Jazz Semiconductor"), an independent semiconductor foundry focused on specialty process technologies for the manufacture of analog intensive mixed-signal semiconductor devices. As a result of this transaction, Jazz Technologies became a wholly-owned subsidiary of Tower Semiconductor Ltd. ("Tower"). Jazz Technologies, Jazz Semiconductor and its wholly-owned subsidiaries are collectively referred to as "Jazz" in this report.

On June 3, 2011, we acquired a fabrication facility in Nishiwaki City, Hyogo, Japan from Micron Technology, Inc. ("Micron") which we hold through our wholly-owned Japanese subsidiary, TowerJazz Japan, Ltd. ("TJP"). In 2014, we decided to cease the operations of the facility in Nishiwaki in the course of a restructuring of our activities and business in Japan.

In March 2014, we acquired a 51% equity stake in TowerJazz Panasonic Semiconductor Co., Ltd., ("TPSC") a newly established company formed by Panasonic Corporation ("Panasonic" or "Panasonic Corporation") who is our partner in the newly established company.

Our consolidated statements included in this annual report include the results and balances of these companies (except for TPSC which did not exist as of December 31, 2013), from the applicable merger and acquisition dates.

As used in this annual report "Fab 1" means the semiconductor fabrication facility located in Migdal Haemek, Israel that Tower acquired from National Semiconductor Inc. ("National Semiconductor") in 1993. "Fab 2" means the semiconductor fabrication facility located in Migdal Haemek, Israel that Tower established in 2003. "Fab 3" means the semiconductor fabrication facility Jazz operates in Newport Beach, California. "Fab 4" means the semiconductor fabrication facility TJP operates in Nishiwaki City, Hyogo, Japan. "Arai E" means the semiconductor fabrication facility TPSC operates in Kurihara 4-5-1, Myoko-shi, Niigata, Japan. "Uozu E" means the semiconductor fabrication facility TPSC operates in Higashiyama 800, Uozu-shi, Toyama, Japan. "Tonami CD" means the semiconductor fabrication facilities TPSC operates in Higashi-Kaihotsu 271, Tonami-shi, Toyama, Japan.

As used in this annual report as of any particular date, "we," "us," "our," and "the Company" and words of similar import, refer collectively to Tower and its then owned and consolidated subsidiaries.

Manufacturing or production capacity refers to installed equipment capacity in our facilities and is a function of the process technology and product mix being manufactured because certain processes require more processing steps than others. All information herein with respect to the wafer capacity of our manufacturing facilities is based upon our estimate of the effectiveness of the manufacturing equipment and processes in use or expected to be in use during a period and the estimated or expected process technology and product mix for such period. Unless otherwise specifically stated, all references herein to "wafers" with respect to Fab 1 capacity are to 150-mm wafers, with respect to Fab 2, Fab 3, Fab 4, Arai E and Tonami CD capacity are to 200-mm wafers and with respect to Uozu E are to 300-mm wafers.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Data

Our historical consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States ("US GAAP") and are presented in U.S. dollars. The selected historical consolidated financial information as of December 31, 2013 and 2012 and for each of the three years ended December 31, 2013, 2012 and 2011 has been derived from, and should be read in conjunction with, our consolidated financial statements, and notes thereto appearing elsewhere in this annual report. The selected financial data as of December 31, 2011, 2010 and 2009 and for each of the years ended December 31, 2010 and 2009 has been derived from our audited financial statements for those years not included in this annual report.

Our consolidated financial statements include Jazz's results commencing September 19, 2008 and TJP's results commencing June 3, 2011, and our consolidated balance sheets include Jazz's balances for December 31, 2008 and on and TJP's balances for December 31, 2011 and on. Our consolidated financial statements as of December 31, 2013 do not include TPSC's financial statements since we acquired our 51% stake in TPSC after such date.

Due to the merger with Jazz and the acquisition of TJP, it may be difficult to compare the results of operations for periods subsequent to each of these transactions with prior periods. The selected historical consolidated financial data set forth below should be read in conjunction with our consolidated financial statements and related notes appearing in this annual report and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this report. Our historical financial information may not be indicative of future performance.

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenues	$ 505,009	$ 638,831	$ 611,023	$ 509,262	$ 298,812
Cost of revenues	476,900	560,046	526,198	402,077	325,310
Gross profit (loss)	28,109	78,785	84,825	107,185	(26,498)
Research and development	33,064	31,093	24,886	23,876	23,375
Marketing, general and administrative	42,916	44,413	48,239	39,986	31,943
Acquisition related and reorganization costs	--	5,789	1,493	--	--
Amortization related to a lease agreement early termination	7,464	--	--	--	--
Operating profit (loss)	(55,335)	(2,510)	10,207	43,323	(81,816)
Interest expenses, net	(32,971)	(31,808)	(27,797)	(26,406)	(24,205)
Other finance expenses, net	(27,838)	(27,583)	(12,505)	(46,519)	(21,505)
Gain from acquisition	--	--	19,467	--	--
Other income (expense), net	(904)	(1,042)	13,460	65	2,045
Income (loss) before income tax expenses	(117,048)	(62,943)	2,832	(29,537)	(125,481)
Income tax benefit (expense)	(9,388)	(7,326)	(21,362)	(12,830)	5,022
Loss for the year	$ (107,660)	$ (70,269)	$ (18,530)	$ (42,367)	$ (120,459)
Basic loss per ordinary share	$ (2.72)	$ (3.17)	$ (0.90)	$ (2.63)	$ (10.34)
Other Financial Data:					
Depreciation and amortization	$ 164,824	$ 173,585	$ 162,679	$ 143,023	$ 143,404

	As of December 31,				
	2013	2012	2011	2010	2009
	(in thousands of US dollars, except share data which is in thousands)				
Selected Balance Sheet Data:					
Cash and cash equivalents, short-term interest-bearing deposits and designated deposits	$ 122,871	$ 133,398	$ 101,149	$ 198,382	$ 81,795
Working capital	150,498	128,787	35,830	72,053	70,113
Total assets	705,887	814,241	857,221	801,728	650,837
Short-term bank debt and current maturities of debentures and bank loans	36,441	49,923	48,255	122,179	7,000
Loan from banks, net of current maturities	108,739	94,922	103,845	111,882	187,606
Debentures, net of current maturities	208,146	193,962	197,765	247,598	241,207
Shareholders' equity	141,248	220,025	174,703	117,782	56,014
Weighted average number of ordinary shares outstanding during any year	39,633	22,173	20,649	16,086	11,653
Number of shares outstanding as of December 31 of any year	47,869	22,312	21,219	17,703	13,264

Risk Factors

Our business faces many risks. Any of the risks discussed below could have a material impact on our business, financial condition and operating results.

Risks Affecting Our Business

We have a large amount of debt and other liabilities, and our business and financial position may be adversely affected if we will not be able to timely fulfill our debt obligations and other liabilities.

We have a large amount of debt and other liabilities, primarily due in 2015 and 2016. As of March 31, 2014, Tower had (i) approximately $126 million of outstanding secured bank loans to be repaid in quarterly installments between June 2014 through June 2016, totaling $25 million in 2014, $70 million in 2015 and $31 million in 2016, (ii) approximately $20 million of unsecured outstanding debentures to be repaid between December 2014 and December 2016, and (iii) approximately $231 million of unsecured outstanding debentures, convertible into our ordinary shares, 50% of which are payable in December 2015 and the remainder in December 2016, unless earlier converted into our ordinary shares. As of March 31, 2014, Jazz had (i) approximately $19 million of outstanding borrowings under its up to $70 million Wells Fargo credit line due December 2018, (ii) approximately $49 million of outstanding debentures due June 2015; and (iii) approximately $58 million of outstanding debentures, convertible into our ordinary shares, payable in December 2018, unless converted earlier. As of March 31, 2014, TPSC has loans amounting to 8.8 billion Japanese Yen (approximately $85 million) provided by Panasonic, see item 5.D.Trend Information. Carrying such a large amount of debt and other liabilities may have significant negative consequences on our business, including:

- requiring the use of a substantial portion of our cash flow from operating activities to service our indebtedness rather than investing our cash flows to fund our growth plans, working capital and capital expenditures;
- increasing our vulnerability to adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete;
- placing us at a competitive disadvantage with respect to less leveraged competitors and competitors that have better access to capital resources;
- volatility in our non-cash financing expenses due to increases in the fair value of our debt obligations, which may increase our net loss or reduce our net profits; and/or
- enforcement by the banks and other financing entities of their liens against Tower, Jazz or TJP's respective assets, as applicable at the occurrence of an event of default.
- limiting our ability to fulfill our debt obligations and other liabilities.

In order to finance our debt and other liabilities and obligations, in addition to cash on hand and expected cash flow from operating activities, we continue to explore measures to obtain funds from additional sources including debt and/ or equity restructuring and/ or re-financing, sale of new securities, opportunities for the sale and lease-back of a portion of Tower's real estate assets, sale of other assets, intellectual property licensing, as well as additional financing alternatives. However, there is no assurance that we will be able to obtain sufficient funding, if at all, from the financing sources detailed above or other sources in a timely manner (or on commercially reasonable terms) in order to allow us to cover our ongoing fixed costs, capital expenditure costs and other liabilities and obligations, fully or partially repay our short term and long term debt in a timely manner and fund our growth plans and working capital needs.

Our *success as a leading specialty foundry depends on our ability to continue to expand our business, customer base and market presence, including through acquisitions which involves various risks. There is no assurance that we will be successful in executing our acquisitions and integrating them into our business, utilizing our expanded capacity and finding new business, including successfully operating TPSC and integrating our foundry business opportunities into TPSC fabs.*

Our Company's growth as a leading specialty foundry depends, to a significant degree, upon our ability to increase our presence in the specialty foundry field and firmly entrench ourselves as a leading specialty foundry. In order to do so and thereby improve our financial position and operating cash flow, we need to expand our business and attract new customers who will utilize our expanded capacity.

Our success at such expansion is dependent, in part, on finding suitable targets for acquisitions, successfully financing and consummating such acquisitions, loading the Company's facilities and integrating them into our business.

We cannot assure you that we will be successful in expanding our business, attracting new customers in our current fabs and increasing our market presence. Further, we cannot assure that we will find and successfully execute such acquisitions or that they will achieve the expected synergies. With respect to our acquisition of the 51% equity stake in TPSC in March 2014, we may fail to successfully transfer and ramp up new foundry business into TPSC fabs. Achieving the anticipated benefits of the acquisition will depend in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as on our ability to realize the anticipated growth opportunities and synergies from integrating that business into our existing business. The integration will also require the dedication of substantial management effort, time and resources which may divert our management's focus and our resources from other strategic opportunities and from operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business, supplier, customer, employee, union and/or governmental relationships that may adversely affect our ability to achieve the anticipated benefits of the acquisition.

Furthermore, terms of our existing indebtedness may prohibit or limit our ability to (i) engage in certain acquisitions or (ii) support prior acquisitions and their integration into our business.

Our reliance on acquisitions as a means of growth involves risks that could adversely affect our future revenues and operating results. For example:

- We may fail to identify acquisitions that would enable us to execute our business strategy.
- Other foundries may bid against us to acquire potential targets. This competition may result in decreased availability of, or increased prices for, suitable acquisition candidates.
- We may not be able to obtain the necessary regulatory approvals, or we may not be able to obtain the necessary approvals from our lender banks, and as a result, or for other reasons, we may fail to consummate certain acquisitions.
- Potential acquisitions may divert management's attention away from our existing business operations, which may have a negative adverse effect on our business.
- We may fail to integrate acquisitions successfully in accordance with our business strategy, achieve expected synergies or attract sufficient business to newly acquired facilities in a timely manner.

- We may not be able to retain experienced management and skilled employees from the businesses we acquire and, if we cannot retain such personnel, we may not be able to attract new skilled employees and experienced management to replace them.

- We may purchase a company with excessive unknown contingent liabilities, including, among others, patent infringement or product liability.

- We may not be able to obtain sufficient financing which could limit our ability to engage in acquisitions or the amount or terms of financing actually required before and after acquisition may vary from our expectations.

If we are unable to manage fluctuations in cash flow, our business and financial condition may be adversely affected.

Our working capital requirements and cash flows are subject to quarterly and yearly fluctuations, depending on a number of factors. If we are unable to manage fluctuations in cash flow, our business, operating results and financial condition may be materially adversely affected. Factors which could lead us to suffer cash flow fluctuations include:

- fluctuations in the level of revenues from our operating activities;

- fluctuations in the collection of receivables;

- timing and size of payables;

- the timing and size of capital expenditures;

- the repayment schedules of our debt service obligations under our short-term and long-term liabilities; and

- our ability to fulfill our obligations and meet performance milestones under our facility agreement and foundry agreements.

If Tower fails to comply with the repayment schedule or any other terms of its amended facility agreement, or if Tower fails to meet any of the covenants and financial ratios stipulated in its amended facility agreement and Tower's banks do not waive its noncompliance, Tower's business and financial position may be adversely affected.

Under Tower's amended facility agreement with Bank Hapoalim B.M. and Bank Leumi Le-Israel B.M., in the event that Tower fails to comply with the repayment schedule or any other terms of its amended facility agreement and is unsuccessful in negotiating a revised repayment schedule or revised terms, or fails to meet any of the covenants and financial ratios stipulated in the amended facility agreement, and Tower's banks do not waive its noncompliance, Tower's banks may require Tower to immediately repay all loans made by them to Tower, plus penalties, and the banks would be entitled to exercise the remedies available to them under the amended facility agreement, including enforcement of their lien against Tower's assets.

There is no assurance that Tower will be able to generate the cash necessary to fund the scheduled payments from increased levels of cash from operations or from additional equity or debt financing or other funding sources. If Tower is not able to generate increased levels of revenue and cash from operations or raise sufficient funds in a timely manner, Tower would likely be unable to comply with the repayment schedule and may fail to meet covenants and financial ratios under the amended facility agreement, which may have a material adverse effect on Tower.

Israeli banking regulations may impose restrictions on the total debt that Tower may borrow from Israeli banks.

Pursuant to a directive published by the Israel Supervisor of Banks, effective March 31, 2004, Tower may be deemed part of a group of borrowers comprised of the Ofer Brothers Group, the Israel Corporation Ltd. ("Israel Corp.") and other companies which are also included in such group of borrowers pursuant to the directive, including companies under the control or deemed control of these entities. The directive imposes limitations on amounts that Israeli banks may lend to borrowers or groups of borrowers, hence restricting the ability of Tower to receive loans from certain Israeli banks, considering all Israeli bank's outstanding loans to the group. Should Tower's existing lender banks exceed these limitations, their ability to lend additional money to Tower in the future, if Tower would be interested in receiving such loan, would be limited and they may ask Tower to repay some or all of its $126 million outstanding borrowings, which may have a material adverse effect on Tower's business and financial condition.

Our acquisition of a majority stake in TPSC involves risks that may adversely affect our future financial performance and position.

Our recent acquisition of a majority stake in TPSC involves known and unknown risks that may adversely affect our future financial performance and position, including:

- Failure to successfully integrate TPSC in accordance with our business strategy;
- Historically, TPSC's fabs solely manufactured Panasonic Corporation's and its customers' products. TPSC intends to bring various process technologies to its fabs to enable the manufacture of a wide range of products at these facilities for a broad range of customers. This requires significant capital expenditures and on-site qualification of technologies. There is no assurance that TPSC will be successful in expanding its customer base in a timely manner in order to cover its manufacturing, operating and technology ramp costs. In the event that TPSC is unable to generate sufficient additional revenues from third party customers, we may not meet our future revenue expectations.
- The establishment of TPSC involves a major change of control event in the fabrication facilities that were transferred by Panasonic Corporation to TPSC including the transfer of employees to a new employer (TPSC) controlled by Tower. There is no assurance that a sufficient number of employees will accept the offer to transfer to TPSC in order for TPSC to possess the required knowledge and experience to carry out its business plan and comply with its manufacturing and service commitments. If TPSC fails to execute its business plan, our financial results may be adversely affected.

The planned cessation of Fab 4 operations in the course of restructuring our activities and business in Japan involves risks that may impact negatively our business and financial results.

In 2014, we decided to cease the operations of Fab 4 in the course of restructuring our activities and business in Japan. In connection with the restructuring, we expect a termination of certain agreements, sale of Fab 4 assets and a comprehensive reduction in the work force. In accordance with GAAP we will have to reflect in our 2014 financial statements TJP's assets and liabilities at their recovery and fair values, considering, among others, expected cash receipt from the sale of its assets and forecasted liabilities values (including termination costs), and as a result we may incur a significant non-cash expense item in our statement of operations for the first quarter of 2014 to reflect the net effect of the above under GAAP, which amount may be revised upwards or downwards at the following periods once the process of selling assets and negotiating liabilities progresses. In addition, we are making a concerted effort to move certain current customers and products from Fab 4 to our other fabrication facilities. Such measures and process may trigger unexpected claims and demands from employees, labor union, suppliers, customers or other third parties, which could affect the ongoing operations and the manufacture of customer products until operations are ceased. If TJP does not receive sufficient funds from the sale of its assets or is unable to settle such claims amicably, it may fail to manufacture all of its orders until its cessation date and/or pay a portion or all of its employee and other obligations and liabilities, which may impact our financial projections, business, reputation and financial results negatively, including specifically our future business in Japan and our ability to attract customers.

Failure to comply with the terms of the Israeli Investment Center regulations and the criteria set forth in the certificates of approval may subject us to significant penalties by the Investment Center.

In 2011, we received an official approval certificate ("ktav ishur") from the Israeli investment center ("Investment Center"), a governmental agency, for our expansion program pursuant to which we have received approximately $36 million to date for investments made commencing 2006 and through 2012. Final investments report was filed and pending final approval of the Investment Center. Under our previous program approved in December 2000, we received $165 million of grants for capital expenditure investments made during the years 2001 through 2005. This plan was completed and approved by the Investment Center.

Eligibility for the above grants is subject to various conditions stipulated by the Israeli Law for the Encouragement of Capital Investments - 1959 ("Investments Law") and the regulations promulgated thereunder, as well as the criteria set forth in the certificates of approval. In the event we breach the various conditions and terms related thereto, we may be exposed to significant penalties by the Investment Center, up to the amounts we received plus interest and certain inflation adjustments. In order to secure fulfillment of the conditions related to the receipt of investment grants, floating liens were registered in favor of the State of Israel on substantially all of Tower's assets. These liens secure the Investment Center against a breach by us of the terms of the investments grant program.

If we do not receive orders from our customers with whom we have signed long-term contracts, we may have excess capacity.

We have committed a portion of our capacity for future orders from some customers with whom we have signed long-term contracts. If these customers do not place orders with us in accordance with their contractual loading and purchase commitments, and if we are unable to fill such unutilized capacity in a timely manner, our financial results may be adversely affected.

We may be required to incur additional indebtedness.

Although Tower and Jazz are limited by the covenants in their respective loan facilities, Tower and/or Jazz could find themselves in a position in which they may be required to take on additional indebtedness in order to fund their operations, which would increase the amount of our outstanding indebtedness. Any additional indebtedness may increase the risks associated with servicing our indebtedness as described above.

A global recession, unfavorable economic conditions and/or credit crisis may adversely affect our results and our ability to fulfill our debt obligations and other liabilities.

A downturn or a weakness in the semiconductor industry and/or in the global economy and/or in the Company's customer base and/or customers' products base, may adversely affect the Company's ability to maintain its customers' existing demand for products, attract new customers and new business to its current fabs, increase the utilization rates in its manufacturing facilities and maintain them at a high level that would suffice to cover its substantial fixed costs, maintain commercial relationships with its customers, suppliers, and creditors, including its lenders, continue its capacity growth, and improve the Company's future financial results and position, including its ability to raise funds in the capital markets, and fulfill its debt obligations and other liabilities, including refinancing its debt and other liabilities and/or pay them in a timely manner, comprised mainly of bank' loans and debentures. There is no assurance that such downturn will not occur. The effects of such a downturn may include global decreased demand, downward price pressure, excess inventory and unutilized capacity worldwide, which may negatively impact consumer and customer demand for the Company's products and the end products of the Company's customers.

Our operating results fluctuate from quarter to quarter which makes it difficult to predict our future performance.

Our revenues, expenses and operating results have varied significantly in the past and may fluctuate significantly from quarter to quarter in the future due to a number of factors, many of which are beyond our control. These factors include, among others:

- The cyclical nature of the semiconductor industry and the volatility of the markets served by our customers;
- Changes in the economic conditions of geographical regions where our customers and their markets are located;
- Shifts by integrated device manufacturers and customers between internal and outsourced production;
- Inventory and supply chain management of our customers;
- The loss of a key customer, postponement of an order from a key customer or the rescheduling or cancellation of large orders;
- The occurrence of accounts receivable write-offs, failure of a key customer to pay accounts receivable in a timely manner or the financial condition of our customers;
- The rescheduling or cancellation of planned capital expenditures;
- Our ability to satisfy our customers' demand for quality and timely production;
- The timing and volume of orders relative to our available production capacity;
- Our ability to obtain raw materials and equipment on a timely and cost-effective basis;
- Price erosion in the industry;
- Environmental events or industrial accidents such as fire or explosions;
- Our susceptibility to intellectual property rights disputes;
- Our ability to maintain existing partners and to enter into new partnerships and technology and supply alliances on mutually beneficial terms;
- Interest, price index and currency rate fluctuations that were not hedged;
- Technological changes and short product life cycles;

- Timing for the design and qualification of new products;
- Increase in the fair value of our bank loans, certain of our warrants and debentures; and
- Changes in accounting rules affecting our results.

Furthermore, integrated device manufacturers continue to design and manufacture integrated circuits in their own fabrication facilities. There is a possibility that in certain periods or under certain circumstances such as low demand, they will choose to manufacture their products in their facilities instead of manufacturing products at external foundries. If our customers will choose to manufacture internally rather than manufacture at our facilities, our business may be negatively impacted.

Due to the factors noted above and other risks discussed in this section, many of which are beyond our control, investors should not rely on quarter-to-quarter comparisons to predict our future performance. Unfavorable changes in any of the above factors may seriously harm our Company, including our operating results, financial condition and ability to maintain our operations.

The lack of a significant backlog resulting from our customers not placing purchase orders far in advance makes it difficult for us to forecast our revenues in future periods.

Our customers generally do not place purchase orders far in advance, partly due to the cyclical nature of the semiconductor industry. As a result, we do not typically operate with any significant backlog. The lack of a significant backlog makes it difficult for us to forecast our revenues in future periods. Moreover, since our expense levels are based in part on our expectations of future revenues, we may be unable to adjust costs in a timely manner to compensate for revenue shortfalls. We expect that, in the future, our revenues in any quarter will continue to be substantially dependent upon purchase orders received in that quarter and in the immediately preceding quarter. We cannot assure you that any of our customers will continue to place orders with us in the future at the same levels as in prior periods. If orders received from our customers differ adversely from the number of wafers forecasted to be ordered, our operating results, financial condition and ability to maintain our operations may be adversely affected.

We occasionally manufacture wafers based on forecasted demand, rather than actual orders from customers. If our forecasted demand exceeds actual demand, we may have obsolete inventory, which could have a negative impact on our results of operations.

We generally do not manufacture wafers unless we receive a customer purchase order. On occasion, we may produce wafers in excess of customer orders based on forecasted customer demand, because we may forecast future excess demand or because of future capacity constraints. If we manufacture more wafers than are actually ordered by customers, we may be left with excess inventory that may ultimately become obsolete and must be scrapped if it cannot be sold. Significant amounts of obsolete inventory could have a negative impact on our results of operations.

As is common in our industry, a large portion of our total costs is comprised of fixed costs associated mainly with our manufacturing facilities and we have a history of operating losses. Our business may be adversely affected if we are unable to operate our facilities at high enough utilization rates sufficient to reach revenue levels that would cover our fixed costs, reduce our losses and allow us to be profitable.

As is common in our industry, a large portion of our total costs is comprised of fixed costs, associated mainly with our manufacturing facilities, while our variable costs are relatively small. Therefore, during periods when our fabrications manufacture at high utilization rates, we are able to cover our costs. However, at times when the utilization rate is low, the reduced revenues may not cover all of the costs since a large portion of them are fixed costs and remain constant, irrespective of the fact that less wafers were manufactured. In addition, depreciation costs in our industry are high, which has resulted in our operating at a GAAP loss for the last number of years. If customer demand for our products does not increase, we may not be able to operate our facilities consistently at high utilization rates, which may not enable us to fully cover all of our costs, achieve and maintain operating profits or achieve net profits. In addition, we may be unable to generate enough cash from operations that would cover our fixed costs, capital expenditures, liabilities and debt payments as well as reduce our losses. We cannot assure that we will be profitable on a quarterly or annual basis in the future.

Our sales cycles are typically long, and orders received may not meet our expectations, which may adversely affect our operating results.

Our sales cycles, which we measure from first contact with a customer to first shipment of a product ordered by the customer, vary substantially and may last as long as two years or more, particularly for new technologies. In addition, even after we make initial shipments of prototype products, it may take several more months to reach full production of the product. As a result of these long sales cycles, we may be required to invest substantial time and incur significant expenses in advance of the receipt of any product order and related revenue. If orders ultimately received significantly differ from our expectations, we will have excess capacity that we may not be able to fill within a short period of time, resulting in lower utilization of our facilities. We may have to reduce prices in order to try to sell more wafers in order to utilize the excess capacity which may adversely affect our operating results, financial condition and ability to maintain our operations. In addition to the revenue loss, we may have difficulty adjusting our costs to align with the lower revenue since a large portion of our cost is fixed costs as common in our industry, which could harm our financial results.

Demand for our foundry services is dependent on the demand in our customers' end markets. A decrease in demand for, or selling prices of, products that contain semiconductors may decrease the demand for our services and products and reduce our margins.

Our customers generally use the semiconductors produced in our fabs in a wide variety of applications. We derive a significant percentage of our operating revenues from customers who use our manufacturing services to make semiconductors for communication devices, consumer electronics, PCs and other electronic devices. Any significant decrease in the demand for these devices or products may decrease the demand for our services and products. In addition, if the average selling prices of communication devices, consumer electronics, PCs or other electronic devices decline significantly, we may be pressured to further reduce our selling prices, which may reduce our revenues and may reduce our margins significantly. As demonstrated by downturns in demand for high technology products in the past, market conditions can change rapidly, without apparent warning or advance notice. In such instances, our customers may experience inventory buildup and/or difficulties in selling their products and, in turn, may reduce or cancel orders for wafers from us. The timing, severity and recovery of these downturns cannot be predicted accurately or at all. When they occur, our business and profitability may suffer.

In order for demand for our wafer fabrication services to increase, the markets for the end products utilizing the integrated circuits that we manufacture must develop and expand. For example, the success of our imaging process technologies will depend, in part, on the growth of markets for certain image sensor product applications. Because our services may be used in many new applications, it is difficult to forecast demand. If demand is lower than expected, we may have excess capacity, which may adversely affect our financial results. If demand is higher than expected, we may be unable to fill all of the orders we receive, which may result in the loss of customers and revenue.

The cyclical nature of the semiconductor industry and any resulting periodic overcapacity may lead to erosion of sale prices, may make our business and operating results particularly vulnerable to economic downturns, and may reduce our revenues, earnings and margins.

The semiconductor industry has historically been highly cyclical and subject to significant and often rapid increases and decreases in product demand. Traditionally, companies in the semiconductor industry have expanded aggressively during periods of decreased demand in order to have the capacity needed to meet expected demand in future upturns. If actual demand does not increase or declines, or if companies in the industry expand too aggressively, the industry may experience a period in which industry-wide capacity exceeds demand. This could result in overcapacity and excess inventories, leading to rapid erosion of average sales prices. The prices that we can charge our customers for our services are significantly related to the overall worldwide supply of integrated circuits and semiconductor products. The overall supply of semiconductor products is based in part on the capacity of other companies, which is outside of our control. In periods of overcapacity, despite the fact that we utilize niche technologies and manufacture specialty products, we may have to lower the prices we charge our customers for our services which may reduce our margins and weaken our financial condition and results of operations. We cannot give assurance that an increase in the demand for foundry services in the future will not lead to under-capacity, which could result in the loss of customers and materially adversely affect our revenues, earnings and margins. Analysts believe that such patterns may repeat in the future. The overcapacity, under-utilization and downward price pressure characteristic of a downturn in the semiconductor market and/or in the global economy, such as experienced several times in the past, may negatively impact consumer and customer demand for the Company's products, the end products of the Company's customers and the financial markets, which may affect our ability to raise funds and/or restructure and/or re-finance our debt and/or service our other liabilities.

If Tower fails to comply with the terms of an agreement under which Tower has to provide a turn-key solution for the upgrade of a fabrication facility, Tower's financial condition may be affected.

In 2009, Tower entered into a definitive agreement with an Asian entity for the provision by Tower on a turn-key basis of various services and equipment required for the capacity ramp-up and upgrade of the entity's currently installed and commissioned eight inch refurbished wafer fabrication facility. Under said agreement, Tower provides technical consultation, know-how, training and turn-key manufacturing solutions, including arranging for the required manufacturing and the transfer of certain equipment required for the fab ramp-up and upgrade. The total agreement value is approximately $130 million of which approximately $123 million was received as of December 31, 2013.

Payments are based on performance of milestones and delivery of the deliverables such as, delivery of detailed working plans; design of clean room; delivery of process equipment; training and integration; and performance of qualification tests and analyses. If we fail to meet our remaining obligations under this agreement, we may face claims for liability or indemnification which may have a material effect on our financial condition and may not be able to collect the remaining outstanding balance under this Agreement.

If we do not maintain our current customers and attract additional customers, our business may be adversely affected.

Loss or cancellation of business from, or decreases in the sales volume or sales prices to, our significant customers, or our failure to replace lost business with new customers, could seriously harm our financial results, revenue and business.

We have relationships with several customers that represent a material portion of our revenues. During the year ended December 31, 2013, we had three customers that contributed between 7% to 27% of our revenues. During the year ended December 31, 2012, we had two customers that contributed between 6% to 43% of our revenues. During the year ended December 31, 2011, we had four customers that contributed between 5% to 32% of our revenues. The loss of any one of these customers, whether due to insolvency, their unwillingness or inability to perform their obligations under their respective relationships with us, or if we are unable to renew our engagements with them on commercially reasonable terms, may materially negatively impact our overall business and our consolidated financial position and financial results.

Micron Technology, Inc. which has been a significant customer of TJP, comprising 27% of our revenue in 2013, is committed from 2011 to purchase certain minimum material amount of products, with periodic reductions through expiration of the agreement in June 2014. Micron has utilized a major percentage of the Nishiwaki Fab under this contract, which has covered the fixed costs and certain other additional costs through the term of the agreement. However, Micron is not committed to utilize Fab 4 beyond the second quarter of 2014 and since its forecasts are decreasing thereafter, we believe that considering the cessation of the operations of Fab 4 in the course of the restructuring of our activities and business in Japan, Micron's purchases will comprise less than 10% of our revenues in 2014, and no revenue will be attributed to Micron in 2015.

Panasonic Corporation is going to be a significant customer of TPSC at least during its initial years of operation and is expected to comprise major portion of its revenue for at least the coming two years. For these two years, our ability to successfully operate TPSC is essentially dependent on Panasonic Corporation ordering a sufficient number of wafers and manufacturing services from TPSC. We already began discussions with some potential foundry customers to initiate manufacturing at TPSC, and TPSC shall start manufacturing as soon as final agreement is reached with such potential foundry customers. However, such process may take more than two years to reach the mass production stage, as customary in our industry. Failure to receive sufficient amount of revenue from Panasonic may significantly jeopardize TPSC and our plans and negatively harm our financial results.

If we do not maintain and develop our technology processes and services, we may lose customers and may be unable to attract new ones.

The semiconductor market is characterized by rapid change, including the following:

- rapid technological developments;
- evolving industry standards;
- changes in customer and product end user requirements;
- frequent new product introductions and enhancements; and
- short product life cycles with declining prices as products mature.

Our ability to maintain our current customer base and attract new customers is dependent in part on our ability to continuously develop and introduce to production advanced specialized manufacturing process technologies and purchase the appropriate equipment. If we are unable to successfully develop and introduce these processes to production in a timely manner or at all, or if we are unable to purchase the appropriate equipment required for such processes, we may be unable to maintain our current customer base and may be unable to attract new customers.

The semiconductor foundry business is highly competitive; our competitors may have competitive advantages over us and our results of operations may be adversely affected if we do not successfully compete in the industry.

The semiconductor foundry industry is highly competitive. We compete with more than ten independent dedicated foundries, the majority of which are located in Asia-Pacific, including foundries based in Taiwan, China, Korea and Malaysia, and with over 20 integrated semiconductor and end-product manufacturers that allocate a portion of their manufacturing capacity to foundry operations. The foundries with which we compete benefit from their close geographic proximity to companies involved in the design and manufacture of integrated circuits.

As our competitors continue to expand their manufacturing capacity, there could be an increase in specialty semiconductor capacity. As specialty capacity increases, there may be more competition and pricing pressure on our services, which may result in underutilization of our capacity, decrease of our profit margins, reduced earnings or increased losses.

In addition, some semiconductor companies have advanced their CMOS designs to 65 nanometer or smaller geometries. These smaller geometries may provide customers with performance and integration features that may be comparable to, or exceed, features offered by our specialty process technologies. The smaller geometries may also be more cost-effective at higher production volumes for certain applications, such as when a large amount of digital content is required in a mixed-signal semiconductor and less analog content is required. Our specialty processes will therefore compete with these processes and some of our potential and existing customers could elect to design these advanced CMOS processes into their next generation products. We are not currently capable, and do not currently plan to become capable, of providing CMOS processes at these smaller geometries. If our potential or existing customers choose to design their products using these advanced CMOS processes, our business may be negatively impacted.

In addition, many of our competitors may have one or more of the following competitive advantages over us:

- greater manufacturing capacity;
- geographically diversified and more advanced manufacturing facilities;
- more advanced technological capabilities;
- a more diverse and established customer base;
- greater financial, marketing, distribution and other resources;
- a better cost structure; and/or
- better operational performance in cycle time and yields.

If we do not compete effectively, our business and results of operations may be adversely affected.

If we experience difficulty in achieving acceptable device yields, product performance and delivery times as a result of manufacturing problems, our business could be seriously harmed.

The process technology for the manufacture of semiconductor wafers is highly complex, requires advanced and costly equipment and is constantly being modified in an effort to improve device yields, product performance and delivery times. Microscopic impurities such as dust and other contaminants, difficulties in the production process, defects in the key materials and tools used to manufacture wafers and other factors can cause wafers to be rejected or individual semiconductors on specific wafers to be non-functional. We may experience difficulty achieving acceptable device yields, product performance and product delivery times in the future as a result of manufacturing problems. Although we have been enhancing our manufacturing capabilities and efficiency, from time to time we have experienced production difficulties that have caused delivery delays and quality control problems, as is common in the semiconductor industry. In the past, we have encountered the following problems:

- difficulties in upgrading or expanding existing facilities;
- unexpected breakdowns in our manufacturing equipment and/or related facility systems;
- difficulties in changing or upgrading our process technologies;
- raw material shortages or impurities;
- delays in delivery or shortages of spare parts; and
- difficulties in maintenance of our equipment.

Should these problems repeat, we may suffer delays in delivery and/or loss of reputation, business and revenues. Any of these problems could seriously harm our operating results and financial condition and ability to maintain our operations.

If we are unable to purchase equipment and raw materials, we may not be able to manufacture our products in a timely fashion, which may result in a loss of existing and potential new customers.

To increase the production capability and maintain the quality of production in our facilities, we must procure additional equipment. In periods of high market demand, the lead times from order to delivery of manufacturing equipment could be as long as 12 to 18 months. In addition, our manufacturing processes use many raw materials, including silicon wafers, chemicals, gases and various metals, and require large amounts of fresh water and electricity. Manufacturing equipment and raw materials generally are available from several suppliers. In several instances, however, we purchase equipment and raw materials from a single source. Shortages in supplies of manufacturing equipment and raw materials could occur due to an interruption of supply or increased industry demand. Any such shortages could result in production delays that may result in a loss of existing and potential new customers which may have a material adverse effect on our business and financial condition.

Our exposure to inflation and currency exchange and interest rate fluctuations may increase our cost of operations.

Of our revenues for the year ended December 31, 2013, 27% was in Japanese Yen (JPY) and almost all of the rest of our revenues were in U.S. dollars (USD). Of our revenues for the year ended December 31, 2012, 43% was in Japanese Yen (JPY) and almost all of the rest of our revenues were in U.S. dollars (USD). Our financing and investing activities and our expenses and costs are denominated in USD, New Israeli Shekels (NIS), JPY and Euros. We are, therefore, exposed to the risk of currency exchange rate fluctuations.

The dollar amount of our operations, which is denominated in NIS, is influenced by the timing of any change in the rate of inflation in Israel and the extent to which such change is not offset by the change in valuation of the NIS in relation to the US dollar. The dollar amount of our operations, which is denominated in JPY, is influenced by the timing of any change in the exchange rate of the USD in relation to the JPY. Such dollar amount of operations will increase if the US dollar devalues against the NIS or the JPY. Outstanding principal and interest on some of Tower's debentures is linked to the Israeli consumer price index (CPI) and therefore, Tower's dollar costs will increase if inflation in Israel exceeds the devaluation of the NIS against the US dollar.

Tower and Jazz's borrowings under their respective credit facilities provide for interest based on a floating LIBOR rate, thereby exposing us to interest rate fluctuations. Furthermore, if Tower's and/or Jazz's banks incur increased costs in financing the applicable credit facility due to changes in law or the unavailability of foreign currency, they may exercise their right to increase the interest rate on the credit facility or require Tower and/or Jazz to bear such increased cost as provided for in the respective credit facility agreement.

Tower regularly engages in various hedging strategies to reduce its exposure to some, but not all, of these risks and intends to continue to do so in the future. However, despite any such hedging activity, Tower is likely to remain exposed to interest rate and exchange rate fluctuations and inflation, which may increase the cost of its operating and financing activities.

We depend on intellectual property rights of third parties and failure to maintain or acquire licenses could harm our business.

We depend on third party intellectual property in order for us to provide certain foundry services and design support to our customers. If problems or delays arise with respect to the timely development, quality and provision of such intellectual property to us, the design and production of our customers' products could be delayed, resulting in underutilization of our capacity. If any of our intellectual property vendors goes out of business, liquidates, merges with, or is acquired by, another company that discontinues the vendor's previous line of business, or if we fail to maintain or acquire licenses to such intellectual property for any other reason, our business may be adversely affected. In addition, license fees and royalties payable under these agreements may impact our margins and operating results.

Failure to comply with the intellectual property rights of third parties or to defend our intellectual property rights could harm our business.

Our ability to compete successfully depends on our ability to operate without infringing on the proprietary rights of others and defending our intellectual property rights. Because of the complexity of the technologies used and the multitude of patents, copyrights and other overlapping intellectual property rights, it is often difficult for semiconductor companies to determine infringement. Therefore, the semiconductor industry is characterized by frequent litigation regarding patent, trade secret and other intellectual property rights. We have been subject to intellectual property claims from time to time, some of which have been resolved through license agreements, the terms of which have not had a material effect on our business.

From time to time, we are a party to litigation matters incidental to the conduct of our business. Because of the nature of the industry, we may continue to be a party to infringement claims in the future. In the event any third party were to assert infringement claims against us or our customers, we may have to consider alternatives including, but not limited to:

- negotiating cross-license agreements;
- seeking to acquire licenses to the allegedly infringed patents, which may not be available on commercially reasonable terms, if at all;

- discontinuing use of certain process technologies, architectures, or designs, which could cause us to stop manufacturing certain integrated circuits if we are unable to design around the allegedly infringed patents;

- litigating the matter in court and paying substantial monetary damages in the event we lose; or

- seeking to develop non-infringing technologies, which may not be feasible.

Any one or several of these alternatives could place substantial financial and administrative burdens on us and hinder our business. Litigation, which could result in substantial costs to us and diversion of our resources, may also be necessary to enforce our patents or other intellectual property rights or to defend us or our customers against claimed infringement of the rights of others. If we fail to obtain certain licenses or if we will be involved in litigation relating to alleged patent infringement or other intellectual property matters, it could prevent us from manufacturing particular products or applying particular technologies, which could reduce our opportunities to generate revenues.

As of December 31, 2013, we held 215 patents in force. We intend to continue to file patent applications when appropriate. The process of seeking patent protection may take a long time and be expensive. We cannot assure you that patents will be issued from pending or future applications or that, if patents are issued, they will not be challenged, invalidated or circumvented or that the rights granted under the patents will provide us with meaningful protection or any commercial advantage. In addition, we cannot assure you that other countries in which we market our services and products will protect our intellectual property rights to the same extent as the United States. Effective intellectual property enforcement may be unavailable or limited in some countries. We cannot assure you that we will at all times enforce our patents or other intellectual property rights and it may be difficult for us to protect our intellectual property from misuse or infringement by other companies in certain countries. Further, we cannot assure you that courts will uphold our intellectual property rights or enforce the contractual arrangements that we have entered into to protect our proprietary technology, which could reduce our opportunities to generate revenues. Our inability to enforce our intellectual property rights in some countries may harm our business and results of operations.

We could be seriously harmed by failure to comply with environmental regulations.

Our business is subject to a variety of laws and governmental regulations in Israel, the U.S. and Japan relating to the use, discharge and disposal of toxic or otherwise hazardous materials used in Tower's production processes in Israel, in Jazz's production processes in California and in TJP's and TPSC's facilities in Japan. If we fail to use, discharge or dispose of hazardous materials appropriately, or if applicable environmental laws or regulations change in the future, we could be subject to substantial liability or could be required to suspend or adversely modify our manufacturing operations. In addition, there is a risk of environmental liability which may result if decommissioning and sale of Fab 4's assets in the course of ceasing its operations is not done in compliance with applicable environmental regulations.

We are subject to the risk of loss due to fire because the materials we use in our manufacturing processes are highly flammable.

We use highly flammable materials such as silane and hydrogen in our manufacturing processes and are therefore subject to the risk of loss arising from fire. The risk of fire associated with these materials cannot be completely eliminated. TPSC's fabs are located in Japan in a location where natural disaster events such as earthquakes and snow storms occasionally occur, which may lead to fire in the fabs or other material damage. Although we maintain insurance policies to reduce potential losses that may be caused by fire, including business interruption insurance, our insurance coverage may not be sufficient to cover all of our potential losses due to a fire. If any of our fabs were to be damaged or cease operations as a result of a fire, and if our insurance proves to be inadequate, it may reduce our manufacturing capacity and revenues. In addition, a power outage, even of very limited duration, caused by a fire may result in a loss of wafers in production, deterioration in our fab yield and substantial downtime to reset equipment before resuming production.

Possible product returns could harm our business.

Products manufactured by us may be returned within specified periods if they are defective or otherwise fail to meet customers' prior agreed upon specifications. Although product returns have historically been less than 1% of revenues, future product returns in excess of established provisions, if any, may have an adverse effect on our business and financial condition.

We are subject to risks related to our international operations.

We have generated substantial revenue from customers located in Asia-Pacific and in Europe. Because of our international operations, we are vulnerable to the following risks:

- we price our products primarily in US dollars; if the Euro, Yen or other currencies weaken relative to the US dollar, our products may be relatively more expensive in these regions, which could result in a decrease in our revenue;
- the burdens and costs of compliance with foreign government regulation, as well as compliance with a variety of foreign laws;
- general geopolitical risks such as political and economic instability, international terrorism, potential hostilities and changes in diplomatic and trade relationships;
- natural disasters affecting the countries in which we conduct our business;
- imposition of regulatory requirements, tariffs, import and export restrictions and other trade barriers and restrictions, including the timing and availability of export licenses and permits;
- adverse tax rules and regulations;
- weak protection of our intellectual property rights;
- delays in product shipments due to local customs restrictions;
- laws and business practices favoring local companies;
- difficulties in collecting accounts receivable; and
- difficulties and costs of staffing and managing foreign operations.

In addition, Israel, the United States, Japan and other foreign countries may implement quotas, duties, taxes or other charges or restrictions upon the importation or exportation of our products, leading to a reduction in sales and profitability in that country. The geographical distance between Israel, the United States, Japan and the rest of Asia and Europe also creates a number of logistical and communication challenges. We cannot assure you that we will be able to sufficiently mitigate the risks related to our international operations.

Our business could suffer if we are unable to retain and recruit qualified personnel.

We depend on the continued services of our senior executive officers, senior managers and skilled technical and other personnel. Our business could suffer if we lose the services of some of these personnel due to resignation, medical absence, illness or other reasons, and we cannot find and integrate adequate replacement personnel into our senior management, business or operations in a timely manner. In particular, with respect to the recently acquired TPSC fabs, employees are in the process of being transferred from Panasonic Corporation and therefore there is a risk that we may not be able to retain the services of some of these key personnel, as the employees' consent is required and may be cancelled at their discretion under applicable laws of Japan. In such case, there is no assurance that we will be able to find and adequately integrate replacement personnel into the operations at TPSC in a timely manner. We seek to recruit highly qualified personnel and there is intense competition for the services of these personnel in the semiconductor industry. Competition for personnel may increase significantly in the future as new fabless semiconductor companies as well as new semiconductor manufacturing facilities are established. Our ability to retain existing personnel and attract new personnel is in part dependent on the compensation packages we offer. As demand for qualified personnel increases, we may be forced to increase the compensation levels and to adjust the cash, equity and other components of compensation we offer our personnel.

Our business plan is premised on the increasing use of outsourced foundry services by both fabless semiconductor companies and integrated device manufacturers for the production of semiconductors using specialty process technologies. Our business may not be successful if this trend does not continue to develop in the manner we expect.

We operate as an independent semiconductor foundry focused primarily on specialty process technologies. Our business model assumes that demand for these processes within the semiconductor industry will grow and follow the broader trend towards outsourcing foundry operations. Although the use of foundries is established and growing for standard CMOS processes, the use of outsourced foundry services for specialty process technologies is less common and may never develop into a significant part of the semiconductor industry. If fabless companies and vertically integrated device manufacturers choose not to access independent specialty foundry capacity, the manufacture of specialty process technologies may not follow the trend of standard CMOS processes. If the broader trend to outsourced foundry services does not prove applicable to the specialty process technologies that we are focused on, our business, results of operations and cash flow may be harmed.

If we are unable to collaborate successfully with electronic design automation vendors and third-party design service companies to meet our customers' design needs, our business could be harmed.

We have established relationships with electronic design automation vendors and third-party design service companies. We work together with these vendors to develop complete design kits that our customers can use to meet their design needs using our process technologies. Our ability to meet our customers' design needs successfully depends on the availability and quality of the relevant services, tools and technologies provided by electronic design automation vendors and design service providers, and on whether we, together with these providers, are able to meet customers' schedule and budget requirements. Difficulties or delays in these areas may adversely affect our ability to meet our customers' needs, and thereby harm our business.

Failure to comply with existing or future governmental regulations could reduce our sales or increase our manufacturing costs.

The semiconductors we produce and the export of technologies used in our manufacturing processes may be subject to U.S., Israeli and/or Japanese export control and other regulations as well as various standards established by authorities in other countries. Failure to comply with existing or evolving U.S., Israeli, Japanese or other governmental regulation or to obtain timely domestic or foreign regulatory approvals or certificates, could materially harm our business by reducing our sales, requiring modifications to processes that we license to foreign third parties, or requiring modifications that may be too extensive to the products of our customers. Our business may be adversely affected if less stringent governmental controls are imposed on our foreign competitors' processes or their customers' products, thereby making our foreign competitors more competitive in the global market.

If the integrated circuits we manufacture are integrated into defective products, we may be subject to product liability or other claims which could damage our reputation and harm our business.

Our customers integrate our custom integrated circuits into their products which they then sell to end users. If these products are defective or malfunction, we may be subject to product liability claims, as well as possible recalls, safety alerts or advisory notices relating to the product. We cannot assure you that our insurance policies will be adequate to satisfy claims that may be made against us. Also, we may be unable to obtain insurance in the future at satisfactory rates, in adequate amounts, or at all. Product liability claims or product recalls in the future, regardless of their ultimate outcome, may have a material adverse effect on our business, reputation, financial condition and our ability to attract and retain customers.

A significant portion of Fab 3's workforce is unionized, and its operations may be adversely affected by work stoppages, strikes or other collective actions which may disrupt its production and adversely affect the yield of its fab.

A significant portion of Fab 3's employees at the Newport Beach, California fab are represented by a union and covered by a collective bargaining agreement that is scheduled to expire in March 2015. We cannot predict the effect that continued union representation or future organizational activities will have on Fab 3's business. We cannot assure you that Fab 3 will not experience a material work stoppage, strike or other collective action in the future, which may disrupt its production and adversely affect its customer relations and operational results.

Our production yields and business could be significantly harmed by natural disasters, particularly earthquakes.

Fab 1 and Fab 2 are located in an area near the Syrian-African rift valley, which is known to have seismic activity. Fab 3 is located in southern California, a region known for seismic activity. Fab 4, as well as the TPSC Fabs are located in Japan, which is generally susceptible to seismic activity. Due to the complex and delicate nature of our manufacturing processes, our facilities are particularly sensitive to the effects of vibrations associated with even minor earthquakes. Our business operations depend on our ability to maintain and protect our facilities, computer systems and personnel. We cannot be certain that precautions that any of our fabs have taken to seismically upgrade the fabs will be adequate to protect our facilities in the event of a major earthquake, and any resulting damage could seriously disrupt production and result in reduced revenues. In addition, we have no insurance coverage which may compensate us for losses that may be incurred in Fab 3, Fab 4 and the TPSC Fabs as a result of earthquakes, and any such losses or damages incurred by us may have a material adverse effect on our business.

The production line may stop for short or long periods of time due to power outages, water leaks, chemical leaks and other causes, which may adversely affect our cycle time, yield, and on schedule delivery, thereby potentially causing an immediate loss of a material amount of revenue for the current and coming quarter or quarters, which would adversely affect our revenue, profitability and short term financial forecasts as compared to our original estimations.

There are many events that may adversely affect the manufacturing process running in a facility. From time to time, there are events such as power outages, water leaks and chemical leaks that may adversely affect our cycle time, yield and on schedule delivery. In such events, we try to mitigate any potential damage caused by such events and have insurance coverage which we believe to be sufficient. However, we cannot ensure that such events will have no negative effect on the Company. Such events may potentially cause an immediate loss of a material amount of revenue for the current and coming quarter or quarters, which would adversely affect our revenue, profitability and short term financial forecasts as compared to our original estimations.

Climate change may negatively affect our business.

There is increasing concern that climate change is occurring and may have dramatic effects on human activity if no aggressive remediation steps are taken. Public expectations with respect to reductions in greenhouse gas emissions may result in increased energy, transportation and raw material costs.

Scientific examination of, political attention to and rules and regulations on issues surrounding the existence and extent of climate change may result in increased production costs due to increase in the prices of energy and introduction of energy or carbon tax. A variety of regulatory developments have been introduced that focus on restricting or managing emissions of carbon dioxide, methane and other greenhouse gases. Enterprises may need to purchase new equipment at higher costs or raw materials with lower carbon footprints. These developments and further legislation that is likely to be enacted may adversely affect our operations. Changes in environmental regulations, such as those on the use of per fluorinated compounds, may increase our production costs, which may adversely affect our results of operation and financial condition.

In addition, more frequent droughts and floods, extreme weather conditions and rising sea levels may occur due to climate change. For example, transportation suspension caused by extreme weather conditions may harm the distribution of our products. We cannot predict the economic impact, if any, of disasters or climate change.

Compliance with the US Conflict Minerals Law may affect our ability or the ability of our suppliers to purchase raw materials at an effective cost.

Many industries rely on materials which are subject to regulation concerning certain minerals sourced from the Democratic Republic of Congo ("DRC") or adjoining countries, which include Sudan, Uganda, Rwanda, Burundi, United Republic of Tanzania, Zambia, Angola, Congo, and Central African Republic. These minerals are commonly referred to as conflict minerals. Conflict minerals which may be used in our industry or by our suppliers include Columbite-tantalite (derivative of tantalum [Ta]), Cassiterite (derivative of tin [Sn]), gold [Au], Wolframite (derivative of tungsten [W]), and Cobalt [Co]. The SEC adopted annual disclosure and reporting requirements with respect to use of conflict minerals mined from the DRC and adjoining countries in their products.. There may also be costs associated with complying with these disclosure requirements, including for diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. Although we expect that we and our vendors will be able to comply with the requirements, there can be no guarantee that we will be able to gather all the information required from our vendors. In addition, there is increasing public sentiment that companies should avoid using conflict materials from the DRC and adjoining countries. Although we believe our suppliers do not rely on such conflict materials, there can be no guarantee that we will continue to be able to obtain adequate supplies of materials needed for our production from supply chains outside the DRC and adjoining countries. A failure to obtain necessary information or to maintain adequate supplies of materials from supply chains outside the DRC and adjoining countries may delay our production, increasing the risk of losing customers and business.

Risks relating to construction activities adjacent to Fab 3.

Jazz leases its fabrication facilities and headquarters under lease contracts that may be extended until 2027, through the exercise of options at Jazz's sole discretion to extend the lease periods from 2017 to 2022 and from 2022 to 2027. In 2010, the properties which Jazz leases for its fabrication facilities and headquarters were sold to a real estate investment firm based in Irvine, California. In connection with the sale, Jazz negotiated amendments to its operating leases that confirm Jazz's ability to remain in the fabrication facilities through 2027 as described above. In the amendments to its leases, Jazz secured various contractual safeguards designed to limit and mitigate any adverse impact of construction activities on its fabrication operations. Although Jazz does not anticipate a material adverse impact to its operations, it is possible that construction activities adjacent to Jazz's fabrication facility could result in temporary reductions or interruptions in the supply of utilities to the property and that a portion or all of the fabrication facility may need to be idled temporarily during development. If construction activities limit or interrupt the supply of water, gas or electricity to Fab 3 or cause significant vibrations or other disruptions, it could limit or delay Fab 3's production, which could adversely affect our business and operating results. In addition, an unplanned power outage caused by construction activities, even of very limited duration, could result in a loss of wafers in production, deterioration in Fab 3's yield and substantial downtime to reset equipment before resuming production. In relation to the amendment to the lease contract, Jazz may incur substantial costs in order to reach required noise mitigation which may affect our results.

Risks Related to Our Securities

Tower's outstanding debentures are subordinated to Tower's indebtedness to its banks and obligations to secured creditors and Jazz's notes are subordinated to Jazz's secured indebtedness to its bank.

Tower's outstanding debentures are subordinated to (i) approximately $131 million in the aggregate payable to the banks as of December 31, 2013 under Tower's amended facility agreement and (ii) any obligations to the Investment Center of the Israeli Ministry of Industry, Trade and Labor under the Investment Center's "Approved Enterprise" program in relation to Fab 2. Tower has not guaranteed any of Jazz's debt, including Jazz's debt under its bank loan and Jazz's debt to its note holders. In addition, Jazz's notes are subordinated to approximately $19 million payable in regard to Jazz's secured bank loans as of December 31, 2013. As a result, upon any distribution to Tower or Jazz's creditors, as applicable, in liquidation or reorganization or similar proceedings, these secured creditors will be entitled to be paid in full before any payment may be made with respect to Tower or Jazz's outstanding debentures or note holders, as applicable. In any of these circumstances, Tower, or Jazz, as applicable, may not have sufficient assets to pay amounts due on any or all of their respective debentures or notes then outstanding. In addition, neither Tower nor Jazz, as applicable, is permitted under the terms of their respective facility agreements to make a payment on account of their respective debentures or notes, as applicable, if on the date of such payment an "Event of Default" exists under the applicable facility agreement.

Tower's stock market price and Tower's debentures' traded price may be volatile in the future. Fluctuations in the market price of our traded securities may significantly affect our reported GAAP non-cash financing expenses and our ability to issue new securities.

The shares stock market and the Israeli convertibles debentures and straight bonds markets in general, have experienced volatility that often has been unrelated to the operating performance of the related companies. The stock prices for many companies in the semiconductor industry have experienced wide fluctuations, which have often been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the market price of Tower's equity and debt securities regardless of Tower's actual operating performance.

In addition, it is possible that Tower's operating results may be below the expectations of public market analysts and investors, in which case, the price of Tower's securities may underperform or fall.

Fluctuations in price of Tower's equity and debt securities may impact our financial results as such factors serve as inputs in our fair value measurement of financial instruments, as well as certain embedded features, which are presented at fair value under prevailing accounting standards.

Fluctuation in the market price of such securities or of our share price may cause a significant fluctuation in our reported GAAP non-cash financing expenses, which may harm our ability to accurately forecast our reported GAAP non-cash financing expenses, our reported net profit or loss and our reported earnings or losses per share, and may cause our gross and operating profits to result in a net loss, increase our net loss or reduce our net profits. This non-cash appreciation in our obligations and financing expenses will either eventually be reversed or be converted into shareholders' equity, or a combination thereof.

Such adverse fluctuations in the market price of our equity and debt securities may also result in difficulties in our ability to issue new securities to finance our growth plans, obligations and liabilities.

Market sales of large amounts of Tower's shares or securities or conversion or exercise of a material portion of securities into shares or issuance of new ordinary shares, or even the perception that such may occur, may depress the market price of Tower's shares, impair our ability to raise future capital through the sale of Tower securities and limit our ability to fund our growth plans, long-term debt and other liabilities, which may have adverse effects on our business and financial position.

Market sales of large amounts of Tower's shares or securities, or even the perception that such sales may occur, may lower the price of Tower's ordinary shares. The majority of Tower's outstanding ordinary shares as of March 31, 2014 are held by non-affiliates and are freely tradable under US securities laws. The balance is held by the Israel Corporation, our major shareholder. Some of these shares are, or may be, registered for resale and therefore are, or could be, freely tradable under US securities laws, and the balance are eligible for sale subject to the volume and manner of sale limitations of Rule 144 promulgated under the US Securities Act of 1933. In addition, as described below, a substantial number of Tower ordinary shares are issuable under capital notes, options, warrants and convertible debentures.

Market sales of large amounts of Tower's shares or securities, or a conversion or exercise of a material portion of such convertible securities, or issuance of new ordinary shares, or even the perception that such sales, conversions, exercises or issuances may occur could depress the market price of Tower ordinary shares and may impair our ability to raise capital through the sale of Tower securities and limit our ability to fund our growth plans, long-term debt and other liabilities, which may have adverse effects on our business and financial position.

Any inability to comply with Section 404 of the Sarbanes−Oxley Act of 2002 regarding internal control attestation or any SEC filing requirement may adversely affect our financial position.

We are subject to the reporting and filing requirements of the United States Securities and Exchange Commission ("SEC"). The SEC, as directed by Section 404(a) of the United States Sarbanes−Oxley Act of 2002, adopted rules requiring public companies to include a management report assessing the company's effectiveness of internal control over financial reporting and an attestation thereof by its auditors in its annual report. Our management and/or our auditors may conclude that our internal controls over financial reporting are not effective. Such a conclusion could result in a loss of investor confidence in the reliability of our financial statements, which could negatively impact the market price of our shares and our ability to access the capital markets. In addition, we are required to file reports and other information with the SEC under the Securities Exchange Act of 1934 and the regulations thereunder applicable to foreign private issuers the company, see also item 10–Additional Information -- Documents on Display. Failure by us to file reports and other information with the SEC under the Securities Exchange Act of 1934 and the regulations thereunder may result in filing or other deficiency and negatively impact the market price of our shares and our ability to access the capital markets, thereby adversely affecting our financial position.

Risks Related to Our Operations in Israel
Instability in Israel may harm our business.

Fab 1 and Fab 2 manufacturing facilities and certain of its corporate and sales offices are located in Israel. Accordingly, political, economic and military conditions in Israel may directly affect our business.

Since the establishment of the State of Israel in 1948, Israel has been and is subject to armed conflict with neighboring states and terrorist activity, with varying levels of severity. Parties with whom we do business have sometimes declined to travel to Israel during periods of heightened unrest or tension, forcing us to make alternative arrangements where necessary. In addition, the political and security situation in Israel may result in parties with whom we have agreements claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions. We can give no assurance that security and political conditions will not adversely impact our business in the future. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could adversely affect our operations and make it more difficult for us to raise capital. Furthermore, Fab 1 and Fab 2 manufacturing facilities are located exclusively in Israel. We could experience serious disruption to our manufacturing in Israel if acts associated with this conflict result in any serious damage to said manufacturing facilities. In addition, our business interruption insurance may not adequately compensate us for losses that may incurred, and any losses or damages incurred by us could have a material adverse effect on our business.

In the event of severe unrest or other conflict, Israeli personnel could be required to serve in the military for extended periods of time. In response to increases in terrorist activity, there have been periods of significant call-ups of Israeli military reservists, and it is possible that there will be additional call-ups in the future. Many male Israeli citizens, including most of Tower's male employees under the age of 40, are subject to compulsory military reserve service and may be called to active duty under emergency circumstances. Our operations in Israel could be disrupted by the absence for a significant period of time of one or more of our key employees or a significant number of our other employees due to military service. Such disruption could harm our operations.

If the exemption allowing us to operate our Israeli manufacturing facilities seven days a week is not renewed, our business will be adversely affected.

We operate our Israeli manufacturing facilities seven days a week pursuant to an exemption from the law that requires businesses in Israel to be closed from sundown on Friday through sundown on Saturday. This exemption expires by its terms on December 31, 2014. If the exemption is not renewed in the future and we are forced to close either or both of the Israeli facilities for this period each week, our financial results and business will be harmed.

It may be difficult to enforce a US judgment against us, our officers, directors and advisors or to assert US securities law claims in Israel.

Tower is incorporated in Israel. Most of Tower's executive officers and directors and our Israeli accountants and attorneys are nonresidents of the United States, and a majority of Tower's assets (excluding its foreign subsidiaries and their assets) and the assets of these persons are located outside the United States. Therefore, it may be difficult to enforce a judgment obtained in the United States, against Tower or any of these persons, in US or Israeli courts based on the civil liability provisions of the US federal securities laws, except to the extent that such judgment could be enforced in the U.S. against Tower's U.S. subsidiaries. Additionally, it may be difficult to enforce civil liabilities under US federal securities laws claimed in original actions instituted in Israel.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

We are a pure-play independent specialty foundry dedicated to the manufacture of semiconductors. Typically, pure-play foundries do not offer products of their own, but focus on producing integrated circuits, or ICs, based on the design specifications of their customers. We manufacture semiconductors for our customers primarily based on third party designs. We currently offer the manufacture of ICs with geometries ranging from 1.0 to 45-nanometers. We also provide design support and complementary technical services. ICs manufactured by us are incorporated into a wide range of products in diverse markets, including consumer electronics, personal computers, communications, automotive, industrial and medical device products.

We are focused on establishing leading market share in high-growth specialized markets by providing our customers with high-value wafer foundry services. Our historical focus has been standard digital complementary metal oxide semiconductor ("CMOS") process technology, which is the most widely used method of producing ICs. We are currently focused on the emerging opportunities in specialized technologies including CMOS image sensors, mixed-signal, radio frequency CMOS (RFCMOS), bipolar CMOS (BiCMOS), and silicon-germanium BiCMOS (SiGe BiCMOS or SiGe), high voltage CMOS, radio frequency identification (RFID) technologies and power management. To better serve our customers, we have developed and are continuously expanding our technology offerings in these fields. Through our experience and expertise gained over twenty years of operation, we differentiate ourselves by creating a high level of value for our clients through innovative technological processes, design and engineering support, competitive manufacturing indices, and dedicated customer service.

Tower was founded in 1993, with the acquisition of National Semiconductor's 150-mm wafer fabrication facility located in Migdal Haemek, Israel, and commenced operations as an independent foundry. Since then, we have significantly upgraded our Fab 1 facility, equipment, capacity and technological capabilities with process geometries ranging from 1.0-micron to 0.35-micron and enhanced our process technologies to include CMOS image sensors, embedded flash, advanced analog, RF (radio frequency) and mixed-signal technologies.

In 2003, we commenced production in Fab 2, a wafer fabrication facility we established in Migdal Haemek, Israel. Fab 2 supports geometries ranging from 0.35 to 0.13-micron, using advanced CMOS technology, including CMOS image sensors, embedded flash, advanced analog, RF (radio frequency), power platforms and mixed-signal technologies.

In September 2008, we merged with Jazz Technologies, Inc ("Jazz"). Jazz focuses on specialty process technologies for the manufacture of analog and mixed-signal semiconductor devices. Jazz's specialty process technologies include advanced analog, radio frequency, high voltage, bipolar and silicon germanium bipolar complementary metal oxide ("SiGe") semiconductor processes. ICs manufactured by Jazz are incorporated into a wide range of products, including cellular phones, wireless local area networking devices, digital TVs, set-top boxes, gaming devices, switches, routers and broadband modems. Jazz operates one semiconductor fabrication facility in Newport Beach, California ("Fab 3").

In June 2011, we acquired a fabrication facility in Nishiwaki City, Hyogo, Japan ("Fab 4") from Micron. The assets and related business that we acquired from Micron are held and conducted through a wholly owned Japanese subsidiary, TowerJazz Japan Ltd. ("TJP"). Fab 4 supports geometries ranging from 0.13 to 0.095-micron to manufacture DRAM as well as CMOS and CMOS image sensor products. In 2014, we decided to cease the operations of Fab 4 in the course of restructuring our activities and business in Japan.

In December 2013, we signed a formation agreement with Panasonic and in March 2014 we closed a definitive transaction with Panasonic to create a new company to manufacture products for Panasonic and potentially other third parties, using Panasonic's three semiconductor manufacturing facilities located in Hokuriku Japan. Pursuant to the transaction, Panasonic formed a new company called TowerJazz Panasonic Semiconductor Co., Ltd., ("TPSC") and transferred its semiconductor wafer manufacturing process and capacity tools (8 inch and 12 inch) at its three fabs located in Hokuriku (Uozu E, Tonami CD and Arai E) to TPSC, and entered into a five-year manufacturing agreement for the manufacture of products for Panasonic by TPSC. As part of the transaction, we purchased 51% of the shares of TPSC from Panasonic. For more details please see Item 5.D. Trend Information.

Our executive offices and Israeli manufacturing facilities are located in the Ramat Gavriel Industrial Park, Shaul Amor Street, Post Office Box 619, Migdal Haemek, 23105 Israel, and our telephone number is 972-4-650-6611. Our agent for service of process in the United States is Tower Semiconductor USA, Inc. located at 2570 North First Street, Suite 480 San Jose, CA 95131.

For more information about us, go to www.towerjazz.com. Information on our web site is not incorporated by reference in this annual report.

B. BUSINESS OVERVIEW

INDUSTRY OVERVIEW

PROLIFERATION OF ANALOG AND MIXED-SIGNAL SEMICONDUCTORS AND THE GROWING NEED FOR SPECIALTY PROCESS TECHNOLOGIES

Semiconductor devices are responsible for the rapid growth of the electronics industry over the past fifty years. They are critical components in a variety of applications, from computers, consumer electronics and communications, to industrial, military, medical and automotive applications. Rapid changes in the semiconductor industry frequently make recently introduced devices and applications obsolete within a very short period of time. With the increase in their performance and decrease in their size and cost, the use of semiconductors and the number of their applications have increased significantly.

Historically, the semiconductor industry was composed primarily of companies that designed and manufactured ICs in their own fabrication facilities. These companies, such as Intel and IBM, are known as integrated device manufacturers, or IDMs. In the mid-1980s, fabless IC companies, which focused on IC design and used external manufacturing capacity, began to emerge. Fabless companies initially outsourced production to IDMs, which filled this need through their excess capacity. As the semiconductor industry continued to grow, increasing competition forced fabless companies and IDMs to seek reliable and dedicated sources of IC manufacturing services. Use of external manufacturing capacity allowed IDMs to reduce their investment in their existing and next-generation manufacturing facilities and process technologies. This need for external manufacturing capacity led to the development of independent companies, known as foundries, which focus primarily on providing IC manufacturing services to semiconductor suppliers. Foundry services are used by nearly all major semiconductor companies in the world, including IDMs, as part of a dual-source, risk-diversification and cost effectiveness strategy.

Semiconductor suppliers face increasing demands for new products that provide higher performance, greater functionality and smaller form factors at lower prices - all features that require increasingly complex ICs. The industry has experienced a dramatic increase in the number of applications that incorporate semiconductors. Further, in order to compete successfully, semiconductor suppliers must minimize the time it takes to bring a product to market. As a result, fabless companies and IDMs have focused more on their core competencies, design and intellectual property, and tend to outsource manufacturing to foundries.

The two basic functional technologies for semiconductor products are digital and analog. Digital semiconductors provide critical processing power and have helped enable many of the computing and communication advances of recent years. Analog semiconductors monitor and manipulate real world signals such as sound, light, pressure, motion, temperature, electrical current and radio waves, for use in a wide variety of electronic products such as digital still cameras, x-ray medical applications, flat panel displays, personal computers, cellular handsets, telecommunications equipment, consumer electronics, automotive electronics and industrial electronics. Analog-digital, or mixed-signal, semiconductors combine analog and digital devices on a single chip which can process both analog and digital signals.

Integrating analog and digital components on a single, mixed-signal semiconductor enables the development of smaller, more highly integrated, power-efficient, feature-rich and cost-effective semiconductor devices but presents significant design and manufacturing challenges. For example, combining high-speed digital circuits with sensitive analog circuits on a single, mixed-signal semiconductor can increase electromagnetic interference and power consumption, both of which cause a higher amount of heat to be dissipated and decrease the overall performance of the semiconductor. Challenges associated with the design and manufacture of mixed-signal semiconductors increase as the industry moves toward more advanced process geometries. As a result, analog and mixed-signal semiconductors can be complex to manufacture and typically require sophisticated design expertise and strong application specific experience and intellectual property. In addition, today's analog market is driven strongly by growing sensitivity to environmental requirements such as the conservation of energy, and human well being. This is seen in applications designed for diagnostics, medical devices, entertainment, infotainment and safety, all developed using analog technology.

Mixed-signal ICs are an essential part of any front-end electronic system. Our advanced analog CMOS process technologies have more features than standard analog CMOS process technologies and are well suited for higher performance or more highly integrated analog and mixed-signal semiconductors, such as high-speed analog-to-digital or digital-to-analog converters and mixed-signal semiconductors with integrated data converters. These process technologies generally incorporate higher density passive components, such as capacitors and resistors, as well as improved active components, such as native or low voltage devices, and improved isolation techniques, into standard analog CMOS process technologies.

The enormous costs associated with modern fabs, combined with the increasing demand for complex ICs, has created an expanding market for outsourced foundry manufacturing. Foundries can cost-effectively supply advanced ICs to even the smallest fabless companies by creating economies of scale through pooling the demand of numerous customers. In addition, customers whose IC designs require process technologies other than standard digital CMOS have created a market for independent foundries that focus on providing specialized process technologies. Specialty process technologies enable greater analog content and can reduce the die size of an analog or mixed-signal semiconductor, thereby increasing the number of dies that can be manufactured on a wafer and reducing final die cost. In addition, specialty process technologies can enable increased performance, superior noise reduction and improved power efficiency of analog and mixed-signal semiconductors compared to traditional standard CMOS processes. These specialty process technologies include advanced analog CMOS, radio frequency CMOS (RF CMOS), CMOS image sensors (CIS), high voltage CMOS, bipolar CMOS (BiCMOS), silicon germanium BiCMOS (SiGe BiCMOS), and bipolar CMOS double-diffused metal oxide semiconductor (BCD). We have mastered the skills required to work in this technology intensive environment which is rapidly changing. We work closely with our customers to provide them with unique and specialized solutions needed for their business success.

Foundries also offer competitive customer service through design, testing, and other technical services.

MANUFACTURING PROCESSES AND SPECIALIZED TECHNOLOGIES

We manufacture ICs on silicon wafers, generally using the customer's proprietary circuit designs. In some cases, we use third-party or our own proprietary design elements. The end product of our manufacturing process is a silicon wafer containing multiple identical ICs. In most cases, our customer assumes responsibility for dicing, assembly, packaging and testing.

We provide wafer fabrication services to fabless IC companies and IDMs, as sole source or second source, and enable smooth integration of the semiconductor design and manufacturing processes. By doing so, we enable our customers to bring high-performance, highly integrated ICs to market rapidly and cost effectively. We believe that our technological strengths and emphasis on customer service have allowed us to develop a unique position in large, high-growth specialized markets for CMOS image sensors, RF, power management and high performance mixed signal ICs.

We manufacture using specialty process technologies, mostly based on CMOS process platforms with added features to enable special and unique functionality, improved size, performance and cost characteristics for analog and mixed-signal semiconductors. Products made with our specialty process technologies are typically more complex to manufacture than products made using standard process technologies employing similar line widths. Generally, customers that use our specialty process technologies cannot easily transfer designs to another foundry because the analog characteristics of the design are dependent upon the implementation of its applicable process technology. The specialty process design infrastructure is complex and includes design kits and device models that are specific to the foundry in which the process is implemented and to the process technology itself. In addition, the relatively small engineering community with specialty process expertise and the significant investment required for development or transfer and maintenance of specialty process technologies has limited the number of foundries capable of offering specialty process technologies. We believe that our specialized process technologies combined with design enablement capabilities distinguish our IC manufacturing services and attract industry-leading customers.

We also offer process transfer services to integrated device manufacturers (IDMs) who wish to manufacture products using their own process and do not have sufficient capacity in their own fabs. Existing or new fabs may engage us for such services in order to expand their technology offerings. Our process transfer services are also used by fabless companies that have proprietary process flows that they wish to manufacture at additional manufacturing sites for purposes of geographic diversity or require a new technology node which is very costly to build independent of other business commitments. Our process services include development, transfer, and extensive optimization as defined by customer needs.

With our world-class engineering team, well established transfer methodologies, and vast manufacturing experience, we offer state of the art production lines for core CMOS and specialized technologies such as back-end-of-line (BEOL) magnetoresistive random access memory (MRAM) and MEMS, among others. With a combination of well known intellectual property protection and capacity flexibility commitment, we ensure customer confidence and satisfaction for low-risk services and fast time-to-market.

We are a trusted, customer-oriented service provider that has built a solid reputation in the foundry industry over the last twenty years. We have built strong relationships with customers, who continue to use our services, even as their demands evolve to smaller form factors and new applications. Our consistent focus on providing high-quality, value added services, including engineering and design support, has allowed us to attract customers that seek to work with a proven provider of foundry solutions. Our emphasis on working closely with customers and accelerating the time-to-market of our customers' next-generation products has enabled us to maintain a high customer retention rate and increase the number of new customers and new products for production.

We derived a very significant amount of our revenues for the year ended December 31, 2013 from our target specialized markets: CMOS image sensors, wireless communication, RF SiGe, high performance analog and power ICs. We are highly experienced in these markets, having been an early entrant and having developed unique proprietary technologies, including through licensing and joint development efforts with our customers and other technology companies.

The specific process technologies that we currently focus on include: CMOS image sensors (CIS), advanced analog CMOS, radio frequency CMOS (RF CMOS), radio frequency identification (RFID), bipolar CMOS (BiCMOS), silicon germanium (SiGe BiCMOS), high voltage CMOS, silicon-on-insulator (SOI) and power LDMOS.

In November 2009, Tower entered into a definitive agreement with an Asian entity for the provision by Tower on a turn-key basis of various services and equipment required for the capacity ramp-up and upgrade of the entity's currently installed and commissioned eight inch refurbished wafer fabrication facility. Under said agreement, Tower provides technical consultation, know-how, training and turn-key manufacturing solutions, including arranging for the required manufacturing and the transfer of certain equipment required for the fab ramp-up and upgrade. We have received approximately 95% of the agreed consideration and are working on performing the final milestones and delivery of the remaining deliverables.

CMOS Image Sensors

CMOS image sensors are ICs used to capture an image in a wide variety of consumer, communications, medical, automotive and industrial market applications, including camera-equipped cell phones, digital still and video cameras, security and surveillance cameras and video game consoles. Our dedicated manufacturing and testing processes assure consistently high electro-optical performance of the integrated sensor through wafer-level characterization. Our CMOS image sensor processes have demonstrated superior optical characteristics, excellent spectral response and high resolution and sensitivity. The ultra-low dark current, high efficiency and accurate spectral response of our photodiode enable faithful color reproduction and acute detail definition.

We are currently actively involved in the high-end sensor and applications specific markets, which include applications such as high end video, industrial machine vision, dental x-ray, medical x-ray automotive sensors and three dimensional sensors for entertainment and industrial applications.

We recognized the market potential of using CMOS process technology for a digital camera-on-a-chip, which would integrate a CMOS image sensor, filters and digital circuitry. Upon entering the CMOS image sensor foundry business, we utilized research and development work that had been ongoing since 1993. Our services include a broad range of turnkey solutions and services, including silicon proven pixels services, optical characterization of a CMOS process, innovative patented stitching manufacturing technique and optical testing and packaging. The CMOS image sensors that we manufacture deliver outstanding image quality for a broad spectrum of digital imaging applications.

Specifically, our CIS portfolio includes pixels ranging from 2.2 micron up to 150 micron, all developed by us. We provide both rolling shutter and global shutter pixels. The latter are used mainly in the industrial sensor and in the three dimensional sensors markets. Our advanced photo diode (APD) technology used in CMOS image sensors enables improved optical and electrical performance such as low dark current, low noise, high well capacity, high quantum efficiency and high uniformity of pixels utilizing deep sub-micron process technologies, thus enabling the manufacturing of very sophisticated and high performance camera module solutions.

For the X-ray market, we offer our innovative patented “stitching” technology on 0.18-micron process and a variety of 15 to 150-micron pixels that are optimized for X-ray applications. These pixels are used by our customers in dental and other medical X-ray products. Our stitching technology enables semiconductor exposure tools to manufacture single ultra high-resolution CMOS image sensors containing millions of pixels at sizes far larger than their existing field. This technology is also used by us in the manufacturing of large sensors (up to one die per wafer) on 8” wafers and high end large format sensors with special pixels that we have developed specifically for this market.

RF CMOS

In recent years, more and more designers opt to develop high frequency products based on RF CMOS technologies. The superior cost structure of CMOS technologies enables high volume, low cost production of high frequency products. We used our mixed signal expertise to leverage and develop processes and provide services for customers that utilize CMOS technologies and require high frequency performance.

Our RF CMOS process technologies have more features than advanced analog CMOS process technologies and are well suited for wireless semiconductors, such as highly integrated wireless transceivers, power amplifiers, and television tuners. These process technologies generally incorporate integrated inductors, high performance variable capacitors, or varactors, and RF laterally diffused metal oxide semiconductors into an advanced analog CMOS process technology. In addition to the process features, our RF offering includes design kits with RF models, device simulation and physical layouts tailored specifically for RF performance. We currently have RF CMOS process technologies in 0.25 micron, 0.18 micron and 0.13 micron.

BiCMOS for RF and High Performance Analog

Our BiCMOS process technologies have more features than RF CMOS process technologies and are well suited for RF semiconductors, such as wireless transceivers and television tuners. These process technologies generally incorporate high-speed bipolar transistors into an RF CMOS process. The equipment requirements for BiCMOS manufacturing are specialized, and require enhanced tool capabilities to achieve high yield manufacturing. We currently have 0.35 micron BiCMOS process technology.

Our SiGe BiCMOS process technologies have more features than BiCMOS processes and are well suited for more advanced RF and high performance analog semiconductors such as high-speed, low noise, highly integrated multi-band wireless transceivers, optical networking components, television tuners and power amplifiers. These integrated circuits generally incorporate a silicon germanium bipolar transistor, which is formed by the deposition of a thin layer of silicon germanium within a bipolar transistor, to achieve higher speed, lower noise, and more efficient power performance than a BiCMOS process technology. It is also possible to achieve higher speed using SiGe BiCMOS process technologies equivalent to those demonstrated in standard CMOS processes that are two process generations smaller in line-width. For example, a 0.18 micron SiGe BiCMOS process is able to achieve speeds comparable to a 90 nanometer RF CMOS process. As a result, SiGe BiCMOS makes it possible to create analog products using a larger geometry process technology at a lower cost while achieving similar or superior performance to that achieved using a smaller geometry standard CMOS process technology. The equipment requirements for SiGe BiCMOS manufacturing are similar to the specialized equipment requirements for BiCMOS. We developed enhanced tool capabilities in conjunction with large semiconductor tool suppliers to achieve high yield SiGe manufacturing. We believe this equipment and related process expertise makes us one of the few integrated circuit manufacturers with demonstrated ability to deliver SiGe BiCMOS products. We currently have 0.35 micron, 0.18 micron and 0.13 SiGe BiCMOS micron technologies available.

Power and Power Management ICs

Our power technologies are generally divided into a low-voltage BCD offering and a 700V ultra-high voltage offering. Our low-voltage BCD process technologies have more features than advanced analog CMOS processes and are well suited for power and driver semiconductors, such as voltage regulators, battery chargers, power management products and audio amplifiers. These process technologies generally incorporate higher voltage CMOS devices such as 5V, 8V, 12V, 40V and 60V LDMOS devices, and, in the case of BCD, bipolar devices, into an advanced analog CMOS process. We currently have high voltage and low Rdson BCD offerings in 0.5 micron, 0.35 micron, 0.25 micron and 0.18 micron. We offer a cost effective and digital intensive power management platform, based on our 0.18um technology node with advanced isolation options that allow our customers to design high performance products as well as products with high levels of integration.

Our 700V ultra-high voltage platform supports the fast growing LED lighting market as well as serving the more established AC adaptor and motor driver markets.

In addition, we have developed a unique, zero mask adder NVM solution (Y-Flash) specifically for power and power management devices on our 0.18 micron platform. We have released several Y-flash based modules to our customers which have been integrated into their products.

We continue to invest in technology that improves performance and integration level and reduces the cost of analog and mixed-signal products. This includes improving the density of passive elements such as capacitors and inductors, improving the analog performance and voltage handling capability of active devices, and integrating additional advanced features in our specialty CMOS processes. Examples of such features currently under development include technologies aimed at integrating micro-electro-mechanical-system (MEMS) devices with CMOS, adding silicon-on-insulator (SOI) substrates to enable increased integration of RF and analog functions on a single die and scaling the features we offer today to the 0.13 micron process technology, including the integration of advanced SiGe transistors with 0.13 micron CMOS and copper metallization.

CUSTOMERS, MARKETING AND SALES

Our marketing and sales strategy seeks to aggressively expand our global customer base. We have marketing and sales support personnel in the United States, Korea, Taiwan, Japan, China and Israel. We appointed country managers in Korea and China. Our marketing and sales staff is supported by independent sales representatives, located in Europe, United States and Japan, who have been selected based on their experience in and understanding of the semiconductor marketplace.

Our sales cycle is generally 8-26 months or longer for new customers and can be as short as 8-12 months for existing customers. The typical stages in the sales cycle process from initial contact until production are:

- technical evaluation;
- product design to our specifications, including integration of third party intellectual property;
- photomask - design and third party photomask manufacturing;
- silicon prototyping;
- assembly and test;
- validation and qualification; and
- production.

The primary customers of our foundry services are fabless semiconductor companies and independent device manufacturers (IDMs). A portion of our product sales are made pursuant to long-term contracts with our customers, under which we have agreed to reserve manufacturing capacity at our production facilities for such customers. Our customers include many industry leaders. During the year ended December 31, 2013, we had three significant customers that contributed between 7% to 27% of our revenues. During the year ended December 31, 2012, we had two significant customers that contributed between 6% to 43% of our revenues. In 2011, we had four significant customers that contributed between 5% to 32% of our revenues.

The percentage of our revenues from customers located outside the United States was 22%, 19% and 23% in the years ended December 31, 2011, 2012 and 2013, respectively. Although most of our revenues are from US-based customers, we expect a substantial portion of our revenues to continue to come from customers located outside the United States. The following table sets forth the geographical distribution, by percentage, of our net revenues for the periods indicated:

	Year ended December 31,		
	2013	**2012**	**2011**
United States	77%	81%	78%
Asia	16%	14%	17%
Europe	7%	5%	5%
Total	100%	100%	100%

We price our products on a per wafer basis, taking into account the complexity of the technology, the prevailing market conditions, volume forecasts, the strength and history of our relationships with the customer and our current capacity utilization. Most of our customers usually place their purchase orders only two to four months before shipment; however a few of our major customers are obligated to provide us with longer forecasts of their wafer needs.

We publish press releases, articles, technology journals, white papers, perform presentations, participate in panel sessions at industry conferences, hold a variety of regional and international technology seminars, and attend and exhibit at various industry trade shows to promote our products, technology offering and services. We discuss advances in our process technology portfolio and progress on specific relevant programs with our prospective and major customers as well as industry analysts and research analysts on a regular basis and publicly release any such information that we deem material or important to disclose and as required by law.

Our customers use our processes to design and market a broad range of analog and mixed-signal semiconductors for diverse end markets, including wire and wireless high-speed communications, consumer electronics, automotive and industrial. We manufacture products for a wide range of electronic products, including but not limited to, high-performance applications, such as transceivers and power management for cellular phones; transceivers and power amplifiers for wireless local area networking products; power management, audio amplifiers and driver integrated circuits for consumer electronics; tuners for digital televisions and set-top boxes; modem chipsets for broadband access devices and gaming devices; serializer/deserializers, or SerDes, for fiber optic transceivers; high end video cameras, dental and medical x-ray vision, industrial cameras, focal plan arrays for imaging applications; controllers for power amplifier and switching chips in cellular phones and wireline interfaces for switches and routers.

Competition

The global semiconductor foundry industry is highly competitive. We broadly compete with the pure-play advanced technology node-driven foundry service providers such as Taiwan Semiconductor Manufacturing Corporation ("TSMC"), United Microelectronics Corporation ("UMC"), Global Foundries Inc. and Semiconductor Manufacturing International Corp. ("SMIC"). These four foundries primarily compete against one another and focus on 12 inch deep-submicron CMOS processing. They each also have some capacity for specialty process technologies. The rest of the foundry industry generally targets either industry standard 8 inch CMOS processing or specialty process technologies. It includes existing Chinese, Korean and Malaysian foundries. We compete most directly in the specialty segment with foundries such as Vanguard Semiconductor, DongBu, X-Fab, ASMC, HHGrace. We also compete with integrated device manufacturers that have internal semiconductor manufacturing capacity or foundry operations, such as IBM, ST and Samsung, that produce ICs for their own use and may allocate a portion of their manufacturing capacity to external customers. Most of the foundries with which we compete are located in Asia-Pacific and benefit from their close proximity to companies involved in the design of ICs and to the Asian customer base. The principal elements of competition in the wafer foundry market are:

- technical competency;
- production quality;
- time-to-market and manufacturing cycle time;
- available capacity;

- device yields;
- design and customer support services;
- access to intellectual property;
- price;
- management expertise;
- strategic relationships;
- research and development capabilities; and
- stability and reliability of supply in order to be a trusted supplier.

Many of our competitors have greater manufacturing capacity, geographically diverse manufacturing facilities, longer or more established relationships with their customers, a more diverse customer base, superior research and development capability, better cost structure and greater financial, marketing and other resources. As a result, these companies may be able to compete more aggressively over a longer period of time than us.

We seek to compete primarily on the basis of advanced specialty technology, R&D, breadth of process offering, production quality, technical support and our design, engineering and manufacturing services. We have a differentiated service offering and proven track record in specialized markets, which enables us to effectively compete with larger foundry service providers.

Some semiconductor companies have advanced their CMOS designs to 90 and 35 nanometer or smaller geometries. These smaller geometries may provide customers with performance and integration features that may be comparable to, or exceed, features offered by our specialty process technologies, and may be more cost-effective at higher production volumes for certain applications, such as when a large amount of digital content is required in a mixed-signal semiconductor and less analog content is required. Our specialty process technologies will therefore compete with these advanced CMOS processes for customers and some of our potential and existing customers could elect to design these advanced CMOS processes into their next generation products. We are not currently capable, and do not currently plan to become capable, of providing CMOS processes at these smaller geometries.

WAFER FABRICATION SERVICES

Wafer fabrication is an intricate process that consists of constructing layers of conducting and insulating materials on raw wafers in intricate patterns that give the IC its function. IC manufacturing requires hundreds of interrelated steps performed on different types of equipment, and each step must be completed with extreme accuracy for finished ICs to work properly. The process can be summarized as follows:

Circuit Design. IC production begins when a fabless IC company or IDM designs (or engages a third party or us) the layout of a device's components and designates the interconnections between each component. The result is a pattern of components and connections that defines the function of the IC. In highly complex circuits, there may be more than 43 layers of electronic patterns. After the IC design is complete, we provide these companies with IC manufacturing services.

Mask Making. The design for each layer of a semiconductor wafer is imprinted on a photographic negative, called a reticle or mask. The mask is the blueprint for each specific layer of the semiconductor wafer.

IC Manufacturing. Transistors and other circuit elements comprising an IC are formed by repeating a series of processes in which photosensitive material is deposited on the wafer and exposed to light through a mask. Advanced IC manufacturing processes consist of hundreds of steps, including photolithography, oxidation, etching and stripping of different layers and materials, ion implantation, deposition of thin film layers, chemical mechanical polishing and thermal processing. The final step in the IC manufacturing process is wafer probe, which involves electronically inspecting each individual IC in order to identify those that are operable for assembly.

Assembly and Test. After IC manufacture, the wafers are transferred to assembly and test facilities. In the assembly process, each wafer is cut into dies, or individual semiconductors, and tested. Defective dies are discarded, while good dies are packaged and assembled. Assembly protects the IC, facilitates its integration into electronic systems and enables the dissipation of heat or cold. Following assembly, the functionality, voltage, current and timing of each IC is tested. After testing, the completed IC is shipped to the customer.

PROCUREMENT AND SOURCING

Our manufacturing processes use many materials, including silicon wafers, chemicals, gases, photomasks and various metals. These raw materials generally are available from several suppliers. In many instances, we purchase raw materials from a single source to obtain preferred pricing. In those cases, we generally also seek to identify, and in some cases qualify, alternative sources of supply.

In addition, we have agreements with several key material suppliers under which they hold certain levels of inventory for our use. We are not obliged under these agreements to purchase and pay for the raw material inventory that is held by our vendors at our sites until we actually use it, unless we hold the inventory beyond specified time limits.

RESEARCH AND DEVELOPMENT

Our future success depends, to a large degree, on our ability to continue to successfully develop and introduce to production advanced process technologies that meet our customers' needs. Our process development strategy relies on CMOS process platforms that we license and transfer from third parties or develop ourselves.

From time to time, at a customer's request, we develop a specialty process module, which in accordance with the applicable agreement may be used for such customer on an exclusive basis or added to our process offering. Such developments are very common in all of our special process technologies noted above.

Our research and development activities have related primarily to our process, device and design development efforts in all specialty areas that were mentioned above, and have been sponsored and funded by us and in certain cases with some participation of the Israeli Office of the Chief Scientist ("OCS"). Accordingly, Tower is subject to restrictions set forth in Israeli law which limit the ability of a company to transfer technologies outside of Israel, if such technologies were developed with OCS funding. In addition, we may be required to obtain export licenses before exporting certain technology or products to any third party and may be required to comply with Israeli, US and other foreign export regulations as may be applicable.

Our research and development activities seek to upgrade and improve our manufacturing technologies and processes. We maintain a central research and development team primarily responsible for developing cost-effective technologies that can serve the manufacturing needs of our customers. A substantial portion of our research and development activities are undertaken in cooperation with our customers and equipment vendors. Due to the rapid changes in technology that characterize the semiconductor industry, effective research and development is essential to our success. We plan to continue to invest significantly in research and development activities in order to develop advanced process technologies for new applications.

Research and development expenses for the years ended December 31, 2011, 2012 and 2013 were $24.9 million, $31.1 million and $33.1 million, net of government participation of $2.4 million, $1.8 million and $0.4 million, respectively. As of December 31, 2013, we employed 193 professionals in our research and development departments, 37 of whom have PhDs. In addition to our research and development departments located at our facilities in Migdal Haemek, Israel, in Newport Beach, California and in Nishiwaki, Japan, we maintain a design center in Netanya, Israel and in Hokuriku Japan under TPSC.

PROPRIETARY RIGHTS

Intellectual Property and Licensing Agreements

Our success depends in part on our ability to obtain patents, licenses and other intellectual property rights covering our production processes. To that end, we have obtained certain patents, acquired patent licenses and intend to continue to seek patents on our intellectual property.

As of December 31, 2013, we held 216 patents in force. We have entered into various patent and other technology license agreements with technology companies, including Synopsys, ARM, Cadence, and others, under which we have obtained rights to additional technologies and intellectual property.

We constantly seek to strengthen our technological expertise through relationships with technology companies. We seek to expand our core strengths in CMOS image sensors, embedded flash, power management, RF, SiGe, MEMS and mixed-signal technologies by continuous development in these areas. A main component of our process development strategy is to acquire licenses for standard CMOS technologies and cell libraries from leading providers, such as ARM and Kilopass, and further develop specialized processes through our internal design teams. The licensing of these technologies has significantly reduced our internal development costs.

In connection with the separation of Jazz Semiconductor's business from Conexant in 2002, Conexant contributed to Jazz Semiconductor a substantial portion of its intellectual property, including software licenses, patents and intellectual property rights in know-how related to its business. Jazz agreed to license intellectual property rights relating to the intellectual property contributed to Jazz by Conexant back to Conexant and its affiliates. Conexant may use this license to have Conexant products produced by third-party manufacturers and to sell such products, subject to obtaining Jazz's prior consent.

Under the newly established company with Panasonic, Panasonic will license certain technologies to TPSC in order to utilize certain Panasonic process technologies for the manufacture of products for Panasonic and third party foundry customers. TPSC may, in certain circumstances, sub-license such technology to Tower or other third parties for payment of royalties. The term of the agreement is five years ending in March 2019 after which the parties will discuss extending or renewing the agreement.

Our ability to compete depends on our ability to operate without infringing upon the proprietary rights of others. The semiconductor industry is generally characterized by frequent litigation over patent and other intellectual property rights. As is the case with many companies in the semiconductor industry, we have from time to time received communications from third parties asserting that their patents cover certain of our technologies or alleging infringement of intellectual property rights. We expect that we will receive similar communications in the future. Irrespective of the validity or the successful assertion of such claims, we could incur significant costs and devote significant management resources in defending these claims.

DESIGN SERVICES

To better serve our customers' design needs using advanced CMOS and mixed-signal processes, we have entered into a series of agreements with leading providers of physical design libraries, mixed-signal and non volatile memory design components. These components are basic design building blocks, such as standard cells, interface input-output (I/O) cells, software compilers for the generation of on-chip embedded memories arrays, mixed-signal and non-volatile memory design blocks. To achieve optimal performance, all of these components must be customized to work with our manufacturing process. These components are used in most of our customers' chip designs.

We interact closely with customers throughout the design development and prototyping process to assist them in the development of high performance and low power consumption semiconductor designs and to lower their final die, or individual semiconductor, costs through die size reductions and integration. We provide engineering support and services as well as manufacturing support in an effort to accelerate our customers' design and qualification process so that our customers can achieve faster time to market. We have entered into alliances with Cadence Design Systems, Inc., Synopsys, Inc., Mentor Graphics Corp., and other suppliers of electronic design automation tools, and also licensed standard cells, I\O and memory technologies from ARM, Synopsys, Inc., and other leading providers of physical intellectual property components for the design and manufacture of ICs. Through these relationships, we provide our customers with the ability to simulate the behavior of their design in our processes using standard electronic design automation, or EDA tools.

The applications for which our specialty process technologies are targeted present challenges that require an in-depth set of simulation models. We provide these models as an integral part of our design support. At the initial design stage, our customers' internal design teams use the proprietary design kits that we have developed to design semiconductors that can be successfully and cost-effectively manufactured using our specialty process technologies. These design kits, which collectively comprise our design library and design platform, allow our customers to quickly simulate the performance of a semiconductor design with our processes, enabling them to refine their product design to ensure alignment to our manufacturing process before actually manufacturing the semiconductor. Our engineers, who have significant experience with analog and mixed-signal semiconductor design and production, work closely with our customers' design teams to provide design advice and help them optimize their designs for our processes and their performance requirements. After the initial design phase, we provide our customers with a multi-project wafer service to facilitate the early and rapid use of our specialty process technologies, which allows them to gain early access to actual samples of their designs. Under this multi-project wafer service, we schedule a bimonthly multi-project wafer run in which we manufacture several customers' designs in a single mask set, providing our customers with an opportunity to reduce the cost and time required to test their designs. Our design center helps customers accelerate the design-to-silicon process and enhances first-time silicon success by providing them with the required design resources and capabilities. Our design support can assist in all or part of the design flow. Our in-depth knowledge of the fab and processes provide a substantive advantage when implementing designs that reach the boundaries of technology. In addition, our IP and engineering services can assist and relieve some of our customers' issues, providing the specific skills and expertise critical for successful implementation of our customers' design on our manufacturing process.

We believe that our circuit design expertise and our ability to accelerate our customers' design cycle while reducing their design costs represent one of our competitive strengths.

Special Security Agreement with DSS

In connection with Jazz's aerospace and defense business, its facility security clearance and trusted foundry status, Tower and Jazz have worked with the Defense Security Service of the United States Department of Defense ("DSS") to mitigate concern of foreign ownership, control or influence over the operations of Jazz specifically relating to protection of classified information and prevention of potential unauthorized access thereto by creating Jazz Semiconductor Trusted foundry ("JSTF") as a subsidiary of Jazz and limiting possession of all classified information solely to JSTF. Tower and Jazz have further agreed to operate JSTF under a Special Security Agreement signed with DSS.

C. ORGANIZATIONAL STRUCTURE

The legal name of our company is Tower Semiconductor Ltd. Tower was incorporated under the laws of the State of Israel in 1993. Tower directly operates our Fab 1 and Fab 2 facilities in Israel. Tower's wholly-owned subsidiary, Jazz Technologies, Inc. owns all of the shares of Jazz Semiconductor, Inc. (both of which are incorporated under the laws of the State of Delaware) which operates our Fab 3 facility. Tower's wholly-owned subsidiary, TowerJazz Japan, Ltd. (incorporated in Japan) operates our Fab 4 facility in Japan. Tower holds a 51% equity stake in TPSC (and Panasonic Corporation holds the remaining equity of TPSC). TPSC is incorporated under the laws of Japan and operates three fabs Arai E, Uozo E and Tonami CD located in Japan. As announced in 2014, we have decided to cease operations of Fab 4 in the course of restructuring our activities and business in Japan.

D. PROPERTY, PLANTS AND EQUIPMENT

Manufacturing Facilities

In 2013, we operated four manufacturing facilities—our Fab 1 and Fab 2 facilities in Israel, our Fab 3 Jazz facility in Newport Beach, California and our Fab 4 facility in Japan. The capacity in each of our facilities at any particular time is variable and depends on the combination of the processes being used and the product mix being manufactured. Hence, it may be significantly lower at certain times as a result of certain combinations that may require more processing steps than others. We have the ability to rapidly change the mix of production processes in use in order to respond to changing customer needs and maximize utilization of the fab. In general, our ability to increase our manufacturing capacity has been achieved through the addition of equipment, improvement in equipment utilization, the reconfiguration and expansion of the existing clean room area and the construction of an additional clean room area.

Capital expenditures in 2013, 2012 and 2011 were approximately $71 million, $103 million, and $132 million, respectively.

Fab 1

We acquired our Fab 1 facility from National Semiconductor in 1993, which had operated the facility since 1986. The facility is located in Migdal Haemek, Israel. We occupy the facility under a long-term lease from the Israel Lands Authority which expires in 2032.

Due to the sensitivity and complexity of the semiconductor manufacturing process, a semiconductor manufacturing facility requires a special "clean room" in which most of the manufacturing functions are performed. Our Fab 1 facility includes an approximately 51,900 square foot clean room.

Since we commenced manufacturing at Fab 1, we increased its manufacturing capacity and expanded the technologies qualified in the fab, including specialized processes. Fab 1 supports geometries ranging from 1.0 micron to 0.35-micron.

Fab 2

In 2003, we commenced production in our Fab 2, also located in Migdal Haemek, Israel. Fab 2 supports geometries ranging from 0.35 to 0.13-micron, using advanced CMOS technology, including CMOS image sensors, embedded flash, advanced analog, RF, SiGe power platforms and mixed-signal technologies. Since 2000, we have invested significantly in the purchase of fixed assets, primarily in connection with the construction of Fab 2, technology advancement and capacity expansion.

The land on which Fab 2 is located is subject to a long-term lease from the Israel Lands Authority that expires in 2049. The overall clean room area in Fab 2 is approximately 100,000 square feet.

Fab 3

Jazz's manufacturing facilities and headquarters, which we refer to as Fab 3, are located in Newport Beach, California. Fab 3 supports geometries ranging from 0.80 to 0.13-micron. The manufacturing facility comprises 320,000 square feet, including 120,000 square feet of overall clean room area.

Jazz leases its fabrication facilities and headquarters under lease contracts that may be extended until 2027, through the exercise of options at Jazz's sole discretion to extend the lease periods from 2017 to 2022 and from 2022 to 2027. In 2010, the properties which Jazz leases for its fabrication facilities and headquarters were sold to a real estate investment firm based in Irvine, California. In connection with the sale, Jazz negotiated amendments to its operating leases that confirm Jazz's ability to remain in the fabrication facilities through 2027 as described above. In the amendments to its leases, Jazz secured various contractual safeguards designed to limit and mitigate any adverse impact of construction activities on its fabrication operations.

Fab 4

In June 2011, we acquired a fabrication facility in Nishiwaki City, Hyogo, Japan from Micron, which we refer to as Fab 4. The assets and related business that we acquired from Micron are held and conducted through a wholly owned Japanese subsidiary, TowerJazz Japan Ltd. Fab 4 supports geometries ranging down to 0.11-micron using newly qualified process technologies to support customer manufacturing. In 2014, we decided to cease the operations of Fab 4 in the course of the restructuring of our activities and business in Japan.

Uozu E, Tonami CD and Arai E

In March 2014, we closed a definitive transaction with Panasonic to create a new company to manufacture products for Panasonic and potentially other third parties, using Panasonic's three semiconductor manufacturing facilities located in Hokuriku, Japan. Pursuant to the transaction, Panasonic formed a new company called TPSC and transferred its semiconductor wafer manufacturing process and capacity tools (8 inch and 12 inch) at its three fabs located in Hokuriku (Uozu E, Tonami CD and Arai E) to TPSC. The fabs support geometrics ranging down to 45 nanometer.

ENVIRONMENTAL, SAFETY AND QUALITY MATTERS AND CERTIFICATIONS

We have placed significant emphasis on achieving and maintaining a high standard of manufacturing quality. All our facilities are ISO 9001 certified, an international quality standard that provides guidance to achieve an effective quality management system. In addition, all our facilities are TS16949 certified, a more stringent automotive quality standard.

For environmental, our operations are subject to a variety of laws and governmental regulations relating to the use, discharge and disposal of toxic or otherwise hazardous materials used in our production processes. Failure to comply with these laws and regulations could subject us to material costs and liabilities, including costs to clean up contamination caused by our operations. All of our facilities are ISO 14000 certified, an international standard that provides management guidance on how to achieve an effective environmental management system. Risks have been evaluated and mitigation plans are in place to prevent and control accidental spills and discharges. Procedures have also been established at all our locations to ensure all accidental spills and discharges are properly addressed. The environmental management system assists in evaluating compliance status with all applicable environmental laws and regulations as well as establishing loss prevention and control measures. In addition, our facilities are subject to strict regulations and periodic monitoring by government agencies. With these systems, we believe we are currently in compliance in all material respects with applicable environmental laws and regulations.

For safety, all of our facilities are OHSAS 18000 certified, an international occupational health and safety standard that provides guidance on how to achieve an effective health and safety management system. The health and safety standard management system assists in evaluating compliance status with all applicable health and safety laws and regulations as well as establishing preventative and control measures. We believe we are currently in compliance with all applicable health and safety laws and regulations.

Our goal in implementing OHSAS 18001, ISO 14001, ISO 9001 and TS16949 systems is to continually improve our environmental, health, safety and quality management systems.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

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

The information contained in this section should be read in conjunction with our consolidated financial statements for the year ended December 31, 2012 and 2013 and related notes and the information contained elsewhere in this annual report. Our financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP").

Critical Accounting Policies

Revenue Recognition.

Our net revenues are generated principally from sales of semiconductor wafers. We also derive revenues from engineering and design support and other technical and support services. The majority of our revenue is achieved through the efforts of our direct sales force.

In accordance with ASC Topic 605 "Revenue Recognition", we recognize revenues from sale of products when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the price to the customer is fixed or determinable; and (iv) collection of the resulting receivable is reasonably assured. These criteria are usually met at the time of product shipment. Revenues are recognized when the acceptance criteria are satisfied, based on performing electronic, functional and quality tests on the products prior to shipment. Such company testing reliably demonstrates that the products meet all of the specified acceptance criteria.

Revenues for engineering, design and other support services are recognized ratably over the contract term or as services are performed.

Advances received from customers towards future engineering services, and/or product purchases are deferred until services are rendered or products are shipped to the customer. Our revenue recognition policy is significant because our revenues are a key component of our results of operations. We follow very specific and detailed guidelines in measuring revenue. An accrual for estimated sales returns and allowances relating to specific yield or quality commitments as a reduction of revenues at the time of shipment, which is computed primarily on the basis of historical experience and specific identification of events necessitating an allowance, is recorded. Any changes in assumptions for determining the accrual for returns and other factors affecting revenue recognition may affect mainly the timing of our revenue recognition, which may affect our financial position and results of operations.

Depreciation and Amortization.

We are heavily capital oriented and the amount of depreciation is a significant amount of our yearly expenses. Changes to the useful lives assumption and hence the depreciation may have a material impact on our results of operations. Depreciation and amortization expenses in 2013 amounted to $165 million. Currently, we estimate that the expected economic life of our assets is as follows: (i) buildings (including facility infrastructure) –10 to 25 years; (ii) machinery and equipment, software and hardware – 3 to 7 years; and (iii) technology and other intangible assets –1 to 19 years. Costs in relation to Fab 2 technologies were amortized over the expected estimated economic life of the technologies commonly used in the industry commencing on the date on which each technology was ready for its intended use. The amounts attributed to intangible assets as part of the purchase price allocations for the acquisitions of Jazz and TJP are amortized over the expected estimated economic lives of the intangible assets commonly used in the industry. Changes in our estimates regarding the expected economic life of our assets might affect our depreciation and amortization expenses.

Impairment of Fixed Assets and Intangible Assets.

Management reviews long-lived tangible assets and intangible assets on a periodic basis, as well as when such a review is required based upon relevant circumstances to determine whether events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. For those assets that have definite useful lives, recoverability tests are performed based on undiscounted expected cash flows. When the asset is not recoverable, an impairment loss should be computed based on the difference between the carrying amount of the assets (or asset group) and the fair value. The fair value in most instances will be determined using present value techniques applied to expected cash flows. Changes in the assumptions used in forecasting future cash flows and the fair value of the assets may have a significant effect on determining whether an impairment charge is required and hence may affect our results of operations.

Impairment of Goodwill.

Goodwill is subject to an impairment test on an annual basis or upon the occurrence of certain events or circumstances. Goodwill impairment is assessed based on a comparison of the fair value of the unit to which the goodwill is ascribed and the underlying carrying value of its net assets, including goodwill. If the carrying amount of the unit exceeds its fair value, the implied fair value of the goodwill is compared with its carrying amount to measure the amount of impairment loss. Changes in the assumptions used in calculation of the fair value of the unit may have a significant effect on determining whether an impairment charge is required and hence may affect our results of operations.

Convertible Debentures.

In accordance with ASC 470-20 “Debt with Conversion and Other Options", the proceeds from the sale of debt securities with a conversion feature and other options are allocated to each of the securities issued based on their relative fair value.

We are required, according to ASC Topic 815 "Derivatives and Hedging" to determine whether the conversion option embedded in the convertible debt should be bifurcated and accounted for separately. Such determination is based on whether on a standalone basis such conversion option would be classified as equity. If the option can be classified as equity, no bifurcation is required. The analysis required under ASC Topic 815 involves the consideration of many factors and assumptions. Any changes in those factors or assumptions may have a significant effect on determining whether embedded derivatives are required to be bifurcated and hence may affect our results of operations.

Income Taxes.

We account for income taxes in accordance with ASC Topic 740, “Income Taxes”. This Topic prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities. Deferred taxes are computed based on the tax rates anticipated (under applicable law as of the balance sheet date) to be in effect when the deferred taxes are expected to be paid or realized.

We evaluate how realizable our deferred tax assets are for each jurisdiction in which we operate at each reporting date, and establish valuation allowances when it is more likely than not that all or a portion of our deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income of the same character and in the same jurisdiction. We consider all available positive and negative evidence in making this assessment, including, but not limited to, the scheduled reversal of deferred tax liabilities and projected future taxable income. In circumstances where there is sufficient negative evidence indicating that our deferred tax assets are not more-likely-than-not realizable, we establish a valuation allowance.

We use a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate tax positions taken or expected to be taken in a tax return by assessing whether they are more-likely-than-not sustainable, based solely on their technical merits, upon examination and including resolution of any related appeals or litigation process. The second step is to measure the associated tax benefit of each position as the largest amount that we believe is more-likely-than-not realizable. Differences between the amount of tax benefits taken or expected to be taken in our income tax returns and the amount of tax benefits recognized in our financial statements represent our unrecognized income tax benefits, which are recorded as a liability. Our policy is to include interest and penalties related to unrecognized income tax benefits as a component of income tax expense.

Initial Adoption of New Standards

On January 31, 2013, the FASB issued ASU 2013-01, which clarifies the scope of the offsetting disclosure requirements in ASU 2011-11. Under ASU 2013-01, the disclosure requirements would apply to derivative instruments accounted for in accordance with ASC 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, securities borrowing and securities lending arrangements that are either offset on the balance sheet or subject to an enforceable master netting arrangement or similar agreement. The adoption of ASU 2013-01 had no impact on our financial position or results of operations.

On February 5, 2013, the FASB issued ASU 2013-02, which requires entities to disclose the following additional information about items reclassified out of accumulated other comprehensive income (AOCI):

(1) Changes in AOCI balances by component (e.g., unrealized gains or losses on available-for-sale securities or foreign-currency items). Both before-tax and net-of-tax presentations of the information are acceptable as long as an entity presents the income tax benefit or expense attributed to each component of OCI and reclassification adjustments in either the financial statements or the notes to the financial statements.

(2) Significant items reclassified out of AOCI by component either on the face of the income statement or as a separate footnote to the financial statements.

The ASU does not change the current U.S. GAAP requirements, for either public or nonpublic entities, for financial statement reporting of comprehensive income. That is, a total for comprehensive income must be reported in either (1) a single continuous statement or (2) two separate but consecutive statements. However, public entities would also need to include information about (1) changes in AOCI balances by component and (2) significant items reclassified out of AOCI. ASU 2013-02 is effective for annual and interim reporting periods beginning after December 15, 2012. Adoption of this guidance had no impact on our financial position or results of operations.

In July 2013, the FASB issued ASU No. 2013-11 amending requirements for the presentation of unrecognized tax benefits when a net operating loss carry forward, a similar tax loss, or a tax credit carryforward exists. ASU No. 2013-11 requires entities to present in the financial statements an unrecognized tax benefit, or a portion of an unrecognized tax benefit as a reduction to a deferred tax asset for a net operating loss carry forward, a similar tax loss, or a tax credit carry forward, except to the extent such items are not available or not intended to be used at the reporting date to settle any additional income taxes that would result from the disallowance of a tax position. In such instances, the unrecognized tax benefit is required to be presented in the financial statements as a liability and not be combined with deferred tax assets. ASU No. 2013-11 is effective for annual and interim periods beginning after December 15, 2013. The adoption of ASU No. 2013-11 had no impact on our financial position or results of operations.

Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the financial statements and the related notes thereto included in this annual report. The following table sets forth certain statement of operations data as a percentage of total revenues for the years indicated.

	Year Ended December 31,		
	2013	2012	2011
Statement of Operations Data:			
Revenues	100%	100%	100%
Cost of revenues	94.4	87.7	86.1
Gross profit	5.6	12.3	13.9
Research and development expenses, net	6.5	4.9	4.1
Marketing, general and administrative expenses	8.5	7.0	7.9
Acquisition related and Reorganization costs	--	0.9	0.2
Amortization related to a lease agreement early termination	1.5	--	--
Operating profit (loss)	(10.9)	(0.4)	1.7
Interest expenses, net	(6.5)	(5.0)	(4.5)
Other financing expense, net	(5.5)	(4.3)	(2.0)
Gain on acquisition	--	--	3.2
Other income (expense), net	(0.2)	(0.2)	2.2
Income tax benefit (expense)	1.9	(1.1)	(3.5)
Loss for the Period	(21.2)%	(11.0)%	(3.0)%

Our consolidated financial statements include TJP results from June 3, 2011, as detailed in Note 3 to the consolidated financial statements for the year ended December 31, 2013.

Year Ended December 31, 2013 compared to Year Ended December 31, 2012

Revenues. Revenue for the year ended December 31, 2013 amounted to $505.0 million, as compared to $638.8 million for the year ended December 31, 2012. This decrease in revenues was attributed to: (i) the previously disclosed contractual decrease in the volumes of wafers manufactured in our Fab 4 in Japan under our committed volume agreement which we entered into with Micron in June 2011, resulted in periodic pre-scheduled reductions of revenue from Micron, amounted to $139.4 million lower revenue in 2013 as compared to 2012 (which trend we expect to continue due to the expiration of this contract from June 2014 and the cessation of Fab 4 operations; See Item 5.B. "our operations in Japan"); (ii) a definitive agreement we entered in November 2009 with an Asian entity for the capacity ramp-up and upgrade of the entity's eight inch refurbished wafer fabrication facility (see note 16D(2) to our financial statements) resulted in approximately $13.4 million lower revenue in 2013 as compared to 2012; and offset by (iii) $19.0 million increase in revenue in 2013 as compared with 2012, reflecting 5.45% year over year growth in our revenues, excluding items (i) and (ii) detailed above, from $348.1 million to $367.0 million.

Cost of Revenues. Cost of revenues for the year ended December 31, 2013 amounted to $476.9 million, as compared to $560.0 million for the year ended December 31, 2012. The $83.1 million improvement in cost of revenues was mainly due to efficiency measures and cost reduction measures we put in place, including the workforce reduction executed during the second quarter of 2012, as well as the pre-scheduled manufacturing volume reduction from Micron described above.

Gross Profit. Gross profit for the year ended December 31, 2013 was $28.1 million, as compared to $78.8 million for the year ended December 31, 2012, a decrease of $50.7 million, resulting from the above described $133.8 million revenue decrease offset by the above described $83.1 million reduced cost of revenues.

Research and Development Expenses. Research and development expenses for the year ended December 31, 2013 amounted to $33.1 million, as compared to $31.1 million for the year ended December 31, 2012.

Marketing, General and Administrative Expenses. Marketing, general and administrative expenses for the year ended December 31, 2013 amounted to $42.9 million, as compared to $44.4 million for the year ended December 31, 2012.

Reorganization Costs. In 2012, the Company executed a plan of reorganization to increase the efficiency of Fab 4, including a reduction in workforce at the facility, resulting in $5.8 million of reorganization costs in the year ended December 31, 2012.

Amortization related to a lease agreement early termination. Operating expenses for the year ended December 31, 2013 included $7.5 million in non-cash amortization expenses related to an early termination of an office building lease contract.

Operating Loss. Operating loss for the year ended December 31, 2013 was $55.3 million, as compared to $2.5 million operating loss for the year ended December 31, 2012, resulting mainly from the above described decrease of $50.7 million in gross profit.

Interest Expenses, Net. Interest expenses, net for the year ended December 31, 2013 were $33.0 million compared to interest expenses, net of $31.8 million for the year ended December 31, 2012.

Other Financing Expenses, Net. Other financing expenses, net for the year ended December 31, 2013 were $27.8 million compared to other financing expenses, net of $27.6 million for the year ended December 31, 2012. Financing expenses, net composition is described in details in Note 19B to the consolidated financial statements as of December 31, 2013.

Income Tax Benefit. Income tax benefit resulting from some portions of the losses before taxes, amounted to $9.4 million in the year ended December 31, 2013 as compared to $7.3 million income tax expense for the year ended December 31, 2012.

Loss. Loss for the year ended December 31, 2013 was $107.7 million as compared to $70.3 million for the year ended December 31, 2012. The increase in the net loss was mainly due to the $52.8 million increase in operating loss offset partially by the increase in the income tax benefit as described above.

Year Ended December 31, 2012 compared to Year Ended December 31, 2011

Revenues. Revenue for the year ended December 31, 2012 amounted to $638.8 million compared to $611.0 million for the year ended December 31, 2011. This increase in revenues was mainly due to higher average selling prices of approximately 10%, offset by (i) 3% lower volume of wafers manufactured by us and shipped to our customers; and by (ii) a reduction of $28 million in revenues relating to the agreement with the Asian entity, as detailed in Notes 2K and 16D (2) to the annual consolidated financial statements for the year ended December 31, 2013.

Cost of Revenues. Cost of revenues for the year ended December 31, 2012 amounted to $560.0 million, as compared to $526.2 million for the year ended December 31, 2011. The $34 million increase in cost of revenues was mainly due to the inclusion of TJP's cost of revenue for the full year ended December 31, 2012 compared to only seven months in the corresponding period in 2011. Cost of revenues for the year ended December 31, 2011 included a one-time reduction of depreciation expenses resulting from the grants approval by the Investment Center (see Note 8B to the consolidated financial statements for the year ended December 31, 2013).

Gross Profit. Gross profit for the year ended December 31, 2012 was $78.8 million, as compared to $84.8 million for the year ended December 31, 2011, a decrease of $6 million, resulting from the above described $34 million increase in cost of revenues offset by the above described $28 million revenue increase. Gross profit for the year ended December 31, 2012 decreased following weakening customer demand in the semiconductor industry which was offset by the inclusion of TJP gross profit for the full year ended December 31, 2012 compared to only seven months in the corresponding period in 2011.

Research and Development Expenses. Research and development expenses for the year ended December 31, 2012 amounted to $31.1 million, as compared to $24.9 million for the year ended December 31, 2011. The increase in research and development expenses was mainly due to including TJP's research and development expenses for the full year ended December 31, 2012 compared to only seven months in the corresponding period in 2011.

Marketing, General and Administrative Expenses. Marketing, general and administrative expenses for the year ended December 31, 2012 amounted to $44.4 million as compared to $48.2 million for the year ended December 31, 2011. The decrease, despite the inclusion of TJP's marketing, general and administrative expenses for the full year ended December 31, 2012 compared to only seven months in the corresponding period in 2011 is due to cost savings actions in 2012 and due to reduced stock based compensation expenses recorded in 2012. The compensation attributed to options granted in 2009 was amortized through the vesting period of three years with higher effect in 2011 than in 2012.

Acquisition Related and Reorganization Costs. In 2012, the Company executed a plan of reorganization to increase TJP's efficiency, including a reduction in the number of employees, resulting in $5.8 million of reorganization costs in the year ended December 31 2012. Acquisition related costs in the year ended December 31, 2011 amounted to $1.5 million.

Operating Profit (Loss). Operating loss for the year ended December 31, 2012 was $2.5 million, as compared to $10.2 million operating profit for the year ended December 31, 2011, resulting from the above described decrease of $6.0 in gross profit and the higher operating expenses, as described above.

Interest Expenses, Net. Interest expenses, net for the year ended December 31, 2012 were $31.8 million compared to interest expenses, net of $27.8 million for the year ended December 31, 2011. The increase was mainly due to the debentures Series F issued in 2012.

Other Financing Expenses, Net. Other financing expenses, net for the year ended December 31, 2012 were $27.6 million compared to other financing expenses, net of $12.5 million for the year ended December 31, 2011. The increase in financing expenses, net is described in details in Note 19 to the consolidated financial statements as of December 31, 2013.

Gain from Acquisition. In 2011, gain from the acquisition of TJP was $19.5 million gross, as detailed in Note 3 to the consolidated financial statements attached to this annual report.

The loss for the year ended December 31, 2011 included approximately $10 million net positive effect from TJP acquisition, comprised of (i) approximately $19.5 million gross gain from the acquisition, as the fair market value of the assets, net acquired exceeded the purchase price; and (ii) approximately $9.5 million of related tax provisions and other expenses directly associated with this acquisition.

Other Income, Net. Other income, net for the year ended December 31, 2011 included approximately $14 million gross gain from the sale of the 10% holdings in HHNEC.

Income Tax Expenses. Income tax expenses resulting from the subsidiaries' income before taxes, amounted to $7.3 million in the year ended December 31, 2012 as compared to $21.4 million for the year ended December 31, 2011. Income tax expense for the year ended December 31, 2011 results from our subsidiaries' operating income and the approximately $13 million income tax expenses relating to the gain from the acquisition of TJP and to the gain from the sale of the holdings in HHNEC.

Loss. Loss for the year ended December 31, 2012 was $70.3 million as compared to $18.5 million for the year ended December 31, 2011. The increased loss was mainly due to the $19.5 million gross gain from the acquisition of TJP in year ended December 31, 2011 and $14.1 million gross gain from the sale of our 10% holdings in HHNEC in year ended December 31, 2011, as well as an increase in 2012 of $15.1 million in the financing expense, net detailed in Note 19 to the consolidated financial statements attached to this annual report and lower operating profit in 2012 of $12.7 million, all of which were partially offset by $14.0 million lower tax expenses.

Impact of Inflation and Currency Fluctuations

The US Dollar costs of our operations in Israel are influenced by changes in the rate of inflation in Israel and the extent to which such changes are not offset by the change in valuation of the NIS in relation to the US Dollar. During the year ended December 31, 2013, the exchange rate of the US Dollar in relation to the NIS decreased by 7.0% and the Israeli Consumer Price Index ("CPI") increased by 1.8% (during the year ended December 31, 2012, there was a decrease of 2.3% in the exchange rate of the US Dollar in relation to the NIS and an increase of 1.6% in the CPI).

We believe that the rate of inflation in Israel has not had a material effect on our business to date. However, our US Dollar costs will increase if inflation in Israel exceeds the devaluation of the NIS against the US Dollar.

The US Dollar costs of our operations in Japan are influenced by the changes in valuation of the Japanese Yen (JPY) in relation to the US Dollar. During the year ended December 31, 2013, the exchange rate of the US Dollar in relation to the JPY increased by 21.8% (during the year ended December 31, 2012, the exchange rate of the US Dollar in relation to the JPY increased by 11.2%).

Nearly all of the cash generated from our operations and from our financing and investing activities is denominated in US Dollar, JPY and NIS. Our expenses and costs are denominated in NIS, US Dollar, JPY and Euros. We are, therefore, exposed to the risk of currency exchange rate fluctuations.

Tower and Jazz's bank loans mainly provide for interest based on a floating LIBOR rate and TJP's bank loans interest is based on the higher of TIBOR rate or LIBOR rate, therefore we are exposed to interest rate fluctuations. From time to time, we engage in various hedging strategies to reduce our exposure to some, but not all, of these risks. However, despite any such hedging activity, we are likely to remain exposed to interest rate fluctuations, which may increase the cost of our business activities, particularly our financing expenses.

Part of Tower's debentures are denominated in NIS and linked to the Israeli CPI and therefore we are exposed to fluctuation of the NIS/US Dollar exchange rate. The US Dollar amount of our financing costs (interest and currency adjustments) related to these debentures will increase if the rate of inflation in Israel is not offset by the devaluation of the NIS in relation to the US Dollar. In addition, the US Dollar amount of any repayment on account of the principal of these debentures will also increase.

The quantitative and qualitative disclosures about market risk are in Item 11 of this annual report.

B. LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2013, we had an aggregate amount of $122.9 million in cash, cash equivalents and interest bearing deposits, as compared to $133.4 million of cash and cash equivalents as of December 31, 2012. Both figures include $10 million of designated deposits.

During the year ended December 31, 2013, we generated $75 million from operating activities excluding $33 million interest payments and raised approximately $39 million, net, from the 2013 Rights Offering (for further details see also Note 17H to the consolidated financial statements for the year ended December 31, 2013). These cash sources were offset by the investments we made in fixed assets during the year ended December 31, 2013, which aggregated to approximately $82 million, net and the repayment of debenture principal payment in the amount of $6.5 million.

The Company, as an independent semiconductor manufacturer, operates in the semiconductor industry which has historically been highly cyclical and subject to significant and often rapid increases and decreases in product demand. Traditionally, companies in the semiconductor industry have expanded aggressively during periods of decreased demand in order to have the capacity needed to meet expected demand in future upturns, including through acquiring additional manufacturing facilities. If actual demand does not increase or declines, or if companies in the industry expand too aggressively, the industry may experience a period in which industry-wide capacity exceeds demand. This could result in overcapacity and excess inventories, leading to rapid erosion of average sales prices, as well as to underutilization of manufacturing facilities that as a result are unable to cover their fixed costs and other liabilities, potentially leading to such facilities to cease their operations. The prices that we can charge our customers for our services are significantly related to the overall worldwide supply of integrated circuits and semiconductor products. The overall supply of semiconductor products is based in part on the capacity of other companies, which is outside of our control. In periods of overcapacity, despite the fact that we utilize niche technologies and manufacture specialty products, we may have to lower the prices we charge our customers for our services which may reduce our margins and weaken our financial condition and results of operations. We cannot give assurance that an increase in the demand for foundry services in the future will not lead to under-capacity, which could result in the loss of customers and materially adversely affect our revenues, earnings and margins. Analysts believe that such patterns may repeat in the future. The overcapacity, underutilization and downward price pressure characteristic of a downturn in the semiconductor market and/or in the global economy, as experienced several times in the past, may negatively impact consumer and customer demand for the Company’s products, the end products of the Company’s customers and the financial markets, which may affect our ability to raise funds and/or re-structure and/or re-finance our debt. This may harm our financial results, financial position and business, unless we are able to take appropriate or effective actions in a timely manner in order to serve our debt and other liabilities and cover our fixed costs.

The Company is exploring various activities and ways to promote and fund its growth plans and the ramp-up of its business, technological capabilities and manufacturing capacity and capabilities, increase its utilization rates, efficiently manage the operations of the fabs, achieve and maintain high utilization rates in all of its manufacturing facilities, and fulfill its debt obligations and other liabilities. However, there is no assurance as to the extent of such activities or when, if at all, such activities will be available to the Company. Such activities may include, among other things, mergers and acquisitions, joint ventures, debt restructuring and/or refinancing, possible financing transactions, sales of assets, intellectual property licensing, possible sale and lease-backs of real estate assets and improving cash flow from operations through operating efficiencies.

For implications on our operations if we do not generate increased levels of cash from operations and/or do not raise additional funding and if we will not be in compliance with the repayment schedule under the amended facility agreement and are unsuccessful in negotiating a revised repayment schedule, see "Risk Factors - Risks Affecting Our Business".

Tower's Credit Facility

As of December 31, 2013, Tower's outstanding debt under its credit facility with Bank Leumi and Bank Hapoalim (together, "Tower's Lender Banks") was approximately $131 million.

Agreements and Amendments under the Credit Facility of Tower

For detailed information see Notes 12B and 16 to the 2013 annual consolidated financial statements for the year ended December 31, 2013.

As of December 31, 2013, Tower had an amount of approximately $131 million of loans outstanding under its Facility Agreement signed with Tower's Lender Banks carrying an annual interest rate of three-month USD LIBOR plus 3.50% (the "Facility Agreement"). The final maturity date of these outstanding loans is June 2016, and the repayment schedule of the loans is in the following amounts and dates: an installment of $5 million in each of March and June 2014, an installment of $10 million in each of September and December 2014, an installment of $15 million in each of March and June 2015, an installment of $20 million in each of September 2015, December 2015 and March 2016, and a final installment of approximately $11 million due June 2016.

We have registered liens in favor of the State of Israel and the banks on substantially all of our present and future assets including on our subsidiaries' equity holdings and all our contracts.

According to the Facility Agreement, satisfying the financial ratios and covenants is a material provision. The amended Facility Agreement provides that if, as a result of any default, Tower's Lender Banks were to accelerate Tower's obligations, Tower would be obligated, among other matters, to immediately repay all loans made by Tower's Lender Banks (which as of December 31, 2013 amounted to approximately $131 million) plus penalties, and Tower's Lender Banks would be entitled to exercise the remedies available to them under the amended Facility Agreement, including enforcement of their liens against all of Tower's assets.

Under the terms of the amended Facility Agreement, (i) there are covenants on changes of ownership which generally require that, TIC hold a minimum of approximately 3.2 million of our ordinary shares, and (ii) TIC and certain current and former shareholders nominate a majority of our board of directors (subject to exceptions including the exclusion for the purpose of this calculation of the external directors and 1 independent director under Nasdaq Marketplace rules); (iii) subject to certain exceptions, Tower is restricted from assuming liability for indebtedness or other obligations of its subsidiaries, and is restricted from providing guarantees for its subsidiaries; (iv) subject to certain exceptions Tower cannot invest in, finance, loan or transfer any amounts to, any of its subsidiaries or otherwise expend any funds in the operation of its subsidiaries; and (v) additional conditions and covenants, including restrictions on incurring new debt, new equity investments and a prohibition on the distribution of dividends.

In June 2013, TIC announced that it intends to execute a change of holding that may affect its shareholdings in its affiliated companies, including Tower. In the event such a change of holding is executed, approval will be required from Tower's Lender Banks and certain Israeli regulatory authorities.

Investment Center Grants

In February 2011, we received an official approval certificate ("ktav ishur") from the Israeli Investment Center, for an expansion program for investments in fixed assets in Israel, according to which we received approximately $36 million, for eligible investments made by the Company from 2006 to 2012. Final investments report was filed and pending final approval of the Israeli Investment Center.

Entitlement to the above grants is subject to various conditions stipulated by the criteria set forth in the certificate of approval issued by the Israeli Investment Center, as well as by the Israeli Law for the Encouragement of Capital Investments - 1959 ("Investments Law") and the regulations promulgated thereunder. In the event Tower fails to comply with such conditions, Tower may be required to repay all or a portion of the grants received plus interest and certain inflation adjustments. In order to secure fulfillment of the conditions related to the receipt of investment grants, floating liens were registered in favor of the State of Israel on substantially all of Tower's assets.

For information in regards to the grants programs, see Note 8B to the 2013 annual consolidated financial statements included in this report.

Other Recent Financing Transactions

2013 Rights Offering

In June 2013, we distributed to our shareholders and certain other security holders rights to purchase ordinary shares and two series of warrants. As a result of the rights offering, we received aggregate proceeds of approximately $40 million, including approximately $19 million through the exercise of Series 8 warrants issued in this rights offering and exercised in July 2013. The remaining Series 8 warrants, which were not exercised, expired on July 2013. Those who exercised their rights also received an aggregate of approximately 5.5 million Series 9 warrants exercisable by June 2017 for the purchase of ordinary shares for a cash payment to Tower of $7.33 per share.

Tower Israeli Shelf

In February 2013, Tower published an Israeli shelf prospectus pursuant to which Tower may, for a period of two years, issue the securities described in the prospectus to the public in Israel by means of shelf offering reports, subject to the terms set out in the prospectus.

Tower Debentures

In 2010 and 2012, Tower raised an aggregate debt amount of approximately $231 million of long-term debentures Series F. Series F is due in two equal installments in December 2015 and December 2016, is fully linked to the US Dollar, carries an interest rate of 7.8% per annum payable semiannually and is converted into Tower's ordinary shares until December 2016, with a conversion ratio of NIS 36.276 par value of debentures into one ordinary share. Together with the expansion of Series F in 2012, Tower also issued warrants Series 7, exercisable from March 2014 until March 2016 into approximately 1.9 million shares of Tower at an exercise price of $ 7.23 per one ordinary share.

The determination of the conversion ratio of debentures Series F occurred in September 2012, triggering the examination of whether a contingent Beneficial Conversion Feature ("BCF") existed as of past issuance dates of these debentures. In accordance with ASC 470-20 (formerly EITF 98-5 and EITF 00-27), and specifically the guidance over "Contingently Adjustable Conversion Ratios", the Company concluded that a BCF existed. The BCF, in accordance with such guidance, amounted to approximately $110 million which is classified as an increase in shareholders' equity with a corresponding decrease by the same amount in the carrying values of Series F presented in long term liabilities. The $110 million decrease in Series F's liability amount was considered a debt discount to be amortized over the remaining term of said debentures using the effective interest method, resulting in interest being recognized at increasing amounts as time passes with the largest effect being recognized in 2015 and 2016.

In 2011 and 2012, Tower fully paid the outstanding amount of its convertible debentures series B, C and E and as such, debentures series B, C and E were fully redeemed.

For more information regarding Tower's debentures, see Note 13 to the 2013 annual consolidated financial statements included in this report.

Jazz Loan Facility

In September 2008, Jazz entered into a loan and security agreement, with Wachovia Bank (currently Wells Fargo) for a three-year secured asset-based revolving credit facility (the "Loan Agreement"), which was amended in June 2010 to extend the maturity date of the revolving credit facility to September 2014, with available credit under the facility of up to $45 million. Jazz's borrowing availability varied from time to time based on the levels of Jazz's accounts receivable, eligible equipment and other terms and conditions described in the Loan Agreement.

Loans under the facility bore interest at a rate equal to, at Jazz's option, either the lender's prime rate plus a margin ranging from 0.50% to 1.0% or the LIBOR rate (as defined in the Loan Agreement) plus a margin ranging from 2.25% to 2.75% per annum.

In December 2013, Jazz entered into an agreement with Wells Fargo Capital Finance, part of Wells Fargo & Company ("Wells Fargo"), to amend the Loan Agreement for a five-year secured asset-based revolving credit line in the total amount of up to $70 million, maturing in December 2018 (the "Credit Line Agreement"). Loans under the Credit Line Agreement bear interest at a rate equal to, at lender's option, either the lender's prime rate plus a margin ranging from 0.50% to 1.0% or the LIBOR rate plus a margin ranging from 1.75% to 2.25% per annum.

The outstanding borrowing availability varies from time to time based on the levels of Jazz's eligible accounts receivable, eligible equipment, eligible inventories and other terms and conditions described in the Credit Line Agreement. The Credit Line Agreement is secured by the assets of Jazz and its subsidiaries. The Credit Line Agreement contains customary covenants and other terms, including customary events of default. If any event of default occurs, Wells Fargo may declare due immediately all borrowings under the facility and foreclose on the collateral. Furthermore, an event of default under the Credit Line Agreement would result in an increase in the interest rate on any amounts outstanding.

Borrowing availability under the Credit Line Agreement as of December 31, 2013, was approximately $52 million. As of December 31, 2013, Jazz was in compliance with all the covenants under this facility. Jazz's debt and obligations, including its obligations pursuant to the Credit Line Agreement, are not guaranteed by Tower.

Jazz Notes Transactions

Jazz 2010 Notes and Tower Series J Warrants

In July 2010, Jazz, together with its domestic subsidiaries and Tower, entered into an exchange agreement (the "2010 Exchange Agreement") with certain holders (the "2010 Participating Holders") holding approximately $80 million principal amount of Jazz's then-outstanding 8% senior convertible notes due 2011 (the "2008 Notes"). Under the 2010 Exchange Agreement, the 2010 Participating Holders exchanged their 2008 Notes for approximately $94 million in aggregate principal amount of newly-issued 8% senior notes of Jazz due June 2015 (the "2010 Notes") and approximately 25.3 million warrants to purchase approximately 1.7 million ordinary shares of Tower (the "Series J Warrants"). The Series J Warrants are exercisable until July 15, 2015 at an exercise price of $25.50 per share.

As a result of the consummation of the transactions related to the 2014 Exchange Agreement (as defined and discussed below under "Jazz 2014 Notes"), as of March 31, 2014, approximately $49 million principal amount of 2010 Notes was outstanding. The 2010 Notes will mature on June 30, 2015, at which time principal and any accrued and unpaid interest will become due and payable.

The 2010 Notes are unsecured senior obligations of Jazz, rank equally with all other existing and future unsecured senior indebtedness of Jazz, including the 2014 Notes (as defined below under "Jazz 2014 Notes"), and are effectively subordinated to all existing and future secured indebtedness of Jazz, including Jazz's up to $70 million secured Credit Line Agreement with Wells Fargo, to the extent of the value of the collateral securing such indebtedness. The 2010 Notes rank senior to all existing and future subordinated debt. The 2010 Notes are jointly and severally guaranteed on a senior unsecured basis by Jazz's domestic subsidiaries. The 2010 Notes are not guaranteed by Tower.

Since July 1, 2013, Jazz has had the right to redeem some or all of the 2010 Notes for cash at a redemption price equal to par plus accrued and unpaid interest plus a redemption premium equal to 4% if redemption occurs prior to July 1, 2014 and 2% if redemption occurs between July 1, 2014 and prior to maturity.

Holders of the 2010 Notes are entitled, subject to certain conditions and restrictions, to require Jazz to repurchase the 2010 Notes at par plus accrued interest and a 1% redemption premium in the event of certain change of control transactions as set forth in the Indenture.

The Indenture governing the 2010 Notes contains certain covenants including covenants restricting Jazz's ability and the ability of its subsidiaries to, among other things, incur additional debt, incur additional liens, make specified payments and make certain asset sales.

If there is an event of default on the 2010 Notes, all of the 2010 Notes may become immediately due and payable, subject to certain conditions set forth in the Indenture.

Jazz 2014 Notes

In March 2014, Jazz, together with certain of its domestic subsidiaries and Tower entered into an exchange agreement (the "2014 Exchange Agreement") with certain holders (the "2014 Participating Holders") pursuant to which Jazz Technologies, Inc. issued new un-secured bonds due December 2018 (the "2014 Notes") in exchange for approximately $45 million in aggregate principal amount out of the approximately $94 million outstanding aggregate principal amount of 8% 2010 Notes.

In addition, Jazz, Tower and certain of the 2014 Participating Holders (the "Purchasers") entered into a purchase agreement (the "Purchase Agreement") pursuant to which the Purchasers agreed to purchase $10 million aggregate principal amount of 2014 Notes.

The 2014 Notes may be converted into ordinary shares of Tower at a conversion price of $10.07 per share, reflecting a 20 percent premium over the average closing price for Tower's ordinary shares for the five trading days ending on the day prior to the signing date of the 2014 Exchange Agreement and Purchase Agreement.

The 2014 Notes are unsecured senior obligations of Jazz, rank equally with all other existing and future unsecured senior indebtedness of Jazz, including the 2010 Notes, and are effectively subordinated to all existing and future secured indebtedness of Jazz, including Jazz's up to $70 million secured Credit Line Agreement with Wells Fargo, to the extent of the value of the collateral securing such indebtedness. The 2014 Notes rank senior to all existing and future subordinated debt. The 2014 Notes are jointly and severally guaranteed on a senior unsecured basis by Jazz's domestic subsidiaries. The 2014 Notes are not guaranteed by Tower.

Holders of the 2014 Notes are entitled, subject to certain conditions and restrictions, to require Jazz to repurchase the 2014 Notes at par plus accrued interest and a 1% redemption premium in the event of certain change of control transactions as set forth in the Indenture.

The Indenture governing the 2014 Notes contains certain customary covenants including covenants restricting Jazz's ability and the ability of its subsidiaries to, among other things, incur additional debt, incur additional liens, make specified payments and make certain asset sales.

If there is an event of default on the 2014 Notes, all of the 2014 Notes may become immediately due and payable, subject to certain conditions set forth in the Indenture.

GE Credit Line with TJP

In May 2012, TJP signed a definitive credit line agreement with GE Capital to provide a three-year secured asset-based revolving credit line of up to 4 billion Japanese Yen (approximately $40 million). The borrowing availability under the credit line varies from time to time based on the levels of TJP's eligible accounts receivable, eligible equipment, real estate and other terms and conditions stipulated in the credit line agreement and was capped at $30 million until June 2013 and 4 billion Japanese Yen thereafter. Loans to be obtained under this credit line will carry an interest of the higher of TIBOR rate or LIBOR rate plus 2.6% per annum. The TJP credit line agreement contains customary covenants and other terms, as well as customary events of default. The facility is secured by a first priority security interest over the assets of TJP.

As of December 31, 2013, the total availability amounted to approximately $25 million of which approximately $11 million was outstanding. In connection with the GE credit line agreement, Micron's security interest over the assets of TJP was changed to a second priority security interest, subordinated to GE Capital's first priority security interest. During 2013, the inter-creditor agreement between Tower, TJP, Micron Technology Inc. and Micron Japan Ltd., governing the subordination and priority of claims over TJP's assets expired. Consequently, the second liens held by Micron have been removed. In 2014, TJP repaid in full the outstanding amount of the credit line and no further draw-downs are expected under this credit line agreement due to our plan to cease operations of Fab 4 in the course of the restructuring of our activities and business in Japan.

Our Operations in Japan

For details regarding the acquisition of TJP, see Note 3 to the annual consolidated financial statements for the year ended December 31, 2013 included in this report.

As part of the TJP acquisition, TJP entered into a supply agreement with Micron. In accordance with this agreement, TJP manufactured products for Micron at the Nishiwaki facility for three years from the acquisition date with process technologies licensed from Micron under a technology licensing agreement signed between the companies. Under the supply agreement, Micron was committed to purchase certain minimum volumes, with periodic reductions through expiration of the agreement in June 2014. The companies also agreed to provide each other with transition services required for the duration of the transition period of approximately two to three years. Micron has utilized a major percentage of the Nishiwaki Fab under this contract, which has covered the fixed costs and certain other additional costs through the term of the agreement. However, Micron is not committed to utilize the Fab beyond the second quarter of 2014. While we have succeeded in attracting some new customers, and have had discussions with some potential partners, the process of qualifying new products, processes and customers in the semiconductor foundry business is lengthy, complicated and has lasted longer than originally expected. While we have been engaged in discussions with Micron regarding a possible continued supply relationship, no agreement or understanding has been reached with Micron or with other potential partners. As a result, we have decided to cease the operations of Fab 4 in the course of the restructuring of our activities and business in Japan.

For details regarding the purchase of 51% of the shares of TPSC, the newly established company in Japan, and for our operation activities in Japan see Item 5.D. Trend Information.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

Our research and development activities are related primarily to our manufacturing process by way of improvements, upgrades and development for our use in manufacturing of our customers products and have been sponsored and funded by us with some participation by the Israeli government. Our research and development expenses for the years ended December 31, 2013, 2012 and 2011 were $33.1 million, $31.1 million and $24.9 million net of government participation of $0.4 million, $1.8 million and $2.4 million respectively. Tower also incurred costs in connection with the transfer of technology for use in Fab 2, some of which has been amortized over the estimated economic life of the technology following the commencement of production in Fab 2 during the third quarter of 2003 (see also in this Item "Critical Accounting Policies – Depreciation and Amortization").

For a description of our research & development policies and our patents and licenses, see “Item 4. Information on the Company-4.B. Business Overview”.

D. TREND INFORMATION

The semiconductor industry has historically been highly cyclical on a seasonal and long-term basis. The worldwide economic downturn that commenced in 2008 and its effect on the semiconductor industry resulted in global decreased demand, downward price pressure, excess inventory and unutilized capacity worldwide. From the second half of 2009 through the end of 2011, the semiconductor industry had experienced accelerated growth rates and recovered to high utilization rates in similar levels to the period before the above described 2008 downturn. Since 2012, worldwide markets have experienced challenging times with certain improved conditions, and analysts are currently cautious as to the forecasted industry demand, trend and conditions.

On a long-term basis, the market fluctuates, cycling through periods of weak demand, production excess capacity, excess inventory and lower sales prices and periods of strong demand, full capacity utilization, product shortages and higher sales prices.

There is a trend within the semiconductor industry toward ever-smaller features and ever-growing wafer sizes. State-of-the-art fabs are currently supporting process geometries of 35-nanometer and below and wafer sizes of 300-mm. As demand for smaller geometries increases, there is downward pressure on the pricing of larger geometry products and increasing underutilization of fabs that are limited to manufacturing larger geometry products, which results in less profitability for manufacturers of larger geometry products. However, our strategy to focus on specialty technologies within the nodes we have enables us to achieve higher product selling prices as compared to the manufacture of plain vanilla platform products such as other manufacturers in the industry. The Company currently offers process geometries of 0.35, 0.50, 0.55, 0.60, 0.80-micron and above on 150-mm wafers and 0.35, 0.18. 0.16, 0.13 and 0.11-micron on 200-mm wafers and 65 nanometer and 45 nanometer on 300-mm wafers.

In 2010 and 2011, we accelerated our plans for additional capacity expansion to meet customer demand and significantly increased our capacity in Fab 1 and Fab 2 over the years through 2010, acquired Fab 3 in 2008 and acquired Fab 4 in 2011 to add more capacity in a different geographic region.

In addition, in December 2013 we signed a formation agreement and in March 2014 we closed a definitive transaction with Panasonic to create a new company to manufacture products for Panasonic and potentially other third parties, using three of Panasonic's semiconductor manufacturing facilities located in Hokuriku, Japan. Pursuant to the transaction, Panasonic formed a new company called TowerJazz Panasonic Semiconductor Co., Ltd., (“TPSC”), transferred its semiconductor wafer manufacturing process and capacity tools (8 inch and 12 inch) at three of its fabs located in Hokuriku (Uozu E, Tonami CD and Arai E) to TPSC, and entered into a five-year manufacturing agreement for the manufacture of products for Panasonic by TPSC. As part of the transaction, we purchased 51% of the shares of TPSC from Panasonic (with Panasonic holding the remaining shares), and as consideration for these shares, upon closing the transaction, we issued to Panasonic 870,454 of our ordinary shares valued at approximately $7.5 million.

In connection with the transaction, TPSC will lease the manufacturing buildings and related facilities infrastructure and will receive transition services from Panasonic and will also receive services from Tower including marketing, sales, general and administration services, and will license certain technologies from Panasonic in order to utilize certain Panasonic process technologies for the manufacturing of products, which may also be sublicensed to Tower. Initially, TPSC will manufacture products for Panasonic and it is intended that additional customers will be introduced to TPSC for products manufacturing. In order to provide TPSC with interim financing until it is able to negotiate and enter into definitive contracts with Japanese banks, Panasonic provided TPSC with two unsecured loan facilities. The first loan was issued for a principal amount of 5.8 billion Yen (approximately $57 million dollars) at an interest rate of 1.0% per annum, and the second was issued for a principal amount of 3.0 billion Yen (approximately $29 million dollars) at an interest rate of 4.0% per annum. The first loan matures on March 2016 with interest payable annually on March 2015 and on March 2016. The second loan matures on March 2019 with interest payable annually, commencing March 2015. TPSC may early redeem the loans with the accrued interest at any time, and intends to do so once it obtains loans from a Japanese bank at least in said amounts. To this extent, TPSC has received commitment letter offers from a few Japanese banks.

Tower and Panasonic also entered into a shareholders' agreement which governs the management of TPSC, including the rights and obligations of Tower and Panasonic as shareholders of TPSC. Tower and Panasonic also intend to enter into a registration rights agreement in connection with the Tower shares issued to Panasonic.

In 2014, we decided to cease the operations of Fab 4 in the course of restructuring our activities and business in Japan. In connection with the restructuring, we expect a termination of certain agreements and a comprehensive reduction in the work force. To this extent, we have engaged a recruitment company to provide career services to employees that will be laid off. We are making a concerted effort to move certain current customers and products from Fab 4 to our other fabrication facilities. This restructuring of activities also involves the sale of Fab 4's assets in order to fund its liabilities, primarily consisting of employee retirement allowance.

E. OFF-BALANCE SHEET ARRANGEMENTS

We are not a party to any material off-balance sheet arrangements except for the purchase commitments, standby letters of credit and guarantees detailed in section F below.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations and commercial commitments as of December 31, 2013:

	Payment Due						
	Total	**Less than 1 year**	**2 Years**	**3 Years**	**4 Years**	**5 Years**	**After 5 years**
				(in thousands of dollars)			
Contractual Obligations							
Short term liabilities primarily vendors and accounts payable (1)	96,359	96,359	--	--	--	--	--
Loans from banks (2)	172,775	35,995	84,509	32,025	573	19,673	--
Debentures (3)	404,776	33,956	238,850	131,970	--	--	--
Operating leases	8,881	2,803	2,448	2,157	693	372	408
Construction & equipment purchase agreements (4)	4,712	4,712	--	--	--	--	--
Other long-term liabilities	61,222	--	2,542	2,755	2,420	2,456	51,049
Purchase obligations	24,725	9,967	7,729	5,669	1,360	--	--
Total contractual obligations	773,450	183,792	336,078	174,576	5,046	22,501	51,457

(1) Short-term liabilities include primarily our trade accounts payable for equipment and services as well as payroll related commitments.
(2) Loans from banks include principal and interest payments in accordance with the terms of agreements with the banks.
(3) Debentures include total amount of principal and interest payments for the presented periods.
As of December 31, 2013 approximately 68% of such debentures are convertible with a conversion ratio of; NIS 36.276 par value of debentures into one ordinary share.
(4) Construction & equipment purchase agreements include amounts related to ordered equipment that has not yet been received.

In addition to these contractual obligations, we have committed approximately $2 million in standby letters of credit and guarantees to secure our Fab 2 and Jazz equipment obligations.

The above table does not include other contractual obligations or commitments we have, such as undertakings pursuant to royalty agreements, commissions and service agreements. We are unable to reasonably estimate the total amounts or the time table for such payments to be paid under the terms of these agreements, as the royalties, commissions and required services are a function of future revenues, the volume of business and hourly-based fees. In addition, the above table does not include our liability with respect to our customers, which as of December 31, 2013, amounted to approximately $7.5 million that may be utilized by them against future purchases of products. We are unable to reasonably estimate the total amounts that may be utilized by our customers since we cannot reasonably estimate their future orders in the periods set forth in the above chart. The table above reflects our commitments and contingencies which are known to us as of December 31, 2013. Any new developments in our business plans, our modification of engagements with supply and service providers as well as changes in our commitments and contingencies following the date hereof are not included in this table and actual payments may vary significantly from those presented above.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

Set forth below is information regarding our senior management and directors as of March 31, 2014.

Senior Management	Age	Title
		Tower
Russell C. Ellwanger	58	Chief Executive Officer of Tower, and Chairman of the Board of Directors of its wholly-owned subsidiaries, Tower Semiconductor USA, Inc., Jazz Technologies, Inc. and Jazz Semiconductor, Inc.
Oren Shirazi	43	Chief Financial Officer, Senior Vice President of Finance
Dr. Itzhak Edrei	54	President
Ephie Koltin	52	Chief Operating Officer
Dalit Dahan	45	Senior Vice President of Human Resources and IT
Nati Somekh	38	Senior Vice President, Chief Legal Officer and Corporate Secretary
Yossi Netzer	49	Senior Vice President of Corporate Planning
TJP		
Rafi Mor	50	Chief Executive Officer of TowerJazz Japan

Directors	Age	Title
Amir Elstein	58	Chairman of the Board
Sagi Kabla	37	Director
Yoav Doppelt	45	Director
Kalman Kaufman	68	Independent Director
Alex Kornhauser	67	Independent and External Director
Dana Gross	46	Independent Director
Ilan Flato	57	Independent and External Director
Rami Guzman	74	Independent Director

Russell C. Ellwanger has served as our Chief Executive Officer since May 2005. Mr. Ellwanger also serves as Chairman of the Board of Directors of our wholly-owned subsidiaries, Tower Semiconductor USA, Inc., Jazz Technologies, Inc. and Jazz Semiconductor, Inc. and a board member of TowerJazz Japan, Ltd.. He also served as a director of the Company between May 2005 and April 2013. From 1998 to 2005, Mr. Ellwanger served in various executive positions for Applied Materials Corporation, including Group Vice President, General Manager of the Applied Global Services (AGS), from 2004 to 2005, Group Vice President, General Manager of the CMP and Electroplating Business Group, from 2002 to 2004. Mr. Ellwanger also served as Corporate Vice President, General Manager of the Metrology and Inspection Business Group, from 2000 to 2002, during which he was based in Israel. From 1998 to 2000, Mr. Ellwanger served as Vice President of Applied Materials' 300-mm Program Office, USA. Mr. Ellwanger served as General Manager of Applied Materials' Metal CVD Division from 1997 to 1998 and from 1996 to 1997, Mr. Ellwanger served as Managing Director of CVD Business Development, during which he was based in Singapore. In addition, Mr. Ellwanger held various managerial positions in Novellus System from 1992 to 1996 and in Philips Semiconductors from 1980 to 1992.

Oren Shirazi has served as our Chief Financial Officer and Senior VP Finance since November 2004. Mr. Shirazi joined us in October 1998 and served as our controller since July 2000, after serving as vice controller since October 1998. Prior to joining us, Mr. Shirazi was employed as an audit manager in the accounting firm of Ratzkovski-Fried & Co., which merged into Ernst & Young (Israel). Mr. Shirazi is a Certified Public Accountant in Israel (CPA). He has an MBA from the Graduate School of Business of Haifa University with honors and a B.A. in economics and accounting from the Haifa University.

Dr. Itzhak Edrei has served as our President since November 2011 after serving as Executive Vice President of Business Groups since September 2008 and as Senior Vice President of Product Lines and Sales since August 2005. From August 2001 to August 2005 Dr. Edrei served as Vice President of Research and Development, having served as Director of Research and Development since 1996. From 1994 to 1996, Dr. Edrei served as our Device and Yield Department Manager. Prior to joining Tower, Dr. Edrei was employed by National Semiconductor as Device Section Head. Dr. Edrei earned his Ph.D. in physics from Bar Ilan University and his post-doctorate from Rutgers University.

Ephie Koltin was appointed as Chief Operation Officer after serving as Executive Vice President of Worldwide Operations since June 2009 and as Vice President of Business Development since January 2009. Previously, Mr. Koltin served as Vice President Fab 1 since April 2007, and has served as Test and Facility Manager since January 2008, after serving as Vice President of Business Development since August 2005, as Vice President, General Foundry and Mixed Signal Technology since 2003 and as Senior Director, FAB 2 Process Engineering since 2000. From 1995 to 1999, Mr. Koltin served in several senior positions as Director, NVM Technology, CIS technology and ERS manager, Fab 1. Prior to joining Tower, Mr. Koltin was employed at National Semiconductor and the Technion – Israel Institute of Technology. Mr. Koltin holds a B.Sc. in mechanical engineering and M.Sc. in materials engineering from the Technion – Israel Institute of Technology.

Dalit Dahan serves as Senior Vice President of Human Resources and IT after being appointed IT Manager in January 2008, after serving as Vice President of Human Resources since April 2004. Ms. Dahan joined us in November 1993 and served as Personnel Manager since April 2000, after having served as Compensation & Benefits Manager and in various other positions in the Human Resources Department. Prior to joining us, Ms. Dahan served as Manager of the North Branch of O.R.S - Manpower Company for 3 years. Ms. Dahan holds a B.A. in social science from Haifa University and an MBA from the University of Derby.

Nati Somekh serves as Senior Vice President, Chief Legal Officer and Corporate Secretary, after serving as Vice President, Chief Legal Officer and Corporate Secretary since September 2008, after serving as Corporate Secretary and General Counsel since March 2005, and as Associate General Counsel since May 2004. From 2001 to 2004, Ms. Somekh was employed by Goldsobel & Kirshen, Adv. Ms. Somekh holds an LL.M. and J.D. from Boston University and a B.A. from Johns Hopkins University. She is a member of the Israeli Bar Association and is admitted as an attorney in the State of New York.

Yossi Netzer was appointed Senior Vice President of Corporate Planning in July 2012 after serving as VP of Corporate Planning since November 2008, as General Manager of Mixed Signal, RF & Power Management Product Line since 2005 and as Director, FAB 2 Yield & Device Engineering Manager since 2000. From 1995 to 2000, Mr. Netzer served in various engineering management positions within the R&D division dealing with CMOS, Mixed Signal, RF, and NVM Technologies. Prior to joining Tower, Mr. Netzer was employed at National Semiconductor and the Technion – Israel Institute of Technology. Mr. Netzer holds a B.Sc. degree in electrical engineering from the Technion – Israel Institute of Technology.

Rafi Mor was appointed Chief Executive Officer of TowerJazz Japan in October 2011, after serving as Senior Vice President and General Manager of Jazz Semiconductor (Tower's wholly-owned subsidiary) Newport Beach, California site since September 2008. In October 2010, Rafi was nominated to be the manager of our Newport Beach Fab, in addition to his GM role. Previously, Mr. Mor served in Tower Semiconductor Ltd. as Vice President of Business Development since April 2007, after serving as Vice President and Fab 2 Manager since August 2005, and as Fab 1 Manager since March 2003. From November 2000 to March 2003, Mr. Mor served as Senior Director of Process Device & Yield of Fab 1. From 1998 to 2000, Mr. Mor served as Director of Equipment Reliability & Support of Fab 1. Previously, Mr. Mor was employed by National Semiconductor in various engineering and management capacities. Mr. Mor holds an MA and B.A. in chemical engineering from Ben Gurion University.

Amir Elstein was appointed as Chairman of the Board in January 2009. Mr. Elstein served as a member of the Stock Option and Compensation Committee from June 2009 until February 2013. Mr. Elstein serves as Vice-Chairman of the Board of Directors of Teva Pharmaceutical Industries Ltd. He previously served as Chairman of the Board of Directors of Israel Corp. Mr. Elstein serves as Chairman of the Board of Governors of the Jerusalem College of Engineering. He also serves as chairman/member of the board of several academic, scientific and educational, social and cultural institutions. Mr. Elstein was a member of Teva Pharmaceutical Industries senior management team from 2005 to 2008, where he ultimately held the position of the Executive Vice President at the Office of the CEO, overseeing Global Pharmaceutical Resources. Prior thereto, he was an executive at Intel Corporation, where he worked for 23 years, eventually serving as General Manager of Intel Electronics Ltd., an Israeli subsidiary of Intel. Mr. Elstein received his B.Sc. in physics and mathematics from the Hebrew University in 1980 and his M.Sc. in the Solid State Physics Department of Applied Physics from the Hebrew University in 1982. In 1992, Mr. Elstein received his diploma of Senior Business Management from the Hebrew University.

Sagi Kabla has served as a director since December 2013. Mr. Kabla is serving as Director of Business Development and Strategy of Israel Corp since March 2011. He previously held several advisory and corporate finance executive positions in Israeli based branches of international firms. Mr. Kabla led various advisory and corporate finance activities in the technology, energy and natural resources industries. Mr. Kabla holds MBA (Finance) from COMAS, B.A. degree in Economics and Accounting from Bar-Ilan University and is a qualified as CPA (Isr.).

Yoav Doppelt has served as a director since October 2011. Mr. Doppelt is the Chief Executive Officer of Ofer Investments Group. He joined the Ofer Group in 1996 and has been with Ofer Hi-Tech from its inception in 1997, defining the vision and operational methodology of its private equity and high-tech investments. Mr. Doppelt currently serves as a member of the boards of directors of a number of companies, including Israel Corporation Ltd., Lumenis Ltd, Enzymotec Ltd., MGVS Ltd., Yozma III Management and Investments Ltd. and RayV Inc. and is actively involved in numerous investments within the Israeli private equity and high-tech arenas. Mr. Doppelt has extensive business experience in growth companies and has successfully led several private equity exit transactions. Mr. Doppelt has held various finance and managerial positions in the Ofer Group since joining the group. He holds a bachelor's degree in economics and management from the Faculty of Industrial Management at the Technion – Israel Institute of Technology and an MBA degree from Haifa University.

Kalman Kaufman has served as a director and as a member of our Stock Option and Compensation Committee from May 2008 until February 2013 and as chairman from February 2011 until February 2013. Mr. Kaufman has served as a member of our Audit Committee from August 2005. Mr. Kaufman also served as Corporate Vice President at Applied Materials from 1994 to 2005. Between 1985 and 1994, Mr. Kaufman served as President of KLA Instruments Israel, a company he founded, and General Manager of Kulicke and Soffa Israel. Mr. Kaufman is currently the Chairman of the board of directors of Medasense and Invisia, and serves as a director in Jordan Valley Semiconductors, Optimal Test and is a member of the management board of the Kinneret College. He holds engineering degrees from the Technion - Israel Institute of Technology.

Alex Kornhauser has served as an independent and external director, as a member of the Audit Committee since August 2008 and as chairman of the Audit Committee since January 2011. Mr. Kornhauser has served as a member of the Compensation Committee since June 2009. Mr. Kornhauser served as Senior VP, General Manager of Global Operations at Numonyx Corporation from March 2008 to August 2010. From January 1978 to March 2008, Mr. Kornhauser held many positions at Intel Corporation from design engineer, project manager, department manager, engineering manager and general manager of certain groups, segments and plants. More specifically, from August 2000 to May 2007 he served as Intel Israel Site GM, from January 2006 until March 2008 he served as VP of the Flash Memory Group, from December 2004 to December 2005 Mr. Kornhauser served as VP of TMG NVM Strategic Segment, from January 2001 to November 2004 he served as VP of TMG F18 Plant Manager and from January 1996 to December 2000 he served as F18 General Manager. Mr. Kornhauser holds a B.S. in electronics from Bucharest Polytechnic Institute in Romania.

Dana Gross has served as an independent director since November 2008, as a member of the Compensation Committee since February 2013 and has served as a director on the board of Jazz Semiconductor, Inc., our wholly owned subsidiary, since March 2009. Mrs. Gross was the CEO of Btendo, a start-up company that developed MEMS based PICO projection solutions, until it was acquired by ST Microelectronic in 2012. In 2008, Mrs. Gross joined Carmel Ventures, a leading Israeli Venture Capital firm as a Venture Partner. From 2006 to 2008, Mrs. Gross was a Senior VP, Israel Country Manager at SanDisk Corporation. From 1992 to 2006, Mrs. Gross held various senior positions at M-Systems, including Chief Marketing Officer, VP World Wide Sales, President of M-Systems Inc. (US Subsidiary) and CFO, VP Finance and Administration. In addition, Mrs. Gross served as a director of M-Systems Ltd., Audiocodes Ltd. and Power Dsine Ltd. Mrs. Gross holds a B.Sc. in industrial engineering from Tel-Aviv University and an M.A. in business administration from San Jose State University.

Ilan Flato has served as an independent and external director and as a member of the Audit Committee since April 2009. He was also appointed to the Compensation Committee in February 2013 and serves as its chairman. Mr. Flato has served as a Senior Non-Executive Director of Emblaze Ltd. since April 2006. Mr. Flato also serves as an external director and chairman of the Investment Committee in "Gal" and "Hagomel" mutual fund. Since January 2012, Mr. Flato serves as President of the Association of Publicly Traded Companies. Until 2004, Mr. Flato served as the VP for planning, economics and online banking in United Mizrahi Bank and as the Chief Economist of the bank. From 1992 and 1996, Mr. Flato served as the Economic Advisor to the Prime Minister of Israel. Prior to this position, Mr. Flato has served in the Treasury Office as the deputy director of the budget department. In addition, Mr. Flato served as a member of the board of directors of many government owned companies. Mr. Flato holds a B.A. in economics from Tel-Aviv University and an LL.M from Bar-Ilan University.

Rami Guzman has served as a director since February 2009 and has served as a member of our Audit Committee since August 2011. Mr. Guzman is a director in several companies and serves as consultant to technology based companies. Mr. Guzman held various senior positions at Motorola Inc. and Motorola Israel Ltd. since 1985, including VP of Motorola Inc. and Director of Motorola Israel Ltd. In addition, until July 2004, Mr. Guzman was the CFO of Motorola Israel Ltd. Prior to joining Motorola, Mr. Guzman worked for the Ministry of Finance first as senior assistant and deputy to the Director of the Budget and then as Government-wide MIS and IT Commissioner. Mr. Guzman holds a B.A. in economics (1963) and an M.A. in business and public administration (1969) from the Hebrew University of Jerusalem. He was a Research Fellow at Stanford University and Stanford Research Institute, California, USA, and completed Ph.D. studies at the Hebrew University of Jerusalem.

B. COMPENSATION

For the year ended December 31, 2013, we paid to or accrued for all our directors and senior management, as a group, an aggregate of 5.3 million, in salaries, fees and bonuses. The total amount set aside or accrued in the year ended December 31, 2013 to provide for severance, retirement and similar benefits for such persons was approximately $1.0 million.

Share Option Plans

General

The Company has granted to directors and senior management options to purchase ordinary shares under several option plans adopted by the Company through 2008 (the "Old Plans"). The particular provisions of each plan and grant vary as to vesting period, exercise price, exercise period and other terms. Generally, the options are granted at an exercise price which equals the closing market price of the ordinary shares immediately prior to the date of grant, vest over four year period according to various vesting schedules, and are not exercisable beyond ten years from the grant date. As of December 31, 2013, outstanding options were 179 thousand under the Old Plans to our directors and senior management. No further options may be granted under Old Plans.

Tower's 2009 Share Incentive Plans (the "2009 Plans")

In 2009 the Company adopted two new share incentive plans ("2009 Plans"). One Plan for the chairman of the board and another plan for senior management employees and its subsidiaries employees. The options granted under the 2009 Plans included exercise price which equals the closing market price of the ordinary shares immediately prior to the date of grant, vest over up to a three, and are not exercisable beyond seven years from the grant date. As of December 31, 2013, outstanding options for our directors and senior management were approximately 1.6 million, of which approximately 830 thousands were outstanding for our CEO and approximately 767 thousands were outstanding for our Chairman. No further grants may be made under these plans.

Tower's 2013 Share Incentive Plan (the "2013 Plan")

As set forth in the Company's approved Compensation Policy, in 2013, the Company adopted a new share incentive plan to directors, officers, employees and its subsidiaries' employees (the "2013 Plan"). Options to be granted under this plan will bear an exercise price which equals an average of the closing price in the thirty trading days immediately prior to the date of grant, vest over up to a three year period and are not exercisable beyond seven years from the grant date. As of December 31, 2013, approximately 2.95 million options were outstanding under the 2013 Plan to our directors and senior management of which approximately 0.8 million were outstanding to our CEO. Further grants may be approved in accordance with a decision of the Board of Directors of the Company.

In January 2014, our shareholders approved the grant of 620,431 options to our chairman of the board of directors under the 2013 Plan, in accordance with the Company's approved Compensation Policy. This grant was approved by our shareholders in January 2014, following approval by the Compensation Committee and Board in 2013. The options have a three year vesting schedule, vesting 50% on the date of the second anniversary from the date of grant and 50% on the date of the third anniversary from the date of grant and are not exercisable beyond seven years from the grant date.

For further information concerning our employee stock option plans and outstanding employee stock options, Note 17B to the consolidated financial statements for the year ended December 31, 2013 included in this report

CEO Compensation

In August 2011, our shareholders approved (i) an increase in our CEO's annual base salary from $550,000 to $600,000 per annum; and (ii) revised his 2011 annual performance bonus matrix under which such bonus will not exceed 225% of his new annual base salary. In March 2013 and April 2013, the Compensation Committee and board of directors approved an annual performance-based bonus for the year 2012 to the CEO, and pursuant to the recently enacted Amendment 20 to the Israeli Companies Law, the grant of said bonus, despite the failure to obtain shareholders' approval at the Annual General Meeting of the Shareholders held on May 23, 2013, was subsequently approved by the compensation committee and the board of directors as permitted by law, following the approval by the shareholders of the Compensation Policy in September 2013, as set forth in Tower's FORM 6-K filed with respect thereto on November 8, 2013.

In September 2013, our shareholders approved (i) a three year compensation policy for our directors and officers (please see full description set forth in *Item C. Board Practices* below); (ii) certain amendments to the employment agreement of our CEO including an adjustment to our CEO's annual base salary to $680,000 from $600,000 in effect as of January 1, 2013; (iii) a performance-based bonus matrix for 2013 and going forward to our CEO that shall not exceed 225% of our CEO's annual base salary, as further set forth in Tower's proxy statement to its shareholders filed on July 30, 2013.

C. BOARD PRACTICES

Our Articles of Association provide that the Board of Directors shall consist of at least five and no more than 11 members. All directors, except for external directors, hold office until their successors are elected at the next annual general meeting of shareholders.

Our Articles of Association provide that any director may, by written notice to us and subject to the approval of the Board of Directors, appoint another person to serve as an alternate director, and may cancel such appointment. Any person who is not already a director may act as an alternate, and the same person may not act as the alternate for more than one director at a time. The term of appointment of an alternate director may be for one meeting of the Board of Directors or for a specified period or until notice is given of the cancellation of the appointment.

Board members are not entitled to benefits in the event of termination of service.

The Israeli Companies Law – 1999 (the "Companies Law") requires Israeli companies with shares that have been offered to the public in or outside of Israel to appoint no less than two external directors. No person may be appointed as an external director if the person or the person's relative, partner, employer or any entity under the person's control, has or had, on or within the two years preceding the date of the person's appointment to serve as external director, any affiliation with the company or any entity controlling, controlled by or under common control with the company. The term "affiliation" includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;

- control; and
- service as an office holder.
- relatives of the controlling shareholder may not be appointed as external directors of a company.
- if the company does not have a controlling shareholder or a shareholder who holds company shares entitling him to vote at least 25% of the votes in a shareholders meeting, no person may be appointed as an external director if the person or the person's relative, partner, employer or any entity under the person's control, has or had, on or within the two years preceding the date of the person's appointment to serve as external director, any affiliation on the date of the person's appointment with the chairman of the Board, chief executive officer, substantial shareholder (who holds at least 5% of the issued and outstanding shares of the company or voting rights which entitle him to vote at least 5% of the votes in a shareholders meeting) or chief financial officer.
- No person may serve as an external director if the person, the person's relative, spouse, employer or any entity controlling or controlled by the person, has a business or professional relationship with someone with whom affiliation is prohibited, even if such relationship is not maintained on a regular basis, except negligible relationships.
- A public company, entity controlling or entity under common control with the company may not grant an external director, his/her spouse or child, any benefit, and may not appoint him/her, his/her spouse or child, to serve as an officer of the company or of an entity under common control with the company, may not employ or receive professional services in consideration from him/her or an entity controlled by him/her unless two years have passed as of the end of service as external director in the company, and regarding a relative who is not a spouse or child – one year as of the end of service as external director.

A person shall be qualified to serve as an external director only if he or she possesses accounting and financial expertise or professional qualifications. At least one external director must possess accounting and financial expertise. The conditions and criteria for possessing accounting and financial expertise and professional qualifications were determined in regulations promulgated by the Israeli Minister of Justice in consultation with the Israeli Securities Authority. The regulations mandate that a person is deemed to have "expertise in finance and accounting" if his or her education, experience and qualifications provide him or her with expertise and understanding in business - accounting matters and financial statements, in a way that allows him or her to understand, in depth, the company's financial statements and to encourage discussion about the manner in which the financial data is presented.

The company's board of directors must evaluate the proposed external director's expertise in finance and accounting, by considering, among other things, his or her education, experience and knowledge in the following: (i) accounting and auditing issues typical to the field in which the company operates and to companies of a size and complexity similar to such company; (ii) a company's external public accountant's duties and obligations; and (iii) preparing company financial statements and their approval in accordance with the Companies Law and the Israeli Securities Law.

A director is deemed to be "professionally qualified" if he or she meets any of the following criteria: (i) has an academic degree in any of the following professions: economics, business administration, accounting, law or public administration; (ii) has a different academic degree or has completed higher education in a field that is the company's main field of operations, or a field relevant to his or her position; or (iii) has at least five years experience in any of the following, or has a total of five years experience in at least two of the following: (A) a senior position in the business management of a corporation with significant operations, (B) a senior public position or a senior position in public service, or (C) a senior position in the company's main field of operations. The board of directors here too must evaluate the proposed external director's "professional qualification" in accordance with the criteria set forth above.

The candidate to serve as an external director must sign a declaration stating that the abovementioned criteria are met as required by law for the appointment of such candidate as an external director.

No person may serve as an external director if the person's position or other business activities create, or may create, a conflict of interest with the person's responsibilities as an external director or may otherwise interfere with the person's ability to serve as an external director. If, at the time external directors are to be appointed, all current members of the board of directors who are not controlling shareholders or relatives of such shareholders are of the same gender, then at least one external director must be of the other gender.

External directors are to be elected by a majority vote at a shareholders' meeting, provided that either:

- the majority of shares voted at the meeting, including more than one-half of the shares held by non-controlling and disinterested shareholders that voted at the meeting, vote in favor of election of the director; or

- the total number of shares held by non-controlling and disinterested shareholders that voted against the election of the director does not exceed two percent of the aggregate voting rights in the company.

The initial term of an external director is three years and may be extended twice for additional three year terms, provided that with respect to the appointment for each such additional three-year term, one of the following has occurred: (i) the reappointment of the external director has been proposed by one or more shareholders holding together 1% or more of the aggregate voting rights in the company and the appointment was approved at the general meeting of the shareholders by a simple majority, provided that: (1)(x) in calculating the majority, votes of controlling shareholders or shareholders having a personal interest in the appointment as a result of an affiliation with a controlling shareholder and abstentions are disregarded and (y) the total number of votes of shareholders who do not have a personal interest in the appointment (other than an interest solely as a result of an affiliation with a controlling shareholder) or who are not controlling shareholders, present and voting in favor of the appointment exceed 2% of the aggregate voting rights in the company, and (2) pursuant to a recently enacted amendment to the Companies Law ("Amendment 22"), effective as of January 10, 2014, the external director who has been nominated in such fashion is not a linked or competing shareholder, and does not have or has not had, on or within the two years preceding the date of such person's appointment to serve as another term as external director, any affiliation with a linked or competing shareholder. The term "linked or competing shareholder" means the shareholder(s) who nominated the external director for reappointment or a material shareholder of the company holding more than 5% of the shares in the company, provided that at the time of the reappointment, such shareholder(s) of the company, the controlling shareholder of such shareholder(s) of the company, or a company under such shareholder(s) of the company's control, has a business relationship with the company or are competitors of the company; the Israeli Minister of Justice, in consultation with the Israeli Securities Authority, may determine that certain matters will not constitute a business relationship or competition with the company; or (ii) the reappointment of the external director has been proposed by the board of directors and the appointment was approved by the majority of shareholders required for the initial appointment of an external director. External directors may be removed only by the same majority required for their election as stipulated herein above, or by a court, and then only if the external directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to the company. Each committee of a company's board of directors which has been granted any authority normally reserved for the board of directors must include at least one external director.

Mr. Ilan Flato and Mr. Alex Kornhauser currently serve as our external directors. Mr. Kornhauser was appointed for an initial three-year term expiring in August 2011 and was reappointed for an additional three-year term commencing such date. Mr. Flato was appointed for an initial three-year term expiring in April 2012 and was subsequently reappointed by the shareholders for an additional three-year term commencing such date.

An external director is entitled to compensation, as provided in regulations adopted under the Israeli Companies Law, and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with service provided as an external director.

The Companies Law requires public companies to appoint an audit committee. Mr. Ilan Flato, Mr. Alex Kornhauser, Rami Guzman and Mr. Kalman Kaufman serve on Tower's audit committee, and Mr. Alex Kornhauser serves as the Audit Committee chairman. Under the Israeli Companies Law, the responsibilities of the audit committee include reviewing the company's financial statements, monitoring the company's independent auditors, identifying irregularities in the management of the company's business and approving related party transactions as required by law, classifying company transactions as extraordinary transactions or non-extraordinary transactions and as material or non-material transactions in which an officer has an interest (which will have the effect of determining the kind of corporate approvals required for such transaction) and approving such interested party transactions, where the approval of the audit committee is required, assessing the proper function of the company's internal audit regime and determining whether its internal auditor has the requisite tools and resources required to perform his role, and reviewing the work plan and the scope of work of the company's independent accountants and their fees, and implementing a whistleblower protection plan with respect to employee complaints of business irregularities. Pursuant to Amendment 22, effective as of January 10, 2014, the responsibilities of the audit committee under the Companies Law also include the following matters: (i) to establish procedures to be followed in respect of related party transactions with a controlling shareholder (where such are not extraordinary transactions), which may include, where applicable, the establishment of a competitive process for such transaction, under the supervision of the audit committee, or individual, or other committee or body selected by the audit committee, in accordance with criteria determined by the audit committee; and (ii) to determine procedures for approving certain related party transactions with a controlling shareholder, which were determined by the audit committee not to be extraordinary transactions, but which were also determined by the audit committee not to be negligible transactions. An audit committee must consist of at least three directors, including all of the external directors of the company. A majority of the members of the audit committee must be independent or external directors. The Companies Law defines independent directors as either external directors or directors who: (1) meet certain of the requirements of an external director, (2) have been directors in the company for an uninterrupted duration of less than 9 years (and any interim period during which such person was not a director which is less than 2 years shall not be deemed to interrupt the duration), and (3) were classified as such by the company. The chairman of the board of directors, any director employed by or otherwise providing services to a controlling shareholder or any corporation controlled by such controlling shareholder, any director who derives his salary primarily from the controlling shareholder, and a controlling shareholder or its relative, may not be a member of the audit committee.

The chairman of the audit committee must be an external director, and all audit committee decisions must be made by a majority of the committee members, of which the majority of members present are independent and external directors and at least one external director is present. Any person who is not eligible to serve on the audit committee is further restricted from participating in its meetings and votes, unless the chairman of the audit committee determines that such person's presence is necessary in order to present a certain matter, provided however, that company employees who are not controlling shareholders or relatives of such shareholders may be present in the meetings but not in the actual votes and resolutions, and company counsel and secretary who are not controlling shareholders or relatives of such shareholders may be present in meetings and decisions if such presence is requested by the audit committee.

Under the Companies Law, the board of directors must appoint an internal auditor, who is recommended by the audit committee. The role of the internal auditor is to examine, among other matters, whether the company's actions comply with the law and orderly business procedure. Under the Companies Law, the internal auditor may be an employee of the company but not an office holder, an interested party, or a relative of an office holder or interested party, and he may not be the company's independent auditor or its representative. Joseph Ginosar of Fahn Kanne, an affiliate of Grant Thornton International, serves as our internal auditor.

In December 2012, the recently adopted Amendment 20 to the Israeli Companies Law-1999 ("Amendment 20") went into effect. Amendment 20 requires, among other provisions, that the board of directors of Israeli publicly traded companies appoint a Compensation Committee comprised of at least three members, that all external directors be members of the Compensation Committee, that Directors who are also employees of the Company cannot be members of the Compensation Committee, and that the chairman of the Compensation Committee be an external director.

The responsibilities of the Compensation Committee include the following:

1. To recommend to the Board of Directors as to a compensation policy for officers, as well as to recommend, once every three years to extend the compensation policy subject to receipt of the required corporate approvals;
2. To recommend to the Board of Directors as to any updates to the compensation policy which may be required;
3. To review the implementation of the compensation policy by the Company;
4. To approve transactions relating to terms of office and employment of certain Company office holders, which require the approval of the Compensation Committee pursuant to the Companies Law; and
5. To exempt, under certain circumstances, a transaction relating to terms of office and employment from the requirement of approval of the shareholders meeting.

In February 2013, our Board of Directors appointed Mr. Ilan Flato, Mr. Alex Kornhauser and Ms. Dana Gross as members of the Compensation Committee, and Mr. Ilan Flato as chairman of the Compensation Committee. The Compensation Committee has been charged by the board of directors to act in accordance with the powers and prerogatives delegated to it by the Israeli Companies Law-1999 and take any decisions and make any recommendations to the Board all as set forth in the Israeli Companies Law-1999. The board of directors also delegated to the Compensation Committee the review and approval of option grants to non-officers.

Our Compensation Policy

Under Amendment 20, the board of directors of the Company, being an Israeli publicly traded company, and following the recommendation of the Compensation Committee, established a compensation policy, which was approved by the shareholders of the company in September 2013, and pursuant to which the terms of office and compensation of the company's officer holders are decided.

Under Section 267B(a) and Parts A and B of Annex 1A of the Companies Law, which were legislated as part of Amendment 20, a company's compensation policy shall be determined with consideration of the following parameters:

a. advancement of the goals of the Company, its working plan and its long term policy;
b. the creation of proper incentives for the office holders while taking into consideration, inter alia, the Company's risk management policies;
c. the Company's size and nature of its operations;
d. with respect to compensation paid to officers which includes variable components - the contributions of the relevant office holders in achieving the goals of the Company and profit in the long term in light of their positions;
e. the education, skills, expertise and achievements of the relevant office holders;
f. the role of the office holders, areas of their responsibilities and their previous agreements regarding salary; and
g. the correlation of the proposed compensation with the compensation of other employees of the Company, and the effect of such differences in compensation on the employment relations in the company.

In addition, the compensation policy should take into account that in the event that the compensation paid to officers includes variable components – it should allow for the ability of the board of directors to reduce the value of the variable component from time to time or to set a cap on the exercise value of convertible securities components that are not paid out in cash. Additionally, in the event that the terms of office and employment include grants or payments made upon termination – such grants should take into consideration the length of the term of office or period of employment, the terms of employment during such period, the company's performance during said period and the office holder's contribution to obtaining the company's goals and maximizing its profits as well as the circumstances and context of the termination.

In addition, the compensation policy must set forth standards and rules on the following issues: (a) with respect to variable components of compensation - basing the compensation on long term performance and measurable criteria (though an insubstantial portion of the variable components can be discretion based awards taking into account the contribution of the officer holder to the company); (b) establishing the appropriate ratio between variable components and fixed components and placing a cap on such variable components; (c) setting forth a rule requiring an office holder to return amounts paid, in the event that it is later revealed that such amounts were paid on the basis of data which prove to be erroneous and resulted in an amendment and restatement of the company's financial statements; (d) determining minimum holding or vesting periods for equity based variable components of compensation, while taking into consideration appropriate long term incentives; and (e) setting a cap on grants or benefits paid upon termination.

The board of directors of a company is obligated to adopt a compensation policy after considering the recommendations of the compensation committee. The final adoption of the compensation policy is subject to the approval of the shareholders of the company, which such approval is subject to certain special majority requirements, as set forth in Amendment 20, pursuant to which one of the following must be met:

(i) the majority of the votes includes at least a majority of all the votes of shareholders who are not controlling shareholders of the company or who do not have a personal interest in the compensation policy and participating in the vote; abstentions shall not be included in the total of the votes of the aforesaid shareholders; or

(ii) the total of opposing votes from among the shareholders described in subsection (i) above does not exceed 2% of all the voting rights in the company.

Nonetheless, even if the shareholders of the company do not approve the compensation policy, the board of directors of a company may approve the compensation policy, provided that the compensation committee and, thereafter, the board of directors resolved, based on detailed, documented, reasons and after a second review of the compensation policy, that the approval of the compensation policy is for the benefit of the company.

Compensation instruments under our Compensation Policy may include the following:

- Base salary;
- Benefits and perquisites;
- Performance-based cash bonuses;
- Equity based compensation; and
- Retirement, termination and other arrangements.

Our Compensation Policy aims to optimize the mix of fixed compensation and variable compensation (both as defined therein) in order to, among other things, appropriately incentivize office holders to meet our goals while considering our management of business risks, and sets maximum rations between the two types of compensation elements.

The base salary varies between office holders, and is individually determined according to the past performance, educational background, place of residence, prior business experience, qualifications, specializations, situation, role, business responsibilities and achievements of the office holder and the previous salary arrangements therewith. Since a competitive base salary is essential to our ability to attract and retain highly skilled professionals, in accordance with the Compensation Policy will seek to establish and maintain base salaries that are based on competitive market analyses. The comparative peer group will include direct competitors, or companies that operate in similar industries, with similar market capitalization, enterprise value, and/or revenues, active in similar geographic locations. Office holders will be entitled to benefits stated as such by relevant law and best practice for peer companies, and may also be entitled to additional benefits, taking into consideration their rank, seniority in the territory they reside in, market and local practice and legislation. Such additional benefits, which shall be subject to approval of Compensation Committee and the Board of Directors, may include, inter alia, annual vacation, sick leave, medical insurance, allocations to pensions, long term disability, contribution to education fund (up to the maximum allowable by law), car expenses, contribution to managers' insurance, cellular phone and laptop computer, as well as taxes and expenses which may be incurred in relation to such benefits being borne by the Company. In addition, when relevant, and subject to approval of Compensation Committee and the Board of Directors, office holders may be entitled to relocation related expenses and benefits until termination, including housing costs, family flights and related repatriation costs, which shall not exceed $280,000 on an annual basis. For purposes of attracting high quality personnel, we may offer an office holder a sign-on bonus as an incentive to join the Company, which may be comprised of cash and/or equity and shall not exceed an amount equal to the office holder’s annual base salary.

Our policy is to allow annual cash bonuses, which may be awarded to the office holders upon the attainment of pre-set annual measurable objectives and personal performance, which are set in the first quarter of the year, and include minimum thresholds for performance. The Compensation Policy sets forth a pre-defined mechanism which includes bonus criteria based on measurable components and the weight of each component (in percentage terms) of each group of component measures as a portion of the annual criteria, as well as a minimum threshold below which no bonus will be awarded for the component. Office holders may also receive a special bonus for substantial achievements on certain types of special transactions that are unexpected when determining our annual management by objective plan. It is clarified that this special bonus mechanism will not be awarded as a matter of routine and granted only in situations where it is warranted as described below.

In the event that an office holder was paid any compensation based on erroneous data which is later restated in our financial statements within a period of three (3) financial years prior to the date of the correction, we shall be entitled to recover from such office holder any compensation in the amount of the excess of the compensation that the office holder received over what he/she should have been paid on the basis of the restated financial statements. The compensation recovery will not be triggered in the event of a financial restatement required due to changes in the applicable financial reporting standards. The Compensation Committee will be responsible for approving the amounts to be recouped and for setting terms for such recoupment from time to time.

The equity based compensation offered by us is intended to be in a form of stock options and/or other equity forms, such as RSUs, in accordance with our equity based compensation policies and programs in place from time to time. Equity based compensation awarded by us shall not be in excess of 10% of our share capital on a fully diluted basis. The equity based compensation, shall be granted automatically as either an annual grant and/or from time to time and be individually determined and awarded according to the performance, educational background, prior business experience, qualifications, specializations, role, personal responsibilities and achievements of the office holder and the previous salary arrangements therewith. As a general policy, options for our office holders shall gradually vest per passage of time over a period of 3 years (or more) and the RSUs shall be subject to time and/or performance based vesting. There shall be no vesting before the end of the first year from date of grant. We will calculate the fair market value of the equity based compensation for the office holders, at the time of grant according to the Black and Scholes model, binomial model or any other best practice or commonly accepted equity based compensation valuation model as calculated in the actual award, when such award is approved by the Compensation Committee and Board of Directors. The aggregate three year value of such calculated fair market value shall not exceed, (i) for an office holder (other than directors) three annual base salaries of such office holder, and (ii) for a director, $180,000 per 3 years, subject to applicable law and regulations. The exercise price and expiration of the options shall be as set forth in Section 14 above. The exercise price of options granted to the office holders shall be equal to the arithmetic average closing price of Tower's shares, as quoted on the NASDAQ market (or if Tower's shares will not be traded on NASDAQ, the Tel-Aviv Stock Exchange or any principal national securities exchange upon which Tower's shares are listed or traded) for the 30 trading days prior to the date of grant. The options may contain a mandatory exercise provision for vested options which shall provide for an automatic exercise upon reaching a certain share price and may also trigger the sale of the underlying shares. The expiration of options granted to the office holders shall be seven (7) years from date of grant.

We shall provide an office holder a prior notice of termination of up to six (6) months but not less than three (3) months (unless termination is for cause), during which the office holder shall be entitled to all of the compensation elements, and to the continuation of vesting of his/her equity based compensation. Office holders (other than directors) shall provide us a prior notice of resignation of at least three (3) months. During this advance notice period, at our discretion, the office holder may be requested to remain on our payroll and provide services to us. During this period, the office holder shall be paid his/her base salary and benefits and may be entitled to a partial or full annual bonus, based on the actual period of service or employment of the office holder within this period, and based on our performance during the period, the contribution of the office holder to achieving our targets and profits and the circumstances of the termination. Upon resignation, office holders who are Israeli employees shall receive severance pay according to Israeli law. All other employees shall receive severance pay according to their local labor laws. Upon dismissal, office holders who are Israeli employees may receive severance pay equal to his/her last monthly base salary multiplied by the number of years employed by us. All other employees shall receive severance pay according to their local labor laws. The total amount paid to the office holder shall not exceed an amount of twenty-four (24) monthly base salaries, subject however to any amounts which would have to be paid to an office holder in accordance with the local labor law.

Under the Compensation Policy, and subject to the amendment of the relevant employment agreement upon receipt of applicable corporate approvals as required by law, in connection with a corporate transaction involving a Change of Control and subject to the Termination Upon Change of Control (both terms as defined in the employment agreement of the relevant office holder), the CEO may be entitled to an amount equal up to one (1) annual base salary and acceleration of all unvested options for exercise and the other non-CEO and non-director office holders may be entitled to an amount equal up to nine (9) months' base salary and acceleration of all unvested options for exercise.

The CEO shall be paid a termination grant upon termination of his/her employment with us, provided that he/she is employed with us full time for at least 3 years. Such termination grant shall be in an amount up to a lump sum of twelve (12) monthly base salaries without benefits. The amount granted shall take into consideration the period of employment with us, his/her service and employment conditions in the course of said period, our performance during the period, the contribution of the CEO to the achievement of our targets and profits and the circumstances surrounding the termination of employment.

The members of Tower's board may (and, in the case of external directors, shall) be entitled to remuneration and refund of expenses according to the provisions of the Companies Regulations (Rules on Remuneration and Expenses of Outside Directors), 2000, as amended by the Companies Regulations (Relief for Public Companies Traded in Stock Exchange Outside of Israel), 2000, as such regulations may be amended from time to time.

Directors shall be entitled to:

- An annual fee which shall be capped at up to $60,000.
- Per meeting fee shall be capped at up to $2,000.
- Reasonable travel expenses.

In connection with a corporate transaction involving a Change of Control (as defined in the relevant individual's services agreement), the chairman of the board and other directors may be entitled to acceleration of all unvested options for exercise.

The chairman of the board may be entitled to cash and/or equity based remuneration which in the aggregate that shall not exceed $600,000 on an annual basis together with reimbursement of expenses in accordance with our policy as approved by the Compensation Committee and Board of Directors.

Under our Compensation Policy, the Board of Directors shall have the discretion to unilaterally reduce an office holder's variable compensation.

All compensation arrangements of office holders are required to be approved in the manner prescribed by applicable law. In accordance with our Compensation Policy, office holders, including External Directors or Independent Directors, may waive their entitlement to their compensation, subject to applicable law.

D. EMPLOYEES

The following table sets forth for the last three fiscal years, the number of our employees engaged in the specified activities.

	As of December 31,		
	2013	**2012**	**2011**
Process and product engineering, R&D and design	848	866	936
Manufacturing and operations	1,538	1,602	1,822
Manufacturing support	239	209	219
Sales and marketing, finance & administration..	194	218	197
Total	2,819	2,895	3,174

As of December 31, 2013, we had 1,210 employees located in Israel, 655 employees located in the United States, 943 employees located in Japan, 6 employees located in Korea, 3 employees located in China and 1 employee located in Taiwan and 1 employee located in Germany.

Except for an arrangement regarding pension contributions, Tower has no collective bargaining agreements with any of its Israeli employees. However, in Israel we are subject to certain labor statutes and national labor court precedent rulings, as well as to certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations, by virtue of expansion orders issued in accordance with relevant labor laws by the Israeli Ministry of Labor and Welfare, and which apply such agreement provisions to our employees even though they are not directly part of a union that has signed a collective bargaining agreement. The laws and labor court rulings that apply to our employees principally concern the minimum wage laws, procedures for dismissing employees, determination of severance pay, leaves of absence (such as annual vacation or maternity leave), sick pay and other conditions for employment. The expansion orders which apply to our employees principally concern the requirement for length of the work day and workweek, mandatory contributions to a pension fund, annual recreation allowance, travel expenses payment and other conditions of employment. In accordance with these provisions, the salaries of our employees are partially indexed to the Consumer Price Index in Israel.

Under the special collective bargaining agreement to which we are party in regard to our Israeli employees, we are required to contribute funds to an employee's "Manager's Insurance" fund and/or pension fund. Such funds generally provide a combination of savings plans, insurance and severance pay benefits to the employee, securing his or her right to receive pension or giving the employee a lump sum payment upon retirement, under certain circumstances, if legally entitled, upon termination of employment. To the Manager's Insurance fund, the employee usually contributes an amount equal to 5% of his or her wages and the employer usually contributes an additional 13.3% to 15.8%. To the pension fund the employee usually contributes an amount equal to between 5% and 6% of his or her wages and the employer usually contributes an additional 13.7% to 17.3%. Israeli law generally requires severance pay upon the retirement or death of an employee or termination of employment without due cause. Under our special collective bargaining agreement, we are exempt from such severance pay as long as, and for period during which, we contribute on monthly basis the above mentioned benefits to such employee's pension fund and/or Manager's Insurance.

A portion of Jazz's employees at its Newport Beach, California fab are represented by a union and covered by a collective bargaining agreement. Jazz maintains a defined benefit pension plan for certain of its employees covered by a collective bargaining agreement that provides for monthly pension payments to eligible employees upon retirement. The pension benefits are based on years of service and specified benefit amounts. In addition, the bargaining agreement includes a postretirement medical plan to certain employees. For certain eligible bargaining unit employees who terminate employment, Jazz provides a lump-sum benefit payment.

Labor agreements pertaining to the employees of TJP determine the obligation of TJP to make payments to employees upon retirement or upon termination. The liability for termination benefits is based upon length of service and the employee's monthly salary multiplied by a certain ratio. TJP does not cover the termination liability through deposits to benefit funds.

E. SHARE OWNERSHIP

As of March 31, 2014, our directors and senior managers beneficially owned an aggregate of 1.7 million shares underlying options held by such persons that are currently vested or which vest within 60 days of such date. These options have an average exercise price of $6.19 per share and the options expire between 2015 and 2022. In addition, our directors and senior managers own an aggregate of 12,500 warrants which have an exercise price of $7.33 and expire on July 2017. No individual director or senior manager beneficially owns 1.00% or more of our outstanding ordinary shares, except our CEO, who beneficially owns 1.42% of our outstanding shares and our chairman of the board of directors who beneficially owns 1.53% of our outstanding shares.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following set forth information, as of March 31, 2014, concerning the beneficial ownership (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended), and on a diluted basis, of ordinary shares by any person who is known to own at least 5% of our issued and outstanding ordinary shares. As of such date, approximately 49.3 million ordinary shares were issued and outstanding. The voting rights of our major shareholders do not differ from the voting rights of other holders of our ordinary shares.

Identity of Person or Group	Percent of Class(1)	Percent of Class (Diluted)(2)
Israel Corporation Ltd. (3)	38.66%	18.92%
Bank Leumi Le-Israel, B.M (4).	7.14%	3.62%
Bank Hapoalim, B.M (5).	11.21%	5.86%

(1) Assumes the holder's beneficial ownership of all Tower ordinary shares and all securities that the holder has a right to purchase within 60 days. Also assumes that no other exercisable or convertible securities held by other shareholders has been exercised or converted into shares of the Company.

(2) Assumes that all currently outstanding securities to purchase ordinary shares, other than those which cannot be calculated as of the date of the date referred to above, have been exercised by all holders.

(3) Based on information verified with Israel Corp., it had as of March 31, 2014 approximately 18 million shares, as well as warrants exercisable to acquire 1.67 million shares and 4 thousand Ordinary Shares issuable upon the exercise of options.

(4) Based on information provided by Bank Leumi, it had as of March 31, 2014 approximately 206 thousand shares, as well as warrants exercisable to acquire approximately 139 thousand shares and capital notes convertible into approximately 3.4 million shares.

(5) Based on information provided by Bank Hapoalim, it had as of March 31, 2014 approximately one million shares, as well as warrants exercisable to acquire approximately 608 thousand shares and capital notes convertible into approximately 4.5 million shares.

As of March 31, 2014, there were a total of 17 holders of record of our ordinary shares, of which 9 were registered with addresses in the United States. Such United States record holders (which include non-US shareholders) were, as of such date, the holders of record of approximately 43.0% of our outstanding ordinary shares. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are resident since many of these ordinary shares were held of record by brokers or other nominees (including one U.S. nominee company, CEDE & Co., which held approximately 43% of our outstanding ordinary shares as of said date, including those held for the benefit of the Tel Aviv Stock Exchange clearing house as a member of Depository Trust Company).

B. RELATED PARTY TRANSACTIONS

For information related to transactions with related parties see Note 22 to the consolidated financial statements.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See Item 18.

Legal Proceedings

From time to time we are a party to various litigation matters incidental to the conduct of our business. As of today, there is no pending or threatened legal proceeding to which we are a party, that, in the opinion of our management, is likely to have a material adverse effect on our future financial results or financial condition.

B. SIGNIFICANT CHANGES

No significant change has occurred since December 31, 2013, except as disclosed in this annual report.

ITEM 9. THE OFFER AND LISTING

Our ordinary shares are listed and traded on the NASDAQ Stock Market (on the NASDAQ Global Market through March 16, 2012 and on the NASDAQ Capital Market since that date) and on the Tel Aviv Stock Exchange (TASE) under the symbol "TSEM".

The following table sets forth, for the periods indicated, the high and low reported sales prices of the ordinary shares on the NASDAQ Stock Market and Tel Aviv Stock Exchange:

	NASDAQ Stock Market		Tel Aviv Stock Exchange	
	High ($)	Low ($)	High (NIS)	Low (NIS)
Period				
April 2014	10.06	7.74	34.68	26.92
March 2014	9.64	7.45	32.88	25.78
February 2014	7.87	5.86	27.18	20.59
January 2014	6.45	5.44	22.51	19.20
December 2013	7.53	3.85	22.70	13.40
November 2013	4.91	4.16	17.40	14.41
October 2013	5.19	4.74	18.35	17.00
First quarter 2014	9.64	5.44	32.88	19.20
Fourth quarter 2013	7.53	3.85	22.70	13.40
Third quarter 2013	5.18	4.15	18.37	14.65
Second quarter 2013	7.85	4.60	28.66	15.83
First quarter 2013	8.67	6.16	32.40	22.72
Fourth quarter 2012	9.11	7.30	35.50	28.30
Third quarter 2012	10.77	6.75	42.50	27.58
Second quarter 2012	15.30	9.75	57.90	39.30
First quarter 2012	14.10	9.00	52.50	34.55
2013	8.67	3.85	32.40	13.40
2012	15.30	6.75	57.90	27.58
2011	23.10	9.00	82.41	34.05
2010	28.05	14.85	105.29	55.65
2009	22.35	1.95	76.94	7.53

ITEM 10. ADDITIONAL INFORMATION

Articles of Association

Registration Number and Purposes

Our registration number with the Israeli Companies Registrar is 520041997. Pursuant to Section 4 of our Articles of Association ("Articles"), Tower's objective is to engage in any lawful activity.

Articles of Association

Our Articles were adopted in November 2000, and as amended most recently in May 2013, provide for an authorized share of 150 million ordinary shares with par value of NIS 15.00 each. In August 2012, we effected a reverse share split of our outstanding Ordinary Shares in a ratio of 1:15. All our securities presented in this annual report were adjusted to reflect such reverse split. Tower has currently outstanding only one class of equity securities, ordinary shares, par value NIS 15.00 per share. Holders of Tower ordinary shares have one vote per share, and are entitled to participate equally in the payment of dividends and share distributions and, in the event of liquidation of Tower, in the distribution of assets after satisfaction of liabilities to creditors. No preferred shares are currently authorized.

Our Articles require that we hold our annual general meeting of shareholders each year no later than 15 months from the last annual meeting, at a time and place determined by the Board of Directors, upon at least 21 days' prior notice to our shareholders. Two or more shareholders holding at least 33% of the voting rights personally or by proxy will constitute a quorum for the meeting. Shareholders may vote in person or by proxy, and are required to prove title to their shares as required by the Companies Law pursuant to procedures established by the Board of Directors. Resolutions regarding the following matters shall be passed by an ordinary majority of those voting at the general meeting.

- amendments to our Articles;
- appointment and termination of our independent auditors;
- appointment and dismissal of directors (except of external directors);
- approval of acts and transactions requiring general meeting approval under the Companies Law;
- increase or reduction of authorized share capital or the rights of shareholders or a class of shareholders;
- any merger as provided in section 320 of the Companies Law; and
- the exercise of the Board of Directors' powers by the general meeting, if the Board of Directors is unable to exercise its powers and the exercise of any of its powers is essential for Tower's proper management, as provided in section 52(a) of the Companies Law.

A special meeting may be convened by the request of two directors or by the request of one or more shareholders holding at least 5% of our issued share capital and 1% of the voting rights or one or more shareholders holding at least 5% of the voting rights. Shareholders requesting a special meeting must submit their proposed resolution with their request. Within 21 days of receipt of the request, the Board must convene a special meeting and send out notices setting forth the date, time and place of the meeting. Subject to exceptions, such notice must be given at least 21 days but not more than 35 days prior to the special meeting.

Our Ordinary Shares may generally be freely transferred under the Articles, unless the transfer is restricted or prohibited by applicable law or the rules of the stock exchange on which the shares are traded. The ownership or voting of our Ordinary Shares by non-residents of Israel is not restricted in any way by our Articles or the laws of the State of Israel, except under certain circumstances for ownership by nationals of certain countries that are, or have been, in a state of war with Israel.

Exemption and Indemnification Agreements with Directors and Office Holders

Tower entered into exemption and indemnification agreements with the members of its Board of Directors and other Office Holders, which were amended to reflect certain amendments to the Israeli Securities Law and the Israeli Companies Law, pursuant to which, subject to the limitations set forth in the Israeli Companies Law, the Israeli Securities Law and the Articles, they will be exempt from liability for breaches of the duty of care owed by them to the Company or indemnified for certain costs, expenses and liabilities with respect to events specified in the exemption and indemnification agreements. Tower's shareholders approved these amended exemption and indemnification agreements.

The Companies Law

We are subject to the provisions of the Companies Law. The Companies Law codifies the fiduciary duties that "office holders," including directors and executive officers, owe to a company. An office holder, as defined in the Companies Law, is a general manager, chief business manager, deputy general manager, vice general manager, another manager directly subordinate to the general manager or any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title, or a director. Each person listed in the table in "Item 6. Directors, Senior Management and Employees" above is an office holder of the Company.

The Companies Law requires an office holder to promptly disclose any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by the company. In addition, if the transaction is an extraordinary transaction, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, and spouse's descendants, siblings and parents, and the spouse of any of the foregoing, or any corporation in which the office holder is a 5% or greater shareholder, holder of 5% or more of the voting power, director or general manager or in which he or she has the right to appoint at least one director or the general manager. An extraordinary transaction is defined as a transaction not in the ordinary course of business, not on market terms, or one that is likely to have a material impact on the company's profitability, assets or liabilities.

The Companies Law requires that specific types of transactions, actions and arrangements be approved as provided for in a company's articles of association and in some circumstances by the company's audit committee or compensation committee, board of directors and shareholders. For example, the Companies Law requires that agreements regarding the terms of compensation, insurance or indemnification of directors be approved by the company's compensation committee, board of directors and shareholders. Agreements regarding the terms of compensation, insurance or indemnification of officers will need to be approved by the company's compensation committee and board of directors, and in certain instances by shareholders as well. In the case of a transaction with an office holder that is not an extraordinary transaction, after the office holder complies with the above disclosure requirements, only board approval is required, unless the Articles provide otherwise. The transaction must be in the company's interests. If the transaction is an extraordinary transaction, then, in addition to any approval required by the Articles it must be approved first by the audit committee and then by the board of directors, and, in specific circumstances, by a meeting of the shareholders. Subject to exceptions set forth in the Companies Law, an any individual who has a personal interest in a matter that is considered at a meeting of the board of directors or the audit committee may not be present during the relevant discussion at such meeting or vote on such matter.

The Companies Law applies the same disclosure requirements to a controlling shareholder of a public company. The term "controlling shareholder" is defined as a shareholder who has the ability to direct the activities of a company, other than if this power derives solely from the shareholder's position on the board of directors or any other position with the company, and the definition of "controlling shareholder" in connection with matters governing: (i) extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, (ii) certain private placements in which the controlling shareholder has a personal interest, (iii) certain transactions with a controlling shareholder or relative with respect to services provided to or employment by the company, (iv) the terms of employment and compensation of the general manager, and (v) the terms of employment and compensation of office holders of the company when such terms deviate from the company's compensation policy, also includes shareholders that hold 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company (and the holdings of two or more shareholders which each have a personal interest in such matter will be aggregated for the purposes of determining such threshold). Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, require the approval of the audit committee, the board of directors and the shareholders of the company. Agreements relating to the terms of office and employment of a controlling shareholder require the approval of the compensation committee, the board of directors and the shareholders of the company. The shareholder approval for the above noted matters must either include more than one-half of the shares held by disinterested shareholders who are present, in person or by proxy, at the meeting, or, alternatively, the total shareholdings of the disinterested shareholders who vote against the transaction must not represent more than two percent of the voting rights in the company.

Extraordinary transactions between the Company and a controlling shareholder or in which a controlling shareholder has personal interest and with duration exceeding three years are subject to re-approval once every three years by the audit committee (or compensation committee, as applicable), board of directors and the shareholders of the company. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest may be approved in advance for a period exceeding three years if the audit committee determines such approval reasonable under the circumstances. In addition, agreements and extraordinary transactions with duration exceeding three years which were approved prior to May 14, 2011 will need to be re-approved by the proper corporate actions at the later of (i) the first general meeting held after May 14, 2011, (ii) November 14, 2011 or (iii) the expiration of three years from the date on which they were originally approved, even though they were properly approved prior to the passing of the amendment to the Companies Law.

The board of directors of a public company is obligated to adopt a compensation policy after considering the recommendations of the compensation committee. The final approval of the compensation committee is subject to the approval of the shareholders of the company. Such shareholder approval is subject to certain special majority requirements, as set forth in the Companies Law, pursuant to which the shareholder majority approval must also either include more than one-half of the shares held by non-controlling and disinterested shareholders who actively participate in the voting process (without taking abstaining votes into account), or, alternatively, the total shareholdings of the non-controlling and disinterested shareholders who voted against the transaction must not represent more than two percent of the voting rights in the company.

Nonetheless, even if the shareholders of the company do not approve the compensation policy, the board of directors of a company may approve the compensation policy, provided that the compensation committee and, thereafter, the board of directors resolved, based on detailed, documented, reasons and after a second review of the proposed compensation policy, that the approval of the compensation policy is for the benefit of the company.

Pursuant to the Companies Law, the terms of office and employment of an office holder in a public company should be in accordance with the company's compensation policy. Nonetheless, provisions were established that allow a company, under special circumstances, to approve terms of office and employment that deviate from the approved compensation policy. Additionally, the Companies Law also sets for the provisions governing the approval requirements for the compensation and/or terms of office of a specific office holder.

Terms of office and employment of office holders who are neither directors nor the general manager require approval by the (i) compensation committee; and (ii) the board of directors. Approval of terms of office and employment for such office holders which do not comply with the compensation policy may nonetheless be approved subject to two cumulative conditions: (i) the compensation committee and thereafter the board of directors, approved the terms after having taken into account the various policy considerations and mandatory requirements set forth in the Companies Law with respect to office holder compensation, and (ii) the shareholders of the company approved the terms of office and employment for such office holders by means of the special majority required for approving the compensation policy (as detailed above).

Terms of office and employment of the general manager require approval by the (i) compensation committee; (ii) the board of directors and (iii) the shareholders of the company by means of the special majority required for approving the compensation policy (as detailed above). Approval of terms of office and employment for the general manager which do not comply with the compensation policy may nonetheless be approved subject to two cumulative conditions: (i) the compensation committee and thereafter the board of directors, approved the terms after having taken into account the various policy considerations and mandatory requirements set forth in the Companies Law with respect to office holder compensation, and (ii) the shareholders of the company approved the terms of office and employment for the general manager which deviate from the compensation policy by means of the special majority required for approving the compensation policy (as detailed above). Notwithstanding the foregoing, a company may be exempted from receiving shareholder approval with respect to the terms of office and employment of a proposed candidate for general manager if such candidate meets certain independence criteria, the terms of office and employment are in line with the compensation policy, and the compensation committee has determined for specified reasons that presenting the matter for shareholder approval would thwart the proposed engagement.

Terms of office and employment of office holders (including the general manager) that are not directors may nonetheless be approved by the company despite shareholder rejection, provided that a company's compensation committee and thereafter the board of directors have determined to approve such terms of office and employment, based on detailed reasoning, after having re-examined the terms of office and employment, and having taken the shareholder rejection into consideration.

Terms of office and employment of directors require approval by the (i) compensation committee; (ii) the board of directors and (iii) the shareholders of the company. Approval of terms of office and employment for directors of a company which do not comply with the compensation policy may nonetheless be approved subject to two cumulative conditions: (i) the compensation committee and thereafter the board of directors, approved the terms after having taken into account the various policy considerations and mandatory requirements set forth in the Companies Law with respect to office holder compensation, and (ii) the shareholders of the company have approved the terms by means of the special majority required for approving the compensation policy (as detailed above).

In addition to approval by a company's board of directors, a private placement in a public company requires approval by a company's shareholders in the following cases:

- A private placement that meets all of the following conditions:
  - 20 percent or more of the voting rights in the company prior to such issuance are being offered;
  - The private placement will increase the relative holdings of a shareholder that holds five percent or more of the company's outstanding share capital (assuming the exercise of all of the securities convertible into shares held by that person), or that will cause any person to become, as a result of the issuance, a holder of five percent or more of the company's outstanding share capital; and
  - All or part of the consideration for the offering is not cash or registered securities, or the private placement is not being offered at market terms.
- A private placement which results in anyone becoming a controlling shareholder.

The above transactions must be for the benefit of the company.

Under the Companies Law, a shareholder has a duty to act in good faith towards the company and other shareholders and refrain from abusing his power in the company, including, among other things, vote in the general meeting of shareholders on the following matters:

- any amendment to the Articles;
- an increase of the company's authorized share capital;
- a merger; or
- approval of interested party transactions that require shareholder approval.

In addition, any controlling shareholder, any shareholder who knows that it possesses power to determine the outcome of a shareholder vote and any shareholder who has the power to appoint or prevent the appointment of an office holder in the company is under a duty to act with fairness towards the company. The Companies Law does not describe the substance of this duty, but provides that laws applicable to a breach of contract, adjusted according to the circumstances shall apply to a breach of such duties. With respect to the obligation to refrain from acting discriminatorily, a shareholder that is discriminated against can petition the court to instruct the company to remove or prevent the discrimination, as well as provide instructions with respect to future actions.

Tender Offer. A person wishing to acquire shares or any class of shares of a publicly traded Israeli company and who would as a result hold over 90% of the company's issued and outstanding share capital or of a class of shares, is required by the Companies Law to make a tender offer to all of the company's shareholders for the purchase of all of the issued and outstanding shares of the company. If the shares represented by the shareholders who did not tender their shares in the tender offer constitute less than 5% of the issued and outstanding share capital of the company, and (following the Amendment Date) more than half of the shareholders without a personal interest in accepting the offer tendered their shares, then all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. If the dissenting shareholders hold more than 5% of the issued and outstanding share capital of the company, the acquirer may not acquire additional shares of the company from shareholders who accepted the tender offer to the extent that following such acquisition the acquirer would then own over 90% of the company's issued and outstanding share capital; provided, however, if the dissenting shareholders constitute less than 2% of the issued and outstanding share capital of the company then the full tender will be accepted and all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. The Companies Law provides for an exception regarding this threshold requirement for a shareholder that on February 1, 2000 held over 90% of the public Israeli company's issued and outstanding share capital. Shareholders may petition the court to alter the consideration for the acquisition, provided, however, and subject to certain exceptions, the terms of the tender offer may state that a shareholder that accepts the offer waives such right.

The Companies Law provides that, subject to certain exceptions, an acquisition of shares of an Israeli public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a holder of 25% or more of the voting rights in the company. This rule does not apply if there is already another shareholder of the company that holds 25% or more of the voting rights in the company. Similarly, the Companies Law provides that, subject to certain exceptions, an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a holder of more than 45% of the voting rights in the company, if there is no shareholder that holds more than 45% of the voting rights in the company.

Merger. The Companies Law permits merger transactions if approved by each party's board of directors and the majority of each party's shares voted on the proposed merger at a shareholders' meeting called on at least 35 days prior notice. Under the Companies Law, merger transactions may be approved by holders of a simple majority of our shares present, in person or by proxy, at a general meeting and voting on the transaction. In determining whether the required majority has approved the merger, if shares of a company are held by the other party to the merger, or by any person holding at least 25% of the outstanding voting shares or 25% of the means of appointing directors of the other party to the merger, then a vote against the merger by holders of the majority of the shares present and voting, excluding shares held by the other party or by such person, or anyone acting on behalf of either of them, is sufficient to reject the merger transaction, provided, however, if the transaction is an extraordinary transaction with a controlling shareholder or in which a controlling shareholder has an interest, then the approvals required will be the corporate approvals under the Companies Law for such extraordinary transaction (i.e. approval of the audit committee, board of directors and shareholders vote, which shareholder approval must either include more than one-half of the shares held by disinterested shareholders who are present, in person or by proxy, at the meeting, or, alternatively, the total shareholdings of the disinterested shareholders who vote against the transaction must not represent more than two percent). If the transaction would have been approved but for the exclusion of the votes of certain shareholders as provided above, a court may still approve the merger upon the request of holders of at least 25% of the voting rights of a company, if the court holds that the merger is fair and reasonable, taking into account the value of the parties to the merger and the consideration offered to the shareholders. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be consummated unless at least 30 days have passed from the receipt of the shareholders' approval and 50 days have passed from the time that a merger proposal has been filed with the Israeli Registrar of Companies.

Companies Law Amendments

As stated above, the Israeli legislature, the Knesset, approved Amendment 16 to the Israeli Companies Law which came into effect during 2011, Amendment 20 which came into effect at the end of 2012, and Amendment 22 which came into effect at the beginning of 2014. The purposes of these amendments to the Companies Law were to revise and enhance existing provisions governing corporate governance practices of Israeli companies, to regulate executive pay in Israeli publicly traded companies and to revise and enhance existing provisions governing approval of executive compensation. The principal provisions set forth in these amendments to the Companies Law are incorporated into the above discussions of the Company. Additional changes to the Companies Law pursuant to these recently passed amendments include:

- Code of Corporate Conduct. A code of recommended corporate governance practices has been attached to the Companies Law. In the explanatory notes to the legislation, the Knesset noted that an "adopt or disclose non-adoption" regulation would be issued by the Israeli Securities Authority with respect to such code. As of the date of this Annual Report, the Israeli Securities Authority has issued reporting instructions with respect to this code which are applicable only to publicly traded companies whose securities are traded solely on the Tel Aviv Stock Exchange and which report solely to the Israeli Securities Authority.

- Fines. The Israeli Securities Authority shall be authorized to impose fines on any person or company performing a violation, in connection with a publicly traded company which reports to the Israeli Securities Authority, and specifically designated as a violation under the Companies Law.

Although we expect to be in compliance with the Companies Law, there is no assurance that we will not be required to adjust our current corporate governance practices, as discussed in this annual report, pursuant to the provisions of the Companies Law and recently passed amendments to the Companies Law.

The Israeli Securities Law- 1968 and the Securities Law Amendment

On February 27, 2011, an amendment to the Israeli Securities Law- 1968 (the "Israeli Securities Law") came into effect (the "Securities Law Amendment"), which applies to Israeli public companies, including companies the securities of which are also listed on NASDAQ Stock Market. The main purpose of the Securities Law Amendment is creating an administrative enforcement procedure to be used by the Israeli Securities Authority ("ISA") to enhance the efficacy of enforcement in the securities market in Israel. The new administrative enforcement procedure may be applied to any company or person (including director, officer or shareholder of a company) performing any of the actions specifically designated as breaches of law under the Securities Law Amendment.

Furthermore, the Securities Law Amendment requires that the chief executive officer of a company supervise and take all reasonable measures to prevent the company or any of its employees from breaching the Israeli Securities Law. The chief executive officers is presumed to have fulfilled such supervisory duty if the company adopts internal enforcement procedures designed to prevent such breaches, appoints a representative to supervise the implementation of such procedures and takes measures to correct the breach and prevent its reoccurrence.

Under the Securities Law Amendment, a company cannot obtain insurance against or indemnify a third party (including its officers and/or employees) for any administrative procedure and/or monetary fine (other than for payment of damages to an injured party). The Securities Law Amendment permits insurance and/or indemnification for certain expenses related to an administrative procedure, such as reasonable legal fees, provided that it is permitted under the company's articles of association. In June 2011 each of our Audit Committee and Board of Directors approved a new form of Indemnification Agreement with our directors and officers so as to reflect this amendment, subject to approval of our shareholders to the relevant changes required to our Articles of Association. Our shareholders approved these amendments to the Articles of Association and a revised form of Indemnification Agreement for directors at the Annual General Meeting of the Shareholders held on August 11, 2011. As per the recently enacted Amendment 20 to the Companies Law, it was decided on September 3, 2013, at the Special General Meeting of the Shareholders to adopt the Compensation Policy of the Company, which had been recommended by our Compensation Committee and approved by or Board of Directors. Our approved Compensation Policy state that we shall indemnify our directors and executive officers to the fullest extent permitted by applicable law, for any liability and expense that may be imposed on the executive officer, as provided in the exemption and indemnification agreement between such individuals and the Company, all subject to applicable law.

We continue to examine the implications of the Securities Law Amendment; however, its effect and consequences, as well as our scope of exposure, are yet to be entirely determined in practice. There is no assurance that we will not be required to take certain actions in order to enhance our compliance with the provisions of the Securities Law Amendment, such as adopting and implementing an internal enforcement plan to reduce our exposure to potential breaches of the Israeli Securities Law.

NASDAQ Marketplace Rules and Home Country Practices

As permitted by the NASDAQ Listing Rule 5615(a)(3) in lieu of certain corporate governance requirements we have chosen to follow the practices of our home country with respect to the following:

- We do not supply an annual report but make our audited financial statements available to our shareholders prior to our annual general meeting.

- The majority of our Board of Directors is not comprised of directors who meet the definition of independence contained in the NASDAQ Listing Rules. Under the Companies Law a majority of the Board of Directors is not required to be comprised of independent directors. In keeping with the requirements of the Companies Law two of the members of our Board of Directors are external directors, and are independent as defined under Rule 10A-3 of the Securities Act.

- Our Board has not adopted a policy of conducting regularly scheduled meetings at which only our independent directors are present. The Companies Law does not require our external directors to conduct regularly scheduled meetings at which only they are present.

- We follow the provisions of the Israeli Companies Law with respect to matters in connection with the composition and responsibilities of our compensation committee, office holder compensation, and any required approval by the shareholders of such compensation. Israeli law, and our amended and restated articles of association, do not require that a compensation committee composed solely of independent members of our board of directors determine (or recommend to the board of directors for determination) an executive officer's compensation, as required under NASDAQ's recently adopted listing standards related to compensation committee independence and responsibilities; nor do they require that the Company adopt and file a compensation committee charter. Instead, our compensation committee has been established and conducts itself in accordance with provisions governing the composition of and the responsibilities of a compensation committee as set forth in the Israeli Companies Law. Furthermore, the compensation of our chief executive officer and all other executive officers is not determined, or recommended to the Board for determination, in the manner required by the NASDAQ Listing Rules. In accord with the Companies Law the compensation of directors, the chief executive officer and all other officers requires the approval of our Compensation Committee and Board of Directors, and under circumstances as detailed in this annual report also requires the approval of our shareholders. Such compensation will either be in consistency with our previously approved Compensation Policy or, in special circumstances in deviation therefrom, taking into account certain considerations set forth in the Israeli Companies Law. Thus, we will seek shareholder approval for all corporate actions with respect to office holder compensation requiring such approval under the requirements of the Israeli Companies Law, including seeking prior approval of the shareholders for the Compensation Policy and for certain office holder compensation, rather than seeking approval for such corporate actions in accordance with NASDAQ Listing Rules.

- Director nominees are not selected, or recommended for the Board's selection, as required by the NASDAQ Listing Rules. With the exception of our external directors, our directors are elected for terms of one year or until the following annual meeting, by a general meeting of our shareholders. The nominations for director which are presented to our shareholders are generally made by our board of directors. According to the Companies Law, one or more shareholders of a company holding at least one percent of the voting power of the company may nominate a currently serving external director for an additional three year term.

- Israeli law does not require the adoption of and our Board of Directors has not adopted a formal written charter or board resolution addressing the nomination process and such related matters as may be required under United States federal securities laws, as required by the NASDAQ Listing Rules.

- Although we have adopted a formal written audit committee charter, there is no requirement under the Companies Law to do so and the charter as adopted may not specify all the items enumerated in the NASDAQ Listing Rule 5605(c)(1).

- Although we have adopted a formal written compensation committee charter, there is no requirement under the Companies Law to do so and the charter as adopted may not specify all the items enumerated in the NASDAQ Listing Rule 5605(d)(1).

- Our audit committee does not meet with all of the requirements of the NASDAQ Marketplace Rules, as permitted by the Companies Law though all members are independent as such term is defined under Rule 10A-3 of the Exchange Act.

- Under Israeli law a company is entitled to determine in its articles of association the number of shareholders and percentage of holdings required for a quorum at a shareholders meeting. Our articles of association do not provide for a quorum of not less than 33 1/3% of the outstanding shares of our voting ordinary shares for meetings of our ordinary shareholders, as required by the NASDAQ Listing Rules. Our articles of association presently require a quorum consisting of two shareholders holding a combined 33% of our ordinary shares.

- We review and approve all related party transactions in accordance with the requirements and procedures for approval of interested party acts and transactions, set forth in sections 268 to 275 the Companies Law, which do not fully reflect the requirements of the NASDAQ Listing Rules.

- We seek shareholder approval for all corporate action requiring such approval, in accordance with the requirements of the Companies Law, which does not fully reflect the requirements of the NASDAQ Listing Rules.

- We do not necessarily seek shareholder approval for the establishment of, and amendments to, stock option or equity compensation plans (as set forth in NASDAQ Listing Rule 5635(c)), as such matters are not subject to shareholder approval under Israeli law. We will attempt to seek shareholder approval for our stock option or equity compensation plans (and the relevant annexes thereto) to the extent required in order to ensure they are tax qualified for our employees in the United States. However, even if such approval is not received, then the stock option or equity compensation plans will continue to be in effect, but the Company will be unable to grant options to its U.S. employees that qualify as Incentive Stock Options for U.S. federal tax purpose. Our stock option or other equity compensation plans are also available to our non-U.S. employees, and provide features necessary to comply with applicable non-U.S. tax laws.

Material Contracts

For information regarding material contracts see Notes 3, 8, 12, 13, 15, 16 and 17 to our consolidated financial statements for the year ended December 31, 2013 and the agreements described under the caption "Item 5. Operating and Financial Review and Prospects - B. Liquidity and Capital Resources".

TPSC Agreements

In December 2013, we signed a definitive agreement with Panasonic to create a new company in Japan to manufacture products for Panasonic and potentially other third parties, using Panasonic's three semiconductor manufacturing facilities (Uozu E, Tonami CD and Arai E) in Hokuriku, Japan.

In accordance with said agreement, upon closing the transaction in March 2014, Panasonic transferred its semiconductor wafer manufacturing process and 8 inch and 12 inch capacity tools at its three fabs (Uozu E, Tonami CD and Arai E) to the joint venture company (TPSC), and entered into a manufacturing agreement for a period of at least five years of volume production. We received 51% of the shares of TPSC (with Panasonic holding the remaining shares), and as consideration for our 51% equity holding in the JV, at the closing of the transaction, we issued to Panasonic 870,454 of our ordinary shares valued at approximately $7.5 million.

Several agreements were signed between Tower and/or TPSC and Panasonic.

A shareholders' agreement was signed by Tower and Panasonic, stating, among others, that Panasonic understands that the number of products to be manufactured for Panasonic by TPSC will not be less than the minimum number of Panasonic products to be ordered by Panasonic per month as set forth in the agreement.

A manufacturing agreement was entered into between Panasonic and TPSC which sets forth the terms under which TPSC shall operate its fabs and manufacture semiconductor device wafer products for Panasonic. Panasonic will order such products by providing TPSC with a six month rolling forecast. The quantities set forth in such forecast shall be fully binding with respect to specific lead times (determined per each category of products). Panasonic will pay for such products (provided they meet specified yield rates) based on the pricing specified in the agreement. The initial term of the manufacturing agreement is five years and thereafter it will renew for consecutive one year periods unless written notice is received terminating the agreement.

An intellectual property license agreement was entered into between Panasonic and TPSC, to which Tower is a third party beneficiary, sets forth the terms pursuant to which Panasonic granted TPSC a license to use Panasonic's intellectual property rights to manufacture products for Panasonic and other third parties during the term of the agreement. The license to manufacture products for Panasonic is royalty free while TPSC is required to pay royalties pursuant to the license agreement when manufacturing products for third parties. Under the terms of the agreement, TPSC is allowed to sublicense the licenses granted to Tower and other third parties, subject in certain cases to the prior written consent of Panasonic, and subject to payment of royalties. The initial term of the agreement shall be for five years and may be extended with the parties' consent.

A business transfer agreement was entered into between Panasonic and TPSC designates the mechanism and process pursuant to which Panasonic assigned and transferred the joint venture assets, including the three fabrication facilities and their underlying assets, to TPSC.

Financing Contracts according to which TPSC received 8.8 billion JPY of loans from Panasonic were entered; see Item 5. Operating and financial review and prospects -5.D. Trend Information.

In addition to, and in connection with such transactions, additional ancillary agreements were entered into at the closing between Panasonic, TPSC and/or Tower.

Exchange Controls

Under Israeli law, non-residents of Israel who purchase ordinary shares with certain non-Israeli currencies (including US dollars) may freely repatriate in such non-Israeli currencies all amounts received in Israeli currency in respect of the ordinary shares, whether as a dividend, as a liquidating distribution, or as proceeds from any sale in Israel of the ordinary shares, provided in each case that any applicable Israeli income tax is paid or withheld on such amounts. The conversion into the non-Israeli currency must be made at the rate of exchange prevailing at the time of conversion.

There are currently no Israeli currency control restrictions on remittances of dividends on our ordinary shares, proceeds from the sale of the shares or interest or other payments to non-residents of Israel, except under certain circumstances, for shareholders who are subjects of countries that are, or have been, in a state of war with Israel.

Taxation

The below discussion does not purport to be an official interpretation of the tax law provisions mentioned therein or to be a comprehensive description of all tax law provisions which might apply to our securities or to reflect the views of the relevant tax authorities, and it is not meant to replace professional advice in these matters. The below discussion is based on current, applicable tax law, which may be changed by future legislation or reforms. Non-residents should obtain professional tax advice with respect to the tax consequences of holding or selling our securities under the laws of their countries of residence of holding or selling our securities.

Israeli Taxation

An individual is subject to a tax at a rate of 25% on real capital gains derived from the sale of shares, as long as the individual is not a "substantial shareholder" (generally a shareholder with 10% or more of the right to profits, right to nominate a director or voting rights) in the company issuing the shares.

An individual who is a substantial shareholder is subject to tax at a rate of 30% in respect of real capital gains derived from the sale of shares issued by the company in which he or she is a substantial shareholder. The determination of whether the individual is a substantial shareholder will be made on the date that the securities are sold. In addition, the individual will be deemed to be a substantial shareholder if at any time during the 12 months preceding this date he or she had been a substantial shareholder.

Corporations are subject to corporate tax with respect to total income, including capital gains, at a rate of 26.5%.

Non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares in an Israeli corporation publicly traded on the TASE and/or on a foreign stock exchange, provided such gains do not derive from a permanent establishment of such shareholders in Israel and that such shareholders did not acquire their shares prior to the issuer's initial public offering. However, non-Israeli corporations will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of more than 25% in such non-Israeli corporation, or (ii) is the beneficiary of or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In some instances where our shareholders may be liable to Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to Israeli withholding tax.

Israeli Tax on Interest Income and on Original Issuance Discount

Interest and Original Issuance Discount (OID) on our debentures are, in general, subject to Israeli tax of up to 25% (which would be withheld at source) if received by an individual. However, tax at the marginal rate (up to 48%) applies:

a. if the interest and OID are business income in the hands of the recipient,

b. if the interest is recorded or should be recorded in the individual's accounting books,

c. if the recipient is a substantial shareholder of our company,

d. if financing expenses related to the purchase of the debentures were deducted by the individual in the calculation of the individual's Israeli taxable income, or

e. if the individual is an employee, supplier, or service provider of the company and the tax authorities have not been persuaded that the payment of interest was not affected by the relationship between the parties.

Interest and OID paid on our debentures to Israeli corporations will, in general, be subject to withholding tax at a rate of 26.5%.

Interest and OID paid on our debentures to non-Israeli residents may be subject to lower withholding tax in an applicable tax treaty. For example, under the US-Israel Tax Treaty, the maximum Israeli tax withheld on interest and OID paid to a US resident (other than a US bank, savings institution or company or with respect to payments attributed to a permanent establishment in Israel) is 17.5%.

Interest, OID or inflation linkage differentials paid to a non-Israeli resident which does not have a permanent establishment in Israel, on debentures issued by an Israeli corporation and which are traded on the TASE, are generally exempt from taxes in Israel. However, this exemption from taxes will not apply (and consequently tax will be withheld at source at a rate of 25%, unless a lower rate applies according to a relevant tax treaty):

a. if the recipient is a substantial shareholder of the corporation,

b. if the recipient is an affiliate of the issuer of the debentures, or

c. if the individual is an employee, supplier, or service provider of the company and the tax authorities have not been persuaded that the Payment was not affected by the relationship between the parties.

Israeli Tax on Dividend Income

On distributions of dividends other than bonus shares, or stock dividends, to Israeli and non-Israeli resident individuals and non-Israeli resident corporations we would be required to withhold income tax at the rate of 25% (or 30% if such non-Israeli resident individual is a "substantial shareholder" at the time receiving the dividend or on any date in the 12 months preceding such date). If the income out of which the dividend is being paid is attributable to a privileged Enterprise or Preferred Enterprise under the Law for the Encouragement of Capital Investments, 1959 ("**the Investment Law**"), the rate is generally not more than 20%. A different rate may be provided for in an applicable tax treaty.

Under the US-Israel Tax Treaty, Israeli withholding tax on dividends paid to a US resident may not, in general, exceed 25%, or 15% in the case of dividends paid out of the profits of a corporation entitled to the benefits of the Investment Law , subject to certain conditions. Where the recipient is a US corporation owning 10% or more of the voting stock of the paying corporation and the dividend is not paid from the profits of a corporation entitled to the benefits of the Investment Law , the Israeli tax withheld may not exceed 12.5%, subject to certain conditions.

Significant changes to the Investment Law

Effective January 1, 2011 significant changes have been made to the Investment Law, which revamped the tax incentive regime in Israel. The main changes are, inter alia, as follows:

- Industrial companies meeting the criteria set out by the Investment Law for a "Preferred Income" of a "Preferred Enterprise" (as defined below) will be eligible for flat tax rates of 9% or 16% as of 2014, with the actual tax rates determined by the location of the enterprise. The tax incentives offered by the Investment Law are no longer dependant neither on minimum qualified investments nor on foreign ownership.

- A company can enjoy both government grants and tax benefits concurrently. Governmental grants will not necessarily be dependent on the extent of enterprise's investment in assets and/or equipment. The approval of "Preferred Enterprise" status by either the Israeli Tax Authorities or the Investment Center will be accepted by the other. Therefore a Preferred Enterprise will be eligible to receive both tax incentives and government grants, under certain conditions.

- Under the transition provisions, any tax benefits obtained prior to 2011 shall continue to apply until expired, unless the company elects to apply the provisions of the new provisions to its income.

"Preferred Income" is defined as income from a preferred enterprise, as specified below, all less discounts granted, with the condition that the income was produced or arose in the course of the enterprise's ordinary activity: income from the sale of products of the Preferred Enterprise (including components that were produced by other enterprises); income from the sale of semiconductors by other non related enterprises which use the Preferred Enterprise's self-developed know-how; income for providing a right to use the Preferred Enterprise's know how or software; royalties from the use of the know-how or software which was confirmed by the Head of The Investment Center to be related to the production activity of the Preferred Enterprise and services with respect to the aforementioned sales. In addition, the definition of "Preferred Income" also includes income from the provision of industrial R&D services to foreign residents to the extent that the services were approved by the Head of Research for the Industrial Development and Administration.

A "Preferred Enterprise" is defined as an Industrial Enterprise (including, inter alia, an enterprise which develops software, an enterprise which provides approved R&D services to foreign residents and an enterprise which the Chief Scientist confirmed is carrying out R&D in the field of alternative energy), which generally more than 25% of its business income is from export. As mentioned above, the new tax incentives no longer depend on minimum qualified investments nor on foreign ownership.

The Investment Law also determines the conditions and limitations applying to the tax benefits offered to a "Special Preferred Enterprise" (as defined below). A "Special Preferred Enterprise" will be able to enjoy corporate income tax rate in a rate of 5% if located in a preferred zone and 8% if not located in a preferred zone.

A "Special Preferred Enterprise" is defined as a Preferred Enterprise which meets all of the following conditions, during the relevant tax year: (a) its Preferred Income is equal to or exceeds NIS 1.5 billion; (b) the total income of the company which owns the Preferred Enterprise or which operates in the same field of the Preferred Enterprise and which consolidates in its financial reports the company that owns the Preferred Enterprise equals or exceeds NIS 20 billions; and (c) its business plan was approved by the authorities as significantly benefitting the Israeli economy, either by an investment of at least NIS 400 - 800 million in assets; 100 -150 million NIS in R&D or the employment of at least 250 to 500 new employees, for preferred zones and regular zones, respectively.

Dividends paid out of income attributed to a Preferred Enterprise are generally subject to withholding tax at source at a rate of 20% or such lower rate as may be provided in an applicable tax treaty upon a request submitted by the recipient of such dividends. However, if such dividends are paid to an Israeli company no tax will be withheld. Such an exemption may apply under the transition rules also to dividends distributed to an Israeli company by an Israeli company which owns a an Approved Enterprise or a Benefited Enterprise and which elected to convert to the new law until 30 June 2015 (in respect to their existing programs).

U.S. Federal Income Tax Considerations

The following discussion is a description of the material U.S. federal income tax considerations applicable to an investment in the ordinary shares by U.S. Holders who acquire our ordinary shares and hold them as capital assets for U.S. federal income tax purposes. As used in this section, the term "U.S. Holder" means a beneficial owner of an ordinary share who is:

- an individual citizen or resident of the United States;
- a corporation created or organized in or under the laws of the United States or of any state of the United States or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if the trust has elected validly to be treated as a United States person for U.S. federal income tax purposes or if a U.S. court is able to exercise primary supervision over the trust's administration and one or more United States persons have the authority to control all of the trust's substantial decisions.

The term "Non-U.S. Holder" means a beneficial owner of an ordinary share who is not a U.S. Holder. The tax consequences to a Non-U.S. Holder may differ substantially from the tax consequences to a U.S. Holder. Certain aspects of U.S. federal income tax relevant to a Non-U.S. Holder also are discussed below.

This description is based on provisions of the U.S. Internal Revenue Code of 1986, as amended, referred to in this discussion as the Code, existing and proposed U.S. Treasury regulations and administrative and judicial interpretations, each as available and in effect as of the date of this annual report. These sources may change, possibly with retroactive effect, and are open to differing interpretations. This description does not discuss all aspects of U.S. federal income taxation that may be applicable to investors in light of their particular circumstances or to investors who are subject to special treatment under U.S. federal income tax law, including:

- insurance companies;
- dealers in stocks, securities or currencies;
- financial institutions and financial services entities;
- real estate investment trusts;
- regulated investment companies;
- persons that receive ordinary shares as compensation for the performance of services;
- tax-exempt organizations;
- persons that hold ordinary shares as a position in a straddle or as part of a hedging, conversion or other integrated instrument;
- individual retirement and other tax-deferred accounts;
- expatriates of the United States;
- persons (other than Non-U.S. Holders) having a functional currency other than the U.S. dollar; and
- direct, indirect or constructive owners of 10% or more, by voting power or value, of us.

This discussion also does not consider the tax treatment of persons or partnerships that hold ordinary shares through a partnership or other pass-through entity or the possible application of United States federal gift or estate tax or alternative minimum tax.

We urge you to consult with your own tax advisor regarding the tax consequences of investing in the ordinary shares, including the effects of federal, state, local, foreign and other tax laws.

Distributions Paid on the Ordinary Shares

Subject to the discussion below under "PFIC Rules," a U.S. Holder generally will be required to include in gross income as ordinary dividend income the amount of any distributions paid on the ordinary shares, including the amount of any Israeli taxes withheld, to the extent that those distributions are paid out of our current or accumulated earnings and profits as determined for U.S. federal income tax purposes. Subject to the discussion below under "PFIC Rules" distributions in excess of our earnings and profits will be applied against and will reduce the U.S. Holder's tax basis in its ordinary shares and, to the extent they exceed that tax basis, will be treated as gain from a sale or exchange of those ordinary shares. Our dividends will not qualify for the dividends-received deduction applicable in some cases to U.S. corporations. Dividends paid in NIS, including the amount of any Israeli taxes withheld, will be includible in the income of a U.S. Holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date they are included in income by the U.S. Holder, regardless of whether the payment in fact is converted into U.S. dollars. Any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend is includible in the income of the U.S. Holder to the date that payment is converted into U.S. dollars generally will be treated as ordinary income or loss.

A non-corporate U.S. holder's "qualified dividend income" is subject to tax at reduced rates not exceeding 20 % for tax years beginning 2012 (15% for 2011 and prior years) . For this purpose, "qualified dividend income" generally includes dividends paid by a foreign corporation if either:

(a) the stock of that corporation with respect to which the dividends are paid is readily tradable on an established securities market in the U.S., or

(b) that corporation is eligible for benefits of a comprehensive income tax treaty with the U.S. which includes an information exchange program and is determined to be satisfactory by the U.S. Secretary of the Treasury. The Internal Revenue Service has determined that the U.S.-Israel Tax Treaty is satisfactory for this purpose.

In addition, under current law a U.S. Holder must generally hold his ordinary shares for more than 60 days during the 121 day period beginning 60 days prior to the ex-dividend date, and meet other holding period requirements for qualified dividend income.

Dividends paid by a foreign corporation will not qualify for the reduced rates, if the dividend is paid in a tax year of the recipient beginning after December 31, 2002, unless such corporation is treated, for the tax year in which the dividend is paid or the preceding tax year, as a "passive foreign investment company" for U.S. federal income tax purposes. We do not believe that we will be classified as a "passive foreign investment company" for U.S. federal income tax purposes for our current taxable year. However, see the discussion under "PFIC Rules" below.

Subject to the discussion below under "Information Reporting and Back-up Withholding," a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on dividends received on ordinary shares unless that income is effectively connected with the conduct by that Non-U.S. Holder of a trade or business in the United States.

Foreign Tax Credit

Any dividend income resulting from distributions we pay to a U.S. Holder with respect to the ordinary shares generally will be treated as foreign source income for U.S. foreign tax credit purposes, which may be relevant in calculating such holder's foreign tax credit limitation. Subject to certain conditions and limitations, Israeli tax withheld on dividends may be deducted from taxable income or credited against a U.S. Holder's U.S. federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. The rules relating to the determination of foreign source income and the foreign tax credit are complex, and the availability of a foreign tax credit depends on numerous factors. Each prospective purchaser who would be a U.S. Holder should consult with its own tax advisor to determine whether its income with respect to the ordinary shares would be foreign source income and whether and to what extent that purchaser would be entitled to the credit.

Disposition of Ordinary Shares

Upon the sale or other disposition of ordinary shares, subject to the discussion below under "PFIC Rules" a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized on the disposition and the holder's adjusted tax basis in the ordinary shares. U.S. Holders should consult their own advisors with respect to the tax consequences of the receipt of a currency other than U.S. dollars upon such sale or other disposition.

In the event there is an Israeli income tax on gain from the disposition of ordinary shares, such tax should generally be the type of tax that is creditable for U.S. tax purposes; however, because it is likely that the source of any such gain would be a U.S. source, a U.S. foreign tax credit may not be available. U.S. shareholders should consult their own tax advisors regarding the ability to claim such credit.

Gain or loss upon the disposition of the ordinary shares will be treated as long-term if, at the time of the sale or disposition, the ordinary shares were held for more than one year. Long-term capital gains realized by non-corporate U.S. Holders are generally subject to a lower marginal U.S. federal income tax rate than ordinary income, other than qualified dividend income, as defined above. The deductibility of capital losses by a U.S. Holder is subject to limitations. In general, any gain or loss recognized by a U.S. Holder on the sale or other disposition of ordinary shares will be U.S. source income or loss for U.S. foreign tax credit purposes. U.S. Holders should consult their own tax advisors concerning the source of income for U.S. foreign tax credit purposes and the effect of the U.S.-Israel Tax Treaty on the source of income.

Subject to the discussion below under "Information Reporting and Back-up Withholding", a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale or exchange of ordinary shares unless:

- that gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States, or
- in the case of any gain realized by an individual Non-U.S. Holder, that holder is present in the United States for 183 days or more in the taxable year of the sale or exchange, and other conditions are met.

Information Reporting and Back-up Withholding

Holders generally will be subject to information reporting requirements with respect to dividends paid in the United States on ordinary shares. In addition, Holders will be subject to back-up withholding tax on dividends paid in the United States on ordinary shares unless the holder provides an IRS certification or otherwise establishes an exemption. Holders will be subject to information reporting and back-up withholding tax on proceeds paid within the United States from the disposition of ordinary shares unless the holder provides an IRS certification or otherwise establishes an exemption. Information reporting and back-up withholding may also apply to dividends and proceeds paid outside the United States that are paid by certain "U.S. payors" or "U.S. middlemen," as defined in the applicable Treasury regulations, including:

(1) a U.S. person;

(2) the government of the U.S. or the government of any state or political subdivision of any state (or any agency or instrumentality of any of these governmental units);

(3) a controlled foreign corporation;

(4) a foreign partnership that is either engaged in a U.S. trade or business or whose Untied States partners in the aggregate hold more than 50% of the income or capital interests in the partnership;

(5) a foreign person that derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the U.S.; or

(6) a U.S. branch of a foreign bank or insurance company.

The back-up withholding tax rate is 28%. Back-up withholding and information reporting will not apply to payments made to Non-U. S. Holders if they have provided the required certification that they are not United States persons.

In the case of payments by a payor or middleman to a foreign simple trust, foreign grantor trust or foreign partnership, other than payments to a holder that qualifies as a withholding foreign trust or a withholding foreign partnership within the meaning of the Treasury regulations and payments that are effectively connected with the conduct of a trade or business in the United States, the beneficiaries of the foreign simple trust, the person treated as the owner of the foreign grantor trust or the partners of the foreign partnership will be required to provide the certification discussed above in order to establish an exemption from backup withholding tax and information reporting requirements.

The amount of any back-up withholding may be allowed as a credit against a U.S. Holder's U.S. federal income tax liability and may entitle the holder to a refund, provided that required information is furnished to the IRS.

PFIC Rules

A non-US corporation will be classified as a passive foreign investment company, or a PFIC, for US federal income tax purposes if either (i) 75% or more of its gross income for the taxable year is passive income, or (ii) on a quarterly average for the taxable year by value (or, if it is not a publicly traded corporation and so elects, by adjusted basis), 50% or more of its gross assets produce or are held for the production of passive income.

We do not believe that we satisfied either of the tests for PFIC status in 2012 or in any prior year. However, there can be no assurance that we will not be a PFIC in 2013 or a later year. If, for example, the "passive income" earned by us exceeds 75% or more of our "gross income", we will be a PFIC under the "income test". Passive income for PFIC purposes includes, among other things, gross interest, dividends, royalties, rent and annuities. For manufacturing businesses, gross income for PFIC purposes should be determined by reducing total sales by the cost of goods sold. Although not free from doubt, if our cost of goods sold exceeds our total sales by an amount greater than our passive income, such that we are treated as if we had no gross income for PFIC purposes, we believe that we would not be a PFIC as a result of the income test. However, the tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of future income and assets, which are relevant to the determination of PFIC status.

If we were to be a PFIC at any time during a US holder's holding period, such US holder would be required to either: (i) pay an interest charge together with tax calculated at maximum ordinary income tax rates on "excess distributions," which is defined to include gain on a sale or other disposition of ordinary shares, or (ii) so long as the ordinary shares are "regularly traded" on a qualifying exchange, elect to recognize as ordinary income each year the excess in the fair market value, if any, of its ordinary shares at the end of the taxable year over such holder's adjusted basis in such ordinary shares and, to the extent of prior inclusions of ordinary income, recognize ordinary loss for the decrease in value of such ordinary shares (the "mark to market" election). For this purpose, the NASDAQ Capital Market is a qualifying exchange. US holders are strongly urged to consult their own tax advisers regarding the possible application and consequences of the PFIC rules.

Documents on Display

We are required to file reports and other information with the SEC under the Securities Exchange Act of 1934 and the regulations thereunder applicable to foreign private issuers. Reports and other information filed by us with the SEC may be inspected and copied at the SEC's public reference facilities described below. Although as a foreign private issuer we are not required to file periodic information as frequently or as promptly as United States companies, we generally do publicly announce our quarterly and year-end results promptly and file periodic information with the SEC under cover of Form 6-K. As a foreign private issuer, we are also exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements and our officers, directors and principal shareholders are exempt from the reporting and other provisions in Section 16 of the Exchange Act.

You may review and copy our filings with the SEC, including any exhibits and schedules, at the SEC's public reference room at 100 F Street N.E., Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 for further information on this public reference room. As a foreign private issuer, all documents which were filed after November 4, 2002 on the SEC's EDGAR system will be available for retrieval on the SEC's website at www.sec.gov. These SEC filings are also available to the public on the Israel Securities Authority's Magna website at www.magna.isa.gov.il, the Tel Aviv Stock Exchange website at http://www.maya.tase.co.il, and from commercial document retrieval services. We also generally make available on our own web site (www.towerjazz.com) our quarterly and year-end financial statements as well as other information. We do not intend for any information contained on our website to be considered part of this annual report, and we have included our website address in this annual report solely as an inactive textual reference. We will post on our website any materials required to be posted on such website under applicable corporate or securities laws and regulations, including posting any XBRL interactive financial data required to be filed with the SEC, and any notices of general meetings of our shareholders.

Any statement in this annual report about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to a registration statement, the contract or document is deemed to modify the description contained in this annual report. We urge you to review the exhibits themselves for a complete description of the contract or document.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk of Interest Rate Fluctuation

We are subject to interest rate exposure (i) in connection with $131 million debt outstanding as of December 31, 2013 under the Tower amended facility agreement, as such debt bears interest at a rate of the USD LIBOR plus 3.5% per annum, and (ii) in connection with the $19 million of Jazz's long-term bank loans as such debt bears interest at a rate equal to, at the borrowers' option, either the lender's prime rate plus a margin ranging from 0.50% to 1.0% or the USD LIBOR rate (as defined in such loan agreement) plus a margin ranging from 1.75% to 2.25% per annum. We were subject to interest rate exposure in connection with the $11 million GE loan as such debt carried, until we repaid such loan in January 2014, an interest rate of the higher of the TIBOR rate or the LIBOR rate plus 2.6% per annum.

Under current terms of Tower, Jazz and TJP loans, we have determined that an assumed 10% upward shift in the USD LIBOR rate at December 31, 2013 (from 0.25% to 0.275%), will not have a material effect on our yearly interest payments in 2014.

Our cash equivalents and interest-bearing deposits are exposed to market risk due to fluctuation in interest rates, which may affect our interest income and the fair market value of our deposits investments. We manage this exposure by performing ongoing evaluations of our investments in those deposits. Due to the short maturities of our investments, their carrying value approximates their fair value.

We have market risk exposure to changes in interest rates on our debt obligations with floating interest rates. We have entered into debt obligations to support our capital expenditures and needs. From time to time we enter into interest rate collar agreements to modify our exposure to interest rate movements and to reduce our borrowing costs. These agreements limit our exposure to the risks of fluctuating interest rates by allowing us to convert a portion of the interest on our borrowings from a variable rate to a limited variable rate. As of December 31, 2013, we had no such open transactions.

Foreign Exchange Risk

We are exposed to the risk of fluctuation in the NIS/US dollar exchange rate with respect to Tower's debentures issued in 2007. As of December 31, 2013 the outstanding principal amount of these debentures Series D was $20 million. The dollar amount of our financing costs (interest and currency adjustments) related to these debentures will be increased if the rate of inflation in Israel is not offset by the devaluation of the NIS in relation to the dollar. In addition, the dollar amount of any repayment on account of the principal of these debentures will be increased as well.

From the date of the issuance of the 2007 debentures in the second half of 2007 until December 31, 2013, the Israel consumer price index increased by approximately 21% and the US dollar/NIS exchange rate decreased by approximately 20%.

We were exposed to the risk of fluctuation in the Japanese Yen /US dollar exchange rate with respect to the $11 million loan of TowerJazz Japan from GE denominated in JPY until we repaid such loan in January 2014.

Series F debentures issued in 2010 and 2012, are fully linked to the USD, bear annual interest at the rate of 7.8%, and are due in two equal installments in December 2015 and December 2016. The 2010 Notes issued by Jazz are denominated in USD, bear interest at a rate of 8% per annum payable twice a year, maturing in June 2015.

Therefore, we are not subject to cash flow exposure to interest rate fluctuations with respect to the debentures or notes. However, in the event that the actual market interest rates are lower than the interest rate provided under the debentures or notes, our actual finance costs would be higher than they otherwise could have been had our debentures or notes provided for interest at a floating interest rate.

Our main foreign currency exposures other than debentures are associated with exchange rate movements of the US dollar, our functional and reporting currency, against the NIS, Japanese Yen and the Euro.

In order to mitigate portion of our exposure to the risk of fluctuations in the NIS/US dollar exchange rate with respect to our NIS denominated expenses, mainly payroll, Tower entered into exchange rate agreements. The maturity dates of the agreements coincide with our scheduled NIS payments.

The realized profit from these transactions for the year ended December 31, 2013 was recorded in the statements of operations. As of December 31, 2013, Tower had $4.5 million open exchange rate agreements which will expire throughout 2014. The unrealized gain/loss from these transactions was recorded to other comprehensive income. We are exposed to currency risk in the event of default by the other parties of the exchange transaction. We estimate the likelihood of such default to occur is remote, as the other parties are widely recognized and reputable.

Assuming a 10% revaluation of the NIS against the US dollar on December 31, 2013 (from 3.471 to 3.12), the effective fair value of our liabilities net of assets denominated in NIS (mainly vendors, debentures and liabilities in regard to employees) would be higher by approximately $5million.

Impact of Inflation

We believe that the rate of inflation in Israel has had a minor effect on our business to date. However, our dollar costs in Israel will increase if inflation in Israel exceeds the devaluation of the NIS against the US dollar.

Risks Related to Obligations Indexed to our Own Securities.

Under US GAAP, certain of our obligations (including warrants to issue shares), convertible into our ordinary shares, are not part of our shareholders' equity and are either carried at fair value in its entirety or its equity component is carried at fair value. The effect of carrying such obligations at fair value is that the value of the obligations increases as our share price increases. This may increase significantly our non-cash financing expenses, which may cause our potential gross and operating profits to result in a net loss or may increase our net loss or reduce our net profits; This non-cash appreciation in our obligations and financing expenses will either eventually be reversed or be converted into equity, or a combination thereto. As for December 31, 2013 immaterial amount of our warrants were carried at fair value.

In addition under US GAAP our Israeli banks loans are carried at fair market value based on the prevailing market yields of our securities and based on other similar securities yields available to us. Increase in the yields of our debt securities and other similar securities yield can result in non-cash financing income and vis-versa in case of decrease in the prevailing market yield of our debt securities.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Act") as of the end of the period covered by this annual report on Form 20-F. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of such date, at a reasonable level of assurance, in ensuring that the information required to be disclosed by our company in the reports we file or submit under the Act is (i) accumulated and communicated to our management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2013.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Attestation Report of the Registered Public Accounting Firm.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by Brightman Almagor Zohar & Co., a member firm of Deloitte Touche Tohmatsu, an independent registered public accounting firm, as stated in their report which appears herein.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that a member of our audit committee, Mr. Ilan Flato, is an audit committee financial expert under applicable SEC rules and is independent as defined by NASDAQ Marketplace Rules.

ITEM 16B. CODE OF ETHICS

We adopted a code of ethics that applies to all of our directors, officers and employees, including our Chief Executive Officer, Chief Financial Officer, controller, and persons performing similar functions. We have posted our code of ethics on our website, www.towerjazz.com under "About Tower".

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents payments fees for professional services rendered by our independent registered public accounting firm for audit services, audit-related services and for tax services:

	2013	2012
	(US Dollars In Thousands)	
Audit fees (1)	561	600
Audit Related Fees (2)	12	17
Tax fees (3)	53	76
	626	693

(1) Audit fees consist of fees for professional services rendered for the audit of our financial statements, services in connection with statutory and regulatory filings and engagements (including review of SEC filings and SOX compliance), and reviews of our unaudited interim consolidated financial statements included in our quarterly reports.

(2) Audit-related fees consist of assurance and related services that traditionally are performed by the independent accountant. These services include, among others: due diligence services, accounting consultations and audits in connection with acquisitions, internal control reviews, attest services related to financial reporting that are not required by statute or regulation and consultation concerning financial accounting and reporting standards.

(3) Tax fees consist of fees for tax compliance services.

Our audit committee's charter states that the audit committee is responsible for receiving specific information on the independent auditor's proposed services and for pre-approving all audit services annually and separately approving any other permitted non-audit related services. All of the non-audit services were pre-approved without reliance on the Waiver Provisions in paragraph (c)(7)(i)(C)of Regulation S-X.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.

Not Applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.

Not Applicable.

ITEM 16F CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

As a foreign private issuer whose shares are listed on NASDAQ Capital Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Marketplace Rules. See Item 10.B "Additional Information – NASDAQ Marketplace Rules and Home Country Practices" for a detailed description of the significant ways in which the registrant's corporate governance practices differ from those followed by U.S. companies under the listing standards of the NASDAQ Capital Market.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

Our consolidated financial statements and related auditors' report for the year ended December 31, 2013 are included in this Annual Report beginning on page F-1.

ITEM 19. EXHIBITS

1.1 Articles of Association of the Registrant, approved by shareholders on November 14, 2000, as amended (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form F-1, File No. 333-126909, "Form F-1 No. 333-126909").

1.2 Amendment to Articles of Association of the Registrant (incorporated by reference to exhibit 4.2 to the Registration Statement on Form S-8 No. 333-117565 ("Form S-8 No. 333-117565").

1.3 Amendment to the Articles of Association of the Registrant (approved by shareholders on September 28, 2006) (incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form S-8, File No. 333-138837 (the "2006 Form S-8").

1.4 Amendment to Articles of Association of Registrant (approved by shareholders on September 24, 2008) (incorporated by reference to Exhibit 3.4 of the Registrant's Registration Statement on Form S-8, File No. 333-153710 (the "2008 Form S-8").

1.5 Amendment to Articles of Association of Registrant (approved by shareholders on August 11, 2011) (incorporated by reference to exhibit 99.1 of the Form 6-K furnished to the SEC on January 17, 2012).

1.6 Amendment to Articles of Association of Registrant (approved by shareholders on August 2, 2012) (incorporated by reference to proposals 1 and 2 of the proxy statement filed on Form 6-K furnished to the SEC on June 12, 2012, and the Form 6-k furnished to the SEC on August 2, 2012)

1.7 Amendment to Articles of Association of Registrant (approved by shareholders on May 23, 2013) (incorporated by reference to Proposal 5 of the proxy statement filed on Form 6-K furnished to the SEC on April 16, 2013).

2.1 Registration Rights Agreement, dated January 18, 2001, by and between SanDisk Corporation, Israel Corporation, Alliance Semiconductor Ltd. and Macronix International Co., Ltd. (incorporated by reference to exhibit 2.2 to the 2000 Form 20-F).

4.1 Form of Grant Letter for Non-Employee Directors Share Option Plan 2001/4 (incorporated by reference to exhibit 4.9 to the Form S-8 No. 333-83204).

4.2 Investment Center Agreement related to Fab 1, dated November 13, 2001 (English translation of Hebrew original) (incorporated by reference to exhibit 10.2 to the Registrant's Registration Statement on Form F-2, No. 333-97043).

4.3 Employee Share Option Plan 2004 (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-8 No. 333-117565 ("Form S-8 No. 333-117565").

4.4 Form of Grant Letter to Israeli Employees (incorporated by reference to Exhibit 4.4 to Form S-8 No. 333-117565).

4.5 Form of Grant Letter to US Employees (incorporated by reference to Exhibit 4.5 to Form S-8 No. 333-117565).

4.6 Employee Share Option Plan 2005, as amended (incorporated by reference to Exhibit 4.1 of the 2008 Form S-8).

4.7 Form of Grant Letter to Israeli Employees (incorporated by reference to Exhibit 4.4 of the 2006 Form S-8).

4.8 Form of Grant Letter to US Employees (incorporated by reference to Exhibit 4.5 of the 2006 Form S-8).

4.9 Form of Grant Letter for grants to Jazz employees under the Employee Share Option Plan 2005 (incorporated by reference to Exhibit 4.4 of the 2008 Form S-8).

4.10 Jazz Technologies, Inc. 2006 Equity Incentive (incorporated by reference to Exhibit 4.5 of the 2008 Form S-8)

4.11 Form of Assumption Letter from the Registrant to holders of Jazz Technologies, Inc. 2006 Equity Incentive Plan options (incorporated by reference to Exhibit 4.6 of the 2008 Form S-8)

4.12 Form of Option Agreement under the Jazz Technologies, Inc. 2006 Equity Incentive Plan (incorporated by reference to Exhibit 4.7 of the 2008 Form S-8)

4.13 CEO Share Option Plan 2005 (incorporated by reference to Exhibit 4.6 of the 2006 Form S-8).

4.14 Option Grant Letter Agreement - CEO Share Option Plan 2005 from the Registrant to our CEO, dated July 15, 2005 (incorporated by reference to Exhibit 4.7 of the 2006 Form S-8).

4.15 Option Grant Letter Agreement - CEO Share Option Plan 2005 from the Registrant to our CEO, dated September 28, 2006 (incorporated by reference to Exhibit 4.8 of the 2006 Form S-8).

4.16 Option Grant Letter Agreement - CEO Share Option Plan 2005 from Tower Semiconductor USA, Inc. to our CEO, dated July 15, 2005 (incorporated by reference to Exhibit 4.9 of the 2006 Form S-8).

4.17 Equity Convertible Capital Note, dated September 28, 2006, issued to Israel Corporation Ltd. (incorporated by reference to Exhibit 99.4 of the Form 6-K for the month of November 2006 No. 6 filed on November 7, 2006 (the "November 2006 Form 6-K")).

4.18 2009 Chairman Share Incentive Plan (incorporated by reference to Exhibit 4.20 to the 2010 20-F).

4.19 Registration Rights Agreement, dated September 28, 2006, with Israel Corporation Ltd. (incorporated by reference to Exhibit 99.5 of the November 2006 Form 6-K).

4.20 Conversion Agreement, dated September 28, 2006, with Bank Hapoalim B.M. (incorporated by reference to Exhibit 99.8 of the November 2006 Form 6-K).

4.21 Conversion Agreement, dated September 28, 2006, with Bank Leumi Le-Israel B.M. (incorporated by reference to Exhibit 99.9 of the November 2006 Form 6-K).

4.22 Registration Rights Agreement, dated September 28, 2006, with Bank Hapoalim B.M. (incorporated by reference to Exhibit 99.10 of the November 2006 Form 6-K).

4.23 Registration Rights Agreement, dated September 28, 2006, with Bank Leumi Le-Israel B.M. (incorporated by reference to Exhibit 99.11 of the November 2006 Form 6-K).

4.24 Equity Convertible Capital Note, dated September 28, 2006, issued to Bank Hapoalim B.M. (incorporated by reference to Exhibit 99.12 of the November 2006 Form 6-K).

#4.25 Equity Convertible Capital Note, dated April 13, 2014, issued to bank Leumi Le-Israel B.M.

4.26 Form of Securities Purchase Agreement (incorporated by reference to Exhibit 99.2 of the Form 6-K for the month of March 2007 No.1 filed on March 15, 2007 (the "March 2007 Form 6-K")).

4.27 Form of Registration Rights Agreement (incorporated by reference to Exhibit 99.4 of the March 2007 Form 6-K).

4.28 Agreement and Plan of Merger and Reorganization, dated May 19, 2008, between the Registrant, Jazz Technologies, Inc. and Armstrong Acquisition Corp. (incorporated by reference to Exhibit 2.1 of the May 20, 2008 Form 6-K),

4.29 Facility Agreement, as amended and restated by the parties through September 29, 2008. (incorporated by reference to Exhibit 4.86 to the 2008 20-F)

4.30 Conversion Agreement, dated September 25, 2008, with Bank Hapoalim B.M. (incorporated by reference to Exhibit 4.87 to the 2008 20-F)

4.31 Conversion Agreement, dated September 25, 2008, with Bank Leumi Le-Israel B.M. (incorporated by reference to Exhibit 4.88 to the 2008 20-F)

4.32 Conversion Agreement, dated September 25, 2008, with the Israel Corporation Ltd. (incorporated by reference to Exhibit 4.89 to the 200820-F)

4.33 Pledge Agreement, dated September 25, 2008, with Bank Hapoalim B.M. and Bank Leumi Le-Israel B.M. (incorporated by reference to Exhibit 4.90 to the 2008 20-F)

4.34 Amended and Restated Registration Rights Agreement, dated September 25, 2008, with Bank Hapoalim B.M. (incorporated by reference to Exhibit 4.91 to the 2008 20-F)

4.35 Amended and Restated Registration Rights Agreement, dated September 25, 2008, with Bank Leumi Le-Israel B.M. (incorporated by reference to Exhibit 4.92 to the 2008 20-F)

4.36 Undertaking by Israel Corporation Ltd., dated September 25, 2008. (incorporated by reference to Exhibit 4.93 to the 2008 20-F)

4.37 Securities Purchase Agreement, dated September 25, 2008, with the Israel Corporation Ltd. (incorporated by reference to Exhibit 4.94 to the 2008 20-F)

4. 38 Equity Convertible Capital Note, dated October 29, 2012, issued to Bank Hapoalim B.M. (incorporated by reference to Exhibit 4.38 to the 2012 20-F)

#4.39 Equity Convertible Capital Note, dated July 30, 2013, issued to Bank Hapoalim B.M.

4.40 Equity Convertible Capital Note, in the principal amount of $30 million, dated September 25, 2008, issued to the Israel Corporation Ltd. in connection with the conversion of debt. (incorporated by reference to Exhibit 4.97 to the 2008 20-F)

4.41 Equity Convertible Capital Note, in the principal amount of $20 million, dated September 25, 2008, issued to the Israel Corporation Ltd. in connection with the conversion of debt. (incorporated by reference to Exhibit 4.98 to the 2008 20-F)

4.42 Equity Convertible Capital Note, in the principal amount of $20 million, dated September 25, 2008, issued to the Israel Corporation Ltd. in connection with the investment. (incorporated by reference to Exhibit 4.99 to the 2008 20-F)

4.43 Equity Convertible Capital Note, in the principal amount of $20 million, dated January 7, 2008, issued to the Israel Corporation Ltd. in connection with the investment. (incorporated by reference to Exhibit 4.100 to the 2008 20-F)

4.44 Amended and Restated Registration Rights Agreement, dated September 25, 2008, with the Israel Corporation Ltd. (incorporated by reference to Exhibit 4.101 to the 2008 20-F).

4.45 Amendment to Undertaking by the Israel Corporation Ltd., dated January 6, 2009 (incorporated by reference to Exhibit 4.102 to the 2008 20-F).

4.46 Standby Equity Purchase Agreement between Tower and YA Global Master SPV Ltd., dated August 11, 2009, Amendment No. 1 dated August 27, 2009 and Amendment No. 2 dated February 4, 2010 (incorporated by reference to Exhibits 99.1, 99.2 and 99.3, respectively, of the February 5, 2010 Form 6-K).

4.47 Amendment No. 3 to Standby Equity Purchase Agreement between Tower and YA Global Master SPV Ltd., dated August 11, 2009 (incorporated by reference to Exhibit 99.1 to the April 23, 2010 6-K).

4.48 Amendment No. 4 to Standby Equity Purchase Agreement between Tower and YA Global Master SPV Ltd., dated November 15, 2010 (incorporated by reference to Exhibit 99.1 to the December 12, 2010 6-K)

4.49 Amendment No. 5 to Standby Equity Purchase Agreement between Tower and YA Global Master SPV Ltd., dated April 8, 2011 (incorporated by reference to Exhibit 99.1 to the April 28, 2011 6-K).

4.50 Exchange Agreement dated July 9, 2010 by and among Jazz Technologies, Inc., Tower Semiconductor, Ltd., Jazz Semiconductor, Inc., Newport Fab, LLC, Zazove Associates, LLC and certain holders of Jazz Technologies, Inc.'s 8% Senior Notes due 2011 (incorporated by reference to Exhibit 10.48 to Jazz Technologies, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010).

4.51 Indenture dated July 15, 2010 by and among Jazz Technologies, Inc., Jazz Semiconductor, Inc., Newport Fab, LLC and U.S. Bank National Association (incorporated by reference to Exhibit 4.15 to Jazz Technologies, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010).

4.52 Warrant Agreement dated July 15, 2010 between Tower Semiconductor, Ltd. and American Stock Transfer & Trust Company, LLC as warrant agent (incorporated by reference to Exhibit 4.54 to 2010 20-F).

4.53 Form of Series J Warrant (incorporated by reference to Exhibit 4.55 to 2010 20-F).

4.54 Master Agreement by and among Micron Technology, Inc., Micron Japan, Ltd. and Tower Semiconductor Ltd. dated May 25, 2011 (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form F-3 (No. 333-178166)).

4.55 Credit Support and Subordination Agreement, by and among Micron Technology, Inc., Micron Japan, Ltd., Tower Semiconductor Ltd., TowerJazz Japan, Ltd., and TowerJazz Japan, Ltd. dated June 3, 2011 (incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form F-3 (No. 333-178166)).

4.56 Shareholder Rights and Restrictions Agreement between Micron Technology, Inc. and Tower Semiconductor Ltd. dated June 3, 2011 (incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form F-3 (No. 333-178166)).

#4.57 2013 option plans.

4.58 The Compensation Policy of the Company, filed by us as Annex A to Proposal 1 found in Exhibit 99.1 to the Form 6-K as furnished to the Securities and Exchange Commission on July 30, 2013, and incorporated herein by reference.

#4.59 Exchange Agreement dated as of March 19, 2014 by and among Jazz Technologies, Inc., Tower Semiconductor, Ltd., Jazz Semiconductor, Inc., Newport Fab, LLC and certain holders of the Jazz Technologies, Inc. 8% Senior Notes due 2015.

#4.60 Purchase Agreement dated as of March 19, 2014 by and among Jazz Technologies, Inc., Tower Semiconductor, Ltd., Jazz Semiconductor, Inc., Newport Fab, LLC and certain holders of the Jazz Technologies, Inc. 8% Senior Notes due 2015.

#4.61 Indenture dated as of March 25, 2014 by and among Jazz Technologies, Inc., Tower Semiconductor, Ltd., Jazz Semiconductor, Inc., Newport Fab, LLC and U.S. Bank National Association.

4.62 Registration Rights Agreement dated as of March 25, 2014 by and among Tower Semiconductor, Ltd., and holders of the Jazz Technologies, Inc. 8% Convertible Senior Notes due 2018 (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form F-3 (No. 333-195200)).

#4.63 Joint Venture Formation Agreement among Tower Semiconductor Ltd. and Panasonic Corporation, dated as of December 20, 2013.*

#4.64 Shareholders Agreement between Tower Semiconductor Ltd., Panasonic Corporation and TowerJazz Panasonic Semiconductor Co., Ltd., dated as of April 1, 2014.*

#4.65 Business Transfer Agreement between Panasonic Corporation and TowerJazz Panasonic Semiconductor Co., Ltd., dated as of April 1, 2014.*

#4.66 Manufacturing Agreement between Panasonic Corporation and TowerJazz Panasonic Semiconductor Co., Ltd., dated as of April 1, 2014.*

#8.1 List of Subsidiaries.

#12.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

#12.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

#13.1 Certification by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

#13.2 Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

#15.1 Consent of Brightman Almagor Zohar & Co., Certified Public Accountants, a member of Deloitte Touche Tohmatsu.

#101 The following financial information from Tower Semiconductor Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2013, formatted in XBRL (eXtensible Business Reporting Language):

(i) Consolidated Balance Sheets at December 31, 2013 and 2012;

(ii) Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011;

(iii) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2013, 2012 and 2011;

(iv) Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011; and

(v) Notes to Consolidated Financial Statements, tagged as blocks of text.

Users of this data are advised, in accordance with Rule 406T of Regulation S-T promulgated by the SEC, that this Interactive Data File is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

#Filed herewith

*Confidential treatment was requested with respect to certain portions of this exhibit. Omitted portions were filed separately with the SEC.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant hereby certifies that it meets all the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this Annual Report to be signed on its behalf.

TOWER SEMICONDUCTOR LTD.

By: /s/ Russell C. Ellwanger
Russell C. Ellwanger
Chief Executive Officer

May 14, 2014

TOWER SEMICONDUCTOR LTD.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2013

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.
Brightman Almagor Zohar

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the shareholders of
Tower Semiconductor Ltd.

We have audited the accompanying consolidated balance sheets of Tower Semiconductors Ltd. and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Member of Deloitte Touche Tohmatsu Limited

Tel Aviv, Israel
February 27, 2014

Tel Aviv - Main Office	Trigger Foresight	Ramat-Gan	Jerusalem	Haifa	Beer-Sheva	Eilat
1 Azrieli Center	3 Azrieli Center	6 Ha-rakun	12 Sarei Israel	5 Ma'aleh Hashichrur	Omer Industrial Park	The City Center
Tel Aviv, 6701101	Tel Aviv, 6702301	Ramat Gan, 5252183	Jerusalem, 9439024	P.O.B. 5648	Building No. 10	P.O.B. 583
P.O.B. 16593				Haifa, 3105502	P.O.B. 1369	Eilat, 8810402
Tel Aviv, 6116402					Omer, 8496500	
Tel: +972 (3) 608 5555	Tel: +972 (3) 607 0500	Tel: +972 (3) 755 1500	Tel: +972 (2) 501 8888	Tel: +972 (4) 860 7333	Tel: +972 (8) 690 9500	Tel: +972 (8) 637 5676
Fax: +972 (3) 609 4022	Fax: +972 (3) 607 0501	Fax: +972 (3) 676 9955	Fax: +972 (2) 537 4173	Fax: +972 (4) 867 2528	Fax: +972 (8) 690 9600	Fax: +972 (8) 637 1628
Info@deloitte.co.il	Info@tfco.co.il	Info-ramatgan@deloitte.co.il	Info-jer@deloitte.co.il	Info-haifa@deloitte.co.il	Info-beersheva@deloitte.co.il	Info-eilat@deloitte.co.il

Brightman Almagor Zohar
1 Azrieli Center
Tel Aviv 67021
P.O.B. 16593, Tel Aviv 61164
Israel

Tel: +972 (3) 608 5555
Fax: +972 (3) 609 4022
info@deloitte.co.il
www.deloitte.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Board of Directors and the shareholders of
Tower Semiconductor Ltd.

We have audited the internal control over financial reporting of Tower Semiconductor Ltd. and subsidiaries (the "Company") as of December 31, 2013, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's Board of Directors and management are responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in ITEM 15 CONTROLS AND PROCEDURES - INTERNAL CONTROL OVER FINANCIAL REPORTING. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Deloitte.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2013 of the Company and our report dated February 27, 2014 expressed an unqualified opinion on those financial statements.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Member of Deloitte Touche Tohmatsu Limited

Tel Aviv, Israel
February 27, 2014

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars and shares in thousands)

	As of December 31, 2013	As of December 31, 2012
A S S E T S		
CURRENT ASSETS		
Cash and cash equivalents	$ 112,871	$ 123,398
Interest bearing deposits, including designated deposits	10,000	10,000
Trade accounts receivable	80,316	79,354
Other receivables	10,943	5,379
Inventories	64,804	65,570
Other current assets	11,480	14,405
Total current assets	290,414	298,106
LONG-TERM INVESTMENTS	14,494	12,963
PROPERTY AND EQUIPMENT, NET	350,039	434,468
INTANGIBLE ASSETS, NET	32,393	47,936
GOODWILL	7,000	7,000
OTHER ASSETS, NET	11,547	13,768
TOTAL ASSETS	$ 705,887	$ 814,241
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term bank debt and current maturities of loans and debentures	$ 36,441	$ 49,923
Trade accounts payable	66,358	81,372
Deferred revenue and short-term customers' advances	3,166	1,784
Other current liabilities	33,951	36,240
Total current liabilities	139,916	169,319
LONG-TERM LOANS FROM BANKS	108,739	94,992
DEBENTURES	208,146	193,962
LONG-TERM CUSTOMERS' ADVANCES	7,187	7,407
EMPLOYEE RELATED LIABILITES	65,337	77,963
DEFERRED TAX LIABILITY	13,611	26,405
OTHER LONG-TERM LIABILITIES	21,703	24,168
Total liabilities	564,639	594,216
Ordinary shares	192,776	87,280
Ordinary shares of NIS 15 par value; Authorized: 150,000 and 120,000 shares as of December 31, 2013 and 2012, respectively; Issued: 47,956 and 22,398 shares as of December 31, 2013 and 2012, respectively; Outstanding: 47,870 and 22,312 shares as of December 31, 2013 and 2012, respectively.		
Additional paid-in capital	1,084,011	937,814
Capital notes	92,549	305,262
Cumulative stock based compensation	45,380	42,826
Accumulated other comprehensive loss	(16,126)	(3,475)
Accumulated deficit	(1,248,270)	(1,140,610)
	150,320	229,097
Treasury stock, at cost - 86 shares	(9,072)	(9,072)
SHAREHOLDERS' EQUITY	141,248	220,025
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 705,887	$ 814,241

See notes to consolidated financial statements.

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

	Year ended December 31,		
	2013	2012	2011
REVENUES	$ 505,009	$ 638,831	$ 611,023
COST OF REVENUES	476,900	560,046	526,198
GROSS PROFIT	28,109	78,785	84,825
OPERATING COSTS AND EXPENSES			
Research and development	33,064	31,093	24,886
Marketing, general and administrative	42,916	44,413	48,239
Acquisition related and reorganization costs	--	5,789	1,493
Amortization related to a lease agreement early termination	7,464	--	--
	83,444	81,295	74,618
OPERATING PROFIT (LOSS)	(55,335)	(2,510)	10,207
INTEREST EXPENSES, NET	(32,971)	(31,808)	(27,797)
OTHER FINANCING EXPENSE, NET	(27,838)	(27,583)	(12,505)
GAIN FROM ACQUISITION	--	--	19,467
OTHER INCOME (EXPENSE), NET	(904)	(1,042)	13,460
PROFIT (LOSS) BEFORE INCOME TAX	(117,048)	(62,943)	2,832
INCOME TAX BENEFIT (EXPENSE)	9,388	(7,326)	(21,362)
LOSS FOR THE PERIOD	$ (107,660)	$ (70,269)	$ (18,530)
BASIC LOSS PER ORDINARY SHARE			
Loss per share	$ (2.72)	$ (3.17)	$ (0.90)
Weighted average number of ordinary shares outstanding - in thousands	39,633	22,173	20,649

See notes to consolidated financial statements.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
CONSOLIDATED COMPREHENSIVE LOSS
(dollars in thousands)

	Year ended December 31,		
	2013	2012	2011
Loss for the period	**$ (107,660)**	**$ (70,269)**	**$ (18,530)**
Foreign currency translation adjustment	**(14,242)**	**(9,097)**	**3,729**
Change in employees plan assets and benefit obligations, net of taxes $1,268, $1,591 and $174 for the years ended December 31, 2013, 2012 and 2011, respectively	**2,350**	**2,440**	**518**
Net unrealized gains (losses) on derivatives	**(759)**	**1,090**	**(1,326)**
Comprehensive loss for the period	**$ (120,311)**	**$ (75,836)**	**$ (15,609)**

TOWER SEMICONDUCTOR LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(dollars in thousands)

	Ordinary shares		Additional paid-in capital	Capital notes	Cumulative stock based compensation	Treasury stock	Accumulated Other comprehensive income (loss)	Accumulated deficit	Total
	Shares- in thousands	Amount							
BALANCE - DECEMBER 31, 2010	17,789	$ 68,053	$ 770,987	$ 311,472	$ 28,982	$ (9,072)	$ (829)	$ (1,051,811)	$ 117,782
Shares issued in consideration of acquisitionof a subsidiary	1,312	5,777	16,853						22,630
Issuance of shares and warrants	1,805	7,557	27,251						34,808
Conversion of convertible debentures to shares	277	1,118	5,362						6,480
Employee stock-based compensation					8,107				8,107
Tax benefit relating to stock based compensation			45						45
Exercise of options	123	515	(55)						460
Other comprehensive income							2,921		2,921
Loss for the year								(18,530)	(18,530)
BALANCE - DECEMBER 31, 2011	21,306	$ 83,020	$ 820,443	$ 311,472	$ 37,089	$ (9,072)	$ 2,092	$ (1,070,341)	$ 174,703
Issuance of shares and warrants	200	796	4,319						5,115
Employee stock-based compensation					5,737				5,737
Exercise of options	125	486	52						538
Beneficial conversion feature			109,768						109,768
Other comprehensive loss							(5,567)		(5,567)
Loss for the year								(70,269)	(70,269)
Capital notes	767	2,978	3,232	(6,210)					--
BALANCE - DECEMBER 31, 2012	22,398	$ 87,280	$ 937,814	$ 305,262	$ 42,826	$ (9,072)	$ (3,475)	$ (1,140,610)	$ 220,025
Issuance of shares and warrants	8,148	33,986	4,889						38,875
Employee stock-based compensation					2,735				2,735
Tax benefit relating to stock based compensation					(181)				(181)
Exercise of options	24	100	5						105
Other comprehensive loss							(12,651)		(12,651)
Capital notes	17,386	71,410	141,303	(212,713)					--
Loss for the year								(107,660)	(107,660)
BALANCE - DECEMBER 31, 2013	47,956	$ 192,776	$ 1,084,011	$ 92,549	$ 45,380	(9,072)	$ (16,126)	$ (1,248,270)	$ 141,248
BALANCE, NET OF TREASURY STOCK - AS OF DECEMBER 31, 2013	47,870								

See notes to consolidated financial statements.

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year ended December 31,		
	2013	2012	2011
CASH FLOWS - OPERATING ACTIVITIES			
Loss for the period	$ (107,660)	$ (70,269)	$ (18,530)
Adjustments to reconcile loss for the period to net cash provided by operating activities:			
Income and expense items not involving cash flows:			
Depreciation and amortization	164,824	173,585	162,679
Effect of indexation, translation and fair value measurement on debt	4,091	13,544	(9,312)
Other expense (income), net and reorganization costs	904	6,831	(15,899)
Gain from acquisition	--	--	(19,467)
Changes in assets and liabilities:			
Trade accounts receivable	(5,194)	(6,857)	(7,686)
Other receivables and other current assets	(3,647)	(843)	3,999
Inventories	(780)	2,316	(3,999)
Trade accounts payable	25	(7,603)	21,733
Deferred revenue and customers' advances	1,202	(4,475)	(35,858)
Other current liabilities	(38)	(23,942)	18,174
Deferred tax liability, net	(11,453)	9,126	4,791
Other long-term liabilities	(6)	3,840	7,368
	42,268	95,253	107,993
Reorganization – retirement plan	--	(20,074)	--
Net cash provided by operating activities	42,268	75,179	107,993
CASH FLOWS - INVESTING ACTIVITIES			
Investments in property and equipment	(81,819)	(103,830)	(117,166)
Proceeds from investment realization	--	--	31,400
Proceeds related to sale and disposal of property and equipment	4,775	--	5,751
Investments in other assets, intangible assets and others	(409)	(4,498)	--
Acquisition of subsidiary consolidated for the first time (a)	--	--	(40,000)
Investment grants received	--	2,618	33,292
Interest bearing deposits, including designated deposits	--	(10,000)	98,007
Net cash provided by (used in) investing activities	(77,453)	(115,710)	11,284
CASH FLOWS - FINANCING ACTIVITIES			
Proceeds on account of shareholders' equity	38,956	104,690	22,653
Proceeds from long-term loans	--	14,443	--
Short-term bank debt	--	3,800	--
Debts repayment	(6,540)	(55,854)	(141,242)
Net cash provided by (used in) financing activities	32,416	67,079	(118,589)
Effect of foreign exchange rate change	(7,758)	(4,299)	86
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,527)	22,249	774
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	123,398	101,149	100,375
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 112,871	$ 123,398	$ 101,149

TOWER SEMICONDUCTOR LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year ended December 31,		
	2013	**2012**	**2011**
NON-CASH ACTIVITIES			
Investments in property and equipment	**$ 11,161**	**$ 8,737**	**$ 15,546**
Benefitial conversion feature	**$ --**	**$ 109,768**	**$ --**
Conversion of convertible debentures to share capital and exercise of warrant	**$ --**	**$ --**	**$ 7,006**
Shares issued to the Banks in consideration for the interest reduction, following September 2006 amendment with the Banks	**$ --**	**$ --**	**$ 12,087**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the period for interest	**$ 33,298**	**$ 46,454**	**$ 23,357**
Cash paid during the period for income taxes	**$ 190**	**$ 852**	**$ 2,907**
(a) ACQUISTION OF SUBSIDIARY CONSOLIDATED FOR THE FIRST TIME, SEE ALSO NOTE 3:			
Assets and liabilities of the subsidiary as of June 2, 2011:			
Working capital (excluding cash and cash equivalents)			**$ (2,534)**
Property, plant, and equipment, including real estate			**145,559**
Intangible assets			**11,156**
Other assets			**2,900**
Long-term liabilities			**(74,984)**
			82,097
Less :			
Issuance of share capital			**22,630**
Gain from acquisition			**19,467**
			42,097
Cash paid for the acquisition of a subsidiary consolidated for the first time			**$ 40,000**

See notes to consolidated financial statements.

NOTE 1 - DESCRIPTION OF BUSINESS AND GENERAL

The consolidated financial statements of Tower Semiconductor Ltd. ("Tower") include the financial statements of Tower and its wholly-owned subsidiaries (i) Jazz Technologies, Inc., the parent company and its wholly-owned subsidiary, Jazz Semiconductor, Inc., an independent semiconductor foundry focused on specialty process technologies for the manufacture of analog intensive mixed-signal semiconductor devices (Jazz Technologies and its wholly-owned subsidiaries are collectively referred to herein as "Jazz"), and (ii) TowerJazz Japan Ltd. ("TJP"), an independent semiconductor foundry in Nishiwaki, Japan. Tower and its wholly-owned subsidiaries are referred to as the "Company". The Company is a global specialty foundry leader, manufacturing integrated circuits with geometries ranging from 1.0 to 0.11 micron. The Company provides industry leading design support and design environment to allow complex designs to be achieved quickly and more accurately and offers a broad range of customizable process technologies including SiGe, BiCMOS, mixed-signal and RFCMOS, CMOS image sensor, power management (BCD) and non-volatile memory (NVM) as well as MEMS capabilities. To provide multi-fab sourcing for its customers, the Company maintains two manufacturing facilities in Israel, one in the U.S. (Jazz), and one in Japan (TJP).

Tower's ordinary shares are traded on the NASDAQ Global Select Market and on the Tel-Aviv Stock Exchange under the symbol TSEM.

The Company, as an independent semiconductor manufacturer, operates in the semiconductor industry which has historically been highly cyclical and subject to significant and often rapid increases and decreases in product demand. Traditionally, companies in the semiconductor industry have expanded aggressively during periods of decreased demand in order to have the capacity needed to meet expected demand in future upturns, including through acquiring additional manufacturing facilities. If actual demand does not increase or declines, or if companies in the industry expand too aggressively, the industry may experience a period in which industry-wide capacity exceeds demand. This could result in overcapacity and excess inventories, leading to rapid erosion of average sales prices, as well as to underutilization of manufacturing facilities that as a result are unable to cover their fixed costs and other liabilities, potentially leading to such facilities to cease their operations. The prices that we can charge our customers for our services are significantly related to the overall worldwide supply of integrated circuits and semiconductor products. The overall supply of semiconductor products is based in part on the capacity of other companies, which is outside of our control. In periods of overcapacity, despite the fact that we utilize niche technologies and manufacture specialty products, we may have to lower the prices we charge our customers for our services which may reduce our margins and weaken our financial condition and results of operations. We cannot give assurance that an increase in the demand for foundry services in the future will not lead to under-capacity, which could result in the loss of customers and materially adversely affect our revenues, earnings and margins. Analysts believe that such patterns may repeat in the future. The overcapacity, underutilization and downward price pressure characteristic of a downturn in the semiconductor market and/or in the global economy, such as experienced several times in the past, may negatively impact consumer and customer demand for the Company's products, the end products of the Company's customers and the financial markets, which may affect our ability to raise funds and/or re-structure and/or re-finance our debt. This may harm our financial results, financial position and business, unless we are able to take appropriate or effective actions in a timely manner in order to serve our debt and liabilities and cover our fixed costs.

NOTE 1 - DESCRIPTION OF BUSINESS AND GENERAL (cont.)

The Company is exploring various activities and ways to promote and fund its growth plans and the ramp-up of its business, technological capabilities and manufacturing capacity and capabilities, increase its utilization rates, efficiently manage the operations of the fabs and achieve and maintain high utilization rates in all of its manufacturing facilities, and fulfill its debt obligations and other liabilities. However, there is no assurance as to the extent of such activities or when, if at all, such activities will be available to the Company. Such activities may include, among other things, mergers and acquisitions, joint ventures, debt restructuring and/or refinancing, possible financing transactions, sales of assets, intellectual property licensing, possible sale and lease-backs of real estate assets and improving cash flow from operations through operating efficiencies
See further details in Notes 4, 8B, 12B, 13, 17

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's consolidated financial statements are presented in accordance with U.S. generally accepted accounting principles ("US GAAP").

A. Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

B. Principles of Consolidation

The Company's consolidated financial statements include the financial statements of Tower and its wholly-owned subsidiaries. The Company's consolidated financial statements are presented after elimination of inter-company transactions and balances.

C. Cash and Cash - Equivalents

Cash and cash equivalents consist of banks deposits and short-term investments (primarily time deposits and certificates of deposit) with original maturities of three months or less.

D. Allowance for Doubtful Accounts

The allowance for doubtful accounts is computed mainly on the specific identification basis for accounts whose collectability, in the Company's estimation, is uncertain.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

E. Inventories

Inventories are stated at the lower of cost or market. Cost is determined for raw materials and supplies mainly on the basis of the weighted average moving price per unit.
Cost is determined for work in process and finished goods on the basis of actual production costs.

F. Property and Equipment

(1) Property and equipment are presented at cost, including capitalizable costs. Capitalizable costs include only costs that are identifiable with, and related to, the property and equipment and are incurred prior to their initial operation. Identifiable incremental, direct costs include costs associated with constructing, establishing and installing property and equipment, and costs directly related to pre-production test runs of property and equipment that are necessary to get it ready for its intended use. Maintenance and repairs are charged to expense as incurred.

Cost is presented net of investment grants received, and less accumulated depreciation and amortization.

Depreciation is calculated based on the straight-line method over the estimated economic lives commonly used in the industry of the assets or terms of the related leases, as follows:

Buildings and building improvements (including facility infrastructure)	10-25 years
Machinery and equipment, software and hardware	3-7 years

(2) Impairment examinations and recognition are performed and determined based on the accounting policy outlined in R below.

G. Intangible Assets

Intangible assets include the valuation amount attributed to the intangible assets as part of the purchase price allocation made at the time of acquisition of Jazz and TJP. In addition, these assets include the cost of acquiring the Fab 2 technologies and incremental direct costs associated with implementing them until they are ready for their intended use.

These costs associated with the Fab 2 technologies were amortized over the expected estimated economic life of the technologies commonly used in the industry commencing on the date on which each technology was ready for its intended use.

The amounts attributed to intangible assets as part of the purchase price allocations for the acquisitions of Jazz and TJP are amortized over the expected estimated economic life of the intangible assets commonly used in the industry.

Impairment examinations and recognition are performed and determined based on the accounting policy outlined in R below.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

H. Other Assets

Prepaid Long-Term Land Lease

Prepaid lease payments to the Israel Land Administration ("ILA") as detailed in Note 16C are amortized over the lease period.

I. Convertible Debentures

Under ASC 470-20 "Debt with Conversion and Other Options", the proceeds from the sale of debt securities with a conversion feature and other options are allocated to each of the securities issued based on their relative fair value.

ASC Topic 815 "Derivatives and Hedging" generally provides criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as freestanding derivative financial instruments. These three criteria are: (i) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (ii) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings, and (iii) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument subject to the requirements of Topic 815. In determining whether the embedded derivative should be bifurcated, the Company considers all other scope exceptions provided by that topic. One scope exception particularly relevant to convertibles is whether the embedded conversion feature is both indexed to and classified in the Company's equity.

See Note 13C for the determination of the Beneficial Conversion Feature in the Company's Series F debentures, according to ASC 470-20.

J. Stock-Based Instruments in Financing Transactions

The Company calculates the fair value of stock-based instruments included in the units issued in its financing transactions. That fair value is recognized in equity, if determined to be eligible for equity classification. The fair value of such stock-based instruments, when included in issuance of debt that is not itself accounted at fair value is considered a discount on the debt and results in an adjustment to the yield of the debt.

K. Revenue Recognition

The Company's net revenues are generated principally from sales of semiconductor wafers. The Company also derives revenues from engineering and design support and other technical and support services. The majority of the Company's sales are achieved through the efforts of its direct sales force.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

K. Revenue Recognition (cont.)

In accordance with ASC Topic 605 "Revenue Recognition", the Company recognizes revenues from sale of products when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered, (iii) the price to the customer is fixed or determinable; and (iv) collection of the resulting receivable is reasonably assured. These criteria are usually met at the time of product shipment. Revenues are recognized when the acceptance criteria are satisfied, based on performing electronic, functional and quality tests on the products prior to shipment. Such Company testing reliably demonstrates that the products meet all of the specified criteria prior to formal customer acceptance.

The Company provides for sales returns and allowances relating to specified yield or quality commitments as a reduction of revenues at the time of shipment based on historical experience and specific identification of events necessitating an allowance.

Revenues for engineering, design and other support services are recognized ratably over the contract term or as services are performed.

Advances received from customers towards future engineering services and/or product purchases are deferred until services are rendered or products are shipped to the customer.

L. Research and Development

Research and development costs are charged to operations as incurred. Amounts received or receivable from the government of Israel and others, as participation in research and development programs, are offset against research and development costs. The accrual for grants receivable is determined based on the terms of the programs, provided that the criteria for entitlement have been met.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

M. Income Taxes

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". This topic prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities. Deferred taxes are computed based on the tax rates anticipated (under applicable law as of the balance sheet date) to be in effect when the deferred taxes are expected to be paid or realized.

We evaluate how realizable our deferred tax assets are for each jurisdiction in which we operate at each reporting date, and establish valuation allowances when it is more likely than not that all or a portion of our deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income of the same character and in the same jurisdiction. We consider all available positive and negative evidence in making this assessment, including, but not limited to, the scheduled reversal of deferred tax liabilities and projected future taxable income. In circumstances where there is sufficient negative evidence indicating that our deferred tax assets are not more-likely-than-not realizable, we establish a valuation allowance.

We use a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate tax positions taken or expected to be taken in a tax return by assessing whether they are more-likely-than-not sustainable, based solely on their technical merits, upon examination and including resolution of any related appeals or litigation process. The second step is to measure the associated tax benefit of each position as the largest amount that we believe is more-likely-than-not realizable. Differences between the amount of tax benefits taken or expected to be taken in our income tax returns and the amount of tax benefits recognized in our financial statements, represent our unrecognized income tax benefits, which are recorded as a liability. Our policy is to include interest and penalties related to unrecognized income tax benefits as a component of income tax expense.

N. Earnings (Loss) Per Ordinary Share

Basic earnings (losses) per share is calculated, in accordance with ASC Topic 260, "Earnings Per Share", by dividing profit or loss attributable to ordinary equity holders of Tower (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the reported period. Diluted earnings per share is calculated if relevant, by adjusting profit attributable to ordinary equity holders of Tower, and the weighted average number of ordinary shares taking in effect all potential dilutive ordinary shares.

O. Comprehensive Income (Loss)

In accordance with ASC Topic 220, "Comprehensive Income", comprehensive income (loss) represents the change in shareholders' equity during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a reporting period except those resulting from investments by owners and distributions to owners. Other comprehensive income (loss) represents gains and losses that are included in comprehensive income but excluded from net income.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

P. Functional Currency and Exchange Rate Losses

The currency of the primary economic environment in which Tower and Jazz conduct their operations is the U.S. dollar ("dollar"). Thus, the dollar is the functional and reporting currency of Tower and Jazz. Accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into dollars in accordance with ASC 830-10, "Foreign Currency Matters". All transaction gains and losses from the remeasurement of monetary balance sheet items are reflected in the statements of operations as financial income or expenses, as appropriate. The financial statements of TJP, whose functional currency is Japanese Yen, have been translated into dollars. TJP's assets and liabilities have been translated using the exchange rates in effect on the balance sheet date. TJP's statement of operations amounts have been translated using the average exchange rate for the period. The resulting translation adjustments are charged or credited to other comprehensive income (loss).

Q. Stock-Based Compensation

The Company applies the provisions of ASC Topic 718 Compensation - Stock Compensation, under which employee share-based equity awards are accounted for under the fair value method. Accordingly, stock-based compensation to employees and directors is measured at the grant date, based on the fair value of the award. The Company uses the straight-line attribution method to recognize stock-based compensation costs over the vesting period of the award.

R. Impairment of Assets

Impairment of Property, Equipment and Intangible Assets

The Company reviews long-lived assets and intangible assets on a periodic basis, as well as when such a review is required based upon relevant circumstances, to determine whether events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

The Company recognizes an impairment loss based upon the difference between the carrying amount and the fair value of such assets, in accordance with ASC 360-10, "Property, Plant and Equipment".

Impairment of Goodwill

Goodwill is subject to an impairment test at least on an annual basis or upon the occurrence of certain events or circumstances. Goodwill impairment is assessed based on a comparison of the fair value of the unit, to which the goodwill is ascribed, and the underlying carrying value of its net assets, including goodwill. If the carrying amount of the unit exceeds its fair value, the implied fair value of the goodwill is compared with its carrying amount to measure the amount of impairment loss, if any.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

R. Impairment of Assets (cont.)

Impairment of Goodwill (cont.)

The Company conducted an impairment analysis as of December 31, 2013. The Company used the income approach methodology of valuation that includes discounted cash flows to determine the fair value of the unit. Significant management judgment is required in the forecasts of future operating results used for this methodology. As a result of this analysis, the carrying amount of the net assets, including goodwill were not considered to be impaired and the Company did not recognize any impairment of goodwill for the period ended December 31, 2013.

S. Derivatives

Tower enters into derivatives from time to time, whether embedded or freestanding, that are denominated in currency other than its functional currency (generally in New Israel Shekels or "NIS"). Instruments settled with Tower's shares that are denominated in a currency other than the Company's functional currency are not eligible to be included in equity.

T. Classification of liabilities and equity

Tower applies EITF Issue No. 07-5, "Determining Whether an Instrument (or an Embedded Feature) is indexed to an Entity's Own Stock". The consensus is an amendment to ASC 815-40 Contract in Entity's Own Equity. The amendment sets the criteria as to when an instrument that may be settled in the company's shares is also considered indexed to a company's own stock, for the purpose of classification of the instrument as a liability or equity.

U. Reclassification and presentation

Certain amounts in prior years' financial statements have been reclassified in order to conform to the 2013 presentation.
All amount of shares and other securities convertibles to shares of the Company and per share data in these financial statements have been adjusted to reflect the effect of the reverse stock split completed in August 2012, see Note 17.

V. Initial Adoption of New Standards

On January 31, 2013, the FASB issued ASU 2013-01, which clarifies the scope of the offsetting disclosure requirements in ASU 2011-11. Under ASU 2013-01, the disclosure requirements would apply to derivative instruments accounted for in accordance with ASC 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending arrangements that are either offset on the balance sheet or subject to an enforceable master netting arrangement or similar agreement. The adoption of ASU 2013-01 had no impact on our financial position or results of operations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

V. Initial Adoption of New Standards (Cont.)

On February 5, 2013, the FASB issued ASU 2013-02, which requires entities to disclose the following additional information about items reclassified out of accumulated other comprehensive income (AOCI):

(1) Changes in AOCI balances by component (e.g., unrealized gains or losses on available-for-sale securities or foreign-currency items). Both before-tax and net-of-tax presentations of the information are acceptable as long as an entity presents the income tax benefit or expense attributed to each component of OCI and reclassification adjustments in either the financial statements or the notes to the financial statements.

(2) Significant items reclassified out of AOCI by component either on the face of the income statement or as a separate footnote to the financial statements.

The ASU does not change the current U.S. GAAP requirements, for either public or nonpublic entities, for financial statement reporting of comprehensive income. That is, a total for comprehensive income must be reported in either (1) a single continuous statement or (2) two separate but consecutive statements. However, public entities would also need to include information about (1) changes in AOCI balances by component and (2) significant items reclassified out of AOCI. ASU 2013-02 is effective for annual and interim reporting periods beginning after December 15, 2012. Adoption of this guidance had no impact on our financial position or results of operations.

In July 2013, the FASB issued ASU No. 2013-11 amending requirements for the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. ASU No. 2013-11 requires entities to present in the financial statements an unrecognized tax benefit, or a portion of an unrecognized tax benefit as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward except to the extent such items are not available or not intended to be used at the reporting date to settle any additional income taxes that would result from the disallowance of a tax position. In such instances, the unrecognized tax benefit is required to be presented in the financial statements as a liability and not be combined with deferred tax assets. ASU No. 2013-11 is effective for annual and interim periods beginning after December 15, 2013. The adoption of ASU No. 2013-11 had no impact on our financial position or results of operations.

(dollars in thousands, except per share data)

NOTE 3 - ACQUISITION OF NISHIWAKI FAB IN JAPAN

On June 3, 2011, the Company acquired the fabrication facility in Nishiwaki City, Hyogo, Japan owned by a wholly owned Japanese subsidiary of Micron Technology Inc. ("Micron"). The acquisition was effected through a new wholly owned Japanese subsidiary of the Company, which acquired the shares of and subsequently merged with Micron's Japanese subsidiary that held the assets of the fabrication facility and related business. The merged entity is named TowerJazz Japan Ltd. ("TJP").

The fair value of the consideration the Company paid was $62,630, of which $40,000 was paid in cash and $22,630 was paid through the issuance to Micron of 1.3 million ordinary shares of Tower. The costs incurred in connection with the acquisition were $1,493 and are included in operating expenses.

The purchase price has been allocated on the basis of the estimated fair value of the assets purchased and the liabilities assumed. The estimated fair value of the assets, net amounted to $82,097. As the purchase price was less than the fair value of net assets, the Company recognized a gross gain on the acquisition of $19,467.

Net profit for the year ended December 31, 2011 includes $10,078 net positive effect from the acquisition, comprised of (i) $19,467 gross gain from the acquisition, and (ii) $9,389 of related tax provisions and other expenses directly associated with this acquisition.

The Company believes that the gain realized from the acquisition derived from (i) declining forecast and weakening demand for products manufactured by TJP, (ii) the fact that an acquisition of a fab as a whole is less costly than acquiring each fab component separately, (iii) limited opportunities to sell a fab while maintaining the employment level, and (iv) the natural disasters in Japan which occurred in March 2011.

The allocation of fair value to the assets acquired and liabilities assumed is as follows:

	As of June 3, 2011
Current assets	$ 25,783
Property, plant, and equipment, including real estate	145,559
Intangible assets	11,156
Other assets	2,900
Total assets as of acquisition date	185,398
Current liabilities	28,317
Long-term liabilities (mainly employees related termination benefits)	74,984
Total liabilities as of acquisition date	103,301
Net assets as of acquisition date	$ 82,097

The fair values set forth above are based on a valuation of TJP assets and liabilities performed by third party professional valuation experts hired by the Company to appraise the fair value of the assets in accordance with ASC 805 - "Business Combinations".

NOTE 3 - ACQUISITION OF NISHIWAKI FAB IN JAPAN (cont.)

In addition, as part of said acquisition, TJP entered into a supply agreement with Micron. In accordance with this agreement, TJP will manufacture products for Micron at the Nishiwaki facility for at least three years from the acquisition date with process technologies licensed from Micron under a technology licensing agreement signed between the companies. The companies also agreed to provide each other with transition services required for the duration of the transition period of approximately two to three years from the acquisition date. Under the supply agreement, Micron is committed to purchase certain minimum volumes, with periodic reductions through expiration of the agreement in June 2014. Micron has utilized and is utilizing under this contract a major percentage of the Nishiwaki Fab, which has covered the amount of fixed costs and other costs through the years, however is not committed to manufacturing beyond the second quarter of 2014. While we have succeeded in attracting some new customers and are continuing discussions with other potential partners, the process of qualifying new products, processes and customers in the semiconductor foundry business can be lengthy, complicated and has lasted longer than originally expected. We have also been engaged in discussions with Micron regarding a possible continued supply relationship, however, no agreement or understanding has been reached.

In order to ensure continued supply of wafers to Micron, Tower and Micron also executed a credit support agreement pursuant to which Tower and TJP were subject to certain covenants and other protections, which agreement expired on June 3, 2013. In addition, Tower's ordinary shares issued to Micron were subject to a lock-up arrangement, which expired on June 3, 2013.

NOTE 4 - JOINT VENTURE WITH PANASONIC IN JAPAN.

In December 2013, Tower signed a definitive agreement with Panasonic Corporation (“Panasonic”) to create a joint venture (“JV”) to manufacture products for Panasonic and potentially other third parties, using Panasonic's three semiconductor manufacturing facilities in Hokuriku Japan.

Pursuant to the definitive agreement, Panasonic will transfer its semiconductor wafer manufacturing process and capacity tools of 8 inch and 12 inch at its three fabs located in Hokuriku factories (Uozu, Tonami and Arai) to the JV, and commit to acquire products from the JV for a long term period of at least five years of volume production.

In addition, per the definitive agreement, Tower will receive 51% of the shares of this JV (with Panasonic holding the remaining shares). As consideration for its 51% equity holding in the JV, at the closing of the transaction, Tower will issue an amount of its ordinary shares in the value of approximately $8,000 (765 million Japanese Yen).

The transaction is subject to certain customary closing conditions. The signing of the ancillary agreements and closing of the transaction is expected to occur by April 2014.

Following this transaction, the Company will rationalize its Japanese business, which may include fab consolidations between the Company’s Nishiwaki facility and the JV's facilities, and to this end, the Company is evaluating potential ventures for the Nishiwaki facility.

(dollars in thousands, except per share data)

NOTE 5 - OTHER RECEIVABLES

Other receivables consist of the following:

	As of December 31,	
	2013	2012
Government receivables	$ 4,435	$ 2,773
Others	6,508	2,606
	$ 10,943	$ 5,379

NOTE 6 - INVENTORIES

Inventories consist of the following:

	As of December 31,	
	2013	2012
Raw materials	$ 19,647	$ 20,487
Work in process	36,627	30,764
Finished goods	8,530	14,319
	$ 64,804	$ 65,570

Work in process and finished goods are presented net of aggregate write-downs to net realizable value of $2,445 and $4,194 as of December 31, 2013 and 2012, respectively.

NOTE 7 - LONG-TERM INVESTMENTS

Long-term investments consist of the following:

	As of December 31,	
	2013	2012
Severance pay funds (see Note 15)	$ 12,522	$ 11,307
Others (see also investment in limited partnership below)	1,972	1,656
	$ 14,494	$ 12,963

Investment in Limited Partnership:

In December 2007, Tower together with CMT Medical Technologies Ltd., a leading provider of advanced digital X-ray imaging systems for medical diagnosis, established a limited partnership to develop and market X-ray detectors for medical applications. Tower owns 38% of the limited partnership and accounts for the investment in the limited partnership using the equity method.

(dollars in thousands, except per share data)

NOTE 8 - PROPERTY AND EQUIPMENT, NET

A. Composition

	As of December 31,	
	2013	2012
Cost:		
Buildings (including facility infrastructure)	$ 306,674	$ 311,089
Machinery and equipment	1,400,213	1,359,395
	1,706,887	1,670,484
Accumulated depreciation:		
Buildings (including facility infrastructure)	(173,696)	(156,662)
Machinery and equipment	(1,183,152)	(1,079,354)
	(1,356,848)	(1,236,016)
	$ 350,039	$ 434,468

As of December 31, 2013 and 2012, the cost of buildings, machinery and equipment was reflected net of investment grants (see B below) in the aggregate of $284,406.

B. Investment Grants

In February 2011, Tower received an approval certificate from the Israeli Investment Center for an expansion program for investments in fixed assets in Israel, according to which Tower received approximately NIS 135 million ($36,000) of such grants for eligible investments made by the Company from 2006 to 2012.

Entitlement to the above grants is subject to various conditions stipulated by the criteria set forth in the certificate of approval issued by the Israeli Investment Center, as well as by the Israeli Law for the Encouragement of Capital Investments - 1959 ("Investments Law") and the regulations promulgated thereunder. In the event Tower fails to comply with such conditions, Tower may be required to repay all or a portion of the grants received plus interest and certain inflation adjustments. In order to secure fulfillment of the conditions related to the receipt of investment grants, floating liens were registered in favor of the State of Israel on substantially all of Tower's assets.

NOTE 9 - INTANGIBLE ASSETS, NET

Intangible assets, net consist of the following:

		As of December 31,	
	Useful Life	2013	2012
Facilities lease rights	1,19	$ 16,988	$ 25,739
Technologies, patents and other rights	3.6;4;9	11,300	17,104
Trade name	9	2,146	2,723
Customer relationships	15	1,684	1,995
Others		275	375
		$ 32,393	$ 47,936

(dollars in thousands, except per share data)

NOTE 10 - OTHER ASSETS, NET

Other assets, net consist of the following:

	As of December 31,	
	2013	2012
Prepaid long-term land lease, net (see Note 16C)	$ 3,899	$ 4,020
Debenture issuance expenses and deferred financing charges	5,719	7,551
Prepaid expenses - long-term and others	1,929	2,197
	$ 11,547	$ 13,768

NOTE 11 - OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	As of December 31,	
	2013	2012
Employees related liabilities	$ 25,957	$ 28,101
Interest payable (primarily in relation to debentures)	3,727	3,914
Other	4,267	4,225
	$ 33,951	$ 36,240

NOTE 12 - LONG-TERM LOANS FROM BANKS

A. Composition

	As of December 31, 2013
In U.S. Dollars, see also Notes 12B, 12C	$ 150,155
In JPY, see also Note 12D	10,954
Total long-term loans from banks-principal amount	161,109
Fair value adjustments	(22,370)
Total long-term loans from banks	138,739
Current maturities	(30,000)
	$ 108,739

	As of December 31, 2012
In U.S. Dollars, see also Note 12B	$ 131,055
In JPY, see also Note 12D	13,347
Total long-term loans from banks-principal amount	144,402
Fair value adjustments	(24,410)
Total long-term loans from banks	119,992
Current maturities	(25,000)
	$ 94,992

NOTE 12 - LONG-TERM LOANS FROM BANKS (cont.)

B. Facility Agreement with Tower

As of December 31, 2013, Tower had an amount of approximately $131,000 of loans outstanding under its Facility Agreement signed with the two largest Israeli Banks, Bank Leumi and Bank Ha'poalim ("the Israeli Banks" or "the Banks"), carrying an annual interest rate of the three-month USD LIBOR plus 3.50% ("Facility Agreement").

Pursuant to the Facility Agreement, Tower has registered liens in favor of the Israeli Banks on substantially all of its present and future assets. The Facility Agreement restricts Tower's ability to place liens on its assets (other than existing liens in favor of the State of Israel in respect of Investment Center grants - see Note 8B), without the prior consent of the Israeli Banks. The Facility Agreement also contains certain restrictive financial ratios and covenants. Satisfying these financial ratios and covenants is a material provision of the Facility Agreement. If, as a result of any default, the Israeli Banks were to accelerate Tower's obligations, Tower would be obligated, to, among other things, immediately repay all loans made by the Israeli Banks plus penalties, and the Israeli Banks would be entitled to exercise the remedies available to them under the Facility Agreement, including enforcement of their liens against all of Tower's assets.

The final maturity date of the outstanding approximately $131,000 loans is June 2016, and the repayment schedule of the loans is in the following amounts and dates: An installment of $5,000 in each of March and June 2014, an installment of $10,000 in each of September and December 2014, an installment of $15,000 in each of March and June 2015, an installment of $20,000 in each of September 2015, December 2015 and March 2016, and a final installment of approximately $11,000 due June 2016.

The agreement with the banks also contains, amongst others, a mechanism for prepayment of principal based on amounts that Tower may raise from new funding sources, if and when such funds will be raised, and a requirement, under which $10,000 were placed in deposits designated to fund the Israeli Banks loan maturities of March and June 2014 which amounts to $5,000 each as detailed above.

Loans received under the Facility Agreement, as amended to date, are presented at fair value, with changes in value reflected on the statements of operations, following adoption by the Company of ASC 825-10 Fair Value Option and Tower's election to apply the fair value option to the Facility Agreement.

The effects of the Facility Agreement, as revised and amended, have been included in the measurement of the fair value of the loans at the relevant periods.

NOTE 12 - LONG-TERM LOANS FROM BANKS (cont.)

C. Wells Fargo Asset-Based Revolving Credit Line

In December 2013, Jazz entered into an agreement with Wells Fargo Capital Finance, part of Wells Fargo & Company ("Wells Fargo"), for a five-year secured asset-based revolving credit line in the total amount of up to $70,000, maturing in December 2018 (the "Credit Line Agreement"). Loans under the Credit Line Agreement bear interest at a rate equal to, at lender's option, either the lender's prime rate plus a margin ranging from 0.50% to 1.0% or the LIBOR rate plus a margin ranging from 1.75% to 2.25% per annum.

The outstanding borrowing availability varies from time to time based on the levels of Jazz's eligible accounts receivable, eligible equipment, eligible inventories and other terms and conditions described in the Credit Line Agreement. The Credit Line Agreement is secured by the assets of Jazz. The Loan Agreement contains customary covenants and other terms, including covenants, as well as customary events of default and a requirement to provide assurance in a form satisfactory to Wells Fargo for the ability of Jazz to address at least a substantial portion of its approximately $94,000 notes due June 2015 prior to its maturity.

Borrowing availability under the Credit Line Agreement as of December 31, 2013, was approximately $52,000.

As of December 31, 2013, Jazz was in compliance with all the covenants under this facility. Outstanding borrowing as of December 31, 2013, was approximately $19,000.

D. GE Capital Asset-Based Revolving Line

In May 2012, TJP signed a definitive credit line agreement with GE Capital to provide a three-year secured asset-based revolving credit line of up to 4 billion Japanese Yen (approximately $40,000) maturing in 2015. The borrowing availability varies based on the levels of TJP's eligible accounts receivable, eligible equipment and real estate and other terms and conditions stipulated in the credit line agreement and was capped at $30,000 until June 2013 and 4 billion Japanese Yen thereafter. Loans to be obtained under this credit line will carry an interest of the higher of TIBOR rate or LIBOR rate plus 2.6% per annum. The TJP credit line agreement contains customary covenants and other terms, as well as customary events of default. The facility is secured by a first priority security interest over the assets of TJP.

As of December 31, 2013, the total availability amounted to approximately $25,000, of which approximately $11,000 was outstanding.

In connection with the GE credit line agreement, Micron's security interest over the assets of TJP was changed to a second priority security interest, subordinated to GE Capital's first priority security interest. During 2013, the inter-creditor agreement between Tower, TJP, Micron Technology Inc. and Micron Japan Ltd., governing the subordination and priority of claims over TJP's assets, expired. Consequently, the second liens held by Micron have been removed.

(dollars in thousands, except per share data)

NOTE 13 - DEBENTURES

A. Composition by repayment schedule (carrying amount):

		As of December 31, 2013		
	Interest rate	2014	2015	2016
Debentures Series D	8%	$ 6,441	$ 6,441	$ 6,441
Debentures Series F	7.8%	--	57,041	57,041
Jazz's 2010 Notes (as defined in D below)	8%	--	81,181	--
		$ 6,441	$ 144,663	$ 63,482

The outstanding principal amounts of the debentures as of December 31, 2013 and 2012 were, approximately $345,000 and $349,000, respectively.

The Tower debentures and interest thereon are unsecured and subordinated to Tower's existing and future secured indebtedness, including indebtedness to the Israeli Banks under the Facility Agreement - see Note 16A(1), and to the government of Israel - see Note 8B. For details in regards to Jazz Notes, see D below.

If on a payment date of the principal or interest on any series of the Tower debentures, there is a breach of certain covenants and conditions under the Facility Agreement, the dates for payment of interest and principal on the debentures may be postponed until such covenant or condition is satisfied.

B. Debentures Series D and E Issued in 2007

During 2007, Tower issued (i) $27,000 aggregate principal amount of long-term non-convertible debentures, repayable in six equal annual installments beginning in December 2011 and ending in December 2016, linked to the CPI and carrying an annual interest rate of 8% ("Series D"); and (ii) $ 30,000 aggregate principal amount of long-term convertible-debentures payable in December 2012, linked to the CPI, carrying an annual interest of 8% ("Series E").

During 2012, Series E convertible debentures were fully paid and the debentures were fully redeemed.

Series D non-convertible debenture outstanding principal amounts as of December 31, 2013 and 2012, were approximately $20,000 and $25,000, respectively.

C. Debentures Series F

In 2010 and 2012, Tower issued long-term debentures, which are fully linked to the US dollar, carry an interest rate of 7.8% per annum payable semiannually, are repayable in two equal installments in December 2015 and December 2016, and are convertible into Tower's ordinary shares during the period commencing September 2012 and ending December 2016.

NOTE 13 - DEBENTURES (Cont.)

C. Debentures Series F (cont.)

The outstanding principal amount of Series F as of December 31, 2013 and 2012, was approximately $231,000.

Commencing the initial issuance date of Series F in October 2010 and until September 2012, said debentures were not convertible into ordinary shares of Tower. Commencing September 2012 and until its final maturity date, Series F can be convertible into Tower's ordinary shares, at the election of each of its holders, with a conversion ratio of 38.21 NIS par value of debentures into one ordinary share. The conversion price was calculated at a 20% premium over the average of Tower's share price over the 15 days prior to September 18, 2012. The determination of the conversion ratio triggered the examination of whether a contingent Beneficial Conversion Feature ("BCF") existed as of past issuance dates of these debentures. In accordance with ASC 470-20 (formerly EITF 98-5 and EITF 00-27), and specifically the guidance over "Contingently Adjustable Conversion Ratios", the Company concluded that a BCF existed. The BCF, in accordance with such guidance, amounted to approximately $110,000 which is classified as an increase in shareholders' equity with a corresponding decrease by the same amount in the carrying values of Series F presented in long term liabilities. The $110,000 decrease in Series F's liability amount is considered a debt discount to be amortized over the remaining term of said debentures using the effective interest method, resulting in interest being recognized at increasing amounts as time passes with the largest effect being recognized in 2015 and 2016. In June 2013, following the rights offering described in Note 17H, the conversion rate was adjusted to NIS 36.276 in accordance with the terms of the indenture.

D. Notes Issued By Jazz in 2010

In July 2010, Jazz issued notes in the principal amount of approximately $94,000 due June 2015 (the "2010 Notes"). Interest on the 2010 Notes at a rate of 8% per annum is payable semiannually.

As of December 31, 2013 and 2012, approximately $94,000 in principal amount of the 2010 Notes was outstanding.

The Jazz Credit Line Agreement imposes certain limitations on the ability to repay the notes and/or to incur additional indebtedness without Wells Fargo's consent. Any default on payment of the notes at maturity would trigger a cross default under the Credit Line Agreement, which would permit the lenders to accelerate the obligations thereunder, potentially requiring to repay or refinance the Credit Line Agreement.

The Jazz debentures constitute unsecured obligations of Jazz, rank on parity in right of payment with all other unsecured indebtedness of Jazz, are effectively subordinated to all Jazz's existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness, including indebtedness to Wells Fargo under the Credit Line Agreement, see Note 12C. Jazz debentures are not guaranteed by Tower. Jazz's obligations under the debentures are guaranteed by Jazz's wholly owned domestic subsidiaries.

NOTE 14 - FINANCIAL INSTRUMENTS AND FAIR VALUE MEASURMENTS

The Company makes certain disclosures with regard to financial instruments, including derivatives. These disclosures include, among other matters, the nature and terms of derivative transactions, information about significant concentrations of credit risk and the fair value of financial assets and liabilities.

A. Exchange Rate Transactions

As the functional currency of Tower is the USD and part of Tower's expenses are denominated in NIS, Tower entered into exchange rate agreements to protect against the volatility of future cash flows caused by changes in foreign exchange rates on NIS denominated expenses.

As of December 31, 2013, Tower had $4,500 in open exchange rate agreements which will expire during 2014. The profit from these transactions for the year ended December 31, 2013, was recorded in the statements of operations.

B. Concentration of Credit Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term bank deposits, trade receivables and government receivables. The Company's cash and cash equivalents are maintained with large and reputable banks, and the composition and maturities of investments are regularly monitored by the Company. Generally, these securities may be redeemed upon demand and bear minimal risk.

The Company generally does not require collateral for insurance of receivables, however, in certain circumstances the Company obtains credit insurance or may require letters of credit. An allowance for doubtful accounts is determined with respect to those amounts that were determined to be doubtful of collection. The Company performs ongoing credit evaluations of its customers.

The Company is exposed to credit-related losses in respect of derivative financial instruments in a manner similar to the credit risk involved in the realization or collection of other types of assets.

C. Fair Value of Financial Instruments

The estimated fair values of the Company’s financial instruments, excluding debentures and banks' loans, do not materially differ from their respective carrying amounts as of December 31, 2013 and 2012. The fair values of Tower and Jazz’s debentures, based on quoted market prices or other valuation as of December 31, 2013 and 2012, were approximately $319,000 and $313,000, respectively, compared to carrying amounts of approximately $215,000 and $200,000, for the above dates, respectively.

NOTE 14 - FINANCIAL INSTRUMENTS AND FAIR VALUE MEASURMENTS (Cont.)

D. Fair Value Measurements

Valuation Techniques:

In general, and where applicable, the Company uses quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology applies to the Company's Level 1 assets and liabilities. If quoted prices in active markets for identical assets and liabilities are not available to determine fair value, then the Company uses quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable, either directly or indirectly. This pricing methodology applies to the Company's Level 2 and Level 3 assets and liabilities.

Level 2 Measurements:

Over the counter derivatives - the Company used the market approach using quotations from banks.

Level 3 Measurements:

Warrants - the Company utilized the Black Scholes Merton formula. The assumptions included in the Black-Scholes model were (i) the market price of Tower's shares, (ii) the exercise price of the warrant, (iii) risk-free interest, (iv) term available to exercise or redeem the security, and (v) the volatility of the share during the relevant term. The Company determines the volatility of its share using daily historical quotes of the share. The risk free interest rate is determined as the interest rate on governmental bonds with maturity commensurate with the term of the warrant.

Tower's loans - For Tower's loans from the Israeli Banks, fair value is based on the income approach using a present value technique under which the cash flows used in the technique reflect the cash stream expected to be used to satisfy the obligation over its economic life. Tower discounted expected cash flows as forecasted each quarter using the appropriate discount rate for the applicable maturity based on the expected contractual payments, by observing yields on similar traded debts.

(dollars in thousands, except per share data)

NOTE 14 - FINANCIAL INSTRUMENTS AND FAIR VALUE MEASURMENTS (Cont.)

D. Fair Value Measurements (cont.)

Recurring Fair Value Measurements Using the Indicated Inputs:

	December 31, 2013	Quoted prices in active market for identical liability (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Tower's loans (including current maturities)(*)	$ 108,685	$ --	$ --	$ 108,685
Others	(18)	--	(65)	47
	$ 108,667	$ --	$ (65)	$ 108,732

(*) Includes only loans under Tower's Facility Agreement with the Israeli Banks.

Liabilities measured on a recurring basis using significant unobservable inputs (Level 3):

	Tower's loans (including current maturities)	Others
As of January 1, 2013 - at fair value	$ 106,645	$ 295
Total losses (gains) unrealized in earnings	2,040	(248)
As of December 31, 2013 - at fair value	108,685	47
Unrealized losses (gains) recognized in earnings from liabilities held at period end	$ 2,040	$ (248)

(dollars in thousands, except per share data)

NOTE 14 - FINANCIAL INSTRUMENTS AND FAIR VALUE MEASURMENTS (cont.)

D. Fair Value Measurements (cont.)

Recurring Fair Value Measurements Using the Indicated Inputs:

	December 31, 2012	Quoted prices in active market for identical liability (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Tower's loans (including current maturities)(*)	$ 106,645	$ --	$ --	$ 106,645
Others	(589)	--	(884)	295
	$ 106,056	$ --	$ (884)	$ 106,940

(*) Includes only loans under Tower's Facility Agreement with the Israeli Banks.

Liabilities measured on a recurring basis using significant unobservable inputs (Level 3):

	Tower's loans (including current maturities)	Others
As of January 1, 2012 - at fair value	$ 93,845	$ 2,268
Total losses (gains) unrealized in earnings	12,800	(1,973)
As of December 31, 2012 - at fair value	$ 106,645	$ 295
Unrealized losses (gains) recognized in earnings from liabilities held at period end	$ 12,800	$ (1,973)

NOTE 15 - EMPLOYEE RELATED LIABILITIES

A. Employee Termination Benefits

Israeli law, labor agreements and corporate policy determine the obligations of Tower to make severance payments to dismissed Israeli employees and to Israeli employees leaving employment under certain circumstances. Generally, the liability for severance pay benefits, as determined by Israeli law, is based upon length of service and the employee's monthly salary. This liability is primarily covered by regular deposits made each month by Tower into recognized severance and pension funds and by insurance policies maintained by Tower, based on the employee's salary for the relevant month. The amounts so funded and the liability are reflected separately on the balance sheets in long-term investments and long-term employee related liabilities in the amounts of $11,743 and $13,400, respectively, as of December 31, 2013. Commencing January 1, 2005, Tower implemented a labor agreement with regard to most of its employees, according to which monthly deposits into recognized severance and pension funds or insurance policies will release it from any additional severance obligation in excess of the balance in such accounts to such Israeli employees and, therefore, Tower incurs no liability or asset with respect to such severance obligations and deposits, since that date. Any net severance pay amount as of such date will be released on the employee's termination date. Payments relating to Israeli employee termination benefits were $3,756, $3,450 and $4,641 for 2013, 2012 and 2011, respectively.

Labor agreements pertaining to the employees of TJP determine the obligation of TJP to make payments to employees upon retirement or upon termination. The liability for termination benefits, as determined by said agreements is based upon length of service and the employee's monthly salary multiplied by a certain ratio. In case of resignation, the employee is entitled to 50% of the termination benefits. TJP does not cover the termination liability through deposits to benefit funds and the entire liability as of December 31, 2013, in the amount of $49,385, is reflected in the balance sheets as long-term employee related liabilities. Payments relating to employee termination benefits were $924 for 2013 and $18,231 for 2012 (including reorganization costs).

B. Jazz Employee Benefit Plans

The following information provided recognizes the changes in 2013, 2012 and 2011 periodic expenses and benefit obligations due to the bargaining agreement effective December 19, 2009 entered into by Jazz with its collective bargaining unit employees.

(dollars in thousands, except per share data)

NOTE 15 - EMPLOYEE RELATED LIABILITIES (cont.)

B. Jazz Employee Benefit Plans (cont.)

Postretirement Medical Plan

The components of the net periodic benefit cost and other amounts recognized in other comprehensive income (loss) for postretirement medical plan expense are as follows:

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Net periodic benefit cost			
Service cost	$ 32	$ 146	$ 193
Interest cost	126	399	573
Expected return on the plan's assets	--	--	--
Amortization of transition obligation (asset)	--	--	--
Amortization of prior service costs	(1,703)	(244)	114
Amortization of net (gain) or loss	(132)	--	109
Total net periodic benefit cost	$ (1,677)	$ 301	$ 989
Other changes in plan assets and benefits obligations recognized in other comprehensive income			
Prior service cost for the period	$ (91)	$ (3,851)	$ (990)
Net (gain) or loss for the period	(668)	(1,355)	(1,752)
Amortization of transition obligation (asset)	--	--	--
Amortization of prior service costs	1,703	244	(114)
Amortization of net gain or (loss)	132	--	(109)
Total recognized in other comprehensive income (expense)	$ 1,076	$ (4,962)	$ (2,965)
Total recognized in net periodic benefit cost and other comprehensive income	$ (601)	$ (4,661)	$ (1,976)
Weighted average assumptions used:			
Discount rate	4.30%	5.20%	5.90%
Expected return on plan assets	N/A	N/A	N/A
Rate of compensation increases	N/A	N/A	N/A
Assumed health care cost trend rates:			
Health care cost trend rate assumed for current year (Pre-65/Post-65)	8.25/35.00%	8.25/57.00%	10.00/21.00%
Ultimate rate (Pre-65/Post-65)	5.00/5.00%	5.00/5.00%	5.00/5.00%
Year the ultimate rate is reached (Pre-65/Post-65)	2022/2022	2021/2019	2021/2019
Measurement date	December 31, 2013	December 31, 2012	December 31, 2011

(dollars in thousands, except per share data)

NOTE 15 - EMPLOYEE RELATED LIABILITIES (cont.)

B. Jazz Employee Benefit Plans (cont.)

Postretirement Medical Plan (cont.)

Impact of one-percentage point change in assumed health care cost trend rates as of December 31, 2013:

	Increase	Decrease
Effect on service cost and interest cost	$ 13	$ (10)
Effect on postretirement benefit obligation	$ 145	$ (116)

The components of the change in benefit obligation, change in plan assets and funded status for postretirement medical plan are as follows:

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Change in benefit obligation:			
Benefit obligation at beginning of period	$ 2,995	$ 7,749	$ 9,811
Service cost	32	146	193
Interest cost	126	399	573
Benefits paid	(77)	(93)	(86)
Change in plan provisions	(91)	(3,851)	(990)
Actuarial gain	(668)	(1,355)	(1,752)
Benefit obligation end of period	$ 2,317	$ 2,995	$ 7,749
Change in plan assets:			
Fair value of plan assets at beginning of period	$ --	$ --	$ --
Actual return on plan assets	--	--	--
Employer contribution	77	93	86
Benefits paid	(77)	(93)	(86)
Fair value of plan assets at end of period	$ --	$ --	$ --
Funded status	$ (2,317)	$ (2,995)	$ (7,749)

(dollars in thousands, except per share data)

NOTE 15 - EMPLOYEE RELATED LIABILITIES (cont.)

B. Jazz Employee Benefit Plans (cont.)

Postretirement Medical Plan (cont.)

	As of December 31, 2013	As of December 31, 2012	As of December 31, 2011
Amounts recognized in statement of financial position:			
Non-current assets	$ --	$ --	$ --
Current liabilities	(89)	(132)	(137)
Non-current liabilities	(2,228)	(2,863)	(7,612)
Net amount recognized	$ (2,317)	$ (2,995)	$ (7,749)
Weighted average assumptions used:			
Discount rate	5.20%	4.30%	5.20%
Rate of compensation increases	N/A	N/A	N/A
Assumed health care cost trend rates:			
Health care cost trend rate assumed for next year (Pre 65/ Post 65)	7.75/25.00%	8.25/35.00%	8.25/57.00%
Ultimate rate (Pre 65/ Post 65)	5.00/5.00%	5.00/5.00%	5.00/5.00%
Year the ultimate rate is reached (Pre 65/ Post 65)	2022/2022	2022/2022	2021/2019

The following benefit payments are expected to be paid in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter:

Fiscal Year	Other Benefits
2014	$ 89
2015	83
2016	182
2017	101
2018	116
2019 - 2023	$ 678

Jazz adopted several changes to the postretirement medical plan in 2012 that cumulatively reduced obligations by approximately $3,900. The changes in the plan will be implemented through 2015 and include the phase out of spousal coverage, introduction of an employer-paid cap, and acceleration of increases in retiree contribution rates.

Jazz Pension Plan

Jazz has a pension plan that provides for monthly pension payments to eligible employees upon retirement. The pension benefits are based on years of service and specified benefit amounts. Jazz uses a December 31 measurement date. Jazz makes quarterly contributions in accordance with the minimum actuarially determined amounts.

(dollars in thousands, except per share data)

NOTE 15 - EMPLOYEE RELATED LIABILITIES (cont.)

B. Jazz Employee Benefit Plans (cont.)

Jazz Pension Plan (cont.)

The components of the change in benefit obligation, the change in plan assets and funded status for Jazz's pension plan are as follows:

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Net periodic benefit cost			
Service cost	$ --	$ --	$ --
Interest cost	732	761	736
Expected return on plan assets	(948)	(817)	(810)
Amortization of transition obligation(asset)	--	--	--
Amortization of prior service costs	--	--	--
Amortization of net (gain) or loss	97	70	--
Total net periodic benefit cost	$ (119)	$ 14	$ (74)
Other changes in plan assets and benefits obligations recognized in other comprehensive income			
Prior service cost for the period	$ 93	$ --	$ --
Net (gain) or loss for the period	(4,696)	1,000	2,468
Amortization of transition obligation (asset)	--	--	--
Amortization of prior service costs	--	--	--
Amortization of net gain or (loss)	(97)	(70)	--
Total recognized in other comprehensive income (expense)	$ (4,700)	$ 930	$ 2,468
Total recognized in net periodic benefit cost and other comprehensive income (expense)	$ (4,819)	$ 944	$ 2,394
Weighted average assumptions used:			
Discount rate	4.30%	5.10%	5.70%
Expected return on plan assets	7.50%	7.50%	7.50%
Rate of compensation increases	N/A	N/A	N/A

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Estimated amounts that will be amortized from accumulated other comprehensive income in the next fiscal year ending :			
Transition obligation (asset)	$ --	$ --	$ --
Prior service cost	3	--	--
Net actuarial (gain) or loss	$ --	$ 97	$ --

(dollars in thousands, except per share data)

NOTE 15 - EMPLOYEE RELATED LIABILITIES (Cont.)

B. Jazz Employee Benefit Plans (Cont.)

Jazz Pension Plan (cont.)

The components of the change in benefit obligation, change in plan assets and funded status for Jazz's pension plan are as follows:

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Change in benefit obligation:			
Benefit obligation at beginning of period	$ 17,272	$ 15,134	$ 13,105
Service cost	--	--	--
Interest cost	732	761	736
Benefits paid	(437)	(293)	(273)
Change in plan provisions	93	--	--
Actuarial loss (gain)	(1,787)	1,670	1,566
Benefit obligation end of period	$ 15,873	$ 17,272	$ 15,134
Change in plan assets			
Fair value of plan assets at beginning of period	$ 12,543	$ 10,842	$ 10,742
Actual return on plan assets	3,857	1,488	(92)
Employer contribution	689	506	465
Benefits paid	(437)	(293)	(273)
Fair value of plan assets at end of period	$ 16,652	$ 12,543	$ 10,842
Funded status	$ 779	$ (4,729)	$ (4,292)
Accumulated benefit obligation	$ 15,873	$ 17,272	$ 15,134
Amounts recognized in statement of financial position			
Non-current assets	$ 779	$ --	$ --
Current liabilities	--	--	--
Non-current liabilities	--	(4,729)	(4,292)
Net amount recognized	$ 779	$ (4,729)	$ (4,292)
Weighted average assumptions used			
Discount rate	5.10%	4.30%	5.10%
Expected return on plan assets	7.50%	7.50%	7.50%
Rate of compensation increases	N/A	N/A	N/A

(dollars in thousands, except per share data)

NOTE 15 - EMPLOYEE RELATED LIABILITIES (cont.)

B. Jazz Employee Benefit Plans (cont.)

Jazz Pension Plan (cont.)

The following benefit payments are expected to be paid in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter:

Fiscal Year	Other Benefits
2014	$ 540
2015	615
2016	684
2017	748
2018	806
2019 - 2023	$ 4,829

The Plan's assets measured at fair value on a recurring basis consisted of the following as of as of December 31, 2013:

	Level 1	Level 2	Level 3
Investments in Mutual Funds	$ --	$ 16,652	$ --
Total plan assets at fair value	$ --	$ 16,652	$ --

The Plan's assets measured at fair value on a recurring basis consisted of the following as of as of December 31, 2012:

	Level 1	Level 2	Level 3
Investments in Mutual Funds	$ --	$ 12,543	$ --
Total plan assets at fair value	$ --	$ 12,543	$ --

Jazz's pension plan weighted average asset allocations on December 31, 2013 by asset category are as follows:

Asset Category:	December 31, 2013	Target allocation 2014
Equity securities	86%	65%-75%
Debt securities	14%	25%-35%
Real estate	0%	0%
Other	0%	0%
Total	100%	100%

Jazz's primary policy goals regarding the plan's assets are cost-effective diversification of plan assets, competitive returns on investment, and preservation of capital. Plan assets are currently invested in mutual funds with various debt and equity investment objectives. The target asset allocation for the plan assets is 25-35% debt, or fixed income securities, and 65-75% equity securities. Individual funds are evaluated periodically based on comparisons to benchmark indices and peer group funds and necessary investment decisions are made by Jazz in accordance with the policy goals of the investments managements. Actual allocation to each asset category fluctuates and might be outside the target range due to changes in market conditions. In 2014 Jazz rebalanced its assets allocation to align with the target asset allocation.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

A. Commitments and Contingencies Relating to Fab 2

(1) Facility Agreement

Liens

The Company has liens on its assets. For Liens regarding Tower's Facility Agreement, see Note 12B, for liens relating to Jazz Credit Line Agreement, see Note 12C and for TJP GE credit line see Note 12D.

Offer by the Israeli Banks

If one or more certain bankruptcy related events occur, the Israeli Banks are entitled to bring a firm offer made by a potential investor to purchase Tower's ordinary shares ("the Offer") at a price provided in the Offer. In such case, Tower shall be required thereafter to procure a rights offering to invest up to 60% of the amount of the Offer on the same terms. If the Offer is conditioned on the offeror purchasing a majority of Tower's outstanding share capital, the rights offering will be limited to allow for this, unless TIC and the principal shareholders existing at the time that Tower entered into the Facility Agreement with the Israeli Banks (SanDisk Corporation, Macronix International Co. Ltd., and Alliance Semiconductor Corporation) agree to exercise in a rights offering rights applicable to their shareholdings and agree to purchase in a private placement enough shares to ensure that the full amount of the Offer is invested.
For further details in regard to the Facility Agreement, see Note 12B.

(2) Approved Enterprise Status

For details regarding Approved Enterprise Status relating to Fab 2, see Note 21A, 8B.

B. License Agreements

The Company enters into intellectual property and licensing agreements with third parties from time to time. The effect of each of them on the Company's total assets and results of operations is immaterial. Certain of these agreements call for royalties to be paid by the Company to these third parties.

For the license agreement between TJP and Micron see Note 3.

(dollars in thousands, except per share data)

NOTE 16 - COMMITMENTS AND CONTINGENCIES (cont.)

C. Leases

Tower's administrative offices and corporate headquarters, Fab 1 and Fab 2 manufacturing operations are located in a building complex situated in an industrial park in Migdal Ha'emek, in the northern part of Israel. The premises where the administrative offices and Fab 1 are located are under a long-term lease from the ILA, which expires in 2032. Tower has no obligation for lease payments related to this lease through the year 2032. Tower entered into a long-term lease agreement with the ILA relating to Fab 2 for a period ending in 2049. The lease payments through 2049 relating to this lease have been paid in advance and are expensed through the operational lease period.

Tower occupies certain other premises under various operating leases. The obligations under such leases were not material as of December 31, 2013.

Since 2002, Jazz has leased its fabrication facilities, land and headquarters from Conexant. In December 2010, Conexant sold Jazz's fabrication facilities, land and headquarters. In connection with the sale, Jazz negotiated amendments to its operating leases that confirm Jazz's ability to remain in the fabrication facilities through 2027, including Jazz's options to extend the lease term at its sole discretion from 2017 to 2022 and from 2022 to 2027. In regards to an office building lease, Jazz's landlord exercised its right to terminate the office building lease, effective January 1, 2014. Jazz moved its offices to the fabrication building and to nearby newly leased office space. Jazz and the landlord signed an additional amendment to the amended lease to reflect termination of the office building lease and certain obligations of Jazz and the landlord, including certain noise abatement actions at the fabrication facility. This office building termination has no impact whatsoever on Jazz's fabrication buildings, facilities and operations and Jazz's ability to remain in the fabrication facilities through 2027 (including by exercising its two consecutive five-year extension periods which it can exercise in its sole discretion).

Aggregate rental expense under operating leases, was approximately $2,400 for each of the years ended December 31, 2013, 2012 and 2011.
Future minimum payments under non-cancelable operating building lease are as follows:

	2014	2015	2016	2017	2018	Thereafter	Total
Operating leases	$ 1,898	$ 2,096	$ 2,108	$ 693	$ 372	$ 408	$ 7,575

NOTE 16 - COMMITMENTS AND CONTINGENCIES (cont.)

D. Other Principal Agreements

The Company, from time to time in the ordinary course of business, enters into long-term agreements with various entities for the joint development of products and processes utilizing technologies owned separately by either the other entity or the Company, or owned jointly by both parties, as applicable.

(1) Siliconix

In 2004, Tower and Siliconix incorporated ("Siliconix"), a subsidiary of Vishay Intertechnology Inc., entered into a definitive long-term foundry agreement for semiconductor manufacturing. During recent years, the parties amended the agreement several times to revise the terms of the purchase of wafers and transfer additional product platforms to Tower for the manufacturing of new products.

(2) An agreement with an Asian entity

In November 2009, Tower entered into a definitive agreement with an Asian entity for the capacity ramp-up and upgrade of the entity's current installed and commissioned eight inch refurbished wafer fabrication facility with 0.18 micron Complementary Metal Oxide Semiconductor (CMOS) technology. Said facility has 0.25 micron and lower geometries.

Under said agreement, Tower provides, on a turn-key basis, technical consultation, know-how, training and turn-key manufacturing solutions, including arranging for the required manufacturing and the transfer of certain equipment required for the fab ramp-up and upgrade. The project is divided into several phases of implementation: (i) supply of documents of the offered 0.18 micron CMOS technology; (ii) project planning; (iii) supply process equipment; (iv) installation and acceptance of process equipment; (v) process set-up and integration; and (vi) technology qualification and production. The total agreement value is approximately $130,000, of which approximately $123,000 was paid as of December 31, 2013.

Payments are based on performance of milestones derived from the phases above and delivery of the deliverables. As of December 31, 2013, the Company substantially completed the project. The following are the major payment milestones: shipment of process equipment; delivery of process flow document of the 0.18 micron technology; delivery of detailed working plans; design of clean room; delivery of process equipment; training and integration; and performance of qualification tests and analyses.

During the years ended December 31, 2013, 2012 and 2011, Tower recorded approximately $3,400, $15,400 and $36,200 revenues, respectively relating to said agreement.

NOTE 16 - COMMITMENTS AND CONTINGENCIES (cont.)

E. Environmental Affairs

The Company's operations are subject to a variety of laws and state and governmental regulations relating to the use, discharge and disposal of toxic or otherwise hazardous materials used in the production processes. Operating permits and licenses are required for the operation of the Company's facilities and these permits and licenses are subject to revocation, modification and renewal. Government authorities have the power to enforce compliance with these regulations, permits and licenses. As of the approval date of the financial statements, the Company is not aware of any noncompliance with the terms of said permits and licenses.

F. Special Security Agreement

In connection with Jazz's aerospace and defense business, its facility security clearance and trusted foundry status, Jazz and Tower have worked with the Defense Security Service of the United States Department of Defense ("DSS") to mitigate concern of foreign ownership, control or influence over the operations of Jazz specifically relating to protection of classified information and prevention of potential unauthorized access thereto by creating Jazz Semiconductor Trusted Foundry ("JSTF") as a subsidiary of Jazz and limiting possession of all classified information solely to JSTF. Tower and Jazz have further agreed to operate JSTF under a Special Security Agreement signed with DSS.

G. Other Commitments

Receipt of certain research and development grants from the government of Israel is subject to various conditions. In the event Tower fails to comply with such conditions, Tower may be required to repay all or a portion of the grants received. In Tower's opinion, Tower has been in full compliance with the conditions through December 31, 2013. For details in regard to Investment Center grants, see Note 8B.

NOTE 17 - SHAREHOLDERS' EQUITY

A. Description of Ordinary Shares

As of December 31, 2013, Tower had 150 million authorized ordinary shares, par value NIS 15.00 each, of which approximately 47.9 million were issued and outstanding (net of approximately 0.1 million ordinary shares held by Tower as of such date). Holders of ordinary shares are entitled to participate equally in the payment of cash dividends and bonus share (stock dividend) distributions and, in the event of the liquidation of Tower, in the distribution of assets after satisfaction of liabilities to creditors. Each ordinary share is entitled to one vote on all matters to be voted on by shareholders. In August 2012, Tower completed a reverse split of its ordinary shares at a ratio of 1 for 15. Proportional adjustments were made to all of Tower's outstanding convertible securities. All numbers of shares and other convertible securities of the Company in these financial statements reflect the effect of the reverse share split.

B. Share Option Plans

(1) General

The Company has granted to its employees and directors options to purchase ordinary shares under several option plans adopted by the Company. The particular provisions of each plan and grant vary as to vesting period, exercise price, exercise period and other terms. Generally, the options are granted at an exercise price which equals either the closing market price of the ordinary shares immediately prior to the date of grant, or, an average of the closing price in the thirty trading days immediately prior to the date of grant, vest over up to a three or four year period according to various vesting schedules, and are not exercisable beyond seven or ten years from the grant date.

As of December 31, 2013, 446 thousand options outstanding under the Company's option plans except for those plans described below (the "Old Plans").

No further options may be granted under Old Plans.

(2) Tower's 2009 Share Incentive Plans (the "2009 Plans")

In 2009 the Company adopted new share incentive Plans to directors officers, employees and its subsidiaries. The options granted at an exercise price which equals the closing market price of the ordinary shares immediately prior to the date of grant, vest over up to a three, and are not exercisable beyond seven years from the grant date.

As of December 31, 2013, 2,110 thousand options outstanding under the 2009 Plans. No further grants may be made under these plans.

NOTE 17 - SHAREHOLDERS' EQUITY (cont.)

B. Share Option Plans (cont.)

(3) Tower's 2013 Share Incentive Plan (the "2013 Plan")

In 2013 the Company adopted new share incentive Plan to directors, officers, employees and its subsidiaries. Options to be granted under the plan will bear exercise price which equals an average of the closing price in the thirty trading days immediately prior to the date of grant, vest over up to a three year period and are not exercisable beyond seven years from the grant date.

As of December 31, 2013, 5,387 thousand options outstanding under the 2013 Plan. Further grants may be approved in accordance with the Board of Directors of the Company's decision.

(4) Independent Directors' Option Plan

In January 2007, our shareholders approved, following approval by the Audit Committee and Board, the grant to each independent director of the Company who is not affiliated with our major shareholders and is not an employee of the Company ("Independent Director") of initial options to purchase Tower's ordinary shares that equal 10,000 less the number of unvested options to purchase Tower's ordinary shares held by such Independent Director as of the date of shareholders' approval. The initial options vest over 3 years: one third will vest on the first anniversary of the grant date, and thereafter, the remaining two thirds pro-rata on a monthly basis over the remaining two years until fully vested. Each new Independent Director appointed will be granted 10,000 options to purchase Tower's ordinary shares with the same vesting terms as the initial grants, at an exercise price equal to the closing price of Tower's ordinary shares on the trading day immediately prior to the relevant date of appointment.

Upon each third anniversary of a previous grant of options to an Independent Director, each such Independent Director shall be granted an additional 10,000 options to purchase Tower's ordinary shares, which will vest over 3 years on a monthly basis until fully vested. The exercise price of each such option shall be the closing price of Tower's ordinary shares on the trading day immediately prior to the relevant grant date. Subject to certain conditions, the options that have vested shall be exercisable by an Independent Director for a period of ten years following the date on which the relevant options as the case may be, first vested.

As of December 31, 2013, 123.7 thousand options were outstanding under the Independent Directors' plan. No further grants may be made under this plan.

A summary of the status of all employee and director share option plans as of December 31, 2013, 2012 and 2011, as well as changes during each of the years then ended, is presented below.

(dollars in thousands, except per share data)

NOTE 17 - SHAREHOLDERS' EQUITY (cont.

B. Share Option Plans (cont.)

(5) Summary of the Status of all the Company's Employee and Director Share Options

	2013		2012		2011	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding as of beginning of year	4,351,487	$ 15.21	4,483,793	$ 14.97	3,946,484	$ 14.82
Granted	5,402,961	4.54	30,336	12.64	787,717	19.29
Exercised	23,932	4.35	125,260	4.36	87,887	5.70
Terminated	4,273	52.79	411	63.57	14,738	168.97
Forfeited	1,659,494	23.76	36,971	20.23	147,783	24.19
Outstanding as of end of year	8,066,749	6.31	4,351,487	15.21	4,483,793	14.97
Options exercisable as of end of year	2,419,180	$ 9.03	3,553,662	$ 14.28	2,678,946	$ 17.23

(6) Summary of Information about Employee Share Options Outstanding

The following table summarizes information about employee share options outstanding as of December 31, 2013:

Outstanding as of December 31, 2013			Exercisable as of December 31, 2013		
Range of exercise Prices	Number outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$ 2.70-4.95	7,039,294	5.82	$ 4.49	1,652,333	$ 4.34
6.00-15.90	306,762	5.11	13.35	270,060	13.60
17.25-20.85	290,581	4.48	17.30	154,073	17.33
21.00-28.20	397,769	3.33	22.75	310,371	23.16
$ 32.25-48.75	32,343	0.89	$ 35.87	32,343	$ 35.87
	8,066,749			2,419,180	

(dollars in thousands, except per share data)

NOTE 17 - SHAREHOLDERS' EQUITY (cont.)

B. Share Option Plans (cont.)

(6) Summary of Information about Employee Share Options Outstanding (cont.)

	Year Ended December 31,		
	2013	2012	2011
The intrinsic value of options exercised	$ 42	$ 927	$ 845
The original fair value of options exercised	$ 158	$ 819	$ 512

Stock-based compensation expense was recognized in the following line items in the statement of operations as follows:

	Year Ended December 31,		
	2013	2012	2011
Component of income (loss) before provision for income taxes:			
Cost of revenue	$ 597	$ 902	$ 1,120
Research and development, net	527	714	850
Selling, general and administrative	1,658	4,121	6,137
Stock-based compensation expense	$ 2,782	$ 5,737	$ 8,107

(7) Weighted Average Grant-Date Fair Value of Options Granted to Employees

The weighted average grant-date fair value of the options granted during 2013, 2012 and 2011 to employees and directors amounted to $2.10, $6.00 and $8.70 per option, respectively. The Company utilizes the Black-Scholes model. The Company estimated the fair value, utilizing the following assumptions for the years 2013, 2012 and 2011 (all in weighted averages):

	2013	2012	2011
Risk-free interest rate	0.77%-1.77%	0.65%-1.04%	0.94%-2.3%
Expected life of options	4.75 years	4.75 years	4.75 years
Expected annual volatility	51.16%-64.52%	51.76%-55.04%	49.42%-54.45%
Expected dividend yield	None	None	None

Risk free interest rate - is based on yield curve rates published by the US Department of Treasury.

Expected life of options - is based upon historical experience and represents the period of time that options granted are expected to be outstanding.

Expected annual volatility - is based on the volatility of the Company's ordinary share prior to the options award for the term identical to expected life.

NOTE 17 - SHAREHOLDERS' EQUITY (cont.)

B. Share Option Plans (cont.)

(8) Non-Employee Warrants - Israeli Banks Warrants

As of December 31, 2013, 309.4 thousand Israeli Banks' warrants to purchase ordinary shares of Tower were outstanding and exercisable, at a weighted average exercise price of $37.40 per share. All of the warrants are exercisable until December 2016.

In lieu of paying the exercise price in cash, the Israeli Banks are entitled to exercise their warrants on a "cashless" basis, i.e. by forfeiting part of the warrants in exchange for ordinary shares equal to the aggregate fair market value of the ordinary shares underlying the warrants forfeited less the aggregate exercise price.

C. Equity-Equivalent Capital Notes

All issued equity equivalent capital notes, totaling approximately 8.4 million as of December 31, 2013, have no voting rights, no maturity date, no dividend rights, are not tradable, are not registered, do not carry interest, are not linked to any index and are not redeemable.

The equity equivalent capital notes are classified in shareholders' equity.

D. Treasury Stock

During 1999 and 1998, the Company funded the purchase by a trustee of an aggregate of 86,667 of Tower's ordinary shares. These shares are classified as treasury shares.

E. Dividend Restriction

According to the Facility Agreement, as amended to date, Tower undertook not to distribute any dividends prior to the date that all amounts payable under the Facility Agreement have been paid in full.

F. Warrants J and Warrants 7

In connection with the issuance of the Jazz 2010 Notes, the note holders received warrants ("Warrants J"), which are exercisable for up to approximately 1.7 million Tower ordinary shares based on an exercise price of $25.50 per one ordinary share (15.00 NIS par value), for a period ending June 2015.

In connection with the issuance of Bonds Series F in 2012, the bondholders received warrants ("Warrants 7"), which are exercisable during a period of two years starting on March 2, 2014 and ending on March 1, 2016 for up to approximately 1.9 million ordinary shares of Tower based on an exercise price of 28.59 New Israeli Shekels in cash (linked to the USD) per one ordinary share (15.00 NIS par value).

(dollars in thousands, except per share data)

NOTE 17 - SHAREHOLDERS' EQUITY (cont.)

G. Securities Issuance Pursuant to the Acquisition of TJP

For ordinary shares issued as part of the Acquisition of TJP, see Note 3.

H. Rights Offering

In June 2013, the Company distributed to its shareholders and certain other security holders rights to purchase ordinary shares and two series of warrants. As a result of the rights offering, the Company received aggregate proceeds of approximately $40,000, including approximately $19,000 through the exercise of Series 8 Warrants issued in this rights offering and exercised in July 2013. The remaining Series 8 Warrants, which were not exercised, expired on July 2013. Those who exercised their rights also received an aggregate of approximately 5.5 million Series 9 warrants exercisable by June 2017 for the purchase of Ordinary shares for a cash payment to Tower of $7.33 per share.

NOTE 18 - INFORMATION ON GEOGRAPHIC AREAS AND MAJOR CUSTOMERS

A. Revenues by Geographic Area - as percentage of total sales

	Year ended December 31,		
	2013	2012	2011
USA	77%	81%	78%
Asia *	16	14	17
Europe *	7	5	5
Total	100%	100%	100%

* Represents revenues from individual countries of less than 10% each.

The basis of attributing revenues from external customers to geographic area is based on the headquarters location of the customer issuing the purchase order.

B. Property and equipment, net - by Geographic Area

Long-Lived Assets by Geographic Area - Substantially all of Tower's long-lived assets are located in Israel, substantially all of Jazz's long-lived assets are located in the United States and substantially all of TJP's long-lived assets are located in Japan.

	As of December 31,	
	2013	2012
Israel	$ 180,976	$ 217,402
United States	75,040	87,366
Japan	94,023	129,700
Total	$ 350,039	$ 434,468

(dollars in thousands, except per share data)

NOTE 18 - INFORMATION ON GEOGRAPHIC AREAS AND MAJOR CUSTOMERS (cont.)

C. Major Customers - as percentage of net accounts receivable balance

Accounts receivable from significant customers representing 10% or more of the net accounts receivable balance as of December 31, 2013 and 2012, consist of the following customers:

	As of December 31,	
	2013	2012
Customer 1	20%	30%
Customer 2	9%	12%

D. Major Customers - as percentage of total sales

	Year ended December 31,		
	2013	2012	2011
Customer A	27%	43%	32%
Other customers (*)	16	10	23

(*) Represents sales to two different customers accounted for between 7% and 9% of sales during 2013; to three different customers accounted for between 3% and 6% of sales during 2012 and to four different customers accounted for between 4% and 7% of sales during 2011.

NOTE 19 - INTEREST EXPENSES, NET AND OTHER FINANCING EXPENSES, NET

A. Interest Expenses, Net

Interest expenses net, for the year ended December 31, 2013, 2012 and 2011 were $32,971, $31,808 and $27,797, respectively.

B. Other Financing Expenses, Net

Other financing expenses, net consist of the following:

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Amortization on debt	$ 20,860	$ 11,939	$ 19,073
Changes in fair value, (total level 3 changes in fair value as reported in Note 14D)	1,792	10,827	(2,053)
Changes in fair value on debentures, derivatives and warrants - other than level 3 as reported in Note 14D	--	1,284	(5,624)
Exchange rate difference (mainly due to the effect of the NIS/USD exchange rate changes on our NIS denominated debentures)	4,038	2,707	(1,327)
Others	1,148	826	2,436
Other financing expenses, net	$ 27,838	$ 27,583	$ 12,505

(dollars in thousands, except per share data)

NOTE 20 - OTHER INCOME, NET

As of December 31, 2010, Jazz had an investment in Hua Hong Semiconductor Ltd ("HHSL"), which owns 100% of Shanghai Hua Hong NEC Electronics Company Ltd. (also known as "HHNEC"). The investment represented a minority interest of approximately 10% in HHSL.

During 2011, Jazz sold its 10% holdings in HHSL, in an HHSL buyback transaction for a gross amount of approximately $32,000 in cash, before tax and other payments and recorded a gross gain of approximately $15,000 from this transaction which is included in the Statements of Operations in Other Income, Net for the year ended December 31, 2011.

NOTE 21 - INCOME TAXES

A. Approved Enterprise Status

Substantially all of Tower's existing facilities and other capital investments have been granted approved enterprise status, as provided by the Investments Law.

Pursuant to the Investments Law and the approval certificates, Tower's income is taxed at a rate of 20% in 2013. The portion of Tower's taxable income that is not attributable to approved enterprise status is taxed at a rate of 25% in 2013 ("Regular Company Tax").

The tax benefits are also conditioned upon fulfillment of the requirements stipulated by the ktav ishur as well as by the Investments Law and the regulations promulgated thereunder, as well as the criteria set forth in the certificates of approval. In the event of a failure by Tower to comply with these conditions, the tax benefits could be canceled, in whole or in part, and Tower would be required to refund the amount of the canceled benefits, plus interest and certain inflation adjustments. In the Company's opinion, Tower has been in compliance with the conditions through the approval date of the financial statements. See Note 8B.

B. The company's Income Tax provision is as follows:

	Year Ended		
	December 31, 2013	December 31, 2012	December 31, 2011
Current tax expense (benefit):			
Foreign	$ (534)	$ (1,800)	$ 16,645
Total current	(534)	(1,800)	16,645
Deferred tax expense (benefit):			
Foreign	(8,854)	9,126	4,717
Total deferred	(8,854)	9,126	4,717
Income tax provision (benefit)	$ (9,388)	$ 7,326	$ 21,362

(dollars in thousands, except per share data)

NOTE 21 - INCOME TAXES (cont.)

B. The company's Income Tax provision is as follows (cont.)

	Year Ended		
	December 31, 2013	December 31, 2012	December 31, 2011
Profit (loss) before taxes			
Domestic	$ (90,497)	$ (83,049)	$ (47,541)
Foreign	(26,551)	20,106	50,373
Total income (loss) before taxes	$ (117,048)	$ (62,943)	$ 2,832

C. Components of Deferred Tax Asset/Liability

The following is a summary of the components of the deferred tax benefit and liability reflected on the balance sheets as of the respective dates:

	As of December 31,	
	2013	2012
Net deferred tax benefit - current		
Net operating loss carryforwards	$ 2,026	$ 758
Employees benefits and compensation	4,003	4,409
Accruals, reserves and others	2,760	5,435
	8,789	10,602
Valuation allowance	(2,779)	(1,745)
Total net current deferred tax benefit	$ 6,010	$ 8,857

	As of December 31,	
	2013	2012
Net deferred tax benefit - long-term		
Deferred tax assets -		
Net operating loss carryforwards	$ 284,446	$ 271,631
Employees benefits and compensation	4,605	5,756
Research and development	2,005	1,879
Others	1,212	664
	292,268	279,930
Valuation allowance	(255,899)	(238,320)
	$ 36,369	$ 41,610
Deferred tax liability - depreciation and amortization	(41,255)	(55,099)
Intangible assets	(6,929)	(10,434)
Debt discount	(884)	(1,203)
Others	(912)	(1,279)
Total net long-term deferred tax liability	$ (13,611)	$ (26,405)

(dollars in thousands, except per share data)

NOTE 21 - INCOME TAXES (cont.)

C. Components of Deferred Tax Asset/Liability (cont.)

Deferred tax asset in the amounts of $6,010 and $8,857 as of December 31, 2013 and 2012, respectively are presented in other current assets.

Deferred tax liability in the amounts of $13,611 and $26,405 as of December 31, 2013 and 2012, respectively, are presented in deferred tax liability.

The Company establishes a valuation allowance for deferred tax assets, when it is unable to conclude that it is more likely than not that such deferred tax assets will be realized. In making this determination, the Company evaluates both positive and negative evidence. Jazz's state deferred tax assets exceed the reversal of taxable temporary differences. Without other significant positive evidence, Jazz has determined that the state deferred tax assets are not more likely than not to be realized.

On December 31, 2013 and 2012, the Company recorded a valuation allowance against its deferred tax assets in the amounts of $258,678 and $240,065, respectively, to offset the related net deferred tax assets as the Company is unable to conclude that it is more likely than not that such deferred tax assets will be realized.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Unrecognized tax benefits
Balance at January 1, 2013	$ 27,414
Additions for tax positions of current year	12
Reductions for tax positions of prior year	(371)
Translation differences	(1,379)
Balance at December 31, 2013	$ 25,676

	Unrecognized tax benefits
Balance at January 1, 2012	$ 32,377
Reductions for tax positions of prior year	(275)
Translation differences	(719)
Settlements	(3,969)
Balance at December 31, 2012	$ 27,414

	Unrecognized tax benefits
Balance at January 1, 2011	$ 14,908
Additions for tax positions of current year	8,462
Additions for tax positions of prior year	9,730
Reductions for tax positions of prior year	(723)
Balance at December 31, 2011	$ 32,377

The Company accounts for its uncertain tax provisions in accordance with ASC 740. The Company’s policy is to recognize interest and penalties that would be assessed in relation to the settlement value of unrecognized tax benefits as a component of income tax expense.

(dollars in thousands, except per share data)

NOTE 21 - INCOME TAXES (cont.)

D. Effective Income Tax Rates

The reconciliation of the statutory tax rate to the effective tax rate is as follows:

	Year ended December 31,		
	2013	2012	2011
Tax expense (benefit) computed at statutory rates	$ (29,262)	$ (15,736)	$ 680
Effect of different tax rates in different jurisdictions	1,408	7,514	10,683
Tax benefits for which deferred taxes were not recorded	20,139	15,955	7,300
Permanent differences and other, net	(1,673)	(407)	2,699
Income tax provision (benefit)	$ (9,388)	$ 7,326	$ 21,362

E. Net Operating Loss Carry forward

On December 31, 2013, Tower had net operating loss carry forwards for tax purposes of approximately 1.3 billion USD which may be carried forward for an unlimited period of time.

The future utilization of Jazz's net operating loss carry forwards to offset future taxable income is subject to an annual limitation as a result of ownership changes that have occurred. Additional limitations could apply if ownership changes occur in the future. Jazz has had two "change in ownership" events that limit the utilization of net operating loss carry forwards. The first "change in ownership" event occurred in February 2007 upon Jazz Technologies' acquisition of Jazz Semiconductor. The second "change in ownership" event occurred on September 19, 2008, upon Tower's acquisition of Jazz. Jazz concluded that the net operating loss limitation for the change in ownership which occurred in September 2008 will be an annual utilization of $2,100 for the use in its tax return. On December 31, 2013, Jazz had federal net operating loss carry forwards of approximately $36,000 that will begin to expire in 2021, unless previously utilized. On December 31, 2013, Jazz had state net operating loss carry forwards of approximately $123,900. The state tax loss carry forwards will begin to expire in 2014, unless previously utilized.

At December 31, 2013, TJP had net operating loss carry forwards of approximately $9,000 which will expire in 2020.

NOTE 21 - INCOME TAXES (cont.)

F. Final Tax Assessments

Tower possesses final tax assessments through the year 1998. In addition, the tax assessments for the years 1999-2009 are deemed final.

Jazz and its subsidiaries are subject to U.S. federal income tax as well as income tax in multiple state and foreign jurisdictions.

During 2012, the Internal Revenue Service ("IRS") performed an audit of Jazz's 2009 and 2010 federal income tax returns. The audit did not have any material effect on the statements of operations. The change in the balance sheet resulted primarily in a classification of a long term liability to a current liability, which was partially paid as of December 31, 2012.

In June 2013, the U.S. tax authorities commenced an audit of Jazz's tax returns for 2011, and required certain reports and data in connection with the tax returns of Jazz for this year. There is no indication to date whether Jazz will be required to pay any additional taxes pursuant to this audit.

Jazz is no longer subject to U.S. federal income tax examinations for years before 2010; state and local income tax examinations before 2009; and foreign income tax examinations before 2010. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss carry forward amount**.**

TJP was established in June 2011 and does not have final tax assessments.

(dollars in thousands, except per share data)

NOTE 22 - RELATED PARTIES BALANCES AND TRANSACTIONS

A. Balances

	The nature of the relationships involved	As of December 31,	
		2013	2012
Trade accounts receivable	Trade accounts receivable	$ --	$ 148
Long-term investment	Equity investment in a limited partnership	$ 60	$ 204
Trade accounts payable	Trade accounts payable	$ 90	$ 125

B. Transactions

	Description of the transactions	Year Ended December 31,		
		2013	2012	2011
Sales	Sales to a limited partnership	$ 59	$ 431	$ 268
Cost of revenues	Purchase of services and goods from related parties of TIC	$ 3,379	$ 2,853	$ 2,658
Financing expenses	Interest on Debentures Series B held by TIC	$ --	$ --	$ 180
General and Administrative expenses	Mainly directors fees and reimbursement to directors	$ 311	$ 238	$ 165
Other expense (income), net	Equity loss (profit) in a limited partnership	$ 144	$ (184)	$ 214

Exhibit 4.25

EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE
(Principal Amount of US $62,883,812.80)

THIS EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE (**"this Capital Note"**) in the principal amount of US $**62,883,812.80** (**"the Principal Amount"**) has been issued by Tower Semiconductor Ltd., an Israeli company (**"the Company"**), whose shares are currently traded on The Nasdaq National Market (**"NASDAQ"**) and the Tel-Aviv Stock Exchange (**"TASE"**), to Bank Leumi le-Israel B.M. (**"the Holder"**). This Capital Note was originally issued by the Company in exchange for the conversion by the original Holder of this Capital Note of loans to the Company in a principal amount (including certain accrued and unpaid interest) equal to the Principal Amount and represents the obligation of the Company to pay the Principal Amount to the Holder in accordance with and subject to the terms set forth in this Capital Note.

1. **DEFINITIONS**

In this Capital Note, the following terms have the meanings given to them in this clause 1:

1.1. **"Company"** includes any person that shall succeed to or assume the obligations of the Company under this Capital Note.

1.2. **"Holder"** shall mean any person who at the time shall be the registered holder of this Capital Note or any part thereof.

1.3. **"Ordinary Shares"** means the ordinary shares, nominal value NIS 15.00 (fifteen New Israel Sheqels) per share, of the Company (and any shares of capital stock substituted for the ordinary shares as a result of any stock split, stock dividend, recapitalisation, rights offering, exchange, merger or similar event or otherwise, including as described in this Capital Note).

2. **TERMS**

The Principal Amount shall neither bear interest nor be linked to any index and shall be subordinated to all liabilities of the Company having priority over the Ordinary Shares.

The Principal Amount shall only be payable by the Company to the Holder out of distributions made upon the winding-up (whether solvent or insolvent), liquidation or dissolution of the Company and, in such event, on a *pari passu* and pro rata basis with the Ordinary Shares after payment of all liabilities of the Company having priority over the Ordinary Shares. For the purposes only of calculation of the allocation of such distributions between holders of the Capital Note and holders of Ordinary Shares, the holder of this Capital Note shall be deemed to own the number of Ordinary Shares into which this Capital Note may then be converted. The Company shall not be entitled to prepay or redeem this Capital Note.

This Capital Note shall be convertible into Ordinary Shares as set forth below and, for the removal of doubt, no such conversion shall be deemed a redemption or prepayment of this Capital Note.

3. **CONVERSION**

3.1. **Conversion Right**

The Holder of this Capital Note has the right, at the Holder's option, at any time and from time to time, to convert this Capital Note, without payment of any additional consideration, in accordance with the provisions of this clause 3, in whole or in part, into fully-paid and non-assessable Ordinary Shares. The number of Ordinary Shares into which this Capital Note may be converted (**"the Conversion Shares"**) shall be determined by dividing the aggregate Principal Amount of this Capital Note by the conversion price in effect at the time of such conversion (**"the Conversion Price"**). The Conversion Price as previously adjusted shall be US $21.30, as adjusted further at any time and from time to time in accordance with clause 7 below.

3.2. **Conversion Procedure**

This Capital Note may be converted in whole or in part at any time and from time to time by the surrender of this Capital Note to the Company at its principal office together with written notice of the election to convert all or any portion of the Principal Amount thereof, duly signed on behalf of the Holder. The Company shall, on such surrender date or as soon as practicable thereafter, issue irrevocable instructions to its stock transfer agent to deliver the number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid, which Conversion Shares shall be issued in any of (i) unrestricted "street" name form, (ii) "book entry" form at the Company's stock transfer agent or (iii) certificated form without Securities Act restrictive legend, as shall be so instructed in writing by the Holder converting such Conversion Shares, in each case without stop transfer instructions being placed against such Conversion Shares. Such conversion, the issue and allotment of such Conversion Shares and the registration of the Holder in the register of members of the Company as the holder of such Conversion Shares shall be deemed to have been made immediately prior to the close of business on the date of such surrender of this Capital Note or portion thereof and the person or persons entitled to receive the Conversion Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders as of such date of such number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. In the event of a partial conversion, the Company shall concurrently issue to the Holder a replacement Capital Note of like tenor as this Capital Note, but representing the Principal Amount remaining after such partial conversion. For the avoidance of doubt, the Company confirms that the terms of this Capital Note, including, without limitation, this clause 3, constitute the issue terms of the Conversion Shares and that, accordingly, the right of the Company pursuant to clauses 16.1 and 16.2 of the Company's Articles of Association to delay the issuance of stock certificates for up to 6 (six) months after the allotment and registration of transfer is inapplicable. For the further removal of doubt, nothing herein shall derogate from the second sentence of clause 16.1 of the Company's Articles of Association.

4. **FRACTIONAL INTEREST**

No fractional shares will be issued in connection with any conversion hereunder. The Company shall round-down, to the nearest whole number, the number of Conversion Shares issuable in connection with any conversion hereunder.

5. **CAPITAL NOTE CONFERS NO RIGHTS OF SHAREHOLDER**

The Holder shall not, by virtue of this Capital Note, have any rights as a shareholder of the Company prior to actual conversion into Conversion Shares in accordance with clause 3.2 above.

6. **[INTENTIONALLY OMITTED]**

7. **ADJUSTMENT OF CONVERSION PRICE AND NUMBER OF CONVERSION SHARES**

The number and kind of securities issuable initially upon the conversion of this Capital Note and the Conversion Price shall be subject to adjustment at any time and from time to time upon the occurrence of certain events, as follows:

7.1. **Adjustment for Shares Splits and Combinations**

If the Company at any time or from time to time effects a subdivision of the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the subdivision shall be proportionately increased, and conversely, if the Company at any time or from time to time combines the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the combination shall be proportionately decreased. Any adjustment under this clause 7.1 shall become effective at the close of business on the date the subdivision or combination becomes effective.

7.2. **Adjustment for Certain Dividends and Distributions**

In the event the Company at any time, or from time to time, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in additional Ordinary Shares, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be increased as of the time of such issuance or, in the event such a record date is fixed, as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable, plus the number of Ordinary Shares issuable in payment of such dividend or distribution; and (ii) the denominator of which is the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable; provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be recomputed accordingly as of the close of business on such record date and thereafter the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7.2 as of the time of the actual payment of such dividends or distribution.

7.3. **Adjustments for Other Dividends and Distributions**

In the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in securities of the Company other than Ordinary Shares (for the avoidance of doubt, other than in a rights offering as to which clause 7.7 shall be applicable), then in each such event provision shall be made so that the Holder shall receive upon conversion of this Capital Note and for no additional consideration, in addition to the number of Ordinary Shares receivable thereupon, the amount of securities of the Company that the Holder would have received had this Capital Note been converted immediately prior to such event, or the record date for such event, as applicable.

7.4. **Adjustment for Reclassification, Exchange and Substitution**

If the Ordinary Shares issuable upon conversion of this Capital Note are changed into the same or a different number of shares of any class or classes of shares, whether by recapitalization, reclassification, exchange, substitution or otherwise (other than a subdivision or combination of shares, dividends payable in Ordinary Shares or other securities of the Company or a reorganization, merger, consolidation or sale of assets, provided for elsewhere in this clause 7), then and in any such event the Holder shall have the right thereafter to exercise this Capital Note into the kind and amount of shares and other securities receivable upon such recapitalization, reclassification, exchange, substitution or other change, by holders of the number of Ordinary Shares for which this Capital Note might have been converted immediately prior to such recapitalization, reclassification, exchange, substitution or other change (or the record date for such event), all subject to further adjustment as provided herein and under the Company's Articles of Association.

7.5. **Reorganization, Mergers, Consolidations or Sales of Assets**

If at any time or from time to time there is a capital reorganization of the Ordinary Shares (other than a recapitalization, subdivision, combination, reclassification, exchange or substitution of shares as provided for elsewhere in this clause 7), or a merger or consolidation of the Company with or into another corporation, or the sale of all or substantially all of the Company's properties and assets to any other person, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the Holder shall thereafter be entitled to receive upon conversion of this Capital Note and for no additional consideration, the number of shares or other securities or property (including, without limitation, cash) of the Company, or of the successor corporation resulting from such merger or consolidation or sale, to which a holder of the number of Ordinary Shares issuable upon conversion of this Capital Note would have been entitled on such capital reorganization, merger, consolidation or sale.

7.6. **Other Transactions**

In the event that the Company shall issue shares to its shareholders as a result of a split-off, spin-off or the like, then the Company shall only complete such issuance or other action if, as part thereof, allowance is made to protect the economic interest of the Holder either by increasing the number of Conversion Shares or by procuring that the Holder shall be entitled, on terms economically proportionate to those provided to its shareholders, to acquire additional shares of the spun-off or split-off entities.

7.7. **Rights Offerings**

If the Company, at any time and from time to time, shall fix a record date for, or shall make a distribution to, its shareholders of rights or warrants to subscribe for or purchase any security (collectively, **"Rights"**), then, in each such event, the Company will provide the Holder, concurrently with the distribution of the Rights to its shareholders, identical rights, having terms and conditions identical to the Rights (for the avoidance of doubt, exercisable at the same time as the Rights), in such number to which the Holder would be entitled had the Holder converted this Capital Note into Conversion Shares immediately prior to the record date for such distribution, or if no record date shall be fixed, then immediately prior to such distribution , as applicable. Nothing in this clause 7.7 shall require the Company to complete any such distribution of Rights to its shareholders, including following the record date thereof, unless required pursuant to the terms of such distribution and, if such distribution of Rights to its shareholders is not completed in conformity with the terms of such distribution, then the Company shall be entitled not to complete the provision of rights to the Holder pursuant to this clause 7.7 above.

7.8. **Adjustment for Cash Dividends and Distributions**

In the event the Company, at any time or from time to time until September 28, 2023, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a cash dividend or distribution, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted (for the avoidance of doubt, never decreased but either shall remain the same or increased), as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the closing price per share of the Ordinary Shares on the TASE on the determining date ("*Hayom Hakovaya*") for such dividend or distribution; and (ii) the denominator of which shall be the adjusted "ex-dividend" price of the Ordinary Shares as such prices set out in (i) and (ii) are determined in each case by the TASE in accordance with its rules.

7.9. **General Protection**

The Company will not, by amendment of its Articles of Association or other charter document or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder, or impair the economic interest of the Holder, but will at all times in good faith assist in the carrying out of all the provisions hereof and in taking of all such actions and making all such adjustments as may be necessary or appropriate in order to protect the rights and the economic interests of the Holder against impairment.

7.10. **Notice of Capital Changes**

If at any time the Company shall declare any dividend or distribution of any kind, or offer for subscription pro rata to the holders of Ordinary Shares any additional shares of any class, other rights or any security of any kind, or there shall be any capital reorganization or reclassification of the capital shares of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to another company or there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company, or other transaction described in this clause 7, then, in any one or more of the said cases, the Company shall give the Holder prior written notice, by registered or certified mail, postage prepaid, of the date on which: (i) a record shall be taken for such dividend, distribution or subscription rights; or (ii) such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up shall take place, as the case may be. Such notice shall also specify the date as of which the holders of record of Ordinary Shares shall participate in such dividend or distribution, subscription rights, or shall be entitled to exchange their Ordinary Shares for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, as the case may be. Such written notice shall be given at least 14 (fourteen) days prior to the action in question and not less than 14 (fourteen) days prior to the record date in respect thereto.

7.11. **Adjustment of Conversion Price**

Upon each adjustment in the number of Ordinary Shares purchasable hereunder, the Conversion Price shall be proportionately increased or decreased, as the case may be, in a manner that is the inverse of the manner in which the number of Ordinary Shares purchasable hereunder shall be adjusted.

7.12. **Notice of Adjustments**

Whenever the Conversion Price or the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7, the Company shall prepare a certificate signed by the chief financial officer of the Company setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Conversion Price and the number of Conversion Shares issuable upon conversion of this Capital Note after giving effect to such adjustment, and shall cause copies of such certificate to be mailed (by first class mail, postage prepaid) to the Holder.

8. **OTHER TRANSACTIONS**

In the event that the Company or its shareholders receive an offer to transfer all or substantially all of the shares in the Company, or to effect a merger or acquisition or sale of all or substantially all of the assets of the Company, then the Company shall promptly inform the Holder in writing of such offer.

9. **TRANSFER OF THIS CAPITAL NOTE BY THE HOLDER**

This Capital Note shall be freely transferable or assignable by the Holder in whole or in part, at any time and from time to time, subject to the provisions of this clause 9. With respect to any transfer of this Capital Note, in whole or in part, the Holder shall surrender the Capital Note, together with a written request to transfer all or a portion of the Principal Amount of this Capital Note to the transferee, as well as, if reasonably requested by the Company, a written opinion of such Holder's counsel, to the effect that such offer, sale or other distribution may be effected without registration under the Securities Act. Upon surrender of such Capital Note (and delivery of such opinion, if so requested) by the Holder, the Company shall immediately register such transferee as the Holder of this Capital Note, or the portion thereof, transferred to such transferee, such registration shall be deemed to have been made immediately prior to the close of business on the date of such surrender and delivery (if applicable), and such transferee or transferees shall be treated for all purposes as the record holder or holders as of such date of a Capital Note in that portion of the Principal Amount of this Capital Note so transferred. The Company shall, as promptly as practicable, deliver to the Holder one or more Capital Notes, of like tenor as this Capital Note, except that the Principal Amount thereof shall be the amount transferred to such transferee, for delivery to the transferee or transferees (or, if the Holder requests, deliver such Capital Note directly to such transferee or transferees) and shall, if only a portion of the Principal Amount of this Capital Note is being transferred, concurrently deliver to the Holder one or more replacement Capital Notes to represent the portion of the Principal Amount of this Capital Note not so transferred. For the avoidance of doubt, the Company confirms that no approval by the Board of Directors of the Company of any transfer of this Capital Note or the Conversion Shares is required.

10. **REPRESENTATIONS, WARRANTIES AND COVENANTS**

The Company represents, warrants and covenants to the Holder as follows:

10.1. this Capital Note has been duly authorized and executed by the Company and is a valid and binding obligation of the Company enforceable in accordance with its terms;

10.2. the Conversion Shares are duly authorized and are, and will be, reserved (for the avoidance of doubt, without the need for further corporate action by the Company) for issuance by the Company and, when issued in accordance with the terms hereof, will be validly issued, fully paid and non-assessable and not subject to any pre-emptive rights;

10.3. the execution and delivery of this Capital Note are not, and the issuance of the Conversion Shares upon conversion of this Capital Note in accordance with the terms hereof will not be, inconsistent with the Company's Certificate of Incorporation, Memorandum of Association or Articles of Association, do not and will not contravene any law, governmental or regulatory rule or regulation, including NASDAQ and TASE rules and regulations, judgment or order applicable to the Company, do not and will not conflict with or contravene any provision of, or constitute a default under, any indenture, mortgage, contract or other instrument of which the Company is a party or by which it is bound or, except for consents that have already been obtained and filings already made, require the consent or approval of, the giving of notice to, the registration with or the taking of any action in respect of or by, any Israeli or foreign governmental authority or agency or other person; and

10.4. the Conversion Shares have been approved for listing and trading on TASE.

11. **LOSS, THEFT, DESTRUCTION OR MUTILATION OF CAPITAL NOTE**

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Capital Note or Conversion Shares certificate, and in case of loss, theft or destruction, of indemnity, or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of such Capital Note or Conversion Shares certificate, if mutilated, the Company will make and deliver a new Capital Note or Conversion Shares certificate of like tenor and dated as of such cancellation, in lieu of such Capital Note or Conversion Shares certificate.

12. **NOTICES**

All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below:

If to the Holder:	Bank Leumi le-Israel B.M. Special Credits Division 13 Ahad Haam Street Tel Aviv Israel	
	Attention:	*Head of Special Credits Division*
	Facsimile:	*(03) 514 9278*

with a copy to (which shall not constitute notice):	Leumi Partners 5 Azrieli Center (Square Tower) 36th Floor Tel Aviv Israel	
	Attention:	*Deputy CEO and General Counsel*
	Facsimile:	*(03) 514 1255*
If to the Company:	Tower Semiconductor Ltd. P.O. Box 619 Ramat Gabriel Industrial Zone Migdal Haemek 23105	
	Attention:	*Oren Shirazi, Acting Chief Financial Officer*
	Facsimile:	*(04) 604 7242*
with a copy to:	Yigal Arnon & Co. 1 Azrieli Center Tel Aviv Israel	
	Attention:	*David H. Schapiro, Adv.*
	Facsimile:	*(03) 608 7714*

or such other address with respect to a party as such party shall notify each other party in writing as above provided. Any notice sent in accordance with this clause 12 shall be effective: (a) if mailed, 5 (five) business days after mailing; (b) if sent by messenger, upon delivery; and (c) if sent via facsimile, 1 (one) business day following transmission and electronic confirmation of receipt.

13. **APPLICABLE LAW; JURISDICTION**

This Capital Note shall be governed by and construed in accordance with the laws of the State of Israel as applicable to contracts between two residents of the State of Israel entered into and to be performed entirely within the State of Israel. Any dispute arising under or in relation to this Capital Note shall be resolved in the competent court for Tel Aviv-Jaffa district, and the Company and the Holder hereby submits irrevocably to the jurisdiction of such court.

Dated: April 13, 2014

for **TOWER SEMICONDUCTOR LTD.**

By: _____

Title: _____

Exhibit 4.39

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

EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE

(Principal Amount of US $15,974,992.90)

THIS EQUITY EQUIVALENT CONVERTIBLE CAPITAL NOTE (**"this Capital Note"**) in the principal amount of US $15,974,992.90 (**"the Principal Amount"**) has been issued by Tower Semiconductor Ltd., an Israeli company (**"the Company"**), whose shares are currently traded on The Nasdaq National Market (**"NASDAQ"**) and the Tel-Aviv Stock Exchange (**"TASE"**), to Bank Hapoalim B.M. (**"the Holder"**). This Capital Note was originally issued by the Company in exchange for the conversion by the original Holder of this Capital Note of loans to the Company in a principal amount (including certain accrued and unpaid interest) equal to the Principal Amount and represents the obligation of the Company to pay the Principal Amount to the Holder in accordance with and subject to the terms set forth in this Capital Note.

1. **DEFINITIONS**

In this Capital Note, the following terms have the meanings given to them in this clause 1:

1.1. **"Company"** includes any person that shall succeed to or assume the obligations of the Company under this Capital Note.

1.2. **"Holder"** shall mean any person who at the time shall be the registered holder of this Capital Note or any part thereof.

1.3. **"Ordinary Shares"** means the ordinary shares, nominal value NIS 15.00 (fifteen New Israel Sheqels) per share, of the Company (and any shares of capital stock substituted for the ordinary shares as a result of any stock split, stock dividend, recapitalisation, rights offering, exchange, merger or similar event or otherwise, including as described in this Capital Note).

2. **TERMS**

The Principal Amount shall neither bear interest nor be linked to any index and shall be subordinated to all liabilities of the Company having priority over the Ordinary Shares.

The Principal Amount shall only be payable by the Company to the Holder out of distributions made upon the winding-up (whether solvent or insolvent), liquidation or dissolution of the Company and, in such event, on a *pari passu* and pro rata basis with the Ordinary Shares after payment of all liabilities of the Company having priority over the Ordinary Shares. For the purposes only of calculation of the allocation of such distributions between holders of the Capital Note and holders of Ordinary Shares, the holder of this Capital Note shall be deemed to own the number of Ordinary Shares into which this Capital Note may then be converted. The Company shall not be entitled to prepay or redeem this Capital Note.

This Capital Note shall be convertible into Ordinary Shares as set forth below and, for the removal of doubt, no such conversion shall be deemed a redemption or prepayment of this Capital Note.

3. **CONVERSION**

3.1. **Conversion Right**

The Holder of this Capital Note has the right, at the Holder's option, at any time and from time to time, to convert this Capital Note, without payment of any additional consideration, in accordance with the provisions of this clause 3, in whole or in part, into fully-paid and non-assessable Ordinary Shares. The number of Ordinary Shares into which this Capital Note may be converted (**"the Conversion Shares"**) shall be determined by dividing the aggregate Principal Amount of this Capital Note by the conversion price in effect at the time of such conversion (**"the Conversion Price"**). The Conversion Price as previously adjusted shall be US $21.30, as adjusted further at any time and from time to time in accordance with clause 7 below.

3.2. **Conversion Procedure**

This Capital Note may be converted in whole or in part at any time and from time to time by the surrender of this Capital Note to the Company at its principal office together with written notice of the election to convert all or any portion of the Principal Amount thereof, duly signed on behalf of the Holder. The Company shall, on such surrender date or as soon as practicable thereafter, issue irrevocable instructions to its stock transfer agent to deliver to the Holder a certificate or certificates for the number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. Such conversion, the issue and allotment of such Conversion Shares and the registration of the Holder in the register of members of the Company as the holder of such Conversion Shares shall be deemed to have been made immediately prior to the close of business on the date of such surrender of this Capital Note or portion thereof and the person or persons entitled to receive the Conversion Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders as of such date of such number of Conversion Shares to which the Holder shall be entitled as a result of such conversion as aforesaid. In the event of a partial conversion, the Company shall concurrently issue to the Holder a replacement Capital Note of like tenor as this Capital Note, but representing the Principal Amount remaining after such partial conversion. For the avoidance of doubt, the Company confirms that the terms of this Capital Note, including, without limitation, this clause 3, constitute the issue terms of the Conversion Shares and that, accordingly, the right of the Company pursuant to clauses 16.1 and 16.2 of the Company's Articles of Association to delay the issuance of stock certificates for up to 6 (six) months after the allotment and registration of transfer is inapplicable. For the further removal of doubt, nothing herein shall derogate from the second sentence of clause 16.1 of the Company's Articles of Association.

4. **FRACTIONAL INTEREST**

No fractional shares will be issued in connection with any conversion hereunder. The Company shall round-down, to the nearest whole number, the number of Conversion Shares issuable in connection with any conversion hereunder.

5. **CAPITAL NOTE CONFERS NO RIGHTS OF SHAREHOLDER**

The Holder shall not, by virtue of this Capital Note, have any rights as a shareholder of the Company prior to actual conversion into Conversion Shares in accordance with clause 3.2 above.

6. **ACQUISITION FOR INVESTMENT**

This Capital Note has not been registered under the Securities Act of 1933, as amended (**"the Securities Act"**), or any other securities laws. The Holder acknowledges by acceptance of this Capital Note that it has acquired this Capital Note for investment and not with a view to distribution. The Conversion Shares have been registered under the Securities Act on Form F-3 Registration Statement No. 333-181805. The Holder, by acceptance hereof, consents to the placement of legend(s) on this Capital Note as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act, unless in the reasonable opinion of counsel for the Company such legend is not required in order to ensure compliance with the Securities Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

Nothing in this clause 6 shall derogate from any obligations of the Company under any Registration Rights Agreement to which the Company and the Holder are parties.

7. **ADJUSTMENT OF CONVERSION PRICE AND NUMBER OF CONVERSION SHARES**

The number and kind of securities issuable initially upon the conversion of this Capital Note and the Conversion Price shall be subject to adjustment at any time and from time to time upon the occurrence of certain events, as follows:

7.1. **Adjustment for Shares Splits and Combinations**

If the Company at any time or from time to time effects a subdivision of the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the subdivision shall be proportionately increased, and conversely, if the Company at any time or from time to time combines the outstanding Ordinary Shares, the number of Conversion Shares issuable upon conversion of this Capital Note immediately before the combination shall be proportionately decreased. Any adjustment under this clause 7.1 shall become effective at the close of business on the date the subdivision or combination becomes effective.

7.2. **Adjustment for Certain Dividends and Distributions**

In the event the Company at any time, or from time to time, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in additional Ordinary Shares, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be increased as of the time of such issuance or, in the event such a record date is fixed, as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable, plus the number of Ordinary Shares issuable in payment of such dividend or distribution; and (ii) the denominator of which is the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, as applicable; provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be recomputed accordingly as of the close of business on such record date and thereafter the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7.2 as of the time of the actual payment of such dividends or distribution.

7.3. **Adjustments for Other Dividends and Distributions**

In the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a dividend or other distribution payable in securities of the Company other than Ordinary Shares (for the avoidance of doubt, other than in a rights offering as to which clause 7.7 shall be applicable), then in each such event provision shall be made so that the Holder shall receive upon conversion of this Capital Note and for no additional consideration, in addition to the number of Ordinary Shares receivable thereupon, the amount of securities of the Company that the Holder would have received had this Capital Note been converted immediately prior to such event, or the record date for such event, as applicable.

7.4. **Adjustment for Reclassification, Exchange and Substitution**

If the Ordinary Shares issuable upon conversion of this Capital Note are changed into the same or a different number of shares of any class or classes of shares, whether by recapitalization, reclassification, exchange, substitution or otherwise (other than a subdivision or combination of shares, dividends payable in Ordinary Shares or other securities of the Company or a reorganization, merger, consolidation or sale of assets, provided for elsewhere in this clause 7), then and in any such event the Holder shall have the right thereafter to exercise this Capital Note into the kind and amount of shares and other securities receivable upon such recapitalization, reclassification, exchange, substitution or other change, by holders of the number of Ordinary Shares for which this Capital Note might have been converted immediately prior to such recapitalization, reclassification, exchange, substitution or other change (or the record date for such event), all subject to further adjustment as provided herein and under the Company's Articles of Association.

7.5. **Reorganization, Mergers, Consolidations or Sales of Assets**

If at any time or from time to time there is a capital reorganization of the Ordinary Shares (other than a recapitalization, subdivision, combination, reclassification, exchange or substitution of shares as provided for elsewhere in this clause 7), or a merger or consolidation of the Company with or into another corporation, or the sale of all or substantially all of the Company's properties and assets to any other person, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the Holder shall thereafter be entitled to receive upon conversion of this Capital Note and for no additional consideration, the number of shares or other securities or property (including, without limitation, cash) of the Company, or of the successor corporation resulting from such merger or consolidation or sale, to which a holder of the number of Ordinary Shares issuable upon conversion of this Capital Note would have been entitled on such capital reorganization, merger, consolidation or sale.

7.6. **Other Transactions**

In the event that the Company shall issue shares to its shareholders as a result of a split-off, spin-off or the like, then the Company shall only complete such issuance or other action if, as part thereof, allowance is made to protect the economic interest of the Holder either by increasing the number of Conversion Shares or by procuring that the Holder shall be entitled, on terms economically proportionate to those provided to its shareholders, to acquire additional shares of the spun-off or split-off entities.

7.7. **Rights Offerings**

If the Company, at any time and from time to time, shall fix a record date for, or shall make a distribution to, its shareholders of rights or warrants to subscribe for or purchase any security (collectively, **"Rights"**), then, in each such event, the Company will provide the Holder, concurrently with the distribution of the Rights to its shareholders, identical rights, having terms and conditions identical to the Rights (for the avoidance of doubt, exercisable at the same time as the Rights), in such number to which the Holder would be entitled had the Holder converted this Capital Note into Conversion Shares immediately prior to the record date for such distribution, or if no record date shall be fixed, then immediately prior to such distribution , as applicable. Nothing in this clause 7.7 shall require the Company to complete any such distribution of Rights to its shareholders, including following the record date thereof, unless required pursuant to the terms of such distribution and, if such distribution of Rights to its shareholders is not completed in conformity with the terms of such distribution, then the Company shall be entitled not to complete the provision of rights to the Holder pursuant to this clause 7.7 above.

7.8. **Adjustment for Cash Dividends and Distributions**

In the event the Company, at any time or from time to time until September 28, 2023, makes or fixes a record date for the determination of holders of Ordinary Shares entitled to receive a cash dividend or distribution, then and in each such event, the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted (for the avoidance of doubt, never decreased but either shall remain the same or increased), as of the close of business on such record date, by multiplying the number of Ordinary Shares issuable upon conversion of this Capital Note by a fraction: (i) the numerator of which shall be the closing price per share of the Ordinary Shares on the TASE on the determining date ("*Hayom Hakovaya*") for such dividend or distribution; and (ii) the denominator of which shall be the adjusted "ex-dividend" price of the Ordinary Shares as such prices set out in (i) and (ii) are determined in each case by the TASE in accordance with its rules.

7.9. **General Protection**

The Company will not, by amendment of its Articles of Association or other charter document or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder, or impair the economic interest of the Holder, but will at all times in good faith assist in the carrying out of all the provisions hereof and in taking of all such actions and making all such adjustments as may be necessary or appropriate in order to protect the rights and the economic interests of the Holder against impairment.

7.10. **Notice of Capital Changes**

If at any time the Company shall declare any dividend or distribution of any kind, or offer for subscription pro rata to the holders of Ordinary Shares any additional shares of any class, other rights or any security of any kind, or there shall be any capital reorganization or reclassification of the capital shares of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to another company or there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Company, or other transaction described in this clause 7, then, in any one or more of the said cases, the Company shall give the Holder prior written notice, by registered or certified mail, postage prepaid, of the date on which: (i) a record shall be taken for such dividend, distribution or subscription rights; or (ii) such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up shall take place, as the case may be. Such notice shall also specify the date as of which the holders of record of Ordinary Shares shall participate in such dividend or distribution, subscription rights, or shall be entitled to exchange their Ordinary Shares for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding-up, as the case may be. Such written notice shall be given at least 14 (fourteen) days prior to the action in question and not less than 14 (fourteen) days prior to the record date in respect thereto.

7.11. **Adjustment of Conversion Price**

Upon each adjustment in the number of Ordinary Shares purchasable hereunder, the Conversion Price shall be proportionately increased or decreased, as the case may be, in a manner that is the inverse of the manner in which the number of Ordinary Shares purchasable hereunder shall be adjusted.

7.12. **Notice of Adjustments**

Whenever the Conversion Price or the number of Ordinary Shares issuable upon conversion of this Capital Note shall be adjusted pursuant to this clause 7, the Company shall prepare a certificate signed by the chief financial officer of the Company setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the Conversion Price and the number of Conversion Shares issuable upon conversion of this Capital Note after giving effect to such adjustment, and shall cause copies of such certificate to be mailed (by first class mail, postage prepaid) to the Holder.

8. **OTHER TRANSACTIONS**

In the event that the Company or its shareholders receive an offer to transfer all or substantially all of the shares in the Company, or to effect a merger or acquisition or sale of all or substantially all of the assets of the Company, then the Company shall promptly inform the Holder in writing of such offer.

9. **TRANSFER OF THIS CAPITAL NOTE BY THE HOLDER**

This Capital Note shall be freely transferable or assignable by the Holder in whole or in part, at any time and from time to time, subject to the provisions of this clause 9. With respect to any transfer of this Capital Note, in whole or in part, the Holder shall surrender the Capital Note, together with a written request to transfer all or a portion of the Principal Amount of this Capital Note to the transferee, as well as, if reasonably requested by the Company, a written opinion of such Holder's counsel, to the effect that such offer, sale or other distribution may be effected without registration under the Securities Act. Upon surrender of such Capital Note (and delivery of such opinion, if so requested) by the Holder, the Company shall immediately register such transferee as the Holder of this Capital Note, or the portion thereof, transferred to such transferee, such registration shall be deemed to have been made immediately prior to the close of business on the date of such surrender and delivery (if applicable), and such transferee or transferees shall be treated for all purposes as the record holder or holders as of such date of a Capital Note in that portion of the Principal Amount of this Capital Note so transferred. The Company shall, as promptly as practicable, deliver to the Holder one or more Capital Notes, of like tenor as this Capital Note, except that the Principal Amount thereof shall be the amount transferred to such transferee, for delivery to the transferee or transferees (or, if the Holder requests, deliver such Capital Note directly to such transferee or transferees) and shall, if only a portion of the Principal Amount of this Capital Note is being transferred, concurrently deliver to the Holder one or more replacement Capital Notes to represent the portion of the Principal Amount of this Capital Note not so transferred. For the avoidance of doubt, the Company confirms that no approval by the Board of Directors of the Company of any transfer of this Capital Note or the Conversion Shares is required.

10. **REPRESENTATIONS, WARRANTIES AND COVENANTS**

The Company represents, warrants and covenants to the Holder as follows:

10.1. this Capital Note has been duly authorized and executed by the Company and is a valid and binding obligation of the Company enforceable in accordance with its terms;

10.2. the Conversion Shares are duly authorized and are, and will be, reserved (for the avoidance of doubt, without the need for further corporate action by the Company) for issuance by the Company and, when issued in accordance with the terms hereof, will be validly issued, fully paid and non-assessable and not subject to any pre-emptive rights;

10.3. the execution and delivery of this Capital Note are not, and the issuance of the Conversion Shares upon conversion of this Capital Note in accordance with the terms hereof will not be, inconsistent with the Company's Certificate of Incorporation, Memorandum of Association or Articles of Association, do not and will not contravene any law, governmental or regulatory rule or regulation, including NASDAQ and TASE rules and regulations, judgment or order applicable to the Company, do not and will not conflict with or contravene any provision of, or constitute a default under, any indenture, mortgage, contract or other instrument of which the Company is a party or by which it is bound or, except for consents that have already been obtained and filings already made, require the consent or approval of, the giving of notice to, the registration with or the taking of any action in respect of or by, any Israeli or foreign governmental authority or agency or other person; and

10.4. the Conversion Shares have been approved for listing and trading on TASE.

11. **LOSS, THEFT, DESTRUCTION OR MUTILATION OF CAPITAL NOTE**

Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Capital Note or Conversion Shares certificate, and in case of loss, theft or destruction, of indemnity, or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of such Capital Note or Conversion Shares certificate, if mutilated, the Company will make and deliver a new Capital Note or Conversion Shares certificate of like tenor and dated as of such cancellation, in lieu of such Capital Note or Conversion Shares certificate.

12. **NOTICES**

All notices and other communications required or permitted hereunder to be given to a party to this Agreement shall be in writing and shall be faxed or mailed by registered or certified mail, postage prepaid, or otherwise delivered by hand or by messenger, addressed to such party's address as set forth below:

If to the Holder:	Bank Hapoalim B.M. Corporate Division Migdal Levenstein 23 Menachem Begin Road Tel Aviv, Israel	
	Attention:	*Head of Special Credits Division*
	Facsimile:	*(03) 567 4719*
If to the Company:	Tower Semiconductor Ltd. P.O. Box 619 Ramat Gabriel Industrial Zone Migdal Haemek 23105	
	Attention:	*Oren Shirazi, Acting Chief Financial Officer*
	Facsimile:	*(04) 604 7242*

with a copy to:	Yigal Arnon & Co. 1 Azrieli Center Tel Aviv Israel	
	A*ttention:*	*David H. Schapiro, Adv.*
	Facsimile:	*(03) 608 7714*

or such other address with respect to a party as such party shall notify each other party in writing as above provided. Any notice sent in accordance with this clause 12 shall be effective: (a) if mailed, 5 (five) business days after mailing; (b) if sent by messenger, upon delivery; and (c) if sent via facsimile, 1 (one) business day following transmission and electronic confirmation of receipt.

13. **APPLICABLE LAW; JURISDICTION**

This Capital Note shall be governed by and construed in accordance with the laws of the State of Israel as applicable to contracts between two residents of the State of Israel entered into and to be performed entirely within the State of Israel. Any dispute arising under or in relation to this Capital Note shall be resolved in the competent court for Tel Aviv-Jaffa district, and the Company and the Holder hereby submits irrevocably to the jurisdiction of such court.

Dated: July 30, 2013

for **TOWER SEMICONDUCTOR LTD.**

By: _____

Title: _____

Exhibit 4.57

TOWER SEMICONDUCTOR LTD.
2013 SHARE INCENTIVE PLAN

A. NAME AND PURPOSE

1. **Name:** This plan, as amended from time to time, shall be known as the "2013 Share Incentive Plan" or the "Plan".

2. **Purpose:** The purpose and intent of the Plan is to provide incentives to employees and other Office Holders of the Company by providing them with opportunities to purchase Shares, pursuant to a plan approved by Tower's Board of Directors (the "Board") which is designed to enable the Company to issue equity related awards.

3. Incentives under the Plan will only be issued to Grantees (as defined below) subject to the applicable law in their respective country of residence for tax or other purposes.

B. DEFINITIONS

"**Administrator**" means (i) the Board, or (ii) Tower's Compensation Committee (the "Committee").

"**Affiliate**" means any company in which Tower Semiconductor Ltd., a company organized under the laws of the State of Israel ("Tower"), holds, directly or indirectly, at least 10% of the issued share capital or voting power.

"**Award**" means any type of Option and/or Restricted Share Unit under the Plan.

"**Cause**" means with respect to any Grantee, the meaning of such term as set forth in the employment or other service agreement between the Company (or any Affiliate) and the Grantee or, in the event there is no such employment or service agreement (or if any such employment or service agreement does not contain such a definition), such term shall mean (i) breach of the Grantee's duty of loyalty towards the Company, (ii) breach of the Grantee's duty of care towards the Company, (iii) the commission of any criminal offense by the Grantee, (iv) the commission of any act of fraud, embezzlement or dishonesty towards the Company by the Grantee, (v) any unauthorized use or disclosure by the Grantee of confidential information or trade secrets of the Company, (vi) involvement in a transaction in connection with the performance of duties to the Company which transaction is adverse to the interests of the Company and which is engaged in for personal profit, (vii) any other intentional misconduct by the Grantee (by act or omission) adversely affecting the business or affairs of the Company in a material manner, or (viii) any act or omission by an Israeli Grantee which would allow for the termination of the Grantee's employment without severance pay, according to the Israeli Severance Pay Law, 1963, or any similar provision of law in the jurisdiction in which the Grantee is employed.(ix) material breach of any employment or service agreement with the Company

"**Cessation of Service**" means the cessation of the employee-employer relationship between the Grantee and the Company for any reason; "Cessation of Service" shall not include the transfer of a Grantee from the employ of Tower to the employ of an Affiliate, or from the employ of an Affiliate to the employ of the Tower or another Affiliate. Regarding other Office Holders means the cessation of the engagement of the Grantee as a member of the Board for any reason.

"**Change of Control**" or "**COC**"- means (a) any person or entity that is not then a controlling shareholder and obtains control of the Company as defined in Section 268 of the Companies Law; (b) the Company is party to a merger or consolidation, or series of related transactions, which results in the voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving or another entity) at least fifty (50%) percent of the combined voting power of the voting securities of the Company or such surviving or other entity outstanding immediately after such merger or consolidation; (c) the sale or disposition of all or substantially all of the Company's assets (or consummation of any transaction, or series of related transactions, having similar effect); (d) there occurs a change in the composition of the Board of Directors of the Company within a two-year period, as a result of which a majority of the directors, other than the External directors, are no longer the incumbent directors or representatives of the same entity which the incumbent directors represent; (e) the dissolution or liquidation of the Company; or (f) any transaction or series of related transactions that has the substantial effect of any one or more of the foregoing.

"**Companies Law**" means the Israeli Companies Law, 1999.

"**Company**" means Tower Semiconductor Ltd. and/or any Affiliate thereof.

"**Corporate Transaction"** means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events: (i) a sale or other disposition of all or substantially all of the consolidated assets of the Company and its subsidiaries; (ii) a sale or other disposition of at least eighty percent (80%) of the outstanding equity securities of the Company; (iii) a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or (iv) a merger, consolidation or reorganization following which the Company is the surviving corporation but the Shares of the Company outstanding immediately preceding the merger, consolidation or reorganization are converted or exchanged by virtue of the merger, consolidation or reorganization into other property, whether in the form of securities, cash or otherwise. Whether a transaction is a "Corporate Transaction" as defined above, shall be finally and conclusively determined by the Administrator in its absolute discretion.

"**Date of Grant**" means the effective date of grant of an Award, as detailed in Section 6.1 below.

"**Date of Cessation**" means the effective date of a Cessation of Service.

"**Disability**" means the inability to engage in any substantial gainful occupation for which the Grantee is suited by education, training or experience, by reason of any medically determinable physical or mental impairment that is expected to result in such person's death or to continue for a period of six (6) consecutive months or more.

"**Equity Value**" means the economic value of the option award based on either B&S, Bionomic, Lattice model or other model as determined by the Administrator and the share market price of a share.

"**Exercise Conditions**" means a Vesting Period, exercise terms as defined in section 9 below and/or Performance Conditions.

"**Exercise Price"** means (i) the purchase price per Share, or (ii) the nominal value per Share to be paid upon the vesting of an Award that does not require exercise by the Grantee, to the extent the Grantee is required to pay such nominal value hereunder, as applicable.

"**Exercised Share**" means a Share issued upon exercise of an Award or vesting of an Award, as applicable,

"**Office Holder**"- as such term is defined in the Companies Law.

"**Grantee**" means an employee or Office Holder of the Company to whom an Award shall be granted under the Plan.

"**Notice of Exercise**" means a written notice of exercise of an Award delivered by a Grantee to the Representative.

"**Notice of Grant**" means a written notice of the grant of an Award delivered by the Company to a Grantee relating to the terms of the grant.

"**Option**" means an option to purchase a Share or Shares.

"**Performance Based Award**" means a performance based Award as defined in Section 11.1 below.

"**Performance Conditions**" as defined in Section 11.1 below.

"**Representative**" means any third party designated by the Company for the purpose of the exercise of Awards, as provided in Section 9.2 below.

"**RSU**" means Restricted Share Unit, as defined in Section 10 below.

"**Sale**" means the sale of all or substantially all of the issued and outstanding share capital of the Company.

"**Share**" means an ordinary share, nominal value of NIS 15.00 each of the Company.

"**Successor Entity Award**" means Awards for which the underlying Shares are replaced by securities of any successor entity, as provided in Section 12.5 below.

"Tax" means any and all federal, provincial, state and local taxes of any applicable jurisdiction, and other governmental fees, charges, duties, impositions and liabilities of any kind whatsoever, including social security, national health insurance or similar compulsory payments, together with all interest, linkage for inflation, penalties and additions imposed with respect to such amounts.

"**Vesting Period**" means the period between the Date of Grant and the date on which (i) the Grantee may exercise the Award into Exercised Shares; or (ii) if said Award does not require the Grantee to exercise it, the date on which the Award vests into an Exercised Share.

C. GENERAL TERMS AND CONDITIONS OF THE PLAN

4. Administration:

4.1 The Plan will be administered by the Administrator, subject to applicable law.

4.2 Subject to the general terms and conditions of the Plan, the Administrator shall have the full authority in its discretion, from time to time and at any time to determine (i) the Grantees under the Plan, (ii) the number of Shares in each Award, the type of Award , (iii) the time or times at which the same shall be granted, (iv) the schedule and conditions, including Performance Conditions, if applicable, on which Awards may vest or be exercised and on which Shares shall be paid for, (v) the method of payment for Shares purchased pursuant to any Award,(vi) the method for satisfaction of any tax withholding obligation arising in connection with an Award, including by the withholding, delivery or sale of Shares, (vii) rules and provisions, as may be necessary or appropriate to permit eligible Grantees resident or employed in any specific jurisdiction to participate in the Plan and/or to receive preferential tax treatment in their country of residence, with respect to Awards granted hereunder, and/or (viii) any other matter which is necessary or desirable for, or incidental to, the administration of the Plan.

4.3 The Company may retain the right in an Award Agreement to cause a forfeiture of the gain realized by a Grantee on account of actions taken by the Grantee in violation or breach of or in conflict with any agreement, non-competition agreement, any agreement prohibiting solicitation of employees or clients of the Company or any confidentiality obligation with respect to the Company or otherwise in competition with the Company, to the extent specified in such Award Agreement applicable to the Grantee. Furthermore, the Company may annul an Award if the Grantee is terminated for Cause as defined in the applicable Award Agreement or the Plan, as applicable.

4.4 Any provision of the Plan or any Award Agreement notwithstanding, the Committee may cause any Award granted hereunder to be amended, modified or cancelled in consideration of a cash payment, an alternative Award or both made to the holder of such cancelled Award equal to or greater than the Fair Market Value of such cancelled Award.

4.5 The Administrator may, from time to time, adopt such rules and regulations for carrying out the Plan, as it may deem necessary.

4.6 The interpretation and construction by the Administrator of any provision of the Plan or of any Award thereunder shall be final and conclusive and binding on all parties who have an interest in the Plan or any Award or Exercised Share, unless otherwise determined by the Administrator.

5. Eligible Grantees**:**

5.1 The administrator, at its discretion, may grant Awards to any employee or Office Holder of the Company, subject to and in compliance with Company's policies.

5.2 The grant of an Award to a Grantee hereunder, shall neither entitle such Grantee to participate, nor disqualify him from participating, in any other grant of Awards pursuant to the Plan or any other incentive plan of Tower, subject to and in compliance with Company's policies.

6. Date of Grant and Shareholder Rights**:**

6.1 Date of Grant. Subject to Sections 8.1 and 8.2 hereof, the Date of Grant shall be the date the Administrator resolves to grant such Award, or any later date, if so specified by the Administrator in its determination relating to the grant of such Award. The Company shall promptly give the Grantee a Notice of Grant following such resolution.

6.2 Shareholder Rights. A Grantee holding an Award shall have no shareholder rights with respect to the Shares subject to such Award until such Grantee (i) shall have exercised such Award or such Award has vested, as applicable, (ii) shall have all restrictions applicable to any Shares issued to him removed, if applicable; (iii) has paid the applicable Exercise Price, if any; and (iv) has become the record holder of the Exercised Shares.

7. Reserved Shares**:**

7.1 The maximum number of Shares that may be subject to Awards granted under the Plan shall be 7,000,000 Shares.

7.2 Without derogating from the foregoing in Section 7.1, all Shares under the Plan, in respect of which the right of a Grantee to hold or purchase or be issued the same shall, for any reason, terminate, expire or otherwise cease to exist without having been exercised, shall again be available for grant through Awards under the Plan, and under any sub-plans of the Plan, as the Administrator may determine at its own discretion, from time to time. Notwithstanding the above, Shares withheld or reacquired by the Company in satisfaction of tax withholding obligations pursuant to Section 15 below shall not be taken into account for the purposes of calculating the maximum number of Shares that may be subject to Awards pursuant to Section 7.1 above.

8. Required Approvals; Notice of Grant; Vesting**:**

8.1 The implementation of the Plan and the granting of any Award under the Plan shall be subject to the Company's procurement of all approvals and permits required by applicable laws or regulatory authorities having jurisdiction over the Plan, the Awards granted under it, and the Shares issued pursuant to it.

8.2 The Notice of Grant shall state, inter alia, the number of Shares subject to each Award, the type of Award, the vesting schedule, the dates when the Award may be exercised and/or will vest (as applicable), any restrictions upon transfer or sale of Shares (if applicable), the Exercise Price, the tax treatment to which the Award is subject and such other terms and conditions as the Administrator at its discretion may prescribe, provided that they are consistent with the Plan.

8.3 Vesting of Awards. Unless determined otherwise by the Administrator, Awards shall vest over a one to three year period according to the applicable vesting schedule and subject to Exercise Conditions included in the Award. The Administrator may determine extended vesting schedule at its discretion. Specifically with respect to RSUs, unless determined otherwise by the Administrator, RSUs shall be fully vested upon the fulfillment of their vesting conditions, such that at the end of the applicable Vesting Period Tower shall issue the underlying Shares and the Grantee shall pay the Company such Shares' nominal value.

9. Options:

9.1 Exercise Price. The Exercise Price of an Option shall be equal to the arithmetic average closing price of Tower's Shares, as quoted on the NASDAQ market (or if Tower shares will not be traded in NASDAQ, the Tel Aviv Stock Exchange or any principal national securities exchange upon which Tower's Shares are listed or traded) for the last 30 market trading days prior to the Date of Grant. Notwithstanding the above, the exercise price will not be lower than the nominal value of the Shares, unless it is determined by the Board of Directors that such exercise price lower than the nominal value of the Shares would otherwise be in compliance with the Israeli Companies Law.

9.2 Exercise of Options. Options shall be exercisable pursuant to the terms under which they were awarded and subject to the terms and conditions of the Plan. The exercise of an Option shall be made by a written Notice of Exercise delivered by the Grantee to the Representative, in such form and method as may be determined by the Company, specifying the number of Shares to be purchased, at the Representative's principal office, and containing such other terms and conditions as the Administrator shall prescribe from time to time.

Without derogating from the foregoing, Options shall not be exercised on the determining date with respect to the distribution of bonus shares, offer by way of rights issue, distribution of dividends, consolidation of share capital, consolidation of shares, reduction or split in share capital or company split (each hereinafter referred to as a "**Corporate Event**"). In addition, if the Ex Date with respect to a Corporate Event occurs before the determining date relating to such Corporate Event, then the exercise of Options shall not occur on such Ex Date.

The limitations pursuant to this subsection 9.2 shall be in effect only as long as the Company's securities are traded on the Tel-Aviv Stock Exchange (the "**TASE**").

9.3 Mandatory Options' exercise and sale of shares. Specific Option grant(s) may include a provision that in case the market price of the Share shall reach a certain price (which can also be denominated as a multiple of the Exercise Price), all vested Options under the specific Award may be triggered for an automatic exercise of the Options and sale of the underlying shares at a price not lower than said certain price.

9.4 Term of Options. Without derogating from the provisions of Section 9.5 below, if any Option has not been exercised and the Shares subject thereto not paid for within seven (7) years after the Date of Grant (or any shorter period set forth in the Notice of Grant), such Option and the right to acquire such Shares shall terminate, all interests and rights of the Grantee in and to the same shall ipso facto expire, and the Shares subject to such Options shall again be available for grant through Awards under the Plan, any sub-plans of the Plan, as provided for in Section 7 herein.

9.5 The exercise of the Options shall be subject to applicable law, including when applicable, the limitations in connection with the use of nonpublic information.

9.6 Cessation of Service.

(a) In the event of a Cessation of Service, all Options granted to such Grantee that are vested and exercisable on the Date of Cessation shall terminate ninety (90) days from the Date of Cessation, unless determined otherwise by the Administrator or as otherwise set forth in this section. All Options that are not vested on the Date of Cessation, and whose vesting is not otherwise accelerated pursuant to the terms of this plan, shall expire immediately.

(b) Notwithstanding subsection (a) above, in the event the Company terminates the employment/ services of a Grantee under circumstances that entitle the Company to terminate the Grantee for Cause, all of the Grantee's Options, whether vested or not, shall expire on the Date of Cessation**.**

(c) If the Grantee's Cessation of Service is by reason of such Grantee's Disability, illness retirement at the legal retirement age, death or other cause approved by the Committee, Options that are vested on the Date of Cessation shall be exercisable by the Grantee or the Grantee's guardian, legal representative, estate or other person to whom the Grantee's rights are transferred by will or by laws of descent or distribution, at any time until one (1) year from the Date of Cessation.

(d) Notwithstanding the aforesaid, under no circumstances shall any Option be exercisable after the expiration of the term of such Option.

10. Restricted Share Units:

10.1 Subject to the sole and absolute discretion of the Administrator, the Administrator may decide to grant Restricted Share Units ("RSU(s)") under the Plan. An RSU is a right to receive a Share of the Company, under certain terms and conditions, in consideration for the underlying Share's nominal value. Upon the fulfillment of the Exercise Conditions of an RSU, such RSU shall automatically vest into an Exercised Share of the Company (subject to adjustments under Section 12 herein) and the Grantee shall pay to the Company its nominal value.

10.2 All other terms and conditions of the Plan applicable to Options, shall apply to RSUs, *mutatis mutandis*.

11. Performance Based Awards**:**

11.1 Subject to the sole and absolute discretion and determination of the Administrator, the Administrator may decide to grant Awards under the Plan, the exercise or vesting of which, as applicable, shall be conditional upon the performance of the Company and/or an Affiliate and/or a division or other business unit of the Company or of an Affiliate and/or upon the performance of the Grantee, over such period and measured against such objective criteria as shall be determined by the Administrator and notified to the Grantee **("Performance Based Award(s)").** In granting each Performance Based Award, the Administrator shall establish in writing the applicable performance period **("Performance Period")**, performance formula **("Performance Formula")** and one or more performance goals **("Performance Goal(s)")** which, when measured at the end of the Performance Period, shall determine on the basis of said Performance Formula the extent to which the Performance Based Award has vested and/or become exercisable (collectively, the **"Performance Conditions"**). For the avoidance of doubt, Performance Conditions may be determined for an Award either in addition to, or in substitution for, a Vesting Period.

11.2 After a Performance Based Award has been granted, the Administrator may, in appropriate circumstances, amend any Performance Condition, at its sole and absolute discretion.

11.3 If, in consequence of the applicable Performance Conditions being met a Performance Based Award becomes vested and/or exercisable in respect of some, but not all of the number of Shares underlying such Award, the portion of the Shares not available for vesting or exercise shall lapse and cease to be exercisable.

11.4 Performance Conditions shall not be automatically waived merely due to an event of (i) a Cessation of Service, (ii) a Corporate Transaction, (iii) any other adjustment under Section 12 below, or (iv) a Sale under Section 12.6 below.

11.5 Measurement of Performance Goals. Performance Goals shall be established by the Administrator on the basis of targets to be attained with respect to one or more measures of business or financial performance that shall have the same meanings as used in the Company's financial statements, or, if such terms are not used in the Company's financial statements, they shall have the meaning applied pursuant to generally accepted accounting principles, or as used generally in the Company's industry ("Performance Measures"). For purposes of the Plan, the Performance Measures applicable to a Performance Based Award shall be calculated in accordance with generally accepted accounting principles, excluding the effect (whether positive or negative) of any change in accounting standards or any extraordinary, unusual or nonrecurring item, as determined by the Administrator, occurring after the establishment of the Performance Goals applicable to the Performance Based Award. Each such adjustment, if any, shall be made solely for the purpose of providing a consistent basis from period to period for the calculation of Performance Measures in order to prevent the dilution or enlargement of the Grantee's rights with respect to a Performance Based Award. Performance Measures may be one or more of the following, as determined by the Administrator: revenue; sales; expenses; operating income; gross margin; operating margin; earnings before any one or more of: share-based compensation expense, interest, taxes, depreciation and amortization; pre-tax profit; net operating income; net income; economic value added; free cash flow; operating cash flow; share price; earnings per share; return on shareholder equity; return on capital; return on assets; return on investment; employee satisfaction; employee retention; balance of cash, cash equivalents and marketable securities; market share; customer satisfaction; product development; research and development expenses; completion of an identified special project; and completion of a joint venture or other Corporate Transaction.

11.6 All other terms and conditions of the Plan applicable to Awards, shall apply to Performance Based Awards, *mutatis mutandis*.

12. Adjustments, Liquidation and Corporate Transaction**:**

12.1 Adjustments. Subject to any required action under any applicable law, the number and/or type of Shares subject to each outstanding Award, shall be proportionately adjusted, as the Administrator deems necessary or appropriate, for any increase or decrease in the number of issued Shares resulting from a share split, reverse share split, stock dividend, combination or reclassification of the Shares, or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company, in such manner as is appropriate in order to prevent dilution or enlargement of the rights of a Grantee under the Plan, and the number of Shares which have been authorized for issuance under the Plan shall likewise be proportionately adjusted, (provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Except as expressly provided in this Section 12, no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Award.) Any such adjustment in outstanding Options shall include a corresponding proportionate adjustment in the Exercise Price per share. In case of rights offering made by Company to its securities holders the Options holders will be entitled to participate in such right offering under similar conditions to the other security holders, provided however that they will not be entitled to any further adjustments to their Award under this clause as a result of such rights offering.

Except as expressly provided in this Section 12, the grant of Awards under the Plan shall in no way affect the right of the Company to distribute bonus shares, to offer rights to purchase its securities, or to distribute dividends.

12.2 Adjustments to Options' Exercise Price due to Distribution of Dividends. If the Company distributes cash dividends on an extraordinary basis with respect to all Shares issued to its shareholders, and the record date for determining the right to receive such dividends (the "Determining Date") is earlier than the Exercise Date of any Options granted hereunder, then the Exercise Price for each Option granted but not exercised prior to the Determining Date, shall be reduced by an amount equal to the gross amount of the dividend per Share distributed. If such distribution is in a currency different than the currency in which the Exercise Price is stated, said amount of reduction will be calculated in the same currency as the Exercise Price according to the representative rate of exchange as of the Determining Date, if applicable. Unless determined otherwise by the Administrator, the Exercise Price shall not be reduced to less than the nominal value of a Share.

12.3 Liquidation. In the event of the proposed dissolution or liquidation of the Company, all outstanding Awards will terminate immediately prior to the consummation of such proposed action. Notwithstanding the above, the Administrator may declare that any Award shall terminate as of a date fixed by the Administrator and give each Grantee the right to exercise his Award or have it vested, including Awards that would not otherwise vest or be exercisable.

12.4 In the event of a COC, at the sole discretion of the Administrator, all or any of the unvested Options or RSUs may be accelerated.

12.5 If the Company shall be the surviving entity in any reorganization, merger, or consolidation of the Company with one or more other entities which does not constitute a Corporate Transaction, any Option theretofore granted pursuant to the Plan shall pertain to and apply to the securities to which a holder of the number of Shares subject to such Option would have been entitled immediately following such reorganization, merger, or consolidation, with a corresponding proportionate adjustment of the Exercise Price per share so that the aggregate Exercise Price thereafter shall be the same as the aggregate Exercise Price of the shares remaining subject to the Option immediately prior to such reorganization, merger, or consolidation. Subject to any contrary language in an Award Agreement evidencing an Award, any restrictions applicable to such Award shall apply as well to any replacement shares received by the Grantee as a result of the reorganization, merger or consolidation. In the event of a transaction described in this Section 12.4, RSUs shall be adjusted so as to apply to the securities that a holder of the number of Shares subject to the RSUs would have been entitled to receive immediately following such transaction.

12.6 Corporate Transaction.

(a) In the event of a Corporate Transaction, immediately prior to the effective date of such Corporate Transaction, each Award shall among other things, at the sole and absolute discretion of the Administrator, either:

(i) Be substituted for a Successor Entity Award such that the Grantee may exercise the Successor Entity Award or have it become vested, as the case may be, for such number and class of securities of the successor entity which would have been issuable to the Grantee in consummation of such Corporate Transaction, had the Award vested or been exercised (as applicable), immediately prior to the effective date of such Corporate Transaction, given the exchange ratio or consideration paid in the Corporate Transaction, the Vesting Period and Performance Conditions (if any) of the Awards and such other terms and factors that the Administrator determines to be relevant for purposes of calculating the number of Successor Entity Awards granted to each Grantee;

(ii) Be assumed by any successor entity such that the Grantee may exercise the Award or have his/her Award vest (as applicable), for such number and class of securities of the successor entity which would have been issuable to the Grantee in consummation of such Corporate Transaction, had the Award vested or been exercised immediately prior to the effective date of such Corporate Transaction, given the exchange ratio or consideration paid in the Corporate Transaction, the Vesting Period and Performance Conditions (if any) of the Awards and such other terms and factors that the Administrator determines to be relevant for this purpose; or

(iii) Determine that the Awards shall be cashed out for a consideration equal to the difference between the price per share determined in the Corporate Transaction and the Exercise Price, purchase price, or nominal value, as the case may be, of such Award.

In the event of a clause (i) or clause (ii) action, appropriate adjustments shall be made to the Exercise Price per Share to reflect such action.

(b) Immediately following the consummation of the Corporate Transaction, all outstanding Awards (excluding Successor Entity Awards) shall terminate and cease to be outstanding, except to the extent assumed by a successor entity.

(c) Notwithstanding the foregoing, and without derogating from the power of the Administrator pursuant to the provisions of the Plan, the Administrator shall have full authority and sole discretion to determine that any of the provisions of Sections 12.5(a)(i) or 12.5(a)(ii) above shall apply in the event of a Corporate Transaction in which the consideration received by the shareholders of the Company is not solely comprised of securities of a successor entity, or in which such consideration is solely cash or assets other than securities of a successor entity. In addition, in the event that the Administrator determines in good faith that, in the context of a Corporate Transaction, certain Options have no monetary value and thus do not entitle the holders of such Options to any consideration under the terms of the Corporate Transaction, the Administrator may determine that such Options shall terminate effective as of the effective date of the Corporate Transaction. It is the intention that the Administrator's authority to make determinations, adjustments and clarifications in connection with the treatment of Awards shall be interpreted as widely as possible, to allow the Administrator maximal power and flexibility to interpret and implement the provisions of the Plan in the event of Transaction, provided that the Administrator shall determine in good faith that a Grantee's rights are not thereby adversely affected without the Grantee's express written consent.

12.7 Sale. Subject to any provision in the Articles of Association of the Company and to the Administrator's sole and absolute discretion, in the event of a Sale, each Grantee shall be obligated to participate in the Sale and sell his or her Shares and/or Awards in the Company, provided, however, that each such Share or Award shall be sold at a price equal to that of any other Share sold under the Sale (and, unless determined otherwise by the Administrator, less the applicable Exercise Price), while accounting for changes in such price due to the respective terms of any such Award, and subject to the absolute discretion of the Administrator.

For purposes of a Sale, whether "all or substantially all of the issued and outstanding share capital of the Company is to be sold", shall be finally and conclusively determined by the Administrator in its absolute discretion.

12.8 The grant of Awards under the Plan shall in no way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

13. Limitations on Transfer.

13.1 Unless determined otherwise by the Administrator, no Award shall be assignable or transferable by the Grantee otherwise than by will or the laws of descent and distribution, and an Award shall vest or may be exercised (as applicable) only by such Grantee or his/her guardian or legal representative. The terms of such Award shall be binding upon the beneficiaries, executors, administrators, heirs and successors of such Grantee. Any Shares acquired upon exercise or vesting of Awards shall be transferable only in accordance with applicable securities and other local laws, and may be subject to substantial statutory or regulatory restrictions on transfer, except to the extent exemptions (whether by registration or otherwise) are available

13.2 Underwriter's Lock-up and Limitations on the Use of Nonpublic Information. The Grantee's rights to sell Exercised Shares may be subject to certain limitations (including a lock-up period), as may be requested by the Company or its underwriters, from time to time, or upon a specific occurrence, and the Grantee unconditionally agrees and accepts any such limitations. Furthermore, the Grantee's right to sell Exercised Shares is subject to applicable law, including in connection with limitations relating to the use of non-public information, Company-wide black out periods and so forth.

14. Term and Amendment of the Plan:

14.1 The Plan shall continue until terminated by the Administrator. All Awards outstanding at the time of termination, as aforementioned, shall continue to have full force and effect in accordance with the provisions of the Plan and the documents evidencing such Awards.

14.2 Subject to applicable laws and regulations, the Administrator in its discretion may, at any time and from time to time, amend, alter, extend or terminate the Plan, as it deems advisable. In addition, the Administrator may adopt, as part of the Plan and based on it, sub-plans, in order to comply with all relevant and applicable laws and regulations of the country of residence of any Grantees.

14.3 For the avoidance of doubt, as long as the Company's securities are traded on the TASE, the provisions of this Plan shall be subject to the directives, rules and regulations of the TASE, as those are established from time to time ("**TASE Directives**"). In the event that any of the provisions this Plan do not comply with the TASE Directives, the Administrator shall be entitled to automatically amend the provisions of this Plan in order to comply with the TASE Directives.

15. Withholding and Tax Consequences:

15.1 All Tax consequences and obligations arising from the grant, vesting, or exercise of any Award (as applicable), or the subsequent disposition of, Shares subject thereto or from any other event or act (of the Company or of the Grantee) hereunder, shall be borne solely by the Grantee, and the Grantee shall indemnify the Company and hold it harmless against and from any and all liability for any such Tax, including without limitation, monetary liabilities relating to the necessity to withhold, or to have withheld, any such Tax payment from any payment made to the Grantee. The Company or any of its affiliates may make such provisions and take such steps as it may deem necessary or appropriate for the withholding of all taxes required by law to be withheld with respect to Awards granted under the Plan and the exercise or vesting thereof, including, but not limited, to (i) deducting the amount so required to be withheld from any other amount (or Shares issuable) then or thereafter to be provided to the Grantee, including by deducting any such amount from a Grantee's salary or other amounts payable to the Grantee, to the maximum extent permitted under law and/or (ii) requiring the Grantee to pay to the Company or any of its affiliates the amount so required to be withheld as a condition of the issuance, delivery, distribution or release of any Shares and/or (iii) by causing the exercise and sale of any Options or Shares held by on behalf of the Grantee to cover such liability, up to the amount required to satisfy minimum statutory withholding requirements. In addition, the Grantee will be required to pay any amount due in excess of the tax withheld and transferred to the tax authorities, pursuant to applicable tax laws, regulations and rules. Notwithstanding the above, the Company's obligation to deliver Shares upon the exercise or vesting of any Awards granted under the Plan shall be subject to the satisfaction of all applicable Tax withholding requirements and any other required payments as governed by applicable law or practice. The Company shall have the right, but not the obligation, to deduct from the Shares issuable to a Grantee upon the exercise or vesting of an Award, or to accept from the Grantee the tender of, a number of whole Shares having a fair market value, as determined by the Company, that will enable the Company to satisfy any Tax withholding obligations of the Company. The maximum number of Shares that may be withheld from any Award to satisfy any federal, state or local tax withholding requirements upon the exercise, vesting, lapse of restrictions applicable to such Award or payment of shares pursuant to such Award, as applicable, cannot exceed such number of shares having a fair market value equal to the minimum statutory amount required by the Company to be withheld and paid to any such federal, state or local taxing authority with respect to such exercise, vesting, lapse of restrictions or payment of shares.

15.2 The Grantee shall, if requested at any time by the Company, provide to the Company within 10 calendar days of such request, any information regarding the transfer or other disposition of Shares reasonably required by the Company in order for the Company to comply with applicable local laws and regulations or to obtain any benefits thereunder.

16. Miscellaneous:

16.1 Continuance of Employment. Neither the Plan nor the grant of an Award thereunder shall impose any obligation on the Company to continue the employment or service of any Grantee. Nothing in the Plan or in any Award granted thereunder shall confer upon any Grantee any right to continue in the employ or service of the Company for any period of specific duration, or interfere with or otherwise restrict in any way the right of the Company to terminate such employment or service at any time, for any reason, with or without cause.

16.2 Governing Law. The Plan and all instruments issued thereunder or in connection therewith, shall be governed by, and interpreted in accordance with, the laws of the State of Israel, excluding the choice of law rules thereof.

16.3 Multiple Agreements. The terms of each Award may differ from other Awards granted under the Plan at the same time, or at any other time. The Administrator may also grant more than one grant of Awards to a given Grantee during the term of the Plan, either in addition to, or in substitution for, one or more Awards previously granted to that Grantee. The grant of multiple Awards may be evidenced by a single Notice of Grant or multiple Notices of Grant, as determined by the Administrator.

16.4 Non-Exclusivity of the Plan. The adoption of the Plan by the Administrator shall not be construed as amending, modifying or rescinding any previously approved incentive arrangement or as creating any limitations on the power of the Administrator to adopt such other incentive arrangements as it may deem desirable.

TOWER SEMICONDUCTOR LTD.

ADDENDUM TO THE 2013 SHARE INCENTIVE PLAN
FOR ISRAELI GRANTEES

1. General

1.1 This addendum (the "Addendum") shall apply only to Grantees who are residents of the State of Israel or those who are deemed to be residents of the State of Israel for tax purposes (collectively, "Israeli Grantees"). The provisions specified hereunder shall form an integral part of the Tower Semiconductor Ltd. 2013 Share Incentive Plan (the "Plan"), which applies to the grant of Awards.

1.2 This Addendum is to be read as a continuation of the Plan and only modifies the terms of Awards granted to Israeli Grantees so that they comply with the requirements set by the Israeli law in general, and in particular with the provisions of the Israeli Tax Ordinance (as defined below), as may be amended or replaced from time to time.

1.3 The Plan and this Addendum are complimentary to each other and shall be deemed as one. In any case of contradiction with respect to Awards granted to Israeli Grantees, whether explicit or implied, between the provisions of this Addendum and the Plan, the provisions set out in this Addendum shall prevail.

1.4 Any capitalized term not specifically defined in this Addendum shall be construed according to the definition or interpretation given to it in the Plan

2. Definitions

"**102 Award**" means a grant of an Award to an Israeli employee, director or other Office Holder of the Company, other than to a Controlling Shareholder, pursuant to the provisions of Section 102 of the Tax Ordinance, the 102 Rules, and any other regulations, rulings, procedures or clarifications promulgated thereunder, or under any other section of the Tax Ordinance that will be relevant for such issuance in the future.

"**102(c) Award**" means a 102 Award that will not be subject to a Taxation Route, as detailed in Section 102(c) of the Tax Ordinance.

"**Beneficial Grantee**" means the Grantee for the benefit of whom the Trustee holds an Award in Trust.

"**Capital Gains Route**" means the capital gains tax route under Section 102(b)(2) of the Tax Ordinance.

"**Controlling Shareholder**" means a "controlling shareholder" of the Company, as such term is defined in Section 32(9)(a) of the Tax Ordinance.

"**Minimum Trust Period**" means the minimum period of time required under a Taxation Route for Awards and/or Exercised Shares to be held in Trust in order for the Beneficial Grantee to enjoy to the fullest extent the tax benefits afforded under such Taxation Route, as prescribed at any time by Section 102 of the Tax Ordinance.

"**Ordinary Income Route**" means the ordinary income route under Section 102(b)(1) of the Tax Ordinance.

"**Rights**" means rights issued in respect of Exercised Shares, including bonus shares.

"**102 Rules**" means the Israeli Income Tax Rules (Tax Relief in Issuance of Shares to Employees), 2003.

"**Taxation Route**" means each of the Ordinary Income Route or the Capital Gains Route.

"**Tax Ordinance**" means the Israeli Income Tax Ordinance [New Version], 1961, as amended.

"**Trust**" means the holding of an Award or Exercised Share by the Trustee in Trust for the benefit of the Beneficial Grantee, pursuant to the instructions of a Taxation Route.

"**Trustee**" means a trustee designated by the Administrator in accordance with the provisions of Section 3 below and, with respect to 102 Awards, approved by the Israeli Tax Authorities.

3. Administration:

3.1 The Administrator has elected the Capital Gains Route for grants of 102 Awards pursuant to the provisions of Section 102 of the Ordinance and the applicable regulations.

3.2 Subject to the general terms and conditions of the Plan, the Tax Ordinance, and any other applicable laws and regulations, the Administrator shall have the full authority in its discretion, from time to time, to determine with respect to grants of 102 Awards –the identity of the trustee who shall be granted such 102 Awards in accordance with the provisions of the Plan and the then prevailing Taxation Route.

3.3 Notwithstanding the aforesaid, the Administrator may, from time to time, grant 102(c) Awards.

4. Grant of Awards and Issuance of Shares:

Subject to the provisions of the Tax Ordinance and applicable law all grants of Awards to Israeli employees, directors and Office Holders of the Company, other than to a Controlling Shareholder, shall be of 102 Awards:

5. Trust:

5.1 General.

a. In the event Awards are deposited with a Trustee, the Trustee shall hold each such Award and any Exercised Shares in Trust for the benefit of the Beneficial Grantee.

b. In accordance with Section 102, the tax benefits afforded to 102 Awards (and any Exercised Shares) in accordance with the Ordinary Income Route or Capital Gains Route, as applicable, shall be contingent upon the Trustee holding such 102 Awards for the applicable Minimum Trust Period.

c. With respect to 102 Awards granted to the Trustee, the following shall apply:

i) A Grantee granted 102 Awards shall not be entitled to sell the Exercised Shares or to transfer such Exercised Shares (or such 102 Awards) from the Trust prior to the lapse of the Minimum Trust Period; and

ii) Any and all Rights shall be issued to the Trustee and held thereby until the lapse of the Minimum Trust Period, and such Rights shall be subject to the Taxation Route which is applicable to such Exercised Shares.

d. Notwithstanding the aforesaid, Exercised Shares or Rights may be sold or transferred, and the Trustee may release such Exercised Shares or Rights from Trust, prior to the lapse of the Minimum Trust Period, provided however, that tax is paid or withheld in accordance with Section 102 of the Tax Ordinance and Section 7 of the 102 Rules, and any other provision in any other section of the Tax Ordinance and any regulation, ruling, procedure and clarification promulgated thereunder, that will be relevant, from time to time.

e. The Company shall register the Exercised Shares issued to the Trustee pursuant to the Plan, in the name of the Trustee for the benefit of the Israeli Grantees, in accordance with any applicable laws, rules and regulations, until such time that such Shares are released from the Trust as herein provided.

If the Company shall issue any certificates representing Exercised Shares deposited with the Trustee under the Plan, then such certificates shall be deposited with the Trustee, and shall be held by the Trustee until such time that such Exercised Shares are released from the Trust as herein provided.

f. Subject to the terms hereof, at any time after the Awards are exercised or vested, with respect to any Exercised Shares the following shall apply:

i) Upon the written request of any Beneficial Grantee, the Trustee shall release from the Trust the Exercised Shares issued, on behalf of such Beneficial Grantee, by executing and delivering to the Company such instrument(s) as the Company may require, giving due notice of such release to such Beneficial Grantee, provided, however, that the Trustee shall not so release any such Exercised Shares to such Beneficial Grantee unless the latter, prior to, or concurrently with, such release, provides the Trustee with evidence, satisfactory in form and substance to the Trustee, that payment of all taxes, if any, required to be paid upon such release has been secured.

ii) Alternatively, subject to the terms hereof, provided the Shares are listed on a stock market, upon the written instructions of the Beneficial Grantee to sell any Exercise Shares, the Company and/or the Trustee shall use their reasonable efforts to effect such sale and shall transfer such Shares to the purchaser thereof concurrently with the receipt of, or after having made suitable arrangements to secure, the payment of the proceeds of the purchase price in such transaction. The Company and/or the Trustee, as applicable, shall withhold from such proceeds any and all taxes required to be paid in respect of such sale, shall remit the amount so withheld to the appropriate tax authorities and shall pay the balance thereof directly to the Beneficial Grantee, reporting to such Beneficial Grantee the amount so withheld and paid to said tax authorities.

5.2 Voting Rights. Unless determined otherwise by the Administrator, as long as the Trustee holds the Exercised Shares, the voting rights at the Company's general meeting attached to such Exercised Shares will remain with the Trustee. However, the Trustee shall not be obligated to exercise such voting rights at general meetings nor notify the Grantee of any Shares held in the Trust, of any meeting of the Company's shareholders.

Without derogating from the above, with respect to 102 Awards, such shares shall be voted in accordance with the provisions of Section 102 and any rules, regulations or orders promulgated thereunder.

5.3 Dividends. Subject to any applicable law, tax ruling or guidelines of the Israeli Tax Authority, as applicable, for so long as Shares deposited with the Trustee on behalf of a Beneficial Grantee are held in Trust, the cash dividends paid or distributed with respect thereto shall be distributed directly to such Beneficial Grantee, subject further to any applicable taxation on distribution of dividends, and when applicable subject to the provisions of Section 102 of the Tax Ordinance, the 102 Rules and the regulations or orders promulgated thereunder.

5.4 Notice of Exercise. With respect to a 102 Award held in the Trust, a copy of any Notice of Exercise shall be provided to the Trustee, in such form and method as may be determined by the Trustee in accordance with the requirements of Section 102 of the Tax Ordinance.

6. Notice of grant:

6.1 The Notice of Grant shall state, *inter alia*, whether the Awards granted to Israeli Grantees are 102 Awards (and in particular whether the 102 Awards are granted under the Ordinary Income Route, the Capital Gains Route or as 102(c) Awards). Each Notice of Grant evidencing a 102 Award shall be subject to the provisions of the Tax Ordinance applicable to such awards.

6.2 Furthermore, each Grantee of a 102 Award under a Taxation Route shall be required: (i) to execute a declaration stating that he or she is familiar with the provisions of Section 102 of the Tax Ordinance and the applicable Taxation Route; and (ii) to undertake not to sell or transfer the Awards and/or the Exercised Shares prior to the lapse of the applicable Minimum Trust Period, unless he or she pays all taxes that may arise in connection with such sale and/or transfer.

7. Sale:

In the event of a Sale described in Section 12.6 of the Plan, with respect to Shares held in Trust the following procedure will be applied: The Trustee will transfer the Shares held in Trust and sign any document in order to effectuate the transfer of Shares, including share transfer deeds, provided, however, that the Trustee receives a notice from the Administrator, specifying that: (i) all or substantially all of the issued outstanding share capital of the Company is to be sold, and therefore the Trustee is obligated to transfer the Shares held in Trust under the provisions of Section 11.5 of the Plan; and (ii) the Company is obligated to withhold at the source all taxes required to be paid upon release of the Shares from the Trust and to provide the Trustee with evidence, satisfactory to the Trustee, that such taxes indeed have been paid; and (iii) the Company is obligated to transfer the consideration for the Shares (less applicable tax and compulsory payments) directly to the Grantees.

8. Limitations of Transfer:

In addition to the provisions of Section 13 of the Plan, as long as Awards and/or Shares are held by the Trustee on behalf of the Grantee, all rights of the Grantee over the Shares are personal, cannot be transferred, assigned, pledged or mortgaged, other than by will or pursuant to the laws of descent and distribution.

9. Taxation:

9.1 Without derogating from the provisions of Section 15 of the Plan, the provisions of Section 15.1 of the Plan shall apply also to actions taken by the Trustee. Accordingly, without derogating from the provisions of Section 15.1 of the Plan, the Grantee shall indemnify the Trustee and hold it harmless against and from any and all liability for any such Tax, including without limitation, monetary liabilities relating to the necessity to withhold, or to have withheld, any such Tax from any payment made to the Grantee.

9.2 The Trustee shall not be required to release any Share (or Share certificate) to a Grantee until all required Tax payments have been fully made or secured.

9.3 With regards to 102 Awards, any provision of Section 102 of the Tax Ordinance, the 102 Rules and the regulations or orders promulgated thereunder, which is necessary in order to receive and/or to preserve any Tax treatment pursuant to Section 102 of the Tax Ordinance, which is not expressly specified in the Plan or in this Addendum, shall be considered binding upon the Company and the Israeli Grantee.

9.4 Guarantee. In the event a 102(c) Award is granted to a Grantee, and in the event of Cessation of Service, such Grantee shall provide the Company, to its full satisfaction, with a guarantee or collateral securing the future payment of all Taxes required to be paid upon the sale of the Exercised Shares received upon exercise of such 102(c) Award, all in accordance with the provisions of Section 102 of the Tax Ordinance, the 102 Rules and the regulations or orders promulgated thereunder.

APPENDIX "A"

TOWER SEMICONDUCTOR LTD.

ADDENDUM TO THE 2013 SHARE INCENTIVE PLAN
FOR GRANTEES WHO ARE CITIZENS OF THE UNITED STATES OR
RESIDENT ALIENS

Notwithstanding anything to the contrary contained in the Plan, for an Award granted to a Grantee who is subject to federal income tax under the laws of the United States, the following requirements shall apply:

1. Awards granted to US residents will be made as nonqualified options ("NQO") and/or as Restricted Stock Units ("RSU's").

2. The Exercise Price per share under each NQO shall be not less than 100% of the fair market value of a Share on the Date of Grant of such NQO

3. For all purposes of this Appendix A, the term "fair market value", as used by reference to the Shares on the Date of Grant, shall mean the closing price of the Company's Shares, as quoted on the NASDAQ market or the principal national securities exchange upon which the Company's Shares are listed or traded for the last market trading day prior to the Date of Grant, or if a closing sales price is not quoted on such date– the closing Share price as quoted on the NASDAQ market or such other exchange on the first date following such date for which a closing sales price is quoted. If the Company's Shares are not listed on NASDAQ or such other exchange, "fair market value" of the Shares on the Date of Grant shall be determined by the Administrator in good faith in a manner consistent with Code Section 409A.

4. Such NQO grant shall be made, construed and administered in all respects to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended. Without limiting the generality of the foregoing, and notwithstanding Section 12.2 of the Plan to the contrary, or otherwise, the Exercise Price per share under any NQO shall not be reduced after such NQO is granted, and no NQO shall be amended, if such reduction or amendment would cause noncompliance with the requirements of Section 409A. For purposes of granting NQOs, an entity may not be considered an Affiliate if it results in noncompliance with Section 409A. To the extent that the Administrator determines that a Grantee would be subject to the additional 20% tax imposed on certain nonqualified deferred compensation plans pursuant to Section 409A as a result of any provision of any Award granted under this Plan, such provision shall be deemed amended, without consent of the Grantee, to the minimum extent necessary to avoid application of such additional tax. The nature of any such amendment shall be determined by the Administrator.

5. Notwithstanding any other provision of this Plan or of any other agreement, contract, or understanding heretofore or hereafter entered into by a Grantee with the Company or any Affiliate, except an agreement, contract, or understanding that expressly addresses Section 280G or Section 4999 of the Code (an "Other Agreement"), and notwithstanding any formal or informal plan or other arrangement for the direct or indirect provision of compensation to the Grantee (including groups or classes of Grantees or beneficiaries of which the Grantee is a member), whether or not such compensation is deferred, is in cash, or is in the form of a benefit to or for the Grantee (a "Benefit Arrangement"), if the Grantee is a "disqualified individual," as defined in Section 280G(c) of the Code, any Option or RSU held by that Grantee and any right to receive any payment or other benefit under this Plan shall not become exercisable or vested (i) to the extent that such right to exercise, vesting, payment, or benefit, taking into account all other rights, payments, or benefits to or for the Grantee under this Plan, all Other Agreements, and all Benefit Arrangements, would cause any payment or benefit to the Grantee under this Plan to be considered a "parachute payment" within the meaning of Section 280G(b)(2) of the Code as then in effect (a "Parachute Payment") and (ii) if, as a result of receiving a Parachute Payment, the aggregate after-tax amounts received by the Grantee from the Company under this Plan, all Other Agreements, and all Benefit Arrangements would be less than the maximum after-tax amount that could be received by the Grantee without causing any such payment or benefit to be considered a Parachute Payment. In the event that the receipt of any such right to exercise, vesting, payment, or benefit under this Plan, in conjunction with all other rights, payments, or benefits to or for the Grantee under any Other Agreement or any Benefit Arrangement would cause the Grantee to be considered to have received a Parachute Payment under this Plan that would have the effect of decreasing the after-tax amount received by the Grantee as described in clause (ii) of the preceding sentence, then the Grantee shall have the right, in the Grantee's sole discretion, to designate those rights, payments, or benefits under this Plan, any Other Agreements, and any Benefit Arrangements that should be reduced or eliminated so as to avoid having the payment or benefit to the Grantee under this Plan be deemed to be a Parachute Payment.

Exhibit 4.59

EXECUTION VERSION

EXCHANGE AGREEMENT

This Exchange Agreement (this "*Agreement*"), dated as of March 19, 2014, is entered into by and among Jazz Technologies, Inc., a Delaware corporation (the "*Company*"), the subsidiaries of the Company listed on Schedule A hereto (each a "*Guarantor*"), Tower Semiconductor Ltd., company formed under the laws of Israel ("*Tower*"), and each of the holders listed on the Schedule of Holders referred to below (each, a "*Holder*" and collectively, the "*Participating Holders*").

RECITALS

A. On July 15, 2010, the Company issued its 8% Senior Notes due 2015 in an initial aggregate original principal amount of $93,556,000 (such notes collectively, the "*Existing Notes*"); such Existing Notes being in the form of beneficial interests in a global note held by The Depository Trust Company ("*DTC*") and governed by an indenture, dated as of July 15, 2010, among the Company, its domestic subsidiaries from time to time party thereto as guarantors, and U.S. Bank National Association, as trustee (such indenture, as the same has been modified or supplemented through the date hereof, the "*Existing Indenture*").

B. The Existing Notes were issued in exchange for previously outstanding notes of the Company in a transaction exempt from registration under the Securities Act of 1933, as amended (the "*Securities Act*"). In January 2011, pursuant to an exchange offer registered under the Securities Act, the Company exchanged registered Existing Notes for then outstanding unregistered Existing Notes, the registered notes and unregistered notes representing the same debt, being issued under the same Existing Indenture and having substantially identical terms, except that transfer restrictions and registration rights applicable to the unregistered notes do not apply to the registered notes. Unless the context otherwise requires, as used herein the term "Existing Notes" includes both the unregistered Existing Notes and registered Existing Notes. Each Holder is the beneficial owner of Existing Notes in the aggregate principal amount set forth opposite such Holder's name beside the item "Existing Notes Principal Amount" on the Schedule of Holders (the "*Schedule of Holders*") attached hereto as Exhibit A (the "*Original Principal Amount*").

C. The Company and the Participating Holders desire to enter into this Agreement, pursuant to which, among other things, on the Closing Date (as defined below), each Holder shall exchange Existing Notes in a principal amount equal to the Original Principal Amount for such Holder for newly-issued 8% senior notes due December 2018 issued by the Company (the "*New Notes*") and guaranteed (the "*Guarantees*"), jointly and severally, by the Guarantors in the principal amount set forth beside the item "New Notes Principal Amount" opposite such Holder's name on the Schedule of Holders (with respect to each Holder, the "*Exchange Principal Amount*"), . Pursuant to and subject to the terms and conditions of this Agreement, for each $1,000 Original Principal Amount exchanged, a Holder will be entitled to receive $1,083 in principal amount of New Notes (the "*Exchange Rate*").

D. The New Notes will be issued under and governed by an indenture, dated as of the Closing Date, among the Company, the guarantors from time to time party thereto, Tower and U.S. Bank National Association, as trustee, in the form attached hereto as Exhibit B (the "*New Indenture*"). Under the New Indenture, the New Notes shall be convertible into Tower Common Stock (defined below) at an initial conversion rate equal to $1,000 divided by the greater of (i) $9.00 and (ii) (A) 120% of the Average Closing Price if such price is less than $9.00, (B) 115% of the Average Closing Price if such price is greater than or equal $9.00 and less than $12.00 and (C) 110% of the Average Closing Price if such price is greater than or equal to $12.00.

E. On the date hereof, the Company is also entering into a Note Purchase Agreement with certain of the Participating Holders pursuant to which such Participating Holders will agree to purchase, and the Company will agree to issue and sell, New Notes for cash contemporaneous with the closing of the transactions contemplated hereby.

F. The exchange of Existing Notes for New Notes by the Participating Holders on the terms set forth in this Agreement (the "*Exchange*") is being made pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended (the "*Securities Act*"), Regulation D promulgated thereunder and Regulation S promulgated under the Securities Act.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and undertakings set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions. Unless the context otherwise requires, the following terms shall have the following meanings for all purposes of this Agreement:

"*Action*" has the meaning ascribed to it in Section 4(j).

"*Affiliate*" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person as such terms are used in and construed under Rule 144 under the Securities Act. With respect to any Holder, any investment fund or managed account that is managed on a discretionary basis by the same investment manager as such Holder will be deemed to be an Affiliate of such Holder.

"*Agreement*" has the meaning set forth in the preamble to this Agreement.

"*Average Closing Price*" means the average of the Closing Prices of the Tower Common Stock for the five trading days ending on the day immediately preceding the date of this Agreement.

"*Business Day*" means any day except Saturday, Sunday, any day which shall be a federal legal holiday in the United States and any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

"*Closing*" has the meaning ascribed to it in Section 3.

"*Closing Date*" has the meaning ascribed to it in Section 3

"*Closing Price*" means the closing sale price per share (or, if no closing sale price is reported, the average of the last bid and ask prices or, if more than one in either case, the average of the average last bid and the average last ask prices) of the Tower Common Stock on that date as reported in composite transactions on the Nasdaq Global Market. The Closing Price will be determined without reference to extended or after hours trading.

"*Commission*" means the Securities and Exchange Commission.

"*Common Stock*" means the common stock, par value $0.0001 per share, of the Company.

"*Common Stock Equivalents*" means any securities of the Company or the Subsidiaries which would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

"*Company*" has the meaning set forth in the preamble to this Agreement.

"*Company Disclosure Materials*" shall have the meaning ascribed to it in Section 4(h).

"*Company Material Adverse Effect*" means (i) a material adverse effect on the legality, validity or enforceability of any Transaction Document to which the Company or any Guarantor is a party, (ii) a material adverse effect on the results of operations, assets, business, prospects or condition (financial or otherwise) of the Company and its Subsidiaries, taken as a whole, or (iii) a material adverse effect on the Company's or any Guarantor's ability to perform in any material respect on a timely basis its obligations under any Transaction Document to which it is a party.

"*Company Registration Rights Agreement*" means the Registration Rights Agreement, dated as of the Closing Date, among the Company and the Participating Holders, in the form of Exhibit C attached hereto.

"*Company SEC Reports*" shall have the meaning ascribed to it in Section 4(h).

"*Disclosure Schedules*" means the Disclosure Schedules of the Company and Tower to this Agreement delivered concurrently herewith.

"*DTC*" has the meaning set forth in the "Recitals" section.

"*Exchange*" has the meaning set forth in the "Recitals" section.

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

"*Exchange Note Cash Payment*" has the meaning ascribed to it in Section 2(a).

"*Exchange Principal Amount*" has the meaning set forth in the "Recitals" section.

"*Exchange Rate*" has the meaning set forth in the "Recitals" section.

"*Existing Indenture*" has the meaning set forth in the "Recitals" section.

"*Existing Notes*" has the meaning set forth in the "Recitals" section.

"*GAAP*" has the meaning ascribed to it in Section 4(h).

"*Guarantor*" has the meaning set forth in the preamble to this Agreement.

"*Holder*" has the meaning set forth in the preamble to this Agreement.

"*Intellectual Property Rights*" has the meaning ascribed to it in Section 4(o).

"*Investment Company Act*" has the meaning ascribed to it in Section 4(u).

"*Liens*" means a lien, charge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

"*Material Permits*" has the meaning ascribed to it in Section 4(m).

"*New Indenture*" has the meaning set forth in the "Recitals" section.

"*New Notes*" has the meaning set forth in the "Recitals" section.

"*Original Principal Amount*" has the meaning set forth in the "Recitals" section.

"*Participating Holders*" has the meaning set forth in the preamble to this Agreement.

"*Person*" means an individual, corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

"*Proceeding*" means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"*Registration Statement*" means a registration statement meeting the requirements set forth in the Company Registration Rights Agreement or the Tower Registration Rights Agreement, as applicable.

"*Required Approvals*" shall have the meaning ascribed to such term in Section 4(e).

"*Schedule of Holders*" has the meaning set forth in the "Recitals" section.

"*Securities*" means the New Notes.

"*Securities Act*" has the meaning set forth in the "Recitals" section.

"*Subsidiary*" means, with respect to the Company or Tower, any subsidiary of such company as set forth on Schedule 4(a) for the Company or Schedule 5(a) for Tower.

"*Tower*" has the meaning set forth in the preamble to this Agreement.

"*Tower Action*" has the meaning ascribed to it in Section 5(j).

"*Tower Common Stock*" means the ordinary shares of Tower, par value NIS 15.00 per share, and any other class of securities into which such securities may hereafter be reclassified or changed into.

"*Tower Common Stock Equivalents*" means any securities of Tower or its Subsidiaries which would entitle the holder thereof to acquire at any time Tower Common Stock, including, without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Tower Common Stock.

"*Tower Disclosure Materials*" has the meaning ascribed to it in Section 5(h).

"*Tower Intellectual Property Rights*" has the meaning set forth in Section 5(o).

"*Tower Material Adverse Effect*" means (i) a material adverse effect on the legality, validity or enforceability of any Transaction Document to which Tower is a party, (ii) a material adverse effect on the results of operations, assets, business, prospects or condition (financial or otherwise) of Tower and its Subsidiaries, taken as a whole, or (iii) a material adverse effect on Tower's ability to perform in any material respect on a timely basis its obligations under any Transaction Document to which it is a party.

"*Tower Material Permits*" has the meaning ascribed to it in Section 5(m).

"*Tower Required Approvals*" has the meaning ascribed to it in Section 5(e).

"*Tower Registration Rights Agreement*" means the Registration Rights Agreement, dated as of the Closing Date, among Tower and the Participating Holders, in the form of Exhibit D attached hereto.

"*Tower SEC Reports*" has the meaning ascribed to it in Section 5(h).

"*Trading Market*" means the following markets or exchanges on which the Tower Common Stock is listed or quoted for trading on the date in question: the American Stock Exchange, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market or the New York Stock Exchange.

"*Transaction Documents*" means this Agreement, the New Notes, the New Indenture, the Guarantees, the Company Registration Rights Agreement, the Tower Registration Rights Agreement, and any other documents or agreements executed in connection with the transactions contemplated hereunder.

"*Underlying Tower Shares*" means the Tower Common Stock issued or issuable upon conversion of the New Notes in accordance with the terms of the New Indenture.

2. The Exchange.

(a) Exchange of Existing Notes for New Notes. Subject to the satisfaction of the conditions set forth in Section 7 and Section 8 hereof, at the Closing (i) each Holder agrees, severally and not jointly, to take such action as is necessary to transfer and deliver to the Company by electronic delivery via Deposit/Withdrawal at Custodian the Existing Notes of such Holder in the Original Principal Amount for such Holder and (ii) the Company shall issue and deliver to each Holder New Notes in the Exchange Principal Amount for such Holder plus cash in immediately available funds for (x) any additional principal amount otherwise issuable at the Exchange Rate that would not be an integral multiple of $1,000 as set forth opposite such Holder's name beside the item "Existing Notes Principal Amount" on the Schedule of Holders (the "*Exchange Note Cash Payment*") and (y) the accrued and unpaid interest on the Existing Notes from the last date through which interest was paid to, but excluding the Closing Date. The Company shall deliver the New Notes by causing DTC to credit such securities to the account of each Holder's DTC participant as set forth opposite such Holder's name on the Schedule of Holders, or such other DTC account as a Holder may direct in writing sufficiently in advance of the Closing Date against delivery by such Holder of Existing Notes in the Original Principal Amount for such Holder.

(b) Registration of New Notes. The New Notes will be evidenced by one or more global note certificates in definitive form, registered in the name of Cede & Co., as nominee of DTC, and bearing such legends as shall be required by the New Indenture.

(c) Satisfaction of Existing Notes. Each Holder acknowledges that upon receipt of such Holder's Exchange Principal Amount, together with the Exchange Note Cash Payment and accrued and unpaid interest on the Existing Notes being exchanged payable to such Holder, the Company's obligations to pay such Holder principal and interest on the Existing Notes so exchanged by such Holder shall be satisfied.

3. Closing. The consummation of the transactions contemplated by this Agreement (the "*Closing*") shall occur at 10:00 a.m. (New York City local time), on March 25, 2014, or at such other time and date as the parties agree upon, or, if the conditions to Closing set forth in Section 7 and Section 8 hereof (other than conditions that by their terms can only be satisfied on the Closing Date) have not been satisfied or waived by such date, then on the second Business Day after the last of such conditions to Closing has been satisfied or waived by the party entitled to waive the same or on any such other date as to which the parties mutually agree in writing (the "*Closing Date*").

4. Representations and Warranties of the Company and the Guarantors. Except as set forth under the corresponding section of the Disclosure Schedules, which Disclosure Schedules shall be deemed a part hereof and to qualify such corresponding representation or warranty otherwise made herein to the extent of such disclosure, the Company and the Guarantors, jointly and severally, hereby make the representations and warranties set forth below to each Holder:

(a) Subsidiaries. All of the direct and indirect ownership of any capital stock, or other equity interests owned or held in any Subsidiaries of the Company is set forth on Schedule 4 (a). Except as set forth on Schedule 4(a), the Company owns, directly or indirectly, all of the capital stock or other equity interests of each of its Subsidiaries free and clear of any Liens, and all the issued and outstanding shares of capital stock of each of its Subsidiaries are validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities.

(b) Organization and Qualification. The Company and each of its Subsidiaries is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization (as applicable), with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. No proceeding has been instituted for the dissolution of the Company or any of its Subsidiaries. Neither the Company nor any of its Subsidiaries is in violation or default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. Each of the Company and its Subsidiaries is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in a Company Material Adverse Effect, and no Proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

(c) Authorization; Enforcement. The Company and each Guarantor has the requisite corporate or other power and authority to enter into and to consummate the transactions contemplated by each of the Transaction Documents to which it is a party and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery by the Company and each Guarantor of each of the Transaction Documents to which it is a party and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of the Company or such Guarantor and no further action is required by the Company or any Guarantor or its respective board of directors (or similar governing body) or its stockholders or members in connection therewith. Each Transaction Document to which the Company or any Guarantor is a party has been (or upon delivery will have been) duly executed by the Company and such Guarantor and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of the Company and such Guarantor enforceable against the Company and such Guarantor in accordance with its terms except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law. On the Closing Date, the New Notes (including the related Guarantees) shall have been duly authorized by the Company and each of the Guarantors, as applicable, and, when duly executed, authenticated, issued and delivered as contemplated by and in accordance with the provisions of the New Indenture, will be duly and validly issued and outstanding and will constitute valid and binding obligations of the Company and such Guarantor enforceable against the Company and such Guarantor in accordance with its terms except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(d) No Conflicts. The execution, delivery and performance by the Company and each Guarantor of the Transaction Documents to which it is a party, the issuance and sale of the New Notes (including the related Guarantees) and the consummation by the Company and the Guarantors of the other transactions contemplated hereby and thereby do not and will not (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of the Company or any of its Subsidiaries, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company or any of its Subsidiaries' debt or otherwise) or other understanding to which the Company or any of its Subsidiaries is a party or by which any property or asset of the Company or any of its Subsidiaries is bound or affected, or (iii) subject to the Required Approvals, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or any of its Subsidiaries is subject (including U.S. federal and state securities laws and regulations), or by which any property or asset of the Company or any of its Subsidiaries is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Company Material Adverse Effect.

(e) Filings, Consents and Approvals. Other than as set forth on Schedule 4(e), neither the Company nor any Guarantor is required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other U.S. federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company and each Guarantor of the Transaction Documents to which it is a party, other than (i) filings required pursuant to Section 7(g) of this Agreement, (ii) the filing with the Commission of the Registration Statement, (iii) the filing of Form D with the Commission and such filings as are required to be made under applicable state securities laws, and (iv) those made or obtained prior to Closing (collectively, the "*Required Approvals*").

(f) Issuance of the New Notes. The New Notes are duly authorized and, when issued and paid for in accordance with the applicable Transaction Documents, will be duly and validly issued, fully paid and nonassessable, free and clear of all Liens imposed by the Company other than restrictions on transfer provided for in the Transaction Documents.

(g) Capitalization. The capitalization (including convertible debentures) of the Company as of one (1) Business Day prior to the date hereof is as set forth on Schedule 4(g). No Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. There are no outstanding options, warrants, scrip rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire, any shares of Common Stock, or contracts, commitments, understandings or arrangements by which the Company or any of its Subsidiaries is or may become bound to issue additional shares of Common Stock or Common Stock Equivalents. The issuance and sale of the New Notes will not obligate the Company to issue shares of Common Stock or other securities to any Person (other than Tower Common Stock to the Participating Holders converting the New Notes) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under any of such securities. All of the outstanding shares of capital stock of the Company are validly issued, fully paid and nonassessable, have been issued in compliance with all U.S. federal and state securities laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. No further corporate approval or authorization of any stockholder, the Board of Directors of the Company or any Guarantor or others is required for the issuance and sale of the New Notes and the related Guarantees. Except as disclosed on Schedule 4(g), there are no stockholders agreements, voting agreements or other similar agreements with respect to the Company's capital stock to which the Company is a party or, to the knowledge of the Company, between or among any of the Company's stockholders.

(h) SEC Reports; Financial Statements. The Company's reports, schedules, forms, statements and other documents filed by it under the Securities Act or the Exchange Act for the three years preceding the date hereof (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, "*Company SEC Reports*"; together with the Company Disclosure Schedules, the "*Company Disclosure Materials*"), when filed (or if amended or superseded by a filing prior to the date hereof, then on the date of such filing), complied in all material respects with the requirements of the Securities Act and the Exchange Act, as applicable, and none of the Company SEC Reports, when filed (or if amended or superseded by a filing prior to the date hereof, then on the date of such filing), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the Company SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing (or if amended or superseded by a filing prior to the Closing Date, then on the date of such filing). Such financial statements have been prepared in accordance with accounting principles generally accepted in the United States applied on a consistent basis during the periods involved ("*GAAP*"), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company and its consolidated subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(i) Material Changes; Undisclosed Events, Liabilities or Developments. Since the date of the latest audited financial statements of the Company included in a report filed on Form 10-K and except as specifically disclosed in the Company Disclosure Materials, (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Company Material Adverse Effect, (ii) the Company has not incurred any liabilities (contingent or otherwise) other than trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice, (iii) the Company has not altered its method of accounting, and (iv) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock. The Company does not have pending before the Commission any request for confidential treatment of information. Except for the entering into of this Agreement and the transactions contemplated hereby or as set forth in the Company Disclosure Materials, no event, liability or development has occurred or exists with respect to the Company or its Subsidiaries or their respective business, properties, operations or financial condition, that would be required to be disclosed by the Company under applicable securities laws at the time this representation is made that has not been publicly disclosed at least 1 Business Day prior to the date that this representation is made.

(j) Litigation. Except as set forth on Schedule 4(j) and in the Company Disclosure Materials, there is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company, any of its Subsidiaries or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (U.S. federal, state, county, local or foreign) (collectively, an "*Action*") which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the New Notes (including the related Guarantees) or (ii) could have or reasonably be expected to result in a Company Material Adverse Effect. Neither the Company nor any of its Subsidiaries, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under U.S. federal or state securities laws or a claim of breach of fiduciary duty.

(k) Labor Relations. No material labor dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company which could reasonably be expected to result in a Company Material Adverse Effect. Except as disclosed on Schedule 4(k), none of the Company's or its Subsidiaries' employees is a member of a union that relates to such employee's relationship with the Company, and neither the Company or any of its Subsidiaries is a party to a collective bargaining agreement, and the Company and its Subsidiaries believe that their relationships with their employees are good. No executive officer of the Company, to the knowledge of the Company, is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant, and, to the knowledge of the Company, the continued employment of each such executive officer does not subject the Company or any of its Subsidiaries to any liability with respect to any of the foregoing matters. The Company and its Subsidiaries are, to their knowledge, in compliance with all, U.S. federal, state, local and foreign laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours, except where the failure to be in compliance could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. Severance pay, if any, due to the Company's employees is fully funded or provided for in accordance with GAAP, consistently applied.

(l) Compliance. Except as set forth in the Company Disclosure Materials, neither the Company nor any of its Subsidiaries (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company or any of its Subsidiaries under), nor has the Company or any of its Subsidiaries received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any order of any court, arbitrator or governmental body, (iii) is in violation of its charter or bylaws or similar organizational document or (iv) is or has been in violation of any statute, rule or regulation of any governmental authority, including without limitation all foreign, U.S. federal, state and local laws applicable to its business and all such laws that affect the environment, except, in the cases of clauses (i), (ii) and (iv) above, as could not have or reasonably be expected to result in a Company Material Adverse Effect.

(m) Regulatory Permits. The Company and its Subsidiaries possess all certificates, authorizations and permits issued by the appropriate U.S. federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses as described in the Company Disclosure Materials, except where the failure to possess such permits could not have or reasonably be expected to result in a Company Material Adverse Effect ("*Material Permits*"), and neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any Material Permit.

(n) Title to Assets. Except as set forth on Schedule 4(n), the Company and its Subsidiaries have good and marketable title in fee simple to all real property owned by them that is material to the business of the Company and its Subsidiaries and good and marketable title in all personal property owned by them that is material to the business of the Company and its Subsidiaries, in each case free and clear of all Liens, except for Liens that do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and its Subsidiaries and Liens for the payment of U.S. federal, state or other taxes, the payment of which is neither delinquent nor subject to penalties. Any real property and facilities held under lease by the Company and its Subsidiaries are held by them under valid, subsisting and enforceable leases with which the Company and its Subsidiaries are in compliance.

(o) Patents and Trademarks. To the knowledge of the Company, the Company and its Subsidiaries own, or have legally enforceable rights to use, all patents, patent rights, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, mask works, trade secrets, inventions, know-how, licenses and other similar rights necessary or material for use in connection with their respective businesses as described in the Company Disclosure Materials and which the failure to so have could have a Company Material Adverse Effect (collectively, the "*Intellectual Property Rights*"). Except as set forth on Schedule 4(o), neither the Company nor any of its Subsidiaries has received a written notice that has not been revoked or has knowledge that the Intellectual Property Rights used by the Company or any of its Subsidiaries violates or infringes, or allegedly violates or allegedly infringes, upon the rights of any Person. To the knowledge of the Company, all such Intellectual Property Rights are enforceable and there is no existing infringement by another Person of any of the Intellectual Property Rights. The Company and its Subsidiaries have taken reasonable security measures to protect the secrecy, confidentiality and value of all Intellectual Property Rights, except where failure to do so could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(p) Insurance. The Company and its Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which the Company and its Subsidiaries are engaged, including, but not limited to, directors and officers insurance coverage. To the best knowledge of the Company, such insurance contracts and policies are accurate and complete. Neither the Company nor any of its Subsidiaries has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(q) Transactions with Affiliates and Employees. Except as set forth on Schedule 4(q) and in the Company Disclosure Materials, none of the officers or directors of the Company and, to the knowledge of the Company, none of the employees of the Company is presently a party to any transaction with the Company or any of its Subsidiaries (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner, in each case in excess of $120,000 other than (i) for payment of salary, director fees or consulting fees for services rendered, (ii) reimbursement for expenses incurred on behalf of the Company and (iii) for other employee benefits, including reasonable severance pay plans of the Company or bonuses. Except as described above or in the Company Disclosure Materials, none of the officers, directors or, to the best of the Company's knowledge, key employees or stockholders of the Company or any members of their immediate families, are indebted to the Company or any of its Subsidiaries, individually in excess of $120,000. Except as set forth in the Company Disclosure Materials, neither the Company nor any of its Subsidiaries is a guarantor or indemnitor of any indebtedness of any other person, firm or corporation.

(r) Sarbanes-Oxley; Internal Accounting Controls. The Company is in material compliance with all provisions of the Sarbanes-Oxley Act of 2002 which are applicable to it as of the Closing Date. The Company and its Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Company has established disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and designed such disclosure controls and procedures to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. The Company's certifying officers have evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by the Company's most recently filed periodic report under the Exchange Act (such date, the "*Evaluation Date*"). The Company presented in its most recently filed periodic report under the Exchange Act the conclusions of the certifying officers about the effectiveness of the disclosure controls and procedures based on their evaluations as of the Evaluation Date. Since the Evaluation Date, there have been no changes in the Company's internal control over financial reporting (as such term is defined in the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting, and no significant deficiencies or material weaknesses in internal controls over financial reporting, or other factors that could significantly affect the Company's internal controls over financial reporting, have been identified.

(s) Certain Fees. Except as disclosed on Schedule 4(s), no brokerage or finder's fees or commissions are or will be payable by the Company to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Transaction Documents. Except for fees incurred by or on behalf of such Holder, no Holder shall have any obligation with respect to any fees or with respect to any claims made by or on behalf of other Persons for fees as contemplated in this Section that may be due in connection with the transactions contemplated by the Transaction Documents.

(t) Private Placement. Assuming the accuracy of each Holder's representations and warranties set forth in Section 6, no registration under the Securities Act is required for the offer and sale of the New Notes by the Company and the related Guarantees by the Guarantors to the Participating Holders as contemplated hereby.

(u) Investment Company. The Company is not, and is not an Affiliate of, and immediately after receipt of payment for the Securities and consummation of the Exchange, will not be or be an Affiliate of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended (the "*Investment Company Act*"). The Company shall conduct its business in a manner so that it will not become subject to the Investment Company Act.

(v) Registration Rights. Except as disclosed on Schedule 4(v), other than each of the Participating Holders, no Person has any right to cause the Company to effect the registration under the Securities Act of any securities of the Company.

(w) No Listing. The Company's Common Stock is not registered pursuant to Section 12(b) or 12(g) of the Exchange Act.

(x) Disclosure. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, which will be disclosed as provided in Section 11(g), the Company confirms that, neither it nor to the knowledge of the Company any other Person acting on its behalf has provided any Holder or its agents or counsel with any information that constitutes or might constitute material, non-public information. The Company understands and confirms that each Holder will rely on the foregoing representation in effecting transactions in securities of the Company. All disclosure furnished by or on behalf of the Company to the Participating Holders regarding the Company, its business and the transactions contemplated hereby, including the Disclosure Schedules to this Agreement, with respect to the representations and warranties made herein, together with the Company Disclosure Materials, when taken as whole, are true and correct with respect to such representations and warranties and do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The Company acknowledges and agrees that no Holder has made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in Section 6 hereof.

(y) No Integrated Offering. Assuming the accuracy of each Holder's representations and warranties set forth in Section 6, neither the Company, nor any of its affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would cause this offering of the New Notes (and the related Guarantees) to be integrated with prior offerings by the Company for purposes of the Securities Act.

(z) Solvency. The Company has no knowledge of any facts or circumstances which lead it to believe that it or any of its Subsidiaries will file for reorganization or liquidation under the bankruptcy or reorganization laws of any jurisdiction within one year from the Closing Date. The Company Disclosure Materials reflect as of the dates thereof all outstanding secured and unsecured indebtedness of the Company and its Subsidiaries, or for which the Company or any of its Subsidiaries has commitments.

(aa) Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Company Material Adverse Effect, the Company and each of its Subsidiaries has filed all necessary federal, state and foreign income and franchise tax returns and has paid or accrued and disclosed all taxes shown as due thereon, and the Company has no knowledge of a tax deficiency which has been asserted or threatened against the Company or any of its Subsidiaries.

(bb) No General Solicitation; Regulation S. Neither the Company, nor any of its affiliates nor any person acting on behalf of the Company has offered or sold any of the New Notes (or the related Guarantees) by any form of general solicitation or general advertising. The Company has offered the New Notes (and the related Guarantees) for sale only to holders of the Existing Notes, each of whom has represented to the Company that it is either (i) a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act, (ii) an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act or (iii) not a "U.S. Persons" within the meaning of Regulation S under the Securities Act. To the extent the Exchange includes offers made in reliance upon Regulation S under the Securities Act, the Company has implemented "offering restrictions" and any such offers have been made in an "offshore transaction" without "directed selling efforts," as such terms are used within the meaning of Regulation S under the Securities Act.

(cc) Foreign Corrupt Practices. Neither the Company, nor any of its Subsidiaries nor any agent or other person acting on behalf of the Company or any of its Subsidiaries, has (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company or any of its Subsidiaries (or made by any person acting on their behalf of which the Company or any of its Subsidiaries is aware) which is in violation of law, or (iv) violated in any material respect any provision of the Foreign Corrupt Practices Act of 1977, as amended.

(dd) Embargoed Person. None of the funds or other assets of the Company or any of its Subsidiaries is or shall constitute property of, or is or shall be beneficially owned, directly or indirectly, by any person subject to trade restrictions under United States law, including but not limited to, the International Emergency Economic Powers Act, 50 U.S.C. §1701 et seq., The Trading with the Enemy Act, 50 U.S.C. App. 1 et seq. and any Executive Orders or regulations promulgated under any such United States laws (each, an "*Embargoed Person*"), with the result that the investments evidenced by the New Notes are or would be in violation of law. None of the funds or other assets of the Company shall be derived from any unlawful activity with the result that the investments evidenced by the New Notes are or would be in violation of law.

(ee) Trust Indenture Act. Assuming the accuracy of the representations of each Holder and its compliance with its respective agreements with the Company contained in the Transaction Documents, it is not necessary in connection with the offer, sale and delivery of the New Notes in the manner contemplated by this Agreement to qualify the New Indenture under the Trust Indenture Act of 1939, as amended.

(ff) Accountants. The Company's accountants are Brightman Almagor Zohar & Co., Certified Public Accountants, a member firm of Deloitte Touche Tohmatsu. To the knowledge of the Company, such accountants are a registered public accounting firm as required by the Exchange Act and registered with the Public Company Accounting Oversight Board. The Company expects such accountants to consent to the inclusion of their report on the Company's financial statements into any registration statement and the prospectus which forms a part thereof that may be required to be filed under the Company Registration Rights Agreement.

5. Representations and Warranties of Tower. Except as set forth under the corresponding section of the Tower Disclosure Schedules, which Tower Disclosure Schedules shall be deemed a part hereof and to qualify such corresponding representation or warranty otherwise made herein to the extent of such disclosure, Tower hereby makes the representations and warranties set forth below to each Holder:

(a) Subsidiaries. All of the direct and indirect ownership of any capital stock, or other equity interests owned or held in any Subsidiaries of Tower is set forth on Schedule 5 (a). Except as set forth on Schedule 5(a), Tower owns, directly or indirectly, all of the capital stock or other equity interests of each of its Subsidiaries free and clear of any Liens and all the issued and outstanding shares of capital stock of each such Subsidiary are validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities.

(b) Organization and Qualification. Tower and each of its Subsidiaries is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization (as applicable), with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. No proceeding has been instituted by the Registrar of Companies in Israel for the dissolution of Tower. Neither Tower nor any of its Subsidiaries is in violation or default of any of the provisions of its respective certificate or articles of incorporation, memorandum of association, bylaws or other organizational or charter documents. Each of Tower and its Subsidiaries is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in a Tower Material Adverse Effect, and no Proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

(c) Authorization; Enforcement. Tower has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by each of the Transaction Documents to which it is a party and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery by Tower of each of the Transaction Documents to which it is a party and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of Tower and no further action is required by Tower, its board of directors or its stockholders in connection therewith. Each Transaction Document to which Tower is a party has been (or upon delivery will have been) duly executed by Tower and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of Tower enforceable against Tower in accordance with its terms except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(d) No Conflicts. The execution, delivery and performance by Tower of the Transaction Documents to which it is a party, the issuance and sale of the Underlying Tower Shares upon conversion of the New Notes and the consummation by Tower of the other transactions contemplated hereby and thereby do not and will not (i) conflict with or violate any provision of Tower's or any of its Subsidiaries certificate or articles of incorporation, bylaws or other organizational or charter documents, or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of Tower or any of its Subsidiaries, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Tower or Subsidiary debt or otherwise) or other understanding to which Tower or any of its Subsidiaries is a party or by which any property or asset of Tower or any of its Subsidiaries is bound or affected, or (iii) subject to the Tower Required Approvals, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which Tower or any of its Subsidiaries is subject (including Israeli, U.S. federal and state securities laws and regulations), or by which any property or asset of Tower or any of its Subsidiaries is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Tower Material Adverse Effect.

(e) Filings, Consents and Approvals. Tower is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other Israeli, U.S. federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by Tower of the Transaction Documents to which it is a party, other than (i) filings required pursuant to Section 7 and Section 8 of this Agreement, (ii) the filing with the Commission of the Registration Statement, (iii) the filing of Form D with the Commission and such filings as are required to be made under applicable state securities laws, (iv) the filings, consents and approvals listed on Schedule 5(e) and (v) those made or obtained prior to Closing (collectively, the "*Tower Required Approvals*").

(f) Issuance of the New Notes and the Underlying Tower Shares. The Underlying Tower Shares are duly authorized and, when issued and paid for in accordance with the terms of the New Indenture, will be duly and validly issued, fully paid and nonassessable, free and clear of all Liens imposed by Tower other than restrictions on transfer provided for in the Transaction Documents. Tower has reserved from its duly authorized capital stock the maximum number of Underlying Tower Shares. There is no tax, levy, impost, duty, fee, assessment or other governmental charge, or any deduction or withholding, imposed by any governmental agency or authority in or of Israel either (A) by virtue of the execution or delivery by Tower of the Transaction Documents to which it is a party, (B) the issuance of the Underlying Tower Shares or (C) on any payment to be made by Tower pursuant to the Transaction Documents. Assuming the truth and accuracy in all material respects of the representations and warranties made by each Holder in this Agreement, Tower is not required to publish or deliver a prospectus in Israel under the Israeli Securities Law – 1968 in connection with the offer and issuance of the Underlying Tower Shares.

(g) Capitalization. The capitalization of Tower as of one Business Day prior to the date hereof is as set forth on Schedule 5(g). Except as disclosed on Schedule 5(g), no Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. Except as disclosed in the Tower Disclosure Materials, there are no outstanding options, warrants, scrip rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire, any shares of Tower Common Stock, or contracts, commitments, understandings or arrangements by which Tower or any of its Subsidiaries is or may become bound to issue additional shares of Tower Common Stock or Tower Common Stock Equivalents. The issuance and sale of the New Notes and Underlying Tower Shares will not obligate Tower to issue shares of Tower Common Stock or other securities to any Person (other than the Participating Holders) and will not result in a right of any holder of Tower securities to adjust the exercise, conversion, exchange or reset price under any of such securities. All of the outstanding shares of capital stock of Tower are validly issued, fully paid and nonassessable, have been issued in compliance with all Israeli, U.S. federal and state securities laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. No further corporate approval or authorization of any stockholder, the Board of Directors of Tower or others is required for the issuance and sale of the New Notes or Underlying Tower Shares issuable upon conversion thereof. Except as disclosed on Schedule 5(g), there are no stockholders agreements, voting agreements or other similar agreements with respect to Tower's capital stock to which Tower is a party or, to the knowledge of Tower, between or among any of Tower's stockholders.

(h) SEC Reports; Financial Statements. Tower has filed all reports, schedules, forms, statements and other documents required to be filed by it under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the three years preceding the date hereof (or such shorter period as Tower was required by law or regulation to file such material) (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the "*Tower SEC Reports*"; together with the Tower Disclosure Schedules, the "*Tower Disclosure Materials*"), on a timely basis or has received a valid extension of such time of filing and filed such materials prior to the expiration of such extension, and such materials, when filed, complied in all material respects with the requirements of the Securities Act and the Exchange Act, as applicable. As of their respective dates (or if amended or superseded by a filing prior to the date hereof, then on the date of such filing), the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act, as applicable, and none of the Tower SEC Reports contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The financial statements of Tower included in the SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing (or if amended or superseded by a filing prior to the Closing Date, then on the date of such filing). Such financial statements have been prepared in accordance with GAAP, except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of Tower and its consolidated subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(i) Material Changes; Undisclosed Events, Liabilities or Developments. Since the date of the latest reviewed financial statements of Tower included in a report filed on Form 6-K and except as specifically disclosed in the Tower Disclosure Materials, (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Tower Material Adverse Effect, (ii) Tower has not incurred any liabilities (contingent or otherwise) other than trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice, (iii) Tower has not altered its method of accounting, (iv) Tower has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock and (v) Tower has not issued any equity securities to any officer, director or Affiliate, except pursuant to existing Tower stock plans or arrangements. Tower does not have pending before the Commission any request for confidential treatment of information. Except for the entering into of this Agreement and the transactions contemplated hereby or as set forth in the Tower Disclosure Materials, no event, liability or development has occurred or exists with respect to Tower or its Subsidiaries or their respective business, properties, operations or financial condition, that would be required to be disclosed by Tower under applicable securities laws at the time this representation is made that has not been publicly disclosed at least 1 Business Day prior to the date that this representation is made.

(j) Litigation. Except as disclosed in the Tower Disclosure Materials, there is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of Tower, threatened against or affecting Tower, any of its Subsidiaries or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (Israeli, U.S. federal, state, county, local or foreign) (collectively, a "*Tower Action*") which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or (ii) could have or reasonably be expected to result in a Tower Material Adverse Effect. Neither Tower nor any of its Subsidiaries, nor any director or officer thereof, is or has been the subject of any Tower Action involving a claim of violation of or liability under Israeli or U.S. federal or state securities laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of Tower, there is not pending or contemplated, any investigation by the Commission involving Tower or any of its Subsidiaries or any current or former director or officer of Tower or any of its Subsidiaries with respect to their capacities as a director or officer of Tower or such Subsidiary. The Commission has not issued any stop order or other order suspending the effectiveness of any registration statement filed by Tower or any of its Subsidiaries under the Exchange Act or the Securities Act and no proceeding for that purpose has been initiated or threatened by the Commission. There are no disagreements of any kind presently existing, or reasonably anticipated by Tower or any of its Subsidiaries to arise, between accountants and lawyers formerly or presently engaged by Tower or any of its Subsidiaries and Tower and each of its Subsidiaries are current with respect to any fees owed to its accountants and lawyers.

(k) Labor Relations. No material labor dispute exists or, to the knowledge of Tower, is imminent with respect to any of the employees of Tower or its Subsidiaries which could reasonably be expected to result in a Tower Material Adverse Effect. Except as disclosed on Schedule 5(k), none of Tower's or its Subsidiaries' employees is a member of a union that relates to such employee's relationship with Tower, and except as disclosed on Schedule 5(k), neither Tower nor any of its Subsidiaries is a party to a collective bargaining agreement, and Tower and its Subsidiaries believe that their relationships with their employees are good. No executive officer of Tower, to the knowledge of Tower, is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant, and, to the knowledge of Tower, the continued employment of each such executive officer does not subject Tower or any of its Subsidiaries to any liability with respect to any of the foregoing matters. Tower and its Subsidiaries are, to their knowledge, in compliance with all, Israeli, U.S. federal, state, local and foreign laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours, except where the failure to be in compliance could not, individually or in the aggregate, reasonably be expected to have a Tower Material Adverse Effect. The severance pay due to Tower's employees is fully funded or provided for in accordance with GAAP, consistently applied. Neither Tower nor any of its Subsidiaries is subject to, nor do any of its employees benefit from, whether pursuant to applicable employment laws, regulations, extension orders ("*tzavei harchava*") or otherwise, any agreement, arrangement, understanding or custom with respect to employment (including, without limitation, termination thereof) other than the minimum benefits and working conditions required by law to be provided pursuant to the rules and regulations of the Histadrut (General Federation of Labor), the Coordinating Bureau of Economic Organization and the Industrialist's Association or extension orders that apply to all employees in Israel or to all employees in the Company's industry in Israel.

(l) Compliance. Except as set forth in the Tower Disclosure Materials, neither Tower nor any of its Subsidiaries (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by Tower or any of its Subsidiaries under), nor has Tower or any of its Subsidiaries received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any order of any court, arbitrator or governmental body, (iii) is in violation of its charter or bylaws or similar organizational document or (iv) is or has been in violation of any statute, rule or regulation of any governmental authority, including without limitation all foreign, Israeli, U.S. federal, state and local laws applicable to its business and all such laws that affect the environment, except, in the cases of clauses (i), (ii) and (iv) above, as could not have or reasonably be expected to result in a Tower Material Adverse Effect.

(m) Regulatory Permits. Tower and its Subsidiaries possess all certificates, authorizations and permits issued by the appropriate Israeli, U.S. federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses as described in the Tower Disclosure Materials, except where the failure to possess such permits could not have or reasonably be expected to result in a Tower Material Adverse Effect ("*Tower Material Permits*"), and neither Tower nor any of its Subsidiaries has received any notice of proceedings relating to the revocation or modification of any Tower Material Permit. Except as set forth in the Tower Disclosure Materials, (i) Tower is in compliance in all material respect with all conditions and requirements stipulated by the instruments of approval granted to it with respect to the "Approved Enterprise" status of Tower's facilities by Israeli laws and regulations relating to such "Approved Enterprise" status and other tax benefits received by Tower; and Tower has not received any notice of any proceeding or investigation relating to revocation or modification of any "Approved Enterprise" status granted with respect to Tower's facilities. All information supplied by Tower or any of its Subsidiaries with respect to applications submitted in connection with such approval was true, correct and complete in all material respects when supplied to the appropriate authorities. Tower is not in violation of any condition or requirement stipulated by the instruments of approval granted to Tower by the Office of the Chief Scientist in the Israeli Ministry of Industry and Trade (the "*OCS*") or any applicable laws and regulations with respect to any research and development grants given to it by such office that the OCS has not confirmed as having been closed that could be expected to result in a Tower Material Adverse Effect. All information supplied by Tower with respect to such applications was true, correct and complete in all material respects when supplied to the appropriate authorities. Schedule 5(m) provides a correct and complete list of the aggregate amount of pending and outstanding grants from the OCS, net of royalties paid. Tower's contingent liabilities with respect to "Approved Enterprise" are disclosed in the notes to the financial statements of Tower contained in Tower's Annual Report on Form 20-F for the year ended December 31, 2012.

(n) Title to Assets. Except as set forth on Schedule 5(n), Tower and its Subsidiaries have good and marketable title in fee simple to all real property owned by them that is material to the business of Tower and its Subsidiaries and good and marketable title in all personal property owned by them that is material to the business of Tower and its Subsidiaries, in each case free and clear of all Liens, except for Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by Tower and its Subsidiaries and Liens for the payment of Israeli, U.S. federal, state or other taxes, the payment of which is neither delinquent nor subject to penalties. Any real property and facilities held under lease by Tower and its Subsidiaries are held by them under valid, subsisting and enforceable leases with which Tower and its Subsidiaries are in compliance.

(o) Patents and Trademarks. To the knowledge of Tower, Tower and its Subsidiaries own, or have legally enforceable rights to use, all patents, patent rights, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, mask works, trade secrets, inventions, know-how, licenses and other similar rights necessary or material for use in connection with their respective businesses as described in the Tower Disclosure Materials and which the failure to so have could have a Tower Material Adverse Effect (collectively, the "*Tower Intellectual Property Rights*"). Except as set forth on Schedule 5(o), neither Tower nor any of its Subsidiaries has received a written notice that has not been revoked or has knowledge that the Tower Intellectual Property Rights used by Tower or any of its Subsidiaries violates or infringes, or allegedly violates or allegedly infringes, upon the rights of any Person. To the knowledge of Tower, all such Tower Intellectual Property Rights are enforceable and there is no existing infringement by another Person of any of the Tower Intellectual Property Rights. The Company and its Subsidiaries have taken reasonable security measures to protect the secrecy, confidentiality and value of all of Tower Intellectual Property Rights, except where failure to do so could not, individually or in the aggregate, reasonably be expected to have a Tower Material Adverse Effect.

(p) Insurance. Tower and its Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which Tower and its Subsidiaries are engaged, including, but not limited to, directors and officers insurance coverage. To the best knowledge of Tower, such insurance contracts and policies are accurate and complete. Neither Tower nor any of its Subsidiaries has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(q) Transactions with Affiliates and Employees. Except as set forth in the Tower Disclosure Materials, none of the officers or directors of Tower and, to the knowledge of Tower, none of the employees of Tower is presently a party to any transaction with Tower or any of its Subsidiaries (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of Tower, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner, in each case in excess of $120,000 other than (i) for payment of salary, director fees or consulting fees for services rendered, (ii) reimbursement for expenses incurred on behalf of Tower and (iii) for other employee benefits, including reasonable severance pay plan of Tower or bonuses. Except as described above or in the Tower Disclosure Materials, none of the officers, directors or, to the best of the Tower's knowledge, key employees or stockholders of Tower or any members of their immediate families, are indebted to Tower or any of its Subsidiaries, individually in excess of $120,000. Except as set forth in the Tower Disclosure Materials, the neither Tower nor any of its Subsidiaries is a guarantor or indemnitor of any indebtedness of any other person, firm or corporation.

(r) Sarbanes-Oxley; Internal Accounting Controls. Tower is in material compliance with all provisions of the Sarbanes-Oxley Act of 2002 which are applicable to it as of the Closing Date. Tower and its Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Tower has established disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for Tower and designed such disclosure controls and procedures to ensure that information required to be disclosed by Tower in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Tower's certifying officers have evaluated the effectiveness of Tower's disclosure controls and procedures as of the end of the period covered by Tower's most recently filed annual report under the Exchange Act (such date, the "*Tower Evaluation Date*"). Tower presented in its most recently filed annual report under the Exchange Act the conclusions of the certifying officers about the effectiveness of the disclosure controls and procedures based on their evaluations as of the Tower Evaluation Date. Since the Tower Evaluation Date, there have been no changes in Tower's internal control over financial reporting (as such term is defined in the Exchange Act) that has materially affected, or is reasonably likely to materially affect, Tower's internal control over financial reporting, and no significant deficiencies or material weaknesses in internal controls over financial reporting, or other factors that could significantly affect Tower's internal controls over financial reporting, have been identified.

(s) Certain Fees. Except as disclosed on Schedule 5(s), no brokerage or finder's fees or commissions are or will be payable by Tower to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Transaction Documents. Except for fees incurred by or on behalf of such Holder, no Holder shall have any obligation with respect to any fees or with respect to any claims made by or on behalf of other Persons for fees as contemplated in this Section that may be due in connection with the transactions contemplated by the Transaction Documents.

(t) Private Placement. Assuming the accuracy of each Holder's representations and warranties set forth in Section 6, no registration under the Securities Act is required for the issuance of the Underlying Tower Shares upon conversion of the New Notes. The issuance and sale of the Underlying Tower Shares upon conversion of the New Notes will not contravene the rules and regulations of the Trading Market. Tower has not distributed and will not distribute prior to the Closing Date any offering material in connection with this offering and sale of Underlying Tower Shares other than the Transaction Documents.

(u) Investment Company. Tower is not, and is not an Affiliate of, and immediately after consummation of the Exchange, will not be or be an Affiliate of, an "investment company" within the meaning of the Investment Company Act. Tower shall conduct its business in a manner so that it will not become subject to the Investment Company Act.

(v) Registration Rights. Except as disclosed on Schedule 5(v), other than the Participating Holders, no Person has any right to cause Tower to effect the registration under the Securities Act of any securities of Tower.

(w) Listing and Maintenance Requirements. The Tower Common Stock is registered pursuant to Section 12(b) or 12(g) of the Exchange Act, and Tower has taken no action designed to, or which to its knowledge is likely to have the effect of, terminating the registration of the Tower Common Stock under the Exchange Act nor has Tower received any notification that the Commission is contemplating terminating such registration. Tower Common Stock is listed on The Nasdaq Global Market and on the Tel Aviv Stock Exchange under the symbol "TSEM". Tower has not, in the 12 months preceding the date hereof, received notice from any Trading Market on which the Tower Common Stock is or has been listed or quoted to the effect that Tower is not in compliance with the listing or maintenance requirements of such Trading Market or that the Tower Common Stock will be delisted. Tower is, and has no reason to believe that it will not in the foreseeable future continue to be, in compliance with all such listing and maintenance requirements.

(x) Application of Takeover Protections. Tower and its Board of Directors have taken all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under Tower's certificate of incorporation (or similar charter documents) or the laws of its jurisdiction of incorporation that is or could become applicable to the Participating Holders as a result of the Participating Holders and Tower fulfilling their obligations or exercising their rights under the Transaction Documents, including, without limitation, as a result of the Company's issuance of the New Notes or Tower's issuance of Underlying Tower Shares upon conversion thereof and the Participating Holders' ownership of the New Notes and Underlying Tower Shares.

(y) Tower Disclosure. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents, Tower confirms that, neither it, nor any of its Subsidiaries, nor to the knowledge of Tower any other Person acting on their behalf has provided any Holder or its agents or counsel with any information that constitutes or might constitute material, non-public information. Tower understands and confirms that each Holder will rely on the foregoing representation in effecting transactions in securities of Tower. All disclosure furnished by or on behalf of Tower to the Participating Holders regarding Tower, its business and the transactions contemplated hereby, including the Disclosure Schedules to this Agreement, with respect to the representations and warranties made herein, together with the Tower Disclosure Materials, when taken as whole, are true and correct with respect to such representations and warranties and do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. Tower acknowledges and agrees that no Holder has made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in Section 6 hereof.

(z) No Integrated Offering. Assuming the accuracy of each Holder's representations and warranties set forth in Section 6, neither Tower, nor any of its affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would cause this offering of the Underlying Tower Shares to be integrated with prior offerings by Tower for purposes of the Securities Act.

(aa) Solvency. Tower has no knowledge of any facts or circumstances which lead it to believe that it or any of its Subsidiaries will file for reorganization or liquidation under the bankruptcy or reorganization laws of any jurisdiction within one year from the Closing Date. The Tower Disclosure Materials reflect as of the dates thereof all outstanding secured and unsecured indebtedness of Tower and its Subsidiaries, or for which Tower or any of its Subsidiaries has any commitment.

(bb) Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Tower Material Adverse Effect, Tower and each of its Subsidiaries has filed all necessary federal, state and foreign income and franchise tax returns and has paid or accrued all taxes shown as due thereon, and Tower has no knowledge of any tax deficiency which has been asserted or threatened against Tower or any of its Subsidiaries.

(cc) No General Solicitation; Regulation S. Neither Tower nor any person acting on behalf of Tower has offered or sold any of the Underlying Tower Shares by any form of general solicitation or general advertising. Tower has offered the Underlying Tower Shares for sale only to holders of the Existing Notes, each of whom has represented that it is either (i) a "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act, (ii) an "institutional accredited investors" within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act or (iii) not a "U.S. Persons" within the meaning of Regulation S under the Securities Act. To the extent this offering includes offers made in reliance upon Regulation S under the Securities Act, any such offers have been made in an "offshore transaction" without "directed selling efforts," as such terms are used within the meaning of Regulation S under the Securities Act. Underlying Tower Shares offered in reliance on Regulation S are eligible for "Category 1" thereunder pursuant to Section 903(b)(1)(i) of Regulation S.

(dd) Foreign Corrupt Practices. Neither Tower, nor any of its Subsidiaries, nor any agent or other person acting on behalf of Tower or any of its Subsidiaries, has (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by Tower or any of its Subsidiaries (or made by any person acting on their behalf of which Tower or any of its Subsidiaries is aware) which is in violation of law) or (iv) violated in any material respect any provision of the Foreign Corrupt Practices Act of 1977, as amended.

(ee) Accountants. Tower's accountants are Brightman Almagor Zohar & Co., Certified Public Accountant, a member firm of Deloitte Touche Tohmatsu. To the knowledge of Tower, such accountants are a registered public accounting firm as required by the Exchange Act and registered with the Public Company Accounting Oversight Board. Tower expects such accountants to consent to the inclusion of their report on Tower's financial statements into any registration statement and the prospectus which forms a part thereof that may be required to be filed under the Tower Registration Rights Agreement.

(ff) Manipulation of Price. Tower has not, and to its knowledge, no one acting on its behalf has, (i) taken, directly or indirectly, any action designed to cause or to result in the stabilization or manipulation of the price of any security of Tower to facilitate the sale or resale of the Underlying Tower Shares, (ii) sold, bid for, purchased, or paid any compensation for soliciting purchases of, any of the Underlying Tower Shares, or (iii) paid or agreed to pay to any person any compensation for soliciting another to purchase any other securities of Tower.

(gg) U.S. Real Property Holding Corporation. Tower is not, has never been, nor shall become while any New Notes are held by any Participating Holder, a U.S. real property holding corporation within the meaning of Section 897 of the Internal Revenue Code of 1986, as amended, and Tower shall so certify upon any Holder's request.

(hh) Taxes. No tax, levy, impost, duty, fee, assessment or other governmental charge or any deduction or withholding imposed by any governmental agency or authority in or of the State of Israel is payable by or on behalf of any Holder or any assignee of such Holder (i) as a result of the execution, delivery or performance by Tower, the Company or any Guarantor of the Transaction Documents to which it is a party, including, but not limited to, the issuance by the Company of the New Notes or by Tower of the Underlying Tower Shares, (ii) with respect to such Holder if it is a US person, who holds less than 10% of Tower's issued and outstanding Tower Common Stock and does not maintain a permanent establishment in Israel through which the New Notes or Underlying Tower Shares are held, or (iii) in connection with any resale by such Holder of the New Notes in accordance with the terms thereof. Any income tax payable by the Holder in connection with the exchange contemplated hereunder or in connection with holding the New Notes or the conversion thereof into Tower Common Shares shall be borne by such Holder.

(ii) Form F-3 Eligibility; Foreign Private Issuer Status. Tower is eligible to register the resale by the Participating Holders of the Underlying Tower Shares on a Registration Statement on Form F-3 under the Securities Act. Tower qualifies as a "foreign private issuer" as such term is defined in the Exchange Act.

(jj) Embargoed Person. None of the funds or other assets of Tower is or shall constitute property of, or is or shall be beneficially owned, directly or indirectly, by any person subject to trade restrictions under United States law, including but not limited to, the International Emergency Economic Powers Act, 50 U.S.C. §1701 et seq., The Trading with the Enemy Act, 50 U.S.C. App. 1 et seq. and any Executive Orders or regulations promulgated under any such United States laws (each, an "*Embargoed Person*"), with the result that the investments evidenced by the New Notes or Underlying Tower Shares are or would be in violation of law. None of the funds or other assets of Tower shall be derived from any unlawful activity with the result that the investments evidenced by the Underlying Tower Shares are or would be in violation of law.

(kk) Nasdaq. With respect to the transactions contemplated hereby, Tower has satisfied the home country practice requirements of The Nasdaq Global Market pursuant to Rule 5615(a)(3) of the Nasdaq listing rules or has otherwise complied with the Nasdaq rules.

6. Representations and Warranties of the Holder. Each Holder hereby, for itself and no other Holder, represents and warrants to the Company and Tower as follows:

(a) Organization; Authority. Such Holder is duly organized or established, validly existing and in good standing under the laws of the jurisdiction of its organization and has all requisite corporate, partnership, limited liability company or other, as applicable, power and authority to enter into this Agreement and to carry out the transactions contemplated hereby and to perform its obligations hereunder.

(b) Governmental Authorization. The execution, delivery and performance by such Holder of this Agreement does not and shall not require, on the part of such Holder, any registration or filing with, the consent or approval of, notice to, or any other action with respect to, any federal, state or other governmental authority or regulatory body.

(c) Title and Ownership. Such Holder is the beneficial owner of the Existing Notes in the Original Principal Amount set forth under the item "Existing Notes Principal Amount" opposite such Holder's name on the Schedule of Holders. Such Holder's Existing Notes are owned by such Holder free and clear of any Liens and the transfer, assignment and delivery of such Existing Notes in accordance with this Agreement will convey to the Company good title to such Existing Notes, free and clear of Liens.

(d) Restricted Securities. Such Holder acknowledges that (i) none of the New Notes or Underlying Tower Shares have been registered under the Securities Act and that, as such, such securities are deemed "restricted securities" within the meaning of Rule 144 under the Securities Act and (ii) such securities may be offered or sold only in accordance with the registration requirements of the Securities Act or an available exemption therefrom.

(e) No Brokers. Such Holder has not engaged any broker, finder or other entity acting under the authority of such Holder or any of its affiliates that is entitled to any commission or other fee in connection with the Exchange.

(f) Holder's Knowledge and Experience. Such Holder has the requisite knowledge and experience in financial and business matters so that it is capable of evaluating the merits and risks of the Exchange and acquiring the New Notes and, in connection therewith, such Holder acknowledges that (i) the Company makes no representation regarding the value of the Existing Notes or New Notes, and (ii) such Holder has independently, and without reliance upon the Company or its representatives, made its own analysis and decision to enter into the Exchange and exchange the Existing Notes for the New Notes.

(g) Investor Status. Such Holder is (i) a "Qualified Institutional Buyer" as defined in Rule 144A under the Securities Act, (ii) an institutional "accredited investor" as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act or (iii) not a "U.S. person" as defined in Regulation S under the Securities Act, as applicable, in each case as reflected by the insertion of "144A", "IAI" or "Regulation S" with respect to such Holder in the "CUSIP" line on Schedule B. If "Regulation S" is reflected on the CUSIP line with respect to any Holder, such Holder represents and warrants that it is not committing to purchase securities for the account of any U.S. Person (as defined in Regulation S under the Securities Act) and that the New Notes and Underlying Tower Shares have not been offered to such Holder in the United States of America.

(h) No Public Sale or Distribution. Such Holder is acquiring the New Notes for its own account and not with a view towards, or for resale in connection with, the public sale or distribution thereof, except pursuant to sales registered or exempt from registration under the Securities Act. Such Holder is acquiring the New Notes hereunder in the ordinary course of its business. Such Holder does not presently have any agreement or understanding, directly or indirectly, with any Person to distribute any of the New Notes or Underlying Tower Shares.

(i) Reliance on Exemptions. Such Holder understands that the New Notes are being offered and sold to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws, including Section 4(a)(2) of the Securities Act and Regulation S under the Securities Act, and that the Company is relying in part upon the truth and accuracy of, and such Holder's compliance with, the representations, warranties, agreements, acknowledgments and understandings of such Holder set forth herein in order to determine the availability of such exemptions and the eligibility of such Holder to acquire the New Notes.

(j) Information. Such Holder and its advisors, if any, have been furnished with all materials relating to the business, finances and operations of the Company and Tower and materials relating to the transactions contemplated hereby which have been requested by such Holder. Such Holder and its advisors, if any, have been afforded the opportunity to ask questions of the Company and Tower. Neither such inquiries nor any other due diligence investigations conducted by such Holder or its advisors, if any, or its representatives shall modify, amend or affect such Holder's right to rely on the Company's and Tower's representations and warranties contained herein. Such Holder understands that its investment in the New Notes involves a high degree of risk. Such Holder has sought such accounting, legal and tax advice as it has considered necessary to make an informed investment decision with respect to its acquisition of such securities.

(k) No Governmental Review. Such Holder understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the New Notes or the fairness or suitability of the investment in such securities nor have such authorities passed upon or endorsed the merits of the offering of such securities.

(l) Validity; Enforcement. This Agreement, the Company Registration Rights Agreement and the Tower Registration Rights Agreement have been duly and validly authorized, executed and delivered on behalf of such Holder and shall constitute the legal, valid and binding obligations of such Holder enforceable against such Holder in accordance with their respective terms, except as such enforceability may be limited by general principles of equity (whether considered in a proceeding at law or in equity) or by applicable bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws relating to, or affecting generally, the enforcement of applicable creditors' rights and remedies and insofar as indemnification and contribution provisions may be limited by applicable law.

(m) Residency. Such Holder is a resident of that jurisdiction specified on the Schedule of Holders.

(n) Affiliate Status. Such Holder represents and warrants that such Holder is not an "affiliate" of the Company or Tower within the meaning of Rule 144 under the Securities Act nor has such Holder been an affiliate of the Company during the past 90 days.

(o) Evaluation. Such Holder has evaluated the Exchange in light of such Holder's financial situation and such Holder has relied on such Holder's own investment, tax and other advisors in reaching a decision to enter into the Exchange. Neither the Company, the Guarantors, Tower nor any of their respective representatives have made any representation to such Holder regarding the tax treatment of the Exchange on such Holder, and such Holder has independently, and without reliance on the Company, the Guarantors, Tower or their respective representatives, reached its own conclusion regarding such tax treatment.

7. Conditions to the Company's and Tower's Obligations. The obligations of the Company and Tower at the Closing are subject to the satisfaction of each of the following conditions, provided that these conditions are for the sole benefit of the Company and may be waived by the Company at any time in its sole discretion by providing the Participating Holders with prior written notice thereof:

(a) Execution of the Agreement. The Participating Holders shall have executed this Agreement and delivered the same to the Company and Tower.

(b) Transfer of the Existing Notes. Each Holder shall take such action as is necessary to have duly and validly transferred and delivered the Existing Notes owned by the Holder representing the Original Principal Amount for such Holder to the Company or its order in accordance with the terms of Section 2 hereof.

(c) Minimum Exchange. An aggregate of at least $30 million principal amount of Existing Notes shall be exchanged for New Notes in the Exchange.

(d) Registration Rights Agreement. The Company and the Participating Holders shall have entered into the Company Registration Rights Agreement. Tower and the Participating Holders shall have entered into the Tower Registration Rights Agreement.

(e) Representations and Warranties. The representations and warranties of the Participating Holders in this Agreement shall be true and correct as of the date when made and as of the Closing Date as though made at that time.

(f) No Prohibition. No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

(g) Necessary Filings. The Company and Tower, as the case may be, shall have made all filings under all applicable federal and state securities laws, Israeli securities laws and rules of Nasdaq necessary to consummate the issuance of the New Notes pursuant to this Agreement in compliance with such laws and requirements and shall have obtained all authorizations, approvals and acceptances necessary to consummate the transactions contemplated hereby (other than any filings under the Securities Act in connection with the filing and effectiveness of the registration statements required under the Company Registration Rights Agreement and the Tower Registration Rights Agreement, which shall be made subsequent to the Closing Date in accordance with such agreements) and such authorizations, approvals and acceptances shall be effective as of the Closing Date.

8. Conditions to the Holder's Obligations. The respective obligations of each Holder at the Closing are subject to the satisfaction of each of the following conditions, provided that these conditions are for the sole benefit of each Holder and may be waived by such Holder (solely as to itself) at any time in its sole discretion by providing the Company and Tower with prior written notice thereof:

(a) Execution of the Agreement, New Indenture. The Company, the Guarantors and Tower shall have executed this Agreement and delivered the same to each Holder. The Company, the Guarantors, Tower and the New Indenture Trustee shall have executed and delivered the New Indenture and the New Notes.

(b) Delivery of the New Notes. The Company shall have caused the New Notes to be delivered to each Holder against delivery by such Holder of the Holder's Existing Notes in accordance with the terms of Section 2 hereof.

(c) Minimum Exchange. An aggregate of at least $30 million principal amount of Existing Notes shall be exchanged for New Notes in the Exchange.

(d) Registration Rights Agreements. The Company and the Participating Holders shall have entered into the Company Registration Rights Agreement. Tower and the Participating Holders shall have entered into the Tower Registration Rights Agreement.

(e) CUSIP. The Company and Tower shall have obtained appropriate Committee on Uniform Securities Identification Procedures numbers (CUSIP numbers) for the New Notes.

(f) Representations and Warranties. The representations and warranties of each the Company, the Guarantors and Tower in this Agreement shall be true and correct as of the date when made and as of the Closing Date as though made at that time. The statements of the Company, Tower and the Guarantors and their respective officers made in any certificate delivered pursuant to this Agreement shall be true and correct on and as of the Closing Date.

(g) No Prohibition. No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

(h) No Material Adverse Effect. No event or condition constituting a Company Material Adverse Effect or a Tower Material Adverse Effect shall have occurred or exist.

(i) Company Officer's Certificate. Each Holder shall have received on and as of the Closing Date a certificate of an executive officer of the Company who has specific knowledge of the Company's and the Guarantor's financial matters and is satisfactory to such Holder (i) confirming that such officer has carefully reviewed the Company Disclosure Materials and, to the knowledge of such officer, the representations and warranties in Section 4(h) and 4(i) are true and correct, (ii) confirming that the other representations and warranties of the Company and the Guarantors in this Agreement are true and correct and that the Company and the Guarantors have complied in all material respects with all agreements and satisfied all conditions on their part to be performed or satisfied by it on or prior to the Closing Date and (iii) to the effect set forth in paragraphs (g) and (h) above.

(j) Tower Officer's Certificate. Each Holder shall have received on and as of the Closing Date a certificate of an executive officer of Tower who has specific knowledge of Tower's financial matters and is satisfactory to such Holder (i) confirming that such officer has carefully reviewed the Tower Disclosure Materials and, to the knowledge of such officer, the representations and warranties in Section 5(h) and 5(i) are true and correct, (ii) confirming that the other representations and warranties of Tower in this Agreement are true and correct and that Tower has complied in all material respects with all agreements and satisfied all conditions on its part to be performed or satisfied by it on or prior to the Closing Date and (iii) to the effect set forth in paragraphs (g) and (h) above.

(k) Secretary's Certificates. Each Holder shall have received on and as of the Closing Date a certificate of the secretary or assistant secretary of each of Tower, the Company and each Guarantor certifying (i) a copy of the resolutions of the board of directors or members, as applicable, evidencing approval of the Transaction Documents to which it is a party and the consummation of the transaction contemplated therein and the other matters contemplated thereby, (ii) a copy of the certificate of incorporation, certificate of formation or other comparable charter document and bylaws (or comparable document) of such Person, (iii) copies of all documents evidencing other necessary corporation or other action or governmental or third party approvals, if any, with respect to the transactions contemplated by this Agreement and (iv) the names, titles and signatures of the officers of such Person authorized to sign the Transaction Documents and the documents or certificates to be delivered in connection therewith, together with the true signatures of each such officer.

(l) Opinions. Each Holder shall have received on and as of the Closing Date an opinion of Eilenberg & Krause LLP, special counsel for the Company and special U.S. counsel for Tower in form and substance satisfactory to such Holder to the effect set forth on Exhibit E hereto. Each Holder shall have received on and as of the Closing Date an opinion of Yigal Arnon & Co., Israeli counsel for Tower, in form and substance satisfactory to such Holder to the effect set forth on Exhibit F hereto. Each Holder shall have received on and as of the Closing Date an opinion of the Acting Chief Legal Officer of the Company or outside counsel acceptable to the Holders, in form and substance satisfactory to such Holder to the effect set forth on Exhibit G hereto.

(m) DTC. The New Notes shall be eligible for clearance and settlement through DTC on or prior to the Closing Date.

(n) Good Standing. Such Holder shall have received on and as of the Closing Date satisfactory evidence of the good standing of Tower, the Company and the Guarantors in their respective jurisdictions of formation and their good standing in such other jurisdictions as such Holder may reasonably request, in each case in writing dated within 15 days of the Closing Date from the appropriate governmental authorities of such jurisdictions.

(o) Trading. From the date hereof to the Closing Date, (i) trading in the Tower Common Stock shall not have been suspended by the Commission or Tower's principal Trading Market and (ii) trading in securities generally shall not have been suspended or limited, or minimum prices shall not have been established on securities whose trades are reported by Bloomberg Financial Markets, nor shall a banking moratorium have been declared by either the United States of America or New York State authorities nor shall there have occurred any material outbreak or escalation of hostilities or other national or international calamity of such magnitude in its effect on, or any material adverse change in, any financial market which, in each case, in the reasonable judgment of such Holder makes it impracticable or inadvisable to exchange Existing Notes for the New Notes at Closing.

(p) Listing of Tower Shares. The Tower Common Stock shall be listed on the Nasdaq Stock Market Global Market and shall not have been suspended from trading thereon and Tower shall not have received notice of suspension or delisting from such market with respect to the Tower Common Stock. Tower shall have submitted to Nasdaq a notice of additional listing relating to the Underlying Tower Shares.

(q) Exchange Note Cash Payment. Such Holder shall have received the Exchange Note Cash Payment, plus accrued and unpaid interest on the Existing Notes of such Holder being exchanged, payable to it.

(r) Necessary Filings. The Company and Tower, as the case may be, shall have made all filings under all applicable federal and state securities laws, Israeli securities laws and rules of Nasdaq necessary to consummate the issuance of the New Notes pursuant to this Agreement in compliance with such laws and requirements and shall have obtained all authorizations, approvals and acceptances necessary to consummate the transactions contemplated hereby and such authorizations, approvals and acceptances shall be effective as of the Closing Date. Without limiting the foregoing, Tower shall have obtained the consent of, and made all necessary filings with, the Tel Aviv Stock Exchange for the offer and potential issuance of the Underlying Tower Shares upon conversion of the New Notes.

(s) Additional Documents. Tower, the Company and the Guarantors shall have furnished to such Holder such further certificates and documents as such Holder may reasonably request.

9. Fees and Expenses. Each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement, except as otherwise agreed in writing; provided that the Company shall pay the fees and expenses of Wilson Sonsini Goodrich & Rosati, P.C., counsel to Principal, in connection with the negotiation, preparation, execution, delivery and performance of this Agreement and the other Transaction Documents.

10. Reserved.

11. Certain Covenants.

(a) Company Information. While the New Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company and each Guarantor will, during any period in which the Company is not subject to and in compliance with Section 13 or 15(d) of the Exchange Act, furnish to the holders of the New Notes and prospective purchasers of the New Notes designated by such holder, upon the request of such holders or such prospective purchasers, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

(b) Tower Information. While the New Notes or Underlying Tower Shares remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, Tower will, during any period in which Tower is not subject to and in compliance with Section 13 or 15(d) of the Exchange Act, furnish to the holders of the New Notes or Underlying Tower Shares and prospective purchasers of the New Notes and Underlying Tower Shares designated by such holder, upon the request of such holders or such prospective purchasers, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

(c) Reserved.

(d) No Integration. Neither the Company, nor Tower nor any of their respective affiliates (as defined in Rule 501(b) of Regulation D) will, directly or through any agent, sell, offer for sale, solicit offers to buy or otherwise negotiate in respect of any security (as defined in the Securities Act), that is or will be integrated with the offer and sale of the New Notes or Underlying Tower Shares in a manner that would require registration of the New Notes or Underlying Tower Shares under the Securities Act.

(e) No General Solicitation. None of the Company, Tower or any of their respective affiliates or any other person acting on its or their behalf will solicit offers for, or offer to sell, the New Notes by means of any form of general solicitation or general advertising within the meaning of Rule 502(c) of Regulation D or in any manner involving a public offering within the meaning of Section 4(a)(2) of the Securities Act.

(f) No Stabilization. Neither the Company, nor any Guarantor nor Tower will take, directly or indirectly, any action designed to or that could reasonably be expected to cause or result in any stabilization or manipulation of the prices of the New Notes.

(g) Securities Law Disclosures. Tower and the Company shall as soon as practicable, and in any event no later than 9:00 a.m. (New York time) on the trading day immediately following the date hereof, issue a Current Report on Form 8-K or Form 6-K, as applicable, reasonably acceptable to the Participating Holders disclosing the material terms of the transactions contemplated hereby. Tower, the Company and the Participating Holders shall consult with each other in issuing any press releases with respect to the transactions contemplated hereby. From and after the filing of such Current Report on Form 8-K or Form 6-K, as applicable, no Holder shall be in possession of any material, nonpublic information received from Tower, the Company or any of their respective Subsidiaries or any of their respective officers, directors, employees or agents.

(h) Shareholder Rights Plan. No claim will be made or enforced by Tower or, with the consent of Tower, any other Person that any Holder is an "acquiring person" under any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or similar anti-takeover plan or arrangement in effect or hereafter adopted by Tower, or that any Holder could be deemed to trigger the provisions of any such plan or arrangement by virtue of receiving the New Notes or Underlying Note Shares under the Transaction Documents.

12. Notices. All notices, requests, demands, claims and other communications hereunder shall be in writing and shall be (a) transmitted by hand delivery, (b) mailed by first class, registered or certified mail, postage prepaid, (c) transmitted by overnight courier, or (d) transmitted by facsimile, and in each case,

if to the Company or the Guarantors, to:

Jazz Technologies, Inc.
4321 Jamboree Road
Newport Beach, California 92660
Attention: Chief Financial Officer
Facsimile: (949) 435-8757

if to Tower to:

Tower Semiconductor Ltd.
Ramat Gavriel Industrial Park
Hamada Avenue
Migdal Haemek, Israel 23105
Attention: Tziona Shriky, Vice Chief Financial Officer
Facsimile: 972-4-654-6510

in each case with a copy to (which shall not constitute notice):

Eilenberg & Krause LLP
11 East 44th Street
New York, New York
Attention: Sheldon Krause, Esq.
Facsimile: (212) 986-2399

if to the Holder, to the address of the Holder set forth on the Schedule of Holders.

Notices mailed or transmitted in accordance with the foregoing shall be deemed to have been given upon receipt by the addressee.

13. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to the principles of conflicts of law thereof. Each party hereby irrevocably submits to the non-exclusive jurisdiction of the state and federal courts sitting in The City of New York, Borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. **EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.**

14. Appointment of Agent for Service of Process. Tower hereby designates and appoints the Company, having an address at 4321 Jamboree Road, Newport Beach, California 92660, as its authorized agent upon which service of process may be served in any legal suit, action or proceeding arising out of or relating to this Agreement or any other Transaction Document, and further:

(a) agrees that service of process upon such agent, and written notice of said service to Tower by the Person serving the same, shall be deemed in every respect effective service of process upon Tower in any such suit, action or proceeding, and irrevocably consents, to the fullest extent it may effectively do so under applicable law, to the service of process of any of the courts referred to in Section 13 in any such suit, action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to the above-mentioned authorized agent or successor authorized agent, as the case may be, such service to become effective 30 days after such mailing;

(b) agrees that a final action in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other lawful manner;

(c) designates as its domicile, the domicile of the Company specified above and any domicile the Company may have in the future as its domicile to receive any notice hereunder (including any service of process);

(d) agrees to take any and all action, including the execution and filing of all such instruments and documents, as may be necessary to continue such designation and appointment in full force and effect for so long as the New Notes remain outstanding and convertible for Underlying Tower Shares, or until the designation and irrevocable appointment of a successor authorized agent and such successor's acceptance of such appointment;

(e) agrees that if for any reason the Company (or any successor agent for this purpose) shall cease to act as agent for service of process as provided above or shall no longer have a domicile in the United States of America, Tower will promptly appoint a successor agent for this purpose reasonably acceptable to the trustee under the New Indenture; and

(f) agrees that nothing herein shall affect the right of the Holder to serve process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against Tower in any jurisdiction.

If Tower has or may hereafter acquire sovereign immunity or any other immunity from jurisdiction or legal process or from the attachment in aid of execution or from execution with respect to itself or its property, it hereby irrevocably waives to the fullest extent permitted under applicable law such immunity in respect of its obligations under the Transaction Documents in any action that may be instituted in the state and federal courts sitting in The City of New York, Borough of Manhattan. This waiver is intended to be effective upon the execution hereof without any further act by any of the parties hereto, before any such court, and the introduction of a true copy of this Agreement into evidence in any such court shall, to the fullest extent permitted by applicable law, be conclusive and final evidence of such waiver.

15. Termination. This Agreement may be terminated by any Holder as to such Holder's obligations only hereunder, and without any effect whatsoever on the obligations between the Company, the Guarantors, Tower and the other Participating Holders, by written notice to the other parties hereto if the Closing has not been consummated on or before the date which is sixty days from the date hereof. This Agreement may be terminated by the Company, the Guarantors and Tower by written notice to the Participating Holders if the Closing has not been consummated on or before the date which is sixty days from the date hereof; provided that the Company's obligations under Section 9 shall survive any such termination.

16. Acknowledgment Regarding the Holder's Acquisition of Securities. Each of the Company and Tower acknowledges and agrees that each Holder is acting solely in the capacity of an arm's length investor with respect to the Transaction Documents and the transactions contemplated thereby. Each of the Company and Tower further acknowledges that no Holder is acting as a financial advisor or fiduciary (or similar capacity) of the Company or Tower with respect to the Transaction Documents and the transactions contemplated thereby and no advice was given by any Holder to the Company or Tower in connection with the Transaction Documents or the transactions contemplated thereby. Each of the Company and Tower further represents to each Holder that the decision of each of the Company and Tower to enter into this Agreement and the other Transaction Documents has been based solely on the independent evaluation of the transactions contemplated hereby Tower, the Company and their representatives.

17. Entire Agreement. This Agreement constitutes the entire agreement among the parties pertaining to the Exchange and supersedes the parties' prior agreements, understandings, negotiations and discussions, whether oral or written, on such matters, and this Agreement shall not be amended, changed, supplemented, waived or otherwise modified or terminated except by instrument in writing signed by each of the parties hereto.

18. Amendments; Waivers. Except as expressly set forth herein, no provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment by the Company, the Guarantors, Tower and the Participating Holders holding Existing Notes representing at least a majority of the Original Principal Amount of all Participating Holders or, in the case of a waiver, by the party against whom enforcement of any such waived provision is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of such right.

19. Independent Nature of Participating Holders' Obligations and Rights. The obligations of each Holder under this Agreement are several and not joint or joint and several with the obligations of any other Holder, and no Holder shall be responsible in any way for the performance or non-performance of the obligations of any other Holder under this Agreement. Nothing contained in this Agreement or any other Transaction Document, and no action taken by any Holder pursuant thereto, shall be deemed to constitute the Participating Holders as a partnership, an association, a joint venture or any other kind of group or entity, or create a presumption that the Participating Holders are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. Each Holder shall be entitled to independently protect and enforce its rights, and it shall not be necessary for any other Holder to be joined as an additional party in any proceeding for such purpose.

20. Miscellaneous. The representations, warranties, covenants and agreements contained in this Agreement shall survive the execution and delivery of this Agreement and the closing of the transactions contemplated hereby and shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any party hereto. This Agreement is intended to bind and inure to the benefit of the signatories to this Agreement and their respective successors, permitted assigns, heirs, executors, administrators and representatives. None of the Company, the Guarantors or Tower may assign any rights or obligations under this Agreement without the prior written consent of each Participating Holder. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page by facsimile or as an attachment to an electronic mail message in PDF or similar format shall be as effective as delivery of a manually executed counterpart. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby. This Agreement shall be solely for the benefit of the signatories to this Agreement, and no other person or entity shall be a third-party beneficiary hereof. No failure or delay by any party in exercising any right, power or privilege under this Agreement shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

[*Remainder of Page Intentionally Left Blank*]

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be duly executed on its behalf as of the date first written above.

JAZZ TECHNOLOGIES, INC.

By: _____
Name:
Title:

TOWER SEMICONDUCTOR LTD.

By: _____
Name:
Title:

NEWPORT FAB, LLC

By: _____
Name:
Title:

JAZZ SEMICONDUCTOR, INC.

By: _____
Name:
Title:

[Signature page to Exchange Agreement]

PRINCIPAL GLOBAL OPPORTUNITIES SERIES PLC – PRINCIPAL SHORT DURATION HIGH YIELD

By: Principal Global Investors, LLC,
a Delaware limited liability company,
its authorized signatory

By: _____
Name:
Title:

By: _____
Name:
Title:

PGI CIT GLOBAL CREDIT OPPORTUNITIES FUND

By: Principal Global Investors, LLC,
a Delaware limited liability company,
its authorized signatory

By: _____
Name:
Title:

By: _____
Name:
Title:

PRINCIPAL GLOBAL CREDIT OPPORTUNITIES

By: Principal Global Investors, LLC,
a Delaware limited liability company,
its authorized signatory

By: _____
Name:
Title:

By: _____
Name:
Title:

EXPERT INVESTOR SICAV-SIF – ASTRUM FIXED INCOME GLOBAL CREDIT OPPORTUNITIES FUND

By: Principal Global Investors, LLC,
a Delaware limited liability company,
its authorized signatory

By: _____
Name:
Title:

By: _____
Name:
Title:

PRINCIPAL GLOBAL INVESTORS COLLECTIVE INVESTMENT TRUST – MULTI-SECTOR FIXED INCOME FUND

By: Principal Global Investors, LLC,
a Delaware limited liability company,
its authorized signatory

By: _____
Name:
Title:

By: _____
Name:
Title:

PGI CIT GLOBAL OPPORTUNITIES SERIES PLC – GLOBAL CREDIT ALPHA FUND

By: Principal Global Investors, LLC,
a Delaware limited liability company,
its authorized signatory

By: _____
Name:
Title:

By: _____
Name:
Title:

DAIWA PREMIUM TRUST – DAIWA/PRINCIPAL US SHORT DURATION HIGH YIELD BOND FUND

By: Principal Global Investors, LLC,
a Delaware limited liability company,
its authorized signatory

By: _____
Name:
Title:

By: _____
Name:
Title:

IOWA JUDICIAL RETIREMENT SYSTEM

By: Principal Global Investors, LLC,
a Delaware limited liability company,
its authorized signatory

By: _____
Name:
Title:

By: _____
Name:
Title:

MEIJER

By: Principal Global Investors, LLC,
a Delaware limited liability company,
its authorized signatory

By: _____
Name:
Title:

By: _____
Name:
Title:

PAINTING INDUSTRY ANNUITY FUND

By: Principal Global Investors, LLC,
a Delaware limited liability company,
its authorized signatory

By: _____
Name:
Title:

By: _____
Name:
Title:

PRINCIPAL FUNDS, INC. – BOND & MORTGAGE SECURITIES FUND

By: Principal Global Investors, LLC,
a Delaware limited liability company,
its authorized signatory

By: _____
Name:
Title:

By: _____
Name:
Title:

PRINCIPAL GLOBAL INVESTORS FUND – HIGH YIELD FUND

By: Principal Global Investors, LLC,
a Delaware limited liability company,
its authorized signatory

By: _____
Name:
Title:

By: _____
Name:
Title:

PRINCIPAL GLOBAL INVESTORS TRUST – HIGH YIELD FIXED INCOME FUND

By: Principal Global Investors, LLC,
a Delaware limited liability company,
its authorized signatory

By: _____
Name:
Title:

By: _____
Name:
Title:

PRINCIPAL LIFE INSURANCE COMPANY ON BEHALF OF ONE OR MORE SEPARATE ACCOUNTS (PRINCIPAL LIFE INSURANCE COMPANY, DBA BOND & MORTGAGE SEPARATE ACCOUNT)

By: Principal Global Investors, LLC,
a Delaware limited liability company,
its authorized signatory

By: _____
Name:
Title:

By: _____
Name:
Title:

PRINCIPAL LIFE INSURANCE COMPANY ON BEHALF OF ONE OR MORE SEPARATE ACCOUNTS (PRINCIPAL LIFE INSURANCE COMPANY, D/B/A PRINCIPAL LDI LONG DURATION SEPARATE ACCOUNT)

By: Principal Global Investors, LLC,
a Delaware limited liability company,
its authorized signatory

By: _____
Name:
Title:

By: _____
Name:
Title:

PRINCIPAL VARIABLE CONTRACT FUNDS, INC. BALANCED

By: Principal Global Investors, LLC,
a Delaware limited liability company,
its authorized signatory

By: _____
Name:
Title:

By: _____
Name:
Title:

PRINCIPAL VARIABLE CONTRACTS FUNDS, INC. – BOND & MORTGAGE SECURITIES ACCOUNT

By: Principal Global Investors, LLC,
a Delaware limited liability company,
its authorized signatory

By: _____
Name:
Title:

By: _____
Name:
Title:

PRINCIPAL FUNDS, INC. – HIGH YIELD FUND

By: _____
Name:
Title:

PUTNAM VARIABLE TRUST – PUTNAM VT HIGH YIELD FUND
PUTNAM HIGH YIELD TRUST
PUTNAM HIGH YIELD ADVANTAGE FUND
PUTNAM DYNAMIC ASSET ALLOCATION GROWTH FUND
PUTNAM DYNAMIC ASSET ALLOCATION BALANCED FUND
PUTNAM VARIABLE TRUST – PUTNAM VT GLOBAL ASSET ALLOCATION FUND
PUTNAM DYNAMIC ASSET ALLOCATION CONSERVATIVE FUND
PUTNAM CONVERTIBLE SECURITIES FUND
PUTNAM HIGH INCOME SECURITIES FUND
PUTNAM RETIREMENT INCOME FUND LIFESTYLE 3

Each by:
Putnam Investment Management, LLC

By: _____
Name:
Title:

A copy of the Agreement and Declaration of Trust of each above holder is on file with the Secretary of The Commonwealth of Massachusetts, and notice is hereby given that this Agreement is executed on behalf of the trustees of such holder as trustees and not individually and that the obligations of or arising out of this Agreement are not binding on any of the trustees, officers or shareholders individually of such holder, but are binding only upon the trust property of such holder. Furthermore, notice is given that the trust property of any series of the series trust applicable to such holder, if applicable, is separate and distinct and that the obligations of or arising out of this Agreement are several and not joint or joint and several and are binding only on the trust property of such holder with respect to its obligations under this confirmation.

SEASONS SERIES TRUST (SUN AMERICA) – ASSET ALLOCATION: DIVERSIFIED GROWTH PORTFOLIO

By: Putnam Investment Management, LLC

By: _____
Name:
Title:

PUTNAM RETIREMENT ADVANTAGE GAA GROWTH PORTFOLIO
PUTNAM RETIREMENT ADVANTAGE GAA BALANCED PORTFOLIO

Each by: Putnam Fiduciary Trust Company

By: _____
Name:
Title:

[Signature page to Exchange Agreement]

PUTNAM WORLD TRUST – PUTNAM GLOBAL HIGH YIELD BOND FUND
PUTNAM HIGH YIELD FIXED INCOME FUND, LLC
LGT MULTI MANAGER BOND HIGH YIELD (USD)
STICHTING BEWAARDER SYNTRUS ACHMEA GLOBAL HIGH YIELD POOL
STICHTING PENSIOENFONDS VOOR FYSIOTHERAPEUTEN
LGT MULTI MANAGER CONVERTIBLE BONDS PORTFOLIO

Each by:
The Putnam Advisory Company, LLC

By: _____
Name:
Title:

[Signature page to Exchange Agreement]

ROCKVIEW SHORT ALPHA FUND LTD.

By: _____
Name:
Title:

ROCKVIEW TRADING LTD.

By: _____
Name:
Title:

NORTHERN LIGHTS FUND TRUST – ALTEGRIS FIXED INCOME LONG SHORT FUND

By: _____
Name:
Title:

BULWARKBAY CREDIT OPPORTUNITIES MASTER FUND LTD

By: BulwarkBay Investment Group LLC, as its investment adviser

By: _____
Name: Joseph Canavan
Title: Chief Financial Officer

SCHEDULE A

GUARANTORS

Newport Fab, LLC, a Delaware limited liability company
Jazz Semiconductor, Inc., a Delaware corporation

EXHIBIT A

SCHEDULE OF HOLDERS

Name of Holder	**DTC Direction**
Principal Global Opportunities Series Plc – Principal Short Duration High Yield	Existing Notes Principal Amount: $1,125,000 New Notes Principal Amount: $1,218,000 Exchange Note Cash Payment: $375 CUSIP: Reg S DTC Participant: Bank of New York DTC #901 For Credit to Account #: 298118 Contact: Monique Brown (718) 315-3546 monique.brown@bnymellon.com
PGI CIT Global Credit Opportunities Fund	Existing Notes Principal Amount: $350,000 New Notes Principal Amount: $379,000 Exchange Note Cash Payment: $50 CUSIP: 144A DTC Participant: State Street DTC #997 For Credit to Account #: AAHU Contact: Melissa Curlanis (617) 985-3289 CTMGBoston5@statestreet.com
Principal Global Credit Opportunities Fund	Existing Notes Principal Amount: $560,000 New Notes Principal Amount: $606,000 Exchange Note Cash Payment: $480 CUSIP: 144A DTC Participant: State Street Sydney DTC #997 For Credit to Account #: SDME Contact: Renee Sainsbury-Bester 612 9323 7105 PGI-SSAL@statestreet.com
Expert Investor SICAB-SIF – Astrum Fixed Income Global Credit Opportunities Fund	Existing Notes Principal Amount: $150,000 New Notes Principal Amount: $162,000 Exchange Note Cash Payment: $450 CUSIP: 144A DTC Participant: Credit Suisse DTC #10 For Credit to Account #: 9054842 Contact: Operations 352 26 20 26 43 Dlux.am@credit-suisse.com
Principal Global Investors Collective Investment Trust – Multi-Sector Fixed Income Fund	Existing Notes Principal Amount: $66,000 New Notes Principal Amount: $71,000 Exchange Note Cash Payment: $478 CUSIP: 144A DTC Participant: State Street DTC #997 For Credit to Account #: AAHU Contact: Melissa Curlanis (617) 985-3289 CTMGBoston5@statestreet.com

Principal Global Opportunities Series Plc – Global Credit Alpha Fund	Existing Notes Principal Amount: $170,000 New Notes Principal Amount: $184,000 Exchange Note Cash Payment: $110 CUSIP: 144A DTC Participant: Bank of New York DTC #901 For Credit to Account #: 399783 Contact: Monique Brown (718) 315-3546 monique.brown@bnymellon.com
Daiwa Premium Trust – Daiwa /Principal US Short Duration High Yield Fund	Existing Notes Principal Amount: $55,000 New Notes Principal Amount: $59,000 Exchange Note Cash Payment: $565 CUSIP: 144A DTC Participant: Brown Brothers Harriman DTC #10 For Credit to Account #: 2638021 Contact: Kevin Carnes (617) 772-1084 team.pacific@bbh.com
Iowa Judicial Retirement System	Existing Notes Principal Amount: $829 New Notes Principal Amount: $0 Exchange Note Cash Payment: $898 CUSIP: 144A DTC Participant: Bank of New York Mellon DTC #954 For Credit to Account #: JR7F3000002 Contact: Tom Frankenberg (412) 234-5457 PITIMSTEAM1@bnymellon.com
Meijer	Existing Notes Principal Amount: $658 New Notes Principal Amount: $0 Principal portion of Exchange Note Cash Payment: $713 CUSIP: 144A DTC Participant: Wells Fargo DTC #2027 For Credit to Account #: 5800422 Contact: Joan Jackson (704) 590-0745 joan.a.jackson@wellsfargo.com

Painting Industry Annuity Fund	Existing Notes Principal Amount: $35,829 New Notes Principal Amount: $38,000 Principal portion of Exchange Note Cash Payment: $803 CUSIP: 144A DTC Participant: Wells Fargo DTC #2027 For Credit to Account #: 9546001262 Contact: Joan Jackson (704) 590-0745 joan.a.jackson@wellsfargo.com
Principal Funds, Inc. – Bond & Mortgage Securities Fund	Existing Notes Principal Amount: $1,926,082 New Notes Principal Amount: $2,085,000 Exchange Note Cash Payment: $947 CUSIP: 144A DTC Participant: Bank of New York DTC #901 For Credit to Account #: 394373 Contact: Monique Brown (718) 315-3546 monique.brown@bnymellon.com
Principal Global Investors Fund – High Yield Fund	Existing Notes Principal Amount: $413,145 New Notes Principal Amount: $447,000 Exchange Note Cash Payment: $437 CUSIP: Reg S DTC Participant: Bank of New York DTC #901 For Credit to Account #: 397775 Contact: Monique Brown (718) 315-3546 monique.brown@bnymellon.com
Principal Global Investors Trust – High Yield Fixed Income Fund	Existing Notes Principal Amount: $238,974 New Notes Principal Amount: $258,000 Exchange Note Cash Payment: $809 CUSIP: 144A DTC Participant: Bank of New York DTC #901 For Credit to Account #: 394967 Contact: Monique Brown (718) 315-3546 monique.brown@bnymellon.com
Principal Life Insurance Company on behalf of One or More Separate Accounts (Principal Life Insurance Company, DBA Bond & Mortgage Separate Account)	Existing Notes Principal Amount: $3,823,480 New Notes Principal Amount: $4,140,000 Exchange Note Cash Payment: $829 CUSIP: 144A DTC Participant: State Street DTC #997 For Credit to Account #: PRPJ Contact: Melissa Curlanis (617) 985-3289 CTMGBoston5@statestreet.com

Principal Life Insurance Company on Behalf of One or More Separate Accounts (Principal Life Insurance Company, d/b/a Principal LDI Long Duration Separate Account)	Existing Notes Principal Amount: $146,829 New Notes Principal Amount: $159,000 Exchange Note Cash Payment: $16 CUSIP: 144A DTC Participant: State Street DTC #997 For Credit to Account #: PRIW Contact: Melissa Curlanis (617) 985-3289 CTMGBoston5@statestreet.com
Principal Variable Contract Funds, Inc. Balanced	Existing Notes Principal Amount: $10,000 New Notes Principal Amount: $10,000 Exchange Note Cash Payment: $830 CUSIP: 144A DTC Participant: Bank of New York DTC #901 For Credit to Account #: 294321 Contact: Monique Brown (718) 315-3546 monique.brown@bnymellon.com
Principal Variable Contracts Funds, Inc. – Bond & Mortgage Securities Account	Existing Notes Principal Amount: $212,461 New Notes Principal Amount: $230,000 Exchange Note Cash Payment: $96 CUSIP: 144A DTC Participant: Bank of New York DTC #901 For Credit to Account #: 294315 Contact: Monique Brown (718) 315-3546 monique.brown@bnymellon.com
Principal Funds, Inc. – High Yield Fund	Existing Notes Principal Amount: $21,517,713 New Notes Principal Amount: $23,303,000 Exchange Note Cash Payment: $684 CUSIP: 144A DTC Participant: Bank of New York DTC #901 For Credit to Account #: 394959 Contact: Monique Brown (718) 315-3546 monique.brown@bnymellon.com
Putnam Variable Trust – Putnam VT High Yield Fund	Existing Notes Principal Amount: $517,000 New Notes Principal Amount: $559,000 Exchange Note Cash Payment: $911 CUSIP: 144A DTC Participant: State Street Bank DTC #997 For Credit to Account #: 38MN Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com

Putnam High Yield Trust	Existing Notes Principal Amount: $1,803,000 New Notes Principal Amount: $1,952,000 Exchange Note Cash Payment: $649 CUSIP: 144A DTC Participant: State Street Bank DTC #997 For Credit to Account #: 38PD Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com
Putnam High Yield Advantage Fund	Existing Notes Principal Amount: $717,000 New Notes Principal Amount: $776,000 Exchange Note Cash Payment: $511 CUSIP: 144A DTC Participant: State Street Bank DTC #997 For Credit to Account #: 38MI Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com
Seasons Series Trust (Sun America) – Asset Allocation: Diversified Growth Portfolio	Existing Notes Principal Amount: $18,000 New Notes Principal Amount: $19,000 Exchange Note Cash Payment: $494 CUSIP: 144A DTC Participant: State Street Bank DTC #997 For Credit to Account #: JUQA Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com
Putnam Dynamic Asset Allocation Growth Fund	Existing Notes Principal Amount: $133,000 New Notes Principal Amount: $144,000 Exchange Note Cash Payment: $39 CUSIP: Rule 144A DTC Participant: State Street Bank DTC #997 For Credit to Account #: 38MX Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com
Putnam Dynamic Asset Allocation Balanced Fund	Existing Notes Principal Amount: $138,000 New Notes Principal Amount: $149,000 Exchange Note Cash Payment: $454 CUSIP: Rule 144A DTC Participant: State Street Bank DTC #997 For Credit to Account #: 38MY Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com

Putnam Variable Trust – Putnam VT Global Asset Allocation Fund	Existing Notes Principal Amount: $19,000 New Notes Principal Amount: $20,000 Exchange Note Cash Payment: $577 CUSIP: 144A DTC Participant: State Street Bank DTC #997 For Credit to Account #: 38MO Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com
Putnam Dynamic Asset Allocation Conservative Fund	Existing Notes Principal Amount: $95,000 New Notes Principal Amount: $102,000 Exchange Note Cash Payment: $885 CUSIP: 144A DTC Participant: State Street Bank DTC #997 For Credit to Account #: 38MZ Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com
Putnam Convertible Securities Fund	Existing Notes Principal Amount: $2,278,000 New Notes Principal Amount: $2,467,000 Exchange Note Cash Payment: $74 CUSIP: 144A DTC Participant: State Street Bank DTC #997 For Credit to Account #: 38QG Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com
Putnam High Income Securities Fund	Existing Notes Principal Amount: $356,000 New Notes Principal Amount: $385,000 Exchange Note Cash Payment: $548 CUSIP: 144A DTC Participant: State Street Bank DTC #997 For Credit to Account #: 38MU Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com
Putnam Retirement Income Fund Lifestyle 3	Existing Notes Principal Amount: $13,000 New Notes Principal Amount: $14,000 Exchange Note Cash Payment: $79 CUSIP: 144A DTC Participant: State Street Bank DTC #997 For Credit to Account #: 38PL Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com

Putnam Retirement Advantage GAA Growth Portfolio	Existing Notes Principal Amount: $14,000 New Notes Principal Amount: $15,000 Exchange Note Cash Payment: $162 CUSIP: 144A DTC Participant: State Street Bank DTC #997 For Credit to Account #: 38UD Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com
Putnam Retirement Advantage GAA Balanced Portfolio	Existing Notes Principal Amount: $14,000 New Notes Principal Amount: $15,000 Exchange Note Cash Payment: $162 CUSIP: 144A DTC Participant: State Street Bank DTC #997 For Credit to Account #: 38UE Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com
Putnam World Trust – Putnam Global High Yield Bond Fund	Existing Notes Principal Amount: $414,000 New Notes Principal Amount: $448,000 Exchange Note Cash Payment: $362 CUSIP: 144A DTC Participant: State Street Bank DTC #997 For Credit to Account #: PWTI Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com
Putnam High Yield Fixed Income Fund, LLC	Existing Notes Principal Amount: $10,000 New Notes Principal Amount: $10,000 Exchange Note Cash Payment: $830 CUSIP: 144A DTC Participant: State Street Bank DTC #997 For Credit to Account #: 38S4 Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com

LGT Multi Manager Bond High Yield (USD)	Existing Notes Principal Amount: $114,000 New Notes Principal Amount: $123,000 Exchange Note Cash Payment: $462 CUSIP: 144A DTC Participant: Brown Brothers Harriman & Co. DTC #010 For Credit to Account #: 010 4945317 Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com
Stichting Bewaarder Syntrus Achmea Global High Yield Pool	Existing Notes Principal Amount: $367,000 New Notes Principal Amount: $397,000 Exchange Note Cash Payment: $461 CUSIP: 144A DTC Participant: Bank of New York Mellon DTC #954 For Credit to Account #: 954 TTWFZ002002 Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com
Stichting Pensioenfonds Voor Fysiotherapeuten	Existing Notes Principal Amount: $100,000 New Notes Principal Amount: $108,000 Exchange Note Cash Payment: $300 CUSIP: 144A DTC Participant: Bank of New York Mellon DTC #954 For Credit to Account #: 954 TTWFZ003002 Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com
LGT Multi Manager Convertible Bonds Portfolio	Existing Notes Principal Amount: $760,000 New Notes Principal Amount: $823,000 Exchange Note Cash Payment: $80 CUSIP: 144A DTC Participant: Brown Brothers Harriman & Co. DTC #010 For Credit to Account #: 010 0230-60472S1 Contact: Robert Tulipani (617) 760-0959 robert_j_tulipani@putnam.com
RockView Short Alpha Fund Ltd.	Existing Notes Principal Amount: $125,000 New Notes Principal Amount: $135,000 Exchange Note Cash Payment: $375 CUSIP: 144A DTC Participant: JPMorgan Chase DTC #352 For Credit to Account #: 102-36192 Contact: Alan Bluestine (203) 388-4920 alanb@rvcap.com

RockView Trading Ltd.	Existing Notes Principal Amount: $251,000 New Notes Principal Amount: $271,000 Exchange Note Cash Payment: $833 CUSIP: 144A DTC Participant: JPMorgan Chase DTC # 352 For Credit to Account #: 102-31112 Contact: Alan Bluestine (203) 388-4920 alanb@rvcap.com
Northern Lights Fund Trust – Altegris Fixed Income Long Short Fund	Existing Notes Principal Amount: $500,000 New Notes Principal Amount: $541,000 Exchange Note Cash Payment: $500 CUSIP: 144A DTC Participant: JPMorgan Chase DTC # 902 For Credit to Account #: P18855 Contact: Alan Bluestine (203) 388-4920 alanb@rvcap.com
BulwarkBay Credit Opportunities Master Fund Ltd	Existing Notes Principal Amount: $5,065,000 New Notes Principal Amount: $5,485,000 Exchange Note Cash Payment: $395 CUSIP: 144A DTC Participant: Goldman Sachs &Co. DTC #0005 For Credit to Account #: 002484012 BulwarkBay Credit Opportunities Master Fund Ltd Contact: Joe Canavan (617) 904-9883 jcanavan@bulwarkbay.com operations@bulwarkbay.com

EXHIBIT B

Form of Indenture

EXHIBIT C

Form of Company Registration Rights Agreement

EXHIBIT D

Form of Tower Registration Rights Agreement

EXHIBIT E

Form of Opinion of Eilenberg & Krause LLP

EXHIBIT F

Form of Opinion of Yigal Arnon & Co.

EXHIBIT G

Form of Opinion of Acting Chief Legal Officer of Jazz Technologies, Inc.

Exhibit 4.60

EXECUTION VERSION

PURCHASE AGREEMENT

This Purchase Agreement (this "*Agreement*"), dated as of March 19, 2014, is entered into by and among Jazz Technologies, Inc., a Delaware corporation (the "*Company*"), the subsidiaries of the Company listed on Schedule A hereto (each a "*Guarantor*"), Tower Semiconductor Ltd., company formed under the laws of Israel ("*Tower*"), and each of the holders listed on the Schedule of Holders referred to below (each, a "*Holder*" and collectively, the "*Participating Holders*").

RECITALS

A. On July 15, 2010, the Company issued its 8% Senior Notes due 2015 in an initial aggregate original principal amount of $93,556,000 (such notes collectively, the "*Existing Notes*"); such Existing Notes being in the form of beneficial interests in a global note held by The Depository Trust Company ("*DTC*") and governed by an indenture, dated as of July 15, 2010, among the Company, its domestic subsidiaries from time to time party thereto as guarantors, and U.S. Bank National Association, as trustee (such indenture, as the same has been modified or supplemented through the date hereof, the "*Existing Indenture*").

B. The Company and the Participating Holders desire to enter into this Agreement, pursuant to which, among other things, on the Closing Date (as defined below), each Holder shall purchase newly-issued 8% senior notes due December 2018 issued by the Company (the "*New Notes*") and guaranteed (the "*Guarantees*"), jointly and severally, by the Guarantors in the principal amount set forth opposite such Holder's name on the Schedule of Holders attached hereto as Exhibit A (the "*Schedule of Holders*") at the purchase price set forth in this Agreement.

C. The New Notes will be issued under and governed by an indenture, dated as of the Closing Date, among the Company, the guarantors from time to time party thereto, Tower and U.S. Bank National Association, as trustee, in the form attached hereto as Exhibit B (the "*New Indenture*"). Under the New Indenture, the New Notes shall be convertible into Tower Common Stock (defined below) at an initial conversion rate equal to $1,000 divided by the greater of (i) $9.00 and (ii) (A) 120% of the Average Closing Price if such price is less than $9.00, (B) 115% of the Average Closing Price if such price is greater than or equal $9.00 and less than $12.00 and (C) 110% of the Average Closing Price if such price is greater than or equal to $12.00.

D. On the date hereof, the Company is also entering into the Exchange Agreement (as defined below) pursuant to which the Company and certain holders of Existing Notes will agree to exchange Existing Notes for New Notes.

E. The issuance and sale of the New Notes by the Company to the Participating Holders on the terms set forth in this Agreement (the "*Sale*") is being made pursuant to Section 4 (a)(2) of the Securities Act of 1933, as amended (the "*Securities Act*"), Regulation D promulgated thereunder and Regulation S promulgated under the Securities Act.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and undertakings set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions. Unless the context otherwise requires, the following terms shall have the following meanings for all purposes of this Agreement:

"*Action*" has the meaning ascribed to it in Section 4(j).

"*Affiliate*" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person as such terms are used in and construed under Rule 144 under the Securities Act. With respect to any Holder, any investment fund or managed account that is managed on a discretionary basis by the same investment manager as such Holder will be deemed to be an Affiliate of such Holder.

"*Agreement*" has the meaning set forth in the preamble to this Agreement.

"*Average Closing Price*" means the average of the Closing Prices of the Tower Common Stock for the five trading days ending on the day immediately preceding the date of this Agreement.

"*Business Day*" means any day except Saturday, Sunday, any day which shall be a federal legal holiday in the United States and any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

"*Closing*" has the meaning ascribed to it in Section 3.

"*Closing Date*" has the meaning ascribed to it in Section 3

"*Closing Price*" means the closing sale price per share (or, if no closing sale price is reported, the average of the last bid and ask prices or, if more than one in either case, the average of the average last bid and the average last ask prices) of the Tower Common Stock on that date as reported in composite transactions on the Nasdaq Global Market. The Closing Price will be determined without reference to extended or after hours trading.

"*Commission*" means the Securities and Exchange Commission.

"*Common Stock*" means the common stock, par value $0.0001 per share, of the Company.

"*Common Stock Equivalents*" means any securities of the Company or the Subsidiaries which would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

"*Company*" has the meaning set forth in the preamble to this Agreement.

"*Company Disclosure Materials*" shall have the meaning ascribed to it in Section 4(h).

"*Company Material Adverse Effect*" means (i) a material adverse effect on the legality, validity or enforceability of any Transaction Document to which the Company or any Guarantor is a party, (ii) a material adverse effect on the results of operations, assets, business, prospects or condition (financial or otherwise) of the Company and its Subsidiaries, taken as a whole, or (iii) a material adverse effect on the Company's or any Guarantor's ability to perform in any material respect on a timely basis its obligations under any Transaction Document to which it is a party.

"*Company Registration Rights Agreement*" means the Registration Rights Agreement, dated as of the Closing Date, among the Company and the Participating Holders and the other holders party thereto, in the form of Exhibit C attached hereto.

"*Company SEC Reports*" shall have the meaning ascribed to it in Section 4(h).

"*Disclosure Schedules*" means the Disclosure Schedules of the Company and Tower to this Agreement delivered concurrently herewith.

"*DTC*" has the meaning set forth in the "Recitals" section.

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

"*Exchange Agreement*" means the Exchange Agreement, dated as of March 19, 2014, among the Company, Tower, the guarantors party thereto and the holders party thereto providing for the exchange of Existing Notes for New Notes.

"*Existing Indenture*" has the meaning set forth in the "Recitals" section.

"*Existing Notes*" has the meaning set forth in the "Recitals" section.

"*GAAP*" has the meaning ascribed to it in Section 4(h).

"*Guarantor*" has the meaning set forth in the preamble to this Agreement.

"*Holder*" has the meaning set forth in the preamble to this Agreement.

"*Intellectual Property Rights*" has the meaning ascribed to it in Section 4(o).

"*Investment Company Act*" has the meaning ascribed to it in Section 4(u).

"*Liens*" means a lien, charge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

"*Material Permits*" has the meaning ascribed to it in Section 4(m).

"*New Indenture*" has the meaning set forth in the "Recitals" section.

"*New Notes*" has the meaning set forth in the "Recitals" section.

"*Participating Holders*" has the meaning set forth in the preamble to this Agreement.

"*Person*" means an individual, corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

"*Proceeding*" means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"*Registration Statement*" means a registration statement meeting the requirements set forth in the Company Registration Rights Agreement or the Tower Registration Rights Agreement, as applicable.

"*Required Approvals*" shall have the meaning ascribed to such term in Section 4(e).

"*Schedule of Holders*" has the meaning set forth in the "Recitals" section.

"*Securities*" means the New Notes.

"*Securities Act*" has the meaning set forth in the "Recitals" section.

"*Subsidiary*" means, with respect to the Company or Tower, any subsidiary of such company as set forth on Schedule 4(a) for the Company or Schedule 5(a) for Tower.

"*Tower*" has the meaning set forth in the preamble to this Agreement.

"*Tower Action*" has the meaning ascribed to it in Section 5(j).

"*Tower Common Stock*" means the ordinary shares of Tower, par value NIS 15.00 per share, and any other class of securities into which such securities may hereafter be reclassified or changed into.

"*Tower Common Stock Equivalents*" means any securities of Tower or its Subsidiaries which would entitle the holder thereof to acquire at any time Tower Common Stock, including, without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Tower Common Stock.

"*Tower Disclosure Materials*" has the meaning ascribed to it in Section 5(h).

"*Tower Intellectual Property Rights*" has the meaning set forth in Section 5(o).

"*Tower Material Adverse Effect*" means (i) a material adverse effect on the legality, validity or enforceability of any Transaction Document to which Tower is a party, (ii) a material adverse effect on the results of operations, assets, business, prospects or condition (financial or otherwise) of Tower and its Subsidiaries, taken as a whole, or (iii) a material adverse effect on Tower's ability to perform in any material respect on a timely basis its obligations under any Transaction Document to which it is a party.

"*Tower Material Permits*" has the meaning ascribed to it in Section 5(m).

"*Tower Required Approvals*" has the meaning ascribed to it in Section 5(e).

"*Tower Registration Rights Agreement*" means the Registration Rights Agreement, dated as of the Closing Date, among Tower and the Participating Holders and the other holders party thereto, in the form of Exhibit D attached hereto.

"*Tower SEC Reports*" has the meaning ascribed to it in Section 5(h).

"*Trading Market*" means the following markets or exchanges on which the Tower Common Stock is listed or quoted for trading on the date in question: the American Stock Exchange, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market or the New York Stock Exchange.

"*Transaction Documents*" means this Agreement, the New Notes, the New Indenture, the Guarantees, the Company Registration Rights Agreement, the Tower Registration Rights Agreement, and any other documents or agreements executed in connection with the transactions contemplated hereunder.

"*Underlying Tower Shares*" means the Tower Common Stock issued or issuable upon conversion of the New Notes in accordance with the terms of the New Indenture.

2. Issuance and Sale of New Notes.

(a) Issuance and Sale of New Notes. Subject to the satisfaction of the conditions set forth in Section 7 and Section 8 hereof, at the Closing (i) each Holder agrees, severally and not jointly, to purchase New Notes in the original principal amount set forth opposite such Holder's name on the Schedule of Holders and (ii) the Company shall issue and deliver to each Holder New Notes in the principal amount for such Holder, as set forth opposite such Holder's name on the Schedule of Holders. The purchase price for the New Notes shall be 92.3361% of the principal amount thereof. The Company shall deliver the New Notes by causing DTC to credit such securities to the account of each Holder's DTC participant as set forth in a direction substantially in the form of Schedule B hereto, or such other DTC account as a Holder may direct in writing sufficiently in advance of the Closing Date against delivery by such Holder of the purchase price for the New Notes. Payment for the New Notes shall be made on the Closing Date to the Company in Federal funds or other immediately available funds to the account specified by the Company to the Holders.

(b) Registration of New Notes. The New Notes will be evidenced by one or more global note certificates in definitive form, registered in the name of Cede & Co., as nominee of DTC, and bearing such legends as shall be required by the New Indenture.

3. Closing. The consummation of the transactions contemplated by this Agreement (the "*Closing*") shall occur at 10:00 a.m. (New York City local time), on March 25, 2014, or at such other time and date as the parties agree upon, or, if the conditions to Closing set forth in Section 7 and Section 8 hereof (other than conditions that by their terms can only be satisfied on the Closing Date) have not been satisfied or waived by such date, then on the second Business Day after the last of such conditions to Closing has been satisfied or waived by the party entitled to waive the same or on any such other date as to which the parties mutually agree in writing (the "*Closing Date*").

4. Representations and Warranties of the Company and the Guarantors. Except as set forth under the corresponding section of the Disclosure Schedules, which Disclosure Schedules shall be deemed a part hereof and to qualify such corresponding representation or warranty otherwise made herein to the extent of such disclosure, the Company and the Guarantors, jointly and severally, hereby make the representations and warranties set forth below to each Holder:

(a) Subsidiaries. All of the direct and indirect ownership of any capital stock, or other equity interests owned or held in any Subsidiaries of the Company is set forth on Schedule 4 (a). Except as set forth on Schedule 4(a), the Company owns, directly or indirectly, all of the capital stock or other equity interests of each of its Subsidiaries free and clear of any Liens, and all the issued and outstanding shares of capital stock of each of its Subsidiaries are validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities.

(b) Organization and Qualification. The Company and each of its Subsidiaries is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization (as applicable), with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. No proceeding has been instituted for the dissolution of the Company or any of its Subsidiaries. Neither the Company nor any of its Subsidiaries is in violation or default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. Each of the Company and its Subsidiaries is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in a Company Material Adverse Effect, and no Proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

(c) Authorization; Enforcement. The Company and each Guarantor has the requisite corporate or other power and authority to enter into and to consummate the transactions contemplated by each of the Transaction Documents to which it is a party and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery by the Company and each Guarantor of each of the Transaction Documents to which it is a party and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of the Company or such Guarantor and no further action is required by the Company or any Guarantor or its respective board of directors (or similar governing body) or its stockholders or members in connection therewith. Each Transaction Document to which the Company or any Guarantor is a party has been (or upon delivery will have been) duly executed by the Company and such Guarantor and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of the Company and such Guarantor enforceable against the Company and such Guarantor in accordance with its terms except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law. On the Closing Date, the New Notes (including the related Guarantees) shall have been duly authorized by the Company and each of the Guarantors, as applicable, and, when duly executed, authenticated, issued and delivered as contemplated by and in accordance with the provisions of the New Indenture, will be duly and validly issued and outstanding and will constitute valid and binding obligations of the Company and such Guarantor enforceable against the Company and such Guarantor in accordance with its terms except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(d) No Conflicts. The execution, delivery and performance by the Company and each Guarantor of the Transaction Documents to which it is a party, the issuance and sale of the New Notes (including the related Guarantees) and the consummation by the Company and the Guarantors of the other transactions contemplated hereby and thereby do not and will not (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of the Company or any of its Subsidiaries, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company or any of its Subsidiaries' debt or otherwise) or other understanding to which the Company or any of its Subsidiaries is a party or by which any property or asset of the Company or any of its Subsidiaries is bound or affected, or (iii) subject to the Required Approvals, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or any of its Subsidiaries is subject (including U.S. federal and state securities laws and regulations), or by which any property or asset of the Company or any of its Subsidiaries is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Company Material Adverse Effect.

(e) Filings, Consents and Approvals. Other than as set forth on Schedule 4(e), neither the Company nor any Guarantor is required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other U.S. federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company and each Guarantor of the Transaction Documents to which it is a party, other than (i) filings required pursuant to Section 7(g) of this Agreement, (ii) the filing with the Commission of the Registration Statement, (iii) the filing of Form D with the Commission and such filings as are required to be made under applicable state securities laws, and (iv) those made or obtained prior to Closing (collectively, the "*Required Approvals*").

(f) Issuance of the New Notes. The New Notes are duly authorized and, when issued and paid for in accordance with the applicable Transaction Documents, will be duly and validly issued, fully paid and nonassessable, free and clear of all Liens imposed by the Company other than restrictions on transfer provided for in the Transaction Documents.

(g) Capitalization. The capitalization (including convertible debentures) of the Company as of one (1) Business Day prior to the date hereof is as set forth on Schedule 4(g). No Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. There are no outstanding options, warrants, scrip rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire, any shares of Common Stock, or contracts, commitments, understandings or arrangements by which the Company or any of its Subsidiaries is or may become bound to issue additional shares of Common Stock or Common Stock Equivalents. The issuance and sale of the New Notes will not obligate the Company to issue shares of Common Stock or other securities to any Person (other than Tower Common Stock to the Participating Holders converting the New Notes) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under any of such securities. All of the outstanding shares of capital stock of the Company are validly issued, fully paid and nonassessable, have been issued in compliance with all U.S. federal and state securities laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. No further corporate approval or authorization of any stockholder, the Board of Directors of the Company or any Guarantor or others is required for the issuance and sale of the New Notes and the related Guarantees. Except as disclosed on Schedule 4(g), there are no stockholders agreements, voting agreements or other similar agreements with respect to the Company's capital stock to which the Company is a party or, to the knowledge of the Company, between or among any of the Company's stockholders.

(h) SEC Reports; Financial Statements. The Company's reports, schedules, forms, statements and other documents filed by it under the Securities Act or the Exchange Act for the three years preceding the date hereof (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, "*Company SEC Reports*"; together with the Company Disclosure Schedules, the "*Company Disclosure Materials*"), when filed (or if amended or superseded by a filing prior to the date hereof, then on the date of such filing), complied in all material respects with the requirements of the Securities Act and the Exchange Act, as applicable, and none of the Company SEC Reports, when filed (or if amended or superseded by a filing prior to the date hereof, then on the date of such filing), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the Company SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing (or if amended or superseded by a filing prior to the Closing Date, then on the date of such filing). Such financial statements have been prepared in accordance with accounting principles generally accepted in the United States applied on a consistent basis during the periods involved ("*GAAP*"), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company and its consolidated subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(i) Material Changes; Undisclosed Events, Liabilities or Developments. Since the date of the latest audited financial statements of the Company included in a report filed on Form 10-K and except as specifically disclosed in the Company Disclosure Materials, (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Company Material Adverse Effect, (ii) the Company has not incurred any liabilities (contingent or otherwise) other than trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice, (iii) the Company has not altered its method of accounting, and (iv) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock. The Company does not have pending before the Commission any request for confidential treatment of information. Except for the entering into of this Agreement and the transactions contemplated hereby or as set forth in the Company Disclosure Materials, no event, liability or development has occurred or exists with respect to the Company or its Subsidiaries or their respective business, properties, operations or financial condition, that would be required to be disclosed by the Company under applicable securities laws at the time this representation is made that has not been publicly disclosed at least 1 Business Day prior to the date that this representation is made.

(j) Litigation. Except as set forth on Schedule 4(j) and in the Company Disclosure Materials, there is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company, any of its Subsidiaries or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (U.S. federal, state, county, local or foreign) (collectively, an "*Action*") which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the New Notes (including the related Guarantees) or (ii) could have or reasonably be expected to result in a Company Material Adverse Effect. Neither the Company nor any of its Subsidiaries, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under U.S. federal or state securities laws or a claim of breach of fiduciary duty.

(k) Labor Relations. No material labor dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company which could reasonably be expected to result in a Company Material Adverse Effect. Except as disclosed on Schedule 4(k), none of the Company's or its Subsidiaries' employees is a member of a union that relates to such employee's relationship with the Company, and neither the Company or any of its Subsidiaries is a party to a collective bargaining agreement, and the Company and its Subsidiaries believe that their relationships with their employees are good. No executive officer of the Company, to the knowledge of the Company, is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant, and, to the knowledge of the Company, the continued employment of each such executive officer does not subject the Company or any of its Subsidiaries to any liability with respect to any of the foregoing matters. The Company and its Subsidiaries are, to their knowledge, in compliance with all, U.S. federal, state, local and foreign laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours, except where the failure to be in compliance could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. Severance pay, if any, due to the Company's employees is fully funded or provided for in accordance with GAAP, consistently applied.

(l) Compliance. Except as set forth in the Company Disclosure Materials, neither the Company nor any of its Subsidiaries (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company or any of its Subsidiaries under), nor has the Company or any of its Subsidiaries received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any order of any court, arbitrator or governmental body, (iii) is in violation of its charter or bylaws or similar organizational document or (iv) is or has been in violation of any statute, rule or regulation of any governmental authority, including without limitation all foreign, U.S. federal, state and local laws applicable to its business and all such laws that affect the environment, except, in the cases of clauses (i), (ii) and (iv) above, as could not have or reasonably be expected to result in a Company Material Adverse Effect.

(m) Regulatory Permits. The Company and its Subsidiaries possess all certificates, authorizations and permits issued by the appropriate U.S. federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses as described in the Company Disclosure Materials, except where the failure to possess such permits could not have or reasonably be expected to result in a Company Material Adverse Effect ("*Material Permits*"), and neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any Material Permit.

(n) Title to Assets. Except as set forth on Schedule 4(n), the Company and its Subsidiaries have good and marketable title in fee simple to all real property owned by them that is material to the business of the Company and its Subsidiaries and good and marketable title in all personal property owned by them that is material to the business of the Company and its Subsidiaries, in each case free and clear of all Liens, except for Liens that do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and its Subsidiaries and Liens for the payment of U.S. federal, state or other taxes, the payment of which is neither delinquent nor subject to penalties. Any real property and facilities held under lease by the Company and its Subsidiaries are held by them under valid, subsisting and enforceable leases with which the Company and its Subsidiaries are in compliance.

(o) Patents and Trademarks. To the knowledge of the Company, the Company and its Subsidiaries own, or have legally enforceable rights to use, all patents, patent rights, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, mask works, trade secrets, inventions, know-how, licenses and other similar rights necessary or material for use in connection with their respective businesses as described in the Company Disclosure Materials and which the failure to so have could have a Company Material Adverse Effect (collectively, the "*Intellectual Property Rights*"). Except as set forth on Schedule 4(o), neither the Company nor any of its Subsidiaries has received a written notice that has not been revoked or has knowledge that the Intellectual Property Rights used by the Company or any of its Subsidiaries violates or infringes, or allegedly violates or allegedly infringes, upon the rights of any Person. To the knowledge of the Company, all such Intellectual Property Rights are enforceable and there is no existing infringement by another Person of any of the Intellectual Property Rights. The Company and its Subsidiaries have taken reasonable security measures to protect the secrecy, confidentiality and value of all Intellectual Property Rights, except where failure to do so could not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect.

(p) Insurance. The Company and its Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which the Company and its Subsidiaries are engaged, including, but not limited to, directors and officers insurance coverage. To the best knowledge of the Company, such insurance contracts and policies are accurate and complete. Neither the Company nor any of its Subsidiaries has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(q) Transactions with Affiliates and Employees. Except as set forth on Schedule 4(q) and in the Company Disclosure Materials, none of the officers or directors of the Company and, to the knowledge of the Company, none of the employees of the Company is presently a party to any transaction with the Company or any of its Subsidiaries (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner, in each case in excess of $120,000 other than (i) for payment of salary, director fees or consulting fees for services rendered, (ii) reimbursement for expenses incurred on behalf of the Company and (iii) for other employee benefits, including reasonable severance pay plans of the Company or bonuses. Except as described above or in the Company Disclosure Materials, none of the officers, directors or, to the best of the Company's knowledge, key employees or stockholders of the Company or any members of their immediate families, are indebted to the Company or any of its Subsidiaries, individually in excess of $120,000. Except as set forth in the Company Disclosure Materials, neither the Company nor any of its Subsidiaries is a guarantor or indemnitor of any indebtedness of any other person, firm or corporation.

(r) Sarbanes-Oxley; Internal Accounting Controls. The Company is in material compliance with all provisions of the Sarbanes-Oxley Act of 2002 which are applicable to it as of the Closing Date. The Company and its Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Company has established disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and designed such disclosure controls and procedures to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. The Company's certifying officers have evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by the Company's most recently filed periodic report under the Exchange Act (such date, the "*Evaluation Date*"). The Company presented in its most recently filed periodic report under the Exchange Act the conclusions of the certifying officers about the effectiveness of the disclosure controls and procedures based on their evaluations as of the Evaluation Date. Since the Evaluation Date, there have been no changes in the Company's internal control over financial reporting (as such term is defined in the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting, and no significant deficiencies or material weaknesses in internal controls over financial reporting, or other factors that could significantly affect the Company's internal controls over financial reporting, have been identified.

(s) Certain Fees. Except as disclosed on Schedule 4(s), no brokerage or finder's fees or commissions are or will be payable by the Company to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Transaction Documents. Except for fees incurred by or on behalf of such Holder, no Holder shall have any obligation with respect to any fees or with respect to any claims made by or on behalf of other Persons for fees as contemplated in this Section that may be due in connection with the transactions contemplated by the Transaction Documents.

(t) Private Placement. Assuming the accuracy of each Holder's representations and warranties set forth in Section 6, no registration under the Securities Act is required for the offer and sale of the New Notes by the Company and the related Guarantees by the Guarantors to the Participating Holders as contemplated hereby.

(u) Investment Company. The Company is not, and is not an Affiliate of, and immediately after receipt of payment for the Securities and consummation of the Sale, will not be or be an Affiliate of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended (the "*Investment Company Act*"). The Company shall conduct its business in a manner so that it will not become subject to the Investment Company Act.

(v) Registration Rights. Except as disclosed on Schedule 4(v), other than each of the Participating Holders and the other holders party to the Company Registration Rights Agreement, no Person has any right to cause the Company to effect the registration under the Securities Act of any securities of the Company.

(w) No Listing. The Company's Common Stock is not registered pursuant to Section 12(b) or 12(g) of the Exchange Act.

(x) Disclosure. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents and the Exchange Agreement, which will be disclosed as provided in Section 11(g), the Company confirms that, neither it nor to the knowledge of the Company any other Person acting on its behalf has provided any Holder or its agents or counsel with any information that constitutes or might constitute material, non-public information. The Company understands and confirms that each Holder will rely on the foregoing representation in effecting transactions in securities of the Company. All disclosure furnished by or on behalf of the Company to the Participating Holders regarding the Company, its business and the transactions contemplated hereby, including the Disclosure Schedules to this Agreement, with respect to the representations and warranties made herein, together with the Company Disclosure Materials, when taken as whole, are true and correct with respect to such representations and warranties and do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The Company acknowledges and agrees that no Holder has made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in Section 6 hereof.

(y) No Integrated Offering. Assuming the accuracy of each Holder's representations and warranties set forth in Section 6, neither the Company, nor any of its affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would cause this offering of the New Notes (and the related Guarantees) to be integrated with prior offerings by the Company for purposes of the Securities Act.

(z) Solvency. The Company has no knowledge of any facts or circumstances which lead it to believe that it or any of its Subsidiaries will file for reorganization or liquidation under the bankruptcy or reorganization laws of any jurisdiction within one year from the Closing Date. The Company Disclosure Materials reflect as of the dates thereof all outstanding secured and unsecured indebtedness of the Company and its Subsidiaries, or for which the Company or any of its Subsidiaries has commitments.

(aa) Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Company Material Adverse Effect, the Company and each of its Subsidiaries has filed all necessary federal, state and foreign income and franchise tax returns and has paid or accrued and disclosed all taxes shown as due thereon, and the Company has no knowledge of a tax deficiency which has been asserted or threatened against the Company or any of its Subsidiaries.

(bb) No General Solicitation; Regulation S. Neither the Company, nor any of its affiliates nor any person acting on behalf of the Company has offered or sold any of the New Notes (or the related Guarantees) by any form of general solicitation or general advertising. The Company has offered the New Notes (and the related Guarantees) for sale only to holders of the Existing Notes, each of whom has represented to the Company that it is either (i) a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act, (ii) an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act or (iii) not a "U.S. Persons" within the meaning of Regulation S under the Securities Act. To the extent the Sale includes offers made in reliance upon Regulation S under the Securities Act, the Company has implemented "offering restrictions" and any such offers have been made in an "offshore transaction" without "directed selling efforts," as such terms are used within the meaning of Regulation S under the Securities Act.

(cc) Foreign Corrupt Practices. Neither the Company, nor any of its Subsidiaries nor any agent or other person acting on behalf of the Company or any of its Subsidiaries, has (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company or any of its Subsidiaries (or made by any person acting on their behalf of which the Company or any of its Subsidiaries is aware) which is in violation of law, or (iv) violated in any material respect any provision of the Foreign Corrupt Practices Act of 1977, as amended.

(dd) Embargoed Person. None of the funds or other assets of the Company or any of its Subsidiaries is or shall constitute property of, or is or shall be beneficially owned, directly or indirectly, by any person subject to trade restrictions under United States law, including but not limited to, the International Emergency Economic Powers Act, 50 U.S.C. §1701 et seq., The Trading with the Enemy Act, 50 U.S.C. App. 1 et seq. and any Executive Orders or regulations promulgated under any such United States laws (each, an "*Embargoed Person*"), with the result that the investments evidenced by the New Notes are or would be in violation of law. None of the funds or other assets of the Company shall be derived from any unlawful activity with the result that the investments evidenced by the New Notes are or would be in violation of law.

(ee) Trust Indenture Act. Assuming the accuracy of the representations of each Holder and its compliance with its respective agreements with the Company contained in the Transaction Documents, it is not necessary in connection with the offer, sale and delivery of the New Notes in the manner contemplated by this Agreement to qualify the New Indenture under the Trust Indenture Act of 1939, as amended.

(ff) Accountants. The Company's accountants are Brightman Almagor Zohar & Co., Certified Public Accountants, a member firm of Deloitte Touche Tohmatsu. To the knowledge of the Company, such accountants are a registered public accounting firm as required by the Exchange Act and registered with the Public Company Accounting Oversight Board. The Company expects such accountants to consent to the inclusion of their report on the Company's financial statements into any registration statement and the prospectus which forms a part thereof that may be required to be filed under the Company Registration Rights Agreement.

5. Representations and Warranties of Tower. Except as set forth under the corresponding section of the Tower Disclosure Schedules, which Tower Disclosure Schedules shall be deemed a part hereof and to qualify such corresponding representation or warranty otherwise made herein to the extent of such disclosure, Tower hereby makes the representations and warranties set forth below to each Holder:

(a) Subsidiaries. All of the direct and indirect ownership of any capital stock, or other equity interests owned or held in any Subsidiaries of Tower is set forth on Schedule 5 (a). Except as set forth on Schedule 5(a), Tower owns, directly or indirectly, all of the capital stock or other equity interests of each of its Subsidiaries free and clear of any Liens and all the issued and outstanding shares of capital stock of each such Subsidiary are validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities.

(b) Organization and Qualification. Tower and each of its Subsidiaries is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization (as applicable), with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. No proceeding has been instituted by the Registrar of Companies in Israel for the dissolution of Tower. Neither Tower nor any of its Subsidiaries is in violation or default of any of the provisions of its respective certificate or articles of incorporation, memorandum of association, bylaws or other organizational or charter documents. Each of Tower and its Subsidiaries is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in a Tower Material Adverse Effect, and no Proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

(c) Authorization; Enforcement. Tower has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by each of the Transaction Documents to which it is a party and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery by Tower of each of the Transaction Documents to which it is a party and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of Tower and no further action is required by Tower, its board of directors or its stockholders in connection therewith. Each Transaction Document to which Tower is a party has been (or upon delivery will have been) duly executed by Tower and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of Tower enforceable against Tower in accordance with its terms except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(d) No Conflicts. The execution, delivery and performance by Tower of the Transaction Documents to which it is a party, the issuance and sale of the Underlying Tower Shares upon conversion of the New Notes and the consummation by Tower of the other transactions contemplated hereby and thereby do not and will not (i) conflict with or violate any provision of Tower's or any of its Subsidiaries certificate or articles of incorporation, bylaws or other organizational or charter documents, or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of Tower or any of its Subsidiaries, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Tower or Subsidiary debt or otherwise) or other understanding to which Tower or any of its Subsidiaries is a party or by which any property or asset of Tower or any of its Subsidiaries is bound or affected, or (iii) subject to the Tower Required Approvals, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which Tower or any of its Subsidiaries is subject (including Israeli, U.S. federal and state securities laws and regulations), or by which any property or asset of Tower or any of its Subsidiaries is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Tower Material Adverse Effect.

(e) Filings, Consents and Approvals. Tower is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other Israeli, U.S. federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by Tower of the Transaction Documents to which it is a party, other than (i) filings required pursuant to Section 7 and Section 8 of this Agreement, (ii) the filing with the Commission of the Registration Statement, (iii) the filing of Form D with the Commission and such filings as are required to be made under applicable state securities laws, (iv) the filings, consents and approvals listed on Schedule 5(e) and (v) those made or obtained prior to Closing (collectively, the "*Tower Required Approvals*").

(f) Issuance of the New Notes and the Underlying Tower Shares. The Underlying Tower Shares are duly authorized and, when issued and paid for in accordance with the terms of the New Indenture, will be duly and validly issued, fully paid and nonassessable, free and clear of all Liens imposed by Tower other than restrictions on transfer provided for in the Transaction Documents. Tower has reserved from its duly authorized capital stock the maximum number of Underlying Tower Shares. There is no tax, levy, impost, duty, fee, assessment or other governmental charge, or any deduction or withholding, imposed by any governmental agency or authority in or of Israel either (A) by virtue of the execution or delivery by Tower of the Transaction Documents to which it is a party, (B) the issuance of the Underlying Tower Shares or (C) on any payment to be made by Tower pursuant to the Transaction Documents. Assuming the truth and accuracy in all material respects of the representations and warranties made by each Holder in this Agreement, Tower is not required to publish or deliver a prospectus in Israel under the Israeli Securities Law – 1968 in connection with the offer and issuance of the Underlying Tower Shares.

(g) Capitalization. The capitalization of Tower as of one Business Day prior to the date hereof is as set forth on Schedule 5(g). Except as disclosed on Schedule 5(g), no Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. Except as disclosed in the Tower Disclosure Materials, there are no outstanding options, warrants, scrip rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire, any shares of Tower Common Stock, or contracts, commitments, understandings or arrangements by which Tower or any of its Subsidiaries is or may become bound to issue additional shares of Tower Common Stock or Tower Common Stock Equivalents. The issuance and sale of the New Notes and Underlying Tower Shares will not obligate Tower to issue shares of Tower Common Stock or other securities to any Person (other than the Participating Holders) and will not result in a right of any holder of Tower securities to adjust the exercise, conversion, exchange or reset price under any of such securities. All of the outstanding shares of capital stock of Tower are validly issued, fully paid and nonassessable, have been issued in compliance with all Israeli, U.S. federal and state securities laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. No further corporate approval or authorization of any stockholder, the Board of Directors of Tower or others is required for the issuance and sale of the New Notes or Underlying Tower Shares issuable upon conversion thereof. Except as disclosed on Schedule 5(g), there are no stockholders agreements, voting agreements or other similar agreements with respect to Tower's capital stock to which Tower is a party or, to the knowledge of Tower, between or among any of Tower's stockholders.

(h) SEC Reports; Financial Statements. Tower has filed all reports, schedules, forms, statements and other documents required to be filed by it under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the three years preceding the date hereof (or such shorter period as Tower was required by law or regulation to file such material) (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the "*Tower SEC Reports*"; together with the Tower Disclosure Schedules, the "*Tower Disclosure Materials*"), on a timely basis or has received a valid extension of such time of filing and filed such materials prior to the expiration of such extension, and such materials, when filed, complied in all material respects with the requirements of the Securities Act and the Exchange Act, as applicable. As of their respective dates (or if amended or superseded by a filing prior to the date hereof, then on the date of such filing), the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act, as applicable, and none of the Tower SEC Reports contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The financial statements of Tower included in the SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing (or if amended or superseded by a filing prior to the Closing Date, then on the date of such filing). Such financial statements have been prepared in accordance with GAAP, except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of Tower and its consolidated subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(i) Material Changes; Undisclosed Events, Liabilities or Developments. Since the date of the latest reviewed financial statements of Tower included in a report filed on Form 6-K and except as specifically disclosed in the Tower Disclosure Materials, (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Tower Material Adverse Effect, (ii) Tower has not incurred any liabilities (contingent or otherwise) other than trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice, (iii) Tower has not altered its method of accounting, (iv) Tower has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock and (v) Tower has not issued any equity securities to any officer, director or Affiliate, except pursuant to existing Tower stock plans or arrangements. Tower does not have pending before the Commission any request for confidential treatment of information. Except for the entering into of this Agreement and the transactions contemplated hereby or as set forth in the Tower Disclosure Materials, no event, liability or development has occurred or exists with respect to Tower or its Subsidiaries or their respective business, properties, operations or financial condition, that would be required to be disclosed by Tower under applicable securities laws at the time this representation is made that has not been publicly disclosed at least 1 Business Day prior to the date that this representation is made.

(j) Litigation. Except as disclosed in the Tower Disclosure Materials, there is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of Tower, threatened against or affecting Tower, any of its Subsidiaries or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (Israeli, U.S. federal, state, county, local or foreign) (collectively, a "*Tower Action*") which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or (ii) could have or reasonably be expected to result in a Tower Material Adverse Effect. Neither Tower nor any of its Subsidiaries, nor any director or officer thereof, is or has been the subject of any Tower Action involving a claim of violation of or liability under Israeli or U.S. federal or state securities laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of Tower, there is not pending or contemplated, any investigation by the Commission involving Tower or any of its Subsidiaries or any current or former director or officer of Tower or any of its Subsidiaries with respect to their capacities as a director or officer of Tower or such Subsidiary. The Commission has not issued any stop order or other order suspending the effectiveness of any registration statement filed by Tower or any of its Subsidiaries under the Exchange Act or the Securities Act and no proceeding for that purpose has been initiated or threatened by the Commission. There are no disagreements of any kind presently existing, or reasonably anticipated by Tower or any of its Subsidiaries to arise, between accountants and lawyers formerly or presently engaged by Tower or any of its Subsidiaries and Tower and each of its Subsidiaries are current with respect to any fees owed to its accountants and lawyers.

(k) Labor Relations. No material labor dispute exists or, to the knowledge of Tower, is imminent with respect to any of the employees of Tower or its Subsidiaries which could reasonably be expected to result in a Tower Material Adverse Effect. Except as disclosed on Schedule 5(k), none of Tower's or its Subsidiaries' employees is a member of a union that relates to such employee's relationship with Tower, and except as disclosed on Schedule 5(k), neither Tower nor any of its Subsidiaries is a party to a collective bargaining agreement, and Tower and its Subsidiaries believe that their relationships with their employees are good. No executive officer of Tower, to the knowledge of Tower, is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant, and, to the knowledge of Tower, the continued employment of each such executive officer does not subject Tower or any of its Subsidiaries to any liability with respect to any of the foregoing matters. Tower and its Subsidiaries are, to their knowledge, in compliance with all, Israeli, U.S. federal, state, local and foreign laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours, except where the failure to be in compliance could not, individually or in the aggregate, reasonably be expected to have a Tower Material Adverse Effect. The severance pay due to Tower's employees is fully funded or provided for in accordance with GAAP, consistently applied. Neither Tower nor any of its Subsidiaries is subject to, nor do any of its employees benefit from, whether pursuant to applicable employment laws, regulations, extension orders ("*tzavei harchava*") or otherwise, any agreement, arrangement, understanding or custom with respect to employment (including, without limitation, termination thereof) other than the minimum benefits and working conditions required by law to be provided pursuant to the rules and regulations of the Histadrut (General Federation of Labor), the Coordinating Bureau of Economic Organization and the Industrialist's Association or extension orders that apply to all employees in Israel or to all employees in the Company's industry in Israel.

(l) Compliance. Except as set forth in the Tower Disclosure Materials, neither Tower nor any of its Subsidiaries (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by Tower or any of its Subsidiaries under), nor has Tower or any of its Subsidiaries received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any order of any court, arbitrator or governmental body, (iii) is in violation of its charter or bylaws or similar organizational document or (iv) is or has been in violation of any statute, rule or regulation of any governmental authority, including without limitation all foreign, Israeli, U.S. federal, state and local laws applicable to its business and all such laws that affect the environment, except, in the cases of clauses (i), (ii) and (iv) above, as could not have or reasonably be expected to result in a Tower Material Adverse Effect.

(m) Regulatory Permits. Tower and its Subsidiaries possess all certificates, authorizations and permits issued by the appropriate Israeli, U.S. federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses as described in the Tower Disclosure Materials, except where the failure to possess such permits could not have or reasonably be expected to result in a Tower Material Adverse Effect ("*Tower Material Permits*"), and neither Tower nor any of its Subsidiaries has received any notice of proceedings relating to the revocation or modification of any Tower Material Permit. Except as set forth in the Tower Disclosure Materials, (i) Tower is in compliance in all material respect with all conditions and requirements stipulated by the instruments of approval granted to it with respect to the "Approved Enterprise" status of Tower's facilities by Israeli laws and regulations relating to such "Approved Enterprise" status and other tax benefits received by Tower; and Tower has not received any notice of any proceeding or investigation relating to revocation or modification of any "Approved Enterprise" status granted with respect to Tower's facilities. All information supplied by Tower or any of its Subsidiaries with respect to applications submitted in connection with such approval was true, correct and complete in all material respects when supplied to the appropriate authorities. Tower is not in violation of any condition or requirement stipulated by the instruments of approval granted to Tower by the Office of the Chief Scientist in the Israeli Ministry of Industry and Trade (the "*OCS*") or any applicable laws and regulations with respect to any research and development grants given to it by such office that the OCS has not confirmed as having been closed that could be expected to result in a Tower Material Adverse Effect. All information supplied by Tower with respect to such applications was true, correct and complete in all material respects when supplied to the appropriate authorities. Schedule 5(m) provides a correct and complete list of the aggregate amount of pending and outstanding grants from the OCS, net of royalties paid. Tower's contingent liabilities with respect to "Approved Enterprise" are disclosed in the notes to the financial statements of Tower contained in Tower's Annual Report on Form 20-F for the year ended December 31, 2012.

(n) Title to Assets. Except as set forth on Schedule 5(n), Tower and its Subsidiaries have good and marketable title in fee simple to all real property owned by them that is material to the business of Tower and its Subsidiaries and good and marketable title in all personal property owned by them that is material to the business of Tower and its Subsidiaries, in each case free and clear of all Liens, except for Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by Tower and its Subsidiaries and Liens for the payment of Israeli, U.S. federal, state or other taxes, the payment of which is neither delinquent nor subject to penalties. Any real property and facilities held under lease by Tower and its Subsidiaries are held by them under valid, subsisting and enforceable leases with which Tower and its Subsidiaries are in compliance.

(o) Patents and Trademarks. To the knowledge of Tower, Tower and its Subsidiaries own, or have legally enforceable rights to use, all patents, patent rights, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, mask works, trade secrets, inventions, know-how, licenses and other similar rights necessary or material for use in connection with their respective businesses as described in the Tower Disclosure Materials and which the failure to so have could have a Tower Material Adverse Effect (collectively, the "*Tower Intellectual Property Rights*"). Except as set forth on Schedule 5(o), neither Tower nor any of its Subsidiaries has received a written notice that has not been revoked or has knowledge that the Tower Intellectual Property Rights used by Tower or any of its Subsidiaries violates or infringes, or allegedly violates or allegedly infringes, upon the rights of any Person. To the knowledge of Tower, all such Tower Intellectual Property Rights are enforceable and there is no existing infringement by another Person of any of the Tower Intellectual Property Rights. The Company and its Subsidiaries have taken reasonable security measures to protect the secrecy, confidentiality and value of all of Tower Intellectual Property Rights, except where failure to do so could not, individually or in the aggregate, reasonably be expected to have a Tower Material Adverse Effect.

(p) Insurance. Tower and its Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which Tower and its Subsidiaries are engaged, including, but not limited to, directors and officers insurance coverage. To the best knowledge of Tower, such insurance contracts and policies are accurate and complete. Neither Tower nor any of its Subsidiaries has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business without a significant increase in cost.

(q) Transactions with Affiliates and Employees. Except as set forth in the Tower Disclosure Materials, none of the officers or directors of Tower and, to the knowledge of Tower, none of the employees of Tower is presently a party to any transaction with Tower or any of its Subsidiaries (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of Tower, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner, in each case in excess of $120,000 other than (i) for payment of salary, director fees or consulting fees for services rendered, (ii) reimbursement for expenses incurred on behalf of Tower and (iii) for other employee benefits, including reasonable severance pay plan of Tower or bonuses. Except as described above or in the Tower Disclosure Materials, none of the officers, directors or, to the best of the Tower's knowledge, key employees or stockholders of Tower or any members of their immediate families, are indebted to Tower or any of its Subsidiaries, individually in excess of $120,000. Except as set forth in the Tower Disclosure Materials, the neither Tower nor any of its Subsidiaries is a guarantor or indemnitor of any indebtedness of any other person, firm or corporation.

(r) Sarbanes-Oxley; Internal Accounting Controls. Tower is in material compliance with all provisions of the Sarbanes-Oxley Act of 2002 which are applicable to it as of the Closing Date. Tower and its Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Tower has established disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for Tower and designed such disclosure controls and procedures to ensure that information required to be disclosed by Tower in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Tower's certifying officers have evaluated the effectiveness of Tower's disclosure controls and procedures as of the end of the period covered by Tower's most recently filed annual report under the Exchange Act (such date, the "*Tower Evaluation Date*"). Tower presented in its most recently filed annual report under the Exchange Act the conclusions of the certifying officers about the effectiveness of the disclosure controls and procedures based on their evaluations as of the Tower Evaluation Date. Since the Tower Evaluation Date, there have been no changes in Tower's internal control over financial reporting (as such term is defined in the Exchange Act) that has materially affected, or is reasonably likely to materially affect, Tower's internal control over financial reporting, and no significant deficiencies or material weaknesses in internal controls over financial reporting, or other factors that could significantly affect Tower's internal controls over financial reporting, have been identified.

(s) Certain Fees. Except as disclosed on Schedule 5(s), no brokerage or finder's fees or commissions are or will be payable by Tower to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Transaction Documents. Except for fees incurred by or on behalf of such Holder, no Holder shall have any obligation with respect to any fees or with respect to any claims made by or on behalf of other Persons for fees as contemplated in this Section that may be due in connection with the transactions contemplated by the Transaction Documents.

(t) Private Placement. Assuming the accuracy of each Holder's representations and warranties set forth in Section 6, no registration under the Securities Act is required for the issuance of the Underlying Tower Shares upon conversion of the New Notes. The issuance and sale of the Underlying Tower Shares upon conversion of the New Notes will not contravene the rules and regulations of the Trading Market. Tower has not distributed and will not distribute prior to the Closing Date any offering material in connection with this offering and sale of Underlying Tower Shares other than the Transaction Documents.

(u) Investment Company. Tower is not, and is not an Affiliate of, and immediately after consummation of the Sale, will not be or be an Affiliate of, an "investment company" within the meaning of the Investment Company Act. Tower shall conduct its business in a manner so that it will not become subject to the Investment Company Act.

(v) Registration Rights. Except as disclosed on Schedule 5(v), other than the Participating Holders and the holders party to the Tower Registration Rights Agreement, no Person has any right to cause Tower to effect the registration under the Securities Act of any securities of Tower.

(w) Listing and Maintenance Requirements. The Tower Common Stock is registered pursuant to Section 12(b) or 12(g) of the Exchange Act, and Tower has taken no action designed to, or which to its knowledge is likely to have the effect of, terminating the registration of the Tower Common Stock under the Exchange Act nor has Tower received any notification that the Commission is contemplating terminating such registration. Tower Common Stock is listed on The Nasdaq Global Market and on the Tel Aviv Stock Exchange under the symbol "TSEM". Tower has not, in the 12 months preceding the date hereof, received notice from any Trading Market on which the Tower Common Stock is or has been listed or quoted to the effect that Tower is not in compliance with the listing or maintenance requirements of such Trading Market or that the Tower Common Stock will be delisted. Tower is, and has no reason to believe that it will not in the foreseeable future continue to be, in compliance with all such listing and maintenance requirements.

(x) Application of Takeover Protections. Tower and its Board of Directors have taken all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under Tower's certificate of incorporation (or similar charter documents) or the laws of its jurisdiction of incorporation that is or could become applicable to the Participating Holders as a result of the Participating Holders and Tower fulfilling their obligations or exercising their rights under the Transaction Documents, including, without limitation, as a result of the Company's issuance of the New Notes or Tower's issuance of Underlying Tower Shares upon conversion thereof and the Participating Holders' ownership of the New Notes and Underlying Tower Shares.

(y) Tower Disclosure. Except with respect to the material terms and conditions of the transactions contemplated by the Transaction Documents and the Exchange Agreement, Tower confirms that, neither it, nor any of its Subsidiaries, nor to the knowledge of Tower any other Person acting on their behalf has provided any Holder or its agents or counsel with any information that constitutes or might constitute material, non-public information. Tower understands and confirms that each Holder will rely on the foregoing representation in effecting transactions in securities of Tower. All disclosure furnished by or on behalf of Tower to the Participating Holders regarding Tower, its business and the transactions contemplated hereby, including the Disclosure Schedules to this Agreement, with respect to the representations and warranties made herein, together with the Tower Disclosure Materials, when taken as whole, are true and correct with respect to such representations and warranties and do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. Tower acknowledges and agrees that no Holder has made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in Section 6 hereof.

(z) No Integrated Offering. Assuming the accuracy of each Holder's representations and warranties set forth in Section 6, neither Tower, nor any of its affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would cause this offering of the Underlying Tower Shares to be integrated with prior offerings by Tower for purposes of the Securities Act.

(aa) Solvency. Tower has no knowledge of any facts or circumstances which lead it to believe that it or any of its Subsidiaries will file for reorganization or liquidation under the bankruptcy or reorganization laws of any jurisdiction within one year from the Closing Date. The Tower Disclosure Materials reflect as of the dates thereof all outstanding secured and unsecured indebtedness of Tower and its Subsidiaries, or for which Tower or any of its Subsidiaries has any commitment.

(bb) Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Tower Material Adverse Effect, Tower and each of its Subsidiaries has filed all necessary federal, state and foreign income and franchise tax returns and has paid or accrued all taxes shown as due thereon, and Tower has no knowledge of any tax deficiency which has been asserted or threatened against Tower or any of its Subsidiaries.

(cc) No General Solicitation; Regulation S. Neither Tower nor any person acting on behalf of Tower has offered or sold any of the Underlying Tower Shares by any form of general solicitation or general advertising. Tower has offered the Underlying Tower Shares for sale only to holders of the Existing Notes, each of whom has represented that it is either (i) a "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act, (ii) an "institutional accredited investors" within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act or (iii) not a "U.S. Persons" within the meaning of Regulation S under the Securities Act. To the extent this offering includes offers made in reliance upon Regulation S under the Securities Act, any such offers have been made in an "offshore transaction" without "directed selling efforts," as such terms are used within the meaning of Regulation S under the Securities Act. Underlying Tower Shares offered in reliance on Regulation S are eligible for "Category 1" thereunder pursuant to Section 903(b)(1)(i) of Regulation S.

(dd) Foreign Corrupt Practices. Neither Tower, nor any of its Subsidiaries, nor any agent or other person acting on behalf of Tower or any of its Subsidiaries, has (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by Tower or any of its Subsidiaries (or made by any person acting on their behalf of which Tower or any of its Subsidiaries is aware) which is in violation of law) or (iv) violated in any material respect any provision of the Foreign Corrupt Practices Act of 1977, as amended.

(ee) Accountants. Tower's accountants are Brightman Almagor Zohar & Co., Certified Public Accountant, a member firm of Deloitte Touche Tohmatsu. To the knowledge of Tower, such accountants are a registered public accounting firm as required by the Exchange Act and registered with the Public Company Accounting Oversight Board. Tower expects such accountants to consent to the inclusion of their report on Tower's financial statements into any registration statement and the prospectus which forms a part thereof that may be required to be filed under the Tower Registration Rights Agreement.

(ff) Manipulation of Price. Tower has not, and to its knowledge, no one acting on its behalf has, (i) taken, directly or indirectly, any action designed to cause or to result in the stabilization or manipulation of the price of any security of Tower to facilitate the sale or resale of the Underlying Tower Shares, (ii) sold, bid for, purchased, or paid any compensation for soliciting purchases of, any of the Underlying Tower Shares, or (iii) paid or agreed to pay to any person any compensation for soliciting another to purchase any other securities of Tower.

(gg) U.S. Real Property Holding Corporation. Tower is not, has never been, nor shall become while any New Notes are held by any Participating Holder, a U.S. real property holding corporation within the meaning of Section 897 of the Internal Revenue Code of 1986, as amended, and Tower shall so certify upon any Holder's request.

(hh) Taxes. No tax, levy, impost, duty, fee, assessment or other governmental charge or any deduction or withholding imposed by any governmental agency or authority in or of the State of Israel is payable by or on behalf of any Holder or any assignee of such Holder (i) as a result of the execution, delivery or performance by Tower, the Company or any Guarantor of the Transaction Documents to which it is a party, including, but not limited to, the issuance by the Company of the New Notes or by Tower of the Underlying Tower Shares, (ii) with respect to such Holder if it is a US person, who holds less than 10% of Tower's issued and outstanding Tower Common Stock and does not maintain a permanent establishment in Israel through which the New Notes or Underlying Tower Shares are held, or (iii) in connection with any resale by such Holder of the New Notes in accordance with the terms thereof. Any income tax payable by the Holder in connection with the purchase and holding of the New Notes by such Holder or the conversion thereof into Tower Common Shares shall be borne by such Holder.

(ii) Form F-3 Eligibility; Foreign Private Issuer Status. Tower is eligible to register the resale by the Participating Holders of the Underlying Tower Shares on a Registration Statement on Form F-3 under the Securities Act. Tower qualifies as a "foreign private issuer" as such term is defined in the Exchange Act.

(jj) Embargoed Person. None of the funds or other assets of Tower is or shall constitute property of, or is or shall be beneficially owned, directly or indirectly, by any person subject to trade restrictions under United States law, including but not limited to, the International Emergency Economic Powers Act, 50 U.S.C. §1701 et seq., The Trading with the Enemy Act, 50 U.S.C. App. 1 et seq. and any Executive Orders or regulations promulgated under any such United States laws (each, an "*Embargoed Person*"), with the result that the investments evidenced by the New Notes or Underlying Tower Shares are or would be in violation of law. None of the funds or other assets of Tower shall be derived from any unlawful activity with the result that the investments evidenced by the Underlying Tower Shares are or would be in violation of law.

(kk) Nasdaq. With respect to the transactions contemplated hereby, Tower has satisfied the home country practice requirements of The Nasdaq Global Market pursuant to Rule 5615(a)(3) of the Nasdaq listing rules or has otherwise complied with the Nasdaq rules.

6. Representations and Warranties of the Holder. Each Holder hereby, for itself and no other Holder, represents and warrants to the Company and Tower as follows:

(a) Organization; Authority. Such Holder is duly organized or established, validly existing and in good standing under the laws of the jurisdiction of its organization and has all requisite corporate, partnership, limited liability company or other, as applicable, power and authority to enter into this Agreement and to carry out the transactions contemplated hereby and to perform its obligations hereunder.

(b) Governmental Authorization. The execution, delivery and performance by such Holder of this Agreement does not and shall not require, on the part of such Holder, any registration or filing with, the consent or approval of, notice to, or any other action with respect to, any federal, state or other governmental authority or regulatory body.

(c) Restricted Securities. Such Holder acknowledges that (i) none of the New Notes or Underlying Tower Shares have been registered under the Securities Act and that, as such, such securities are deemed "restricted securities" within the meaning of Rule 144 under the Securities Act and (ii) such securities may be offered or sold only in accordance with the registration requirements of the Securities Act or an available exemption therefrom.

(d) No Brokers. Such Holder has not engaged any broker, finder or other entity acting under the authority of such Holder or any of its affiliates that is entitled to any commission or other fee in connection with the Sale.

(e) Holder's Knowledge and Experience. Such Holder has the requisite knowledge and experience in financial and business matters so that it is capable of evaluating the merits and risks of acquiring the New Notes and, in connection therewith, such Holder acknowledges that (i) the Company makes no representation regarding the value of the New Notes, and (ii) such Holder has independently, and without reliance upon the Company or its representatives, made its own analysis and decision to purchase the New Notes.

(f) Investor Status. Such Holder is (i) a "Qualified Institutional Buyer" as defined in Rule 144A under the Securities Act, (ii) an institutional "accredited investor" as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act or (iii) not a "U.S. person" as defined in Regulation S under the Securities Act, as applicable, in each case as reflected by the insertion of "144A", "IAI" or "Regulation S" with respect to such Holder in the "CUSIP" line on Schedule A. If "Regulation S" is reflected on the CUSIP line with respect to any Holder, such Holder represents and warrants that it is not committing to purchase securities for the account of any U.S. Person (as defined in Regulation S under the Securities Act) and that the New Notes and Underlying Tower Shares have not been offered to such Holder in the United States of America.

(g) No Public Sale or Distribution. Such Holder is acquiring the New Notes for its own account and not with a view towards, or for resale in connection with, the public sale or distribution thereof, except pursuant to sales registered or exempt from registration under the Securities Act. Such Holder is acquiring the New Notes hereunder in the ordinary course of its business. Such Holder does not presently have any agreement or understanding, directly or indirectly, with any Person to distribute any of the New Notes or Underlying Tower Shares.

(h) Reliance on Exemptions. Such Holder understands that the New Notes are being offered and sold to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws, including Section 4(a)(2) of the Securities Act and Regulation S under the Securities Act, and that the Company is relying in part upon the truth and accuracy of, and such Holder's compliance with, the representations, warranties, agreements, acknowledgments and understandings of such Holder set forth herein in order to determine the availability of such exemptions and the eligibility of such Holder to acquire the New Notes.

(i) Information. Such Holder and its advisors, if any, have been furnished with all materials relating to the business, finances and operations of the Company and Tower and materials relating to the transactions contemplated hereby which have been requested by such Holder. Such Holder and its advisors, if any, have been afforded the opportunity to ask questions of the Company and Tower. Neither such inquiries nor any other due diligence investigations conducted by such Holder or its advisors, if any, or its representatives shall modify, amend or affect such Holder's right to rely on the Company's and Tower's representations and warranties contained herein. Such Holder understands that its investment in the New Notes involves a high degree of risk. Such Holder has sought such accounting, legal and tax advice as it has considered necessary to make an informed investment decision with respect to its acquisition of such securities.

(j) No Governmental Review. Such Holder understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the New Notes or the fairness or suitability of the investment in such securities nor have such authorities passed upon or endorsed the merits of the offering of such securities.

(k) Validity; Enforcement. This Agreement, the Company Registration Rights Agreement and the Tower Registration Rights Agreement have been duly and validly authorized, executed and delivered on behalf of such Holder and shall constitute the legal, valid and binding obligations of such Holder enforceable against such Holder in accordance with their respective terms, except as such enforceability may be limited by general principles of equity (whether considered in a proceeding at law or in equity) or by applicable bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws relating to, or affecting generally, the enforcement of applicable creditors' rights and remedies and insofar as indemnification and contribution provisions may be limited by applicable law.

(l) Residency. Such Holder is a resident of that jurisdiction specified on the Schedule of Holders.

(m) Affiliate Status. Such Holder represents and warrants that such Holder is not an "affiliate" of the Company or Tower within the meaning of Rule 144 under the Securities Act nor has such Holder been an affiliate of the Company during the past 90 days.

(n) Evaluation. Such Holder has evaluated the Sale in light of such Holder's financial situation and such Holder has relied on such Holder's own investment, tax and other advisors in reaching a decision to purchase New Notes. Neither the Company, the Guarantors, Tower nor any of their respective representatives have made any representation to such Holder regarding the tax treatment of such purchase on such Holder, and such Holder has independently, and without reliance on the Company, the Guarantors, Tower or their respective representatives, reached its own conclusion regarding such tax treatment.

7. Conditions to the Company's and Tower's Obligations. The obligations of the Company and Tower at the Closing are subject to the satisfaction of each of the following conditions, provided that these conditions are for the sole benefit of the Company and may be waived by the Company at any time in its sole discretion by providing the Participating Holders with prior written notice thereof:

(a) Execution of the Agreement. The Participating Holders shall have executed this Agreement and delivered the same to the Company and Tower.

(b) Payment for New Notes. Each Holder shall take such action as is necessary to have paid to the Company the purchase price for the principal amount of New Notes to be purchased by such Holder in accordance with the terms of Section 2 hereof.

(c) Exchange Agreement. The transactions contemplated by the Exchange Agreement shall have been consummated substantially concurrently with the transactions contemplated by this Agreement.

(d) Registration Rights Agreement. The Company and the Participating Holders shall have entered into the Company Registration Rights Agreement. Tower and the Participating Holders shall have entered into the Tower Registration Rights Agreement.

(e) Representations and Warranties. The representations and warranties of the Participating Holders in this Agreement shall be true and correct as of the date when made and as of the Closing Date as though made at that time.

(f) No Prohibition. No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

(g) Necessary Filings. Except as contemplated by Section 11(i), the Company and Tower, as the case may be, shall have made all filings under all applicable federal and state securities laws, Israeli securities laws and rules of Nasdaq necessary to consummate the issuance of the New Notes pursuant to this Agreement in compliance with such laws and requirements and shall have obtained all authorizations, approvals and acceptances necessary to consummate the transactions contemplated hereby (other than any filings under the Securities Act in connection with the filing and effectiveness of the registration statements required under the Company Registration Rights Agreement and the Tower Registration Rights Agreement, which shall be made subsequent to the Closing Date in accordance with such agreements) and such authorizations, approvals and acceptances shall be effective as of the Closing Date.

8. Conditions to the Holder's Obligations. The respective obligations of each Holder at the Closing are subject to the satisfaction of each of the following conditions, provided that these conditions are for the sole benefit of each Holder and may be waived by such Holder (solely as to itself) at any time in its sole discretion by providing the Company and Tower with prior written notice thereof:

(a) Execution of the Agreement, New Indenture. The Company, the Guarantors and Tower shall have executed this Agreement and delivered the same to each Holder. The Company, the Guarantors, Tower and the New Indenture Trustee shall have executed and delivered the New Indenture and the New Notes.

(b) Delivery of the New Notes. The Company shall have caused the New Notes to be delivered to each Holder against delivery by such Holder of the purchase price therefor in accordance with the terms of Section 2 hereof.

(c) Exchange Agreement. The transactions contemplated by the Exchange Agreement shall have been consummated substantially concurrently with the transactions contemplated by this Agreement.

(d) Registration Rights Agreements. The Company and the Participating Holders shall have entered into the Company Registration Rights Agreement. Tower and the Participating Holders shall have entered into the Tower Registration Rights Agreement.

(e) CUSIP. The Company and Tower shall have obtained appropriate Committee on Uniform Securities Identification Procedures numbers (CUSIP numbers) for the New Notes, which CUSIP number shall be the same as the CUSIP number for the New Notes issued pursuant to the Exchange Agreement.

(f) Representations and Warranties. The representations and warranties of each the Company, the Guarantors and Tower in this Agreement shall be true and correct as of the date when made and as of the Closing Date as though made at that time. The statements of the Company, Tower and the Guarantors and their respective officers made in any certificate delivered pursuant to this Agreement shall be true and correct on and as of the Closing Date.

(g) No Prohibition. No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

(h) No Material Adverse Effect. No event or condition constituting a Company Material Adverse Effect or a Tower Material Adverse Effect shall have occurred or exist.

(i) Company Officer's Certificate. Each Holder shall have received on and as of the Closing Date a certificate of an executive officer of the Company who has specific knowledge of the Company's and the Guarantor's financial matters and is satisfactory to such Holder (i) confirming that such officer has carefully reviewed the Company Disclosure Materials and, to the knowledge of such officer, the representations and warranties in Section 4(h) and 4(i) are true and correct, (ii) confirming that the other representations and warranties of the Company and the Guarantors in this Agreement are true and correct and that the Company and the Guarantors have complied in all material respects with all agreements and satisfied all conditions on their part to be performed or satisfied by it on or prior to the Closing Date and (iii) to the effect set forth in paragraphs (g) and (h) above.

(j) Tower Officer's Certificate. Each Holder shall have received on and as of the Closing Date a certificate of an executive officer of Tower who has specific knowledge of Tower's financial matters and is satisfactory to such Holder (i) confirming that such officer has carefully reviewed the Tower Disclosure Materials and, to the knowledge of such officer, the representations and warranties in Section 5(h) and 5(i) are true and correct, (ii) confirming that the other representations and warranties of Tower in this Agreement are true and correct and that Tower has complied in all material respects with all agreements and satisfied all conditions on its part to be performed or satisfied by it on or prior to the Closing Date and (iii) to the effect set forth in paragraphs (g) and (h) above.

(k) Secretary's Certificates. Each Holder shall have received on and as of the Closing Date a certificate of the secretary or assistant secretary of each of Tower, the Company and each Guarantor certifying (i) a copy of the resolutions of the board of directors or members, as applicable, evidencing approval of the Transaction Documents to which it is a party and the consummation of the transaction contemplated therein and the other matters contemplated thereby, (ii) a copy of the certificate of incorporation, certificate of formation or other comparable charter document and bylaws (or comparable document) of such Person, (iii) copies of all documents evidencing other necessary corporation or other action or governmental or third party approvals, if any, with respect to the transactions contemplated by this Agreement and (iv) the names, titles and signatures of the officers of such Person authorized to sign the Transaction Documents and the documents or certificates to be delivered in connection therewith, together with the true signatures of each such officer.

(l) Opinions. Each Holder shall have received on and as of the Closing Date an opinion of Eilenberg & Krause LLP, special counsel for the Company and special U.S. counsel for Tower in form and substance satisfactory to such Holder to the effect set forth on Exhibit E hereto. Each Holder shall have received on and as of the Closing Date an opinion of Yigal Arnon & Co., Israeli counsel for Tower, in form and substance satisfactory to such Holder to the effect set forth on Exhibit F hereto. Each Holder shall have received on and as of the Closing Date an opinion of the Acting Chief Legal Officer of the Company or outside counsel acceptable to the Holders, in form and substance satisfactory to such Holder to the effect set forth on Exhibit G hereto.

(m) DTC. The New Notes shall be eligible for clearance and settlement through DTC on or prior to the Closing Date.

(n) Good Standing. Such Holder shall have received on and as of the Closing Date satisfactory evidence of the good standing of Tower, the Company and the Guarantors in their respective jurisdictions of formation and their good standing in such other jurisdictions as such Holder may reasonably request, in each case in writing dated within 15 days of the Closing Date from the appropriate governmental authorities of such jurisdictions.

(o) Trading. From the date hereof to the Closing Date, (i) trading in the Tower Common Stock shall not have been suspended by the Commission or Tower's principal Trading Market and (ii) trading in securities generally shall not have been suspended or limited, or minimum prices shall not have been established on securities whose trades are reported by Bloomberg Financial Markets, nor shall a banking moratorium have been declared by either the United States of America or New York State authorities nor shall there have occurred any material outbreak or escalation of hostilities or other national or international calamity of such magnitude in its effect on, or any material adverse change in, any financial market which, in each case, in the reasonable judgment of such Holder makes it impracticable or inadvisable to purchase the New Notes at Closing.

(p) Listing of Tower Shares. The Tower Common Stock shall be listed on the Nasdaq Stock Market Global Market and shall not have been suspended from trading thereon and Tower shall not have received notice of suspension or delisting from such market with respect to the Tower Common Stock. Tower shall have submitted to Nasdaq a notice of additional listing relating to the Underlying Tower Shares.

(q) Necessary Filings. The Company and Tower, as the case may be, shall have made all filings under all applicable federal and state securities laws, Israeli securities laws and rules of Nasdaq necessary to consummate the issuance of the New Notes pursuant to this Agreement in compliance with such laws and requirements and shall have obtained all authorizations, approvals and acceptances necessary to consummate the transactions contemplated hereby and such authorizations, approvals and acceptances shall be effective as of the Closing Date. Without limiting the foregoing, Tower shall have obtained the consent of, and made all necessary filings with, the Tel Aviv Stock Exchange for the offer and potential issuance of the Underlying Tower Shares upon conversion of the New Notes.

(r) Additional Documents. Tower, the Company and the Guarantors shall have furnished to such Holder such further certificates and documents as such Holder may reasonably request.

9. Fees and Expenses. Each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement, except as otherwise agreed in writing; provided that the Company shall pay the fees and expenses of Wilson Sonsini Goodrich & Rosati, P.C., counsel to Principal, in connection with the negotiation, preparation, execution, delivery and performance of this Agreement and the other Transaction Documents.

10. Reserved.

11. Certain Covenants.

(a) Company Information. While the New Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company and each Guarantor will, during any period in which the Company is not subject to and in compliance with Section 13 or 15(d) of the Exchange Act, furnish to the holders of the New Notes and prospective purchasers of the New Notes designated by such holder, upon the request of such holders or such prospective purchasers, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

(b) Tower Information. While the New Notes or Underlying Tower Shares remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, Tower will, during any period in which Tower is not subject to and in compliance with Section 13 or 15(d) of the Exchange Act, furnish to the holders of the New Notes or Underlying Tower Shares and prospective purchasers of the New Notes and Underlying Tower Shares designated by such holder, upon the request of such holders or such prospective purchasers, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

(c) Reserved.

(d) No Integration. Neither the Company, nor Tower nor any of their respective affiliates (as defined in Rule 501(b) of Regulation D) will, directly or through any agent, sell, offer for sale, solicit offers to buy or otherwise negotiate in respect of any security (as defined in the Securities Act), that is or will be integrated with the offer and sale of the New Notes or Underlying Tower Shares in a manner that would require registration of the New Notes or Underlying Tower Shares under the Securities Act.

(e) No General Solicitation. None of the Company, Tower or any of their respective affiliates or any other person acting on its or their behalf will solicit offers for, or offer to sell, the New Notes by means of any form of general solicitation or general advertising within the meaning of Rule 502(c) of Regulation D or in any manner involving a public offering within the meaning of Section 4(a)(2) of the Securities Act.

(f) No Stabilization. Neither the Company, nor any Guarantor nor Tower will take, directly or indirectly, any action designed to or that could reasonably be expected to cause or result in any stabilization or manipulation of the prices of the New Notes.

(g) Securities Law Disclosures. Tower and the Company shall as soon as practicable, and in any event no later than 9:00 a.m. (New York time) on the trading day immediately following the date hereof, issue a Current Report on Form 8-K or Form 6-K, as applicable, reasonably acceptable to the Participating Holders disclosing the material terms of the transactions contemplated hereby. Tower, the Company and the Participating Holders shall consult with each other in issuing any press releases with respect to the transactions contemplated hereby. From and after the filing of such Current Report on Form 8-K or Form 6-K, as applicable, no Holder shall be in possession of any material, nonpublic information received from Tower, the Company or any of their respective Subsidiaries or any of their respective officers, directors, employees or agents.

(h) Shareholder Rights Plan. No claim will be made or enforced by Tower or, with the consent of Tower, any other Person that any Holder is an "acquiring person" under any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or similar anti-takeover plan or arrangement in effect or hereafter adopted by Tower, or that any Holder could be deemed to trigger the provisions of any such plan or arrangement by virtue of receiving the New Notes or Underlying Note Shares under the Transaction Documents.

12. Notices. All notices, requests, demands, claims and other communications hereunder shall be in writing and shall be (a) transmitted by hand delivery, (b) mailed by first class, registered or certified mail, postage prepaid, (c) transmitted by overnight courier, or (d) transmitted by facsimile, and in each case,

if to the Company or the Guarantors, to:

Jazz Technologies, Inc.
4321 Jamboree Road
Newport Beach, California 92660
Attention: Chief Financial Officer
Facsimile: (949) 435-8757

if to Tower to:

Tower Semiconductor Ltd.
Ramat Gavriel Industrial Park
Hamada Avenue
Migdal Haemek, Israel 23105
Attention: Tziona Shriky, Vice Chief Financial Officer
Facsimile: 972-4-654-6510

in each case with a copy to (which shall not constitute notice):

Eilenberg & Krause LLP
11 East 44th Street
New York, New York
Attention: Sheldon Krause, Esq.
Facsimile: (212) 986-2399

if to the Holder, to the address of the Holder set forth on the Schedule of Holders.

Notices mailed or transmitted in accordance with the foregoing shall be deemed to have been given upon receipt by the addressee.

13. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to the principles of conflicts of law thereof. Each party hereby irrevocably submits to the non-exclusive jurisdiction of the state and federal courts sitting in The City of New York, Borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. **EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.**

14. Appointment of Agent for Service of Process. Tower hereby designates and appoints the Company, having an address at 4321 Jamboree Road, Newport Beach, California 92660, as its authorized agent upon which service of process may be served in any legal suit, action or proceeding arising out of or relating to this Agreement or any other Transaction Document, and further:

(a) agrees that service of process upon such agent, and written notice of said service to Tower by the Person serving the same, shall be deemed in every respect effective service of process upon Tower in any such suit, action or proceeding, and irrevocably consents, to the fullest extent it may effectively do so under applicable law, to the service of process of any of the courts referred to in Section 13 in any such suit, action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to the above-mentioned authorized agent or successor authorized agent, as the case may be, such service to become effective 30 days after such mailing;

(b) agrees that a final action in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other lawful manner;

(c) designates as its domicile, the domicile of the Company specified above and any domicile the Company may have in the future as its domicile to receive any notice hereunder (including any service of process);

(d) agrees to take any and all action, including the execution and filing of all such instruments and documents, as may be necessary to continue such designation and appointment in full force and effect for so long as the New Notes remain outstanding and convertible for Underlying Tower Shares, or until the designation and irrevocable appointment of a successor authorized agent and such successor's acceptance of such appointment;

(e) agrees that if for any reason the Company (or any successor agent for this purpose) shall cease to act as agent for service of process as provided above or shall no longer have a domicile in the United States of America, Tower will promptly appoint a successor agent for this purpose reasonably acceptable to the trustee under the New Indenture; and

(f) agrees that nothing herein shall affect the right of the Holder to serve process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against Tower in any jurisdiction.

If Tower has or may hereafter acquire sovereign immunity or any other immunity from jurisdiction or legal process or from the attachment in aid of execution or from execution with respect to itself or its property, it hereby irrevocably waives to the fullest extent permitted under applicable law such immunity in respect of its obligations under the Transaction Documents in any action that may be instituted in the state and federal courts sitting in The City of New York, Borough of Manhattan. This waiver is intended to be effective upon the execution hereof without any further act by any of the parties hereto, before any such court, and the introduction of a true copy of this Agreement into evidence in any such court shall, to the fullest extent permitted by applicable law, be conclusive and final evidence of such waiver.

15. Termination. This Agreement may be terminated by any Holder as to such Holder's obligations only hereunder, and without any effect whatsoever on the obligations between the Company, the Guarantors, Tower and the other Participating Holders, by written notice to the other parties hereto if the Closing has not been consummated on or before the date which is sixty days from the date hereof. This Agreement may be terminated by the Company, the Guarantors and Tower by written notice to the Participating Holders if the Closing has not been consummated on or before the date which is sixty days from the date hereof; provided that the Company's obligations under Section 9 shall survive any such termination.

16. Acknowledgment Regarding the Holder's Acquisition of Securities. Each of the Company and Tower acknowledges and agrees that each Holder is acting solely in the capacity of an arm's length investor with respect to the Transaction Documents and the transactions contemplated thereby. Each of the Company and Tower further acknowledges that no Holder is acting as a financial advisor or fiduciary (or similar capacity) of the Company or Tower with respect to the Transaction Documents and the transactions contemplated thereby and no advice was given by any Holder to the Company or Tower in connection with the Transaction Documents or the transactions contemplated thereby. Each of the Company and Tower further represents to each Holder that the decision of each of the Company and Tower to enter into this Agreement and the other Transaction Documents has been based solely on the independent evaluation of the transactions contemplated hereby Tower, the Company and their representatives.

17. Entire Agreement. This Agreement constitutes the entire agreement among the parties pertaining to the issuance and sale of the New Notes as contemplated by Section 2 hereof and supersedes the parties' prior agreements, understandings, negotiations and discussions, whether oral or written, on such matters, and this Agreement shall not be amended, changed, supplemented, waived or otherwise modified or terminated except by instrument in writing signed by each of the parties hereto.

18. Amendments; Waivers. Except as expressly set forth herein, no provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment by the Company, the Guarantors, Tower and the Participating Holders purchasing New Notes representing at least a majority of the principal amount of New Notes purchased by all Participating Holders hereunder or, in the case of a waiver, by the party against whom enforcement of any such waived provision is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of such right.

19. Independent Nature of Participating Holders' Obligations and Rights. The obligations of each Holder under this Agreement are several and not joint or joint and several with the obligations of any other Holder, and no Holder shall be responsible in any way for the performance or non-performance of the obligations of any other Holder under this Agreement. Nothing contained in this Agreement or any other Transaction Document, and no action taken by any Holder pursuant thereto, shall be deemed to constitute the Participating Holders as a partnership, an association, a joint venture or any other kind of group or entity, or create a presumption that the Participating Holders are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. Each Holder shall be entitled to independently protect and enforce its rights, and it shall not be necessary for any other Holder to be joined as an additional party in any proceeding for such purpose.

20. Miscellaneous. The representations, warranties, covenants and agreements contained in this Agreement shall survive the execution and delivery of this Agreement and the closing of the transactions contemplated hereby and shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any party hereto. This Agreement is intended to bind and inure to the benefit of the signatories to this Agreement and their respective successors, permitted assigns, heirs, executors, administrators and representatives. None of the Company, the Guarantors or Tower may assign any rights or obligations under this Agreement without the prior written consent of each Participating Holder. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page by facsimile or as an attachment to an electronic mail message in PDF or similar format shall be as effective as delivery of a manually executed counterpart. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby. This Agreement shall be solely for the benefit of the signatories to this Agreement, and no other person or entity shall be a third-party beneficiary hereof. No failure or delay by any party in exercising any right, power or privilege under this Agreement shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

[*Remainder of Page Intentionally Left Blank*]

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be duly executed on its behalf as of the date first written above.

JAZZ TECHNOLOGIES, INC.

By: _____
Name:
Title:

TOWER SEMICONDUCTOR LTD.

By: _____
Name:
Title

NEWPORT FAB, LLC

By: _____
Name:
Title:

JAZZ SEMICONDUCTOR, INC.

By: _____
Name:
Title:

[Signature page to Purchase Agreement]

PRINCIPAL FUNDS, INC. – HIGH YIELD FUND

By: _____
Name:
Title:

PRINCIPAL GLOBAL INVESTORS FUND – HIGH YIELD FUND

By: Principal Global Investors, LLC,
a Delaware limited liabilty company,
its authorized signatory

By: _____
Name:
Title:

[Signature page to Purchase Agreement]

NORTHERN LIGHTS FUND TRUST – ALTEGRIS FIXED INCOME LONG SHORT FUND

By: _____
Name:
Title:

[Signature page to Purchase Agreement]

SCHEDULE A

GUARANTORS

Newport Fab, LLC, a Delaware limited liability company
Jazz Semiconductor, Inc., a Delaware corporation

EXHIBIT A

Schedule of Holders

(1) Name and Address of Holder	(2)Principal Amount of New Notes	(3) Purchase Price
Principal Funds, Inc. – High Yield Fund Jurisdiction of Residency: United States CUSIP: 144A DTC Participant: Bank of New York DTC #901 For Credit to Account #: 394959 Contact: Monique Brown (718) 315-3546 monique.brown@bnymellon.com	$ 9,000,000	$ 8,310,249.31
Principal Global Investors Fund – High Yield Fund Jurisdiction of Residency: United States CUSIP: 144A DTC Participant: Bank of New York DTC #901 For Credit to Account #: 397775 Contact: Monique Brown (718) 315-3546 monique.brown@bnymellon.com	$ 500,000	$ 461,680.52
Northern Lights Fund Trust – Altegris Fixed Income Short Long Fund Jurisdiction of Residency: United States CUSIP: 144A DTC Participant: JPMorgan Chase DTC #: 902 For Credit To Account #: P18855 Contact: Alan Bluestine (203) 388-4920 alanb@rvcap.com	$ 500,000	$ 461,680.52

EXHIBIT B

Form of Indenture

EXHIBIT C

Form of Company Registration Rights Agreement

EXHIBIT D

Form of Tower Registration Rights Agreement

EXHIBIT E

Form of Opinion of Eilenberg & Krause LLP

EXHIBIT F

Form of Opinion of Yigal Arnon & Co.

EXHIBIT G

Form of Opinion of Acting Chief Legal Officer of Jazz Technologies, Inc.

Exhibit 4.61

EXECUTION VERSION

JAZZ TECHNOLOGIES, INC.

8% CONVERTIBLE SENIOR NOTES DUE 2018

INDENTURE

Dated as of March 25, 2014

U.S. BANK NATIONAL ASSOCIATION,
as
Trustee

TABLE OF CONTENTS

EXHIBITS

THIS INDENTURE, dated as of March 25, 2014 ("*Indenture*"), is made by and among Jazz Technologies, Inc., a corporation formed under the laws of the State of Delaware (the "*Company*"), Tower Semiconductor Ltd., a company formed under the laws of Israel ("*Tower*" or "*Parent*"), the Guarantors from time to time party hereto, and U.S. Bank National Association, a national banking association, as trustee.

The Company, Tower, the Guarantors and the Trustee agree as follows for the benefit of each other and for the equal and ratable benefit of the Holders of the Company's 8% Convertible Senior Notes due 2018.

RECITALS

The Company has duly authorized the execution and delivery hereof to provide for the issuance of the Notes. All things necessary (i) to make the Notes, when executed by the Company and authenticated and delivered hereunder and duly issued by the Company and delivered hereunder, and to make the Guarantees, when executed and delivered hereunder by the Guarantors, the valid and binding obligations of the Company and the Guarantors and (ii) to make this Indenture a valid and legally binding agreement of the Company, the Guarantors and Parent, all in accordance with their respective terms, have been done.

For and in consideration of the premises and the purchase of the Notes by the Holders thereof, it is mutually agreed as follows for the equal and ratable benefit of the Holders of the Notes.

ARTICLE 1

DEFINITIONS AND INCORPORATION BY REFERENCE

SECTION 1.01. ***Definitions.***

"*144A Global Note*" means a global note substantially in the form of Exhibit A hereto bearing the Global Note Legend and the Private Placement Legend and deposited with or on behalf of, and registered in the name of, the Depositary or its nominee that will be issued in a denomination equal to the outstanding principal amount of the Notes sold in reliance on Rule 144A.

"*Acquired Debt*" means, with respect to any specified Person, Indebtedness of any such Person existing at the time such Person merges with or into or becomes a Subsidiary of, or Indebtedness assumed in connection with the acquisition of assets by, the Company or any Restricted Subsidiary.

"*Additional Interest*" has the meaning set forth in the Company Registration Rights Agreement and the Parent Registration Rights Agreement.

"*Additional Notes*" means the $10,000,000 in aggregate principal amount of 8% Convertible Senior Notes due 2018 of the Company issued for cash under this Indenture on the Issue Date.

"*Affiliate*" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise.

"*Agent*" means any Registrar, Paying Agent or co-registrar.

"*American Depositary Shares*" means U.S. Dollar denominated forms of equity ownership held in deposit in a custodian bank and evidenced by physical certificates of ownership issued by a U.S. bank.

"*Applicable Procedures*" means, with respect to any transfer or exchange of or for beneficial interests in any Global Note, the rules and procedures of the Depositary that apply to such transfer or exchange.

"*Asset Sale*" means any sale, issuance, conveyance, transfer, lease, assignment or other disposition by the Company or any Restricted Subsidiary to any Person other than the Company or any Restricted Subsidiary (including by means of a merger or consolidation or through the issuance or sale of Equity Interests of Restricted Subsidiaries (other than Preferred Equity Interests of Restricted Subsidiaries issued in compliance with Section 4.09 and other than directors qualifying shares or local ownership shares)) (collectively, for purposes of this definition, a "*transfer*"), in one transaction or a series of related transactions, of any assets of the Company (it being understood that the Capital Stock of the Company is not an asset of the Company) or any of its Restricted Subsidiaries (other than sales of inventory and other transfers in the ordinary course of business). For purposes of this definition, the term "Asset Sale" shall not include:

(a) transfers of cash or Cash Equivalents or Marketable Securities;

(b) transfers of assets of the Company (including Equity Interests) that are governed by, and made in accordance with, Section 5.01(a);

(c) transfers constituting Permitted Investments and Restricted Payments permitted under Section 4.07;

(d) the creation of or realization on any Lien permitted under this Indenture;

(e) transfers of damaged, worn-out, surplus, unnecessary or obsolete equipment that, in the Company's reasonable judgment, are no longer used or useful in the business of the Company or its Restricted Subsidiaries;

(f) sales or grants of licenses or sublicenses to use the patents, trade secrets, know-how and other intellectual property, and licenses, leases or subleases of other assets, of the Company or any Restricted Subsidiary, in each case to the extent such license, sublicense, lease or sublease does not materially interfere with the business of the Company and the Restricted Subsidiaries;

(g) any transfer or series of related transfers that, but for this clause, would be Asset Sales, if the aggregate fair market value of the assets transferred in such transaction or series of related transactions does not exceed $2.0 million; and

(h) the settlement, waiver, release or surrender of claims or litigation rights of any kind.

"*Bankruptcy Law*" means Title 11, U.S. Code or any similar federal or state law for the relief of debtors.

"*Board of Directors*" means:

(a) with respect to a corporation, the board of directors of the corporation or, except in the context of the definition of "Change of Control," a duly authorized committee thereof;

(b) with respect to a partnership, the Board of Directors of the general partner of the partnership; and

(c) with respect to any other Person, the board or committee of such Person serving a similar function.

"*Broker-Dealer*" means any broker or dealer registered under the Exchange Act.

"*Business Day*" means any day other than a Legal Holiday.

"*Capital Lease Obligations*" means, as to any Person, the obligations of such Person under a lease that are required to be classified and accounted for as capital lease obligations under GAAP and, for purposes of this definition, the amount of such obligations at the time any determination thereof is to be made shall be the amount of the liability in respect of a capital lease that would at such time be so required to be capitalized on a balance sheet in accordance with GAAP.

"*Capital Stock*" means any and all shares, interests, participations, rights or other equivalents, however designated, of corporate stock or partnership or membership interests, whether common or preferred.

"*Cash Equivalents*" means:

(a) United States dollars;

(b) Government Securities having maturities of not more than twelve (12) months from the date of acquisition;

(c) certificates of deposit, time deposits and eurodollar time deposits with maturities of one year or less from the date of acquisition, bankers' acceptances with maturities not exceeding one year and overnight bank deposits, in each case with any commercial bank having capital and surplus in excess of $500 million;

(d) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (b) and (c) entered into with any financial institution meeting the qualifications specified in clause (c) above;

(e) commercial paper issued by any issuer bearing at least a "2" rating for any short-term rating provided by Moody's or S&P or carrying an equivalent rating by a nationally recognized rating agency and maturing within two hundred seventy (270) days of the date of acquisition;

(f) variable or fixed rate notes issued by any issuer rated at least AA by S&P (or the equivalent thereof) or at least Aa2 by Moody's (or the equivalent thereof) and maturing within one (1) year of the date of acquisition;

(g) money market funds or programs (x) offered by any commercial or investment bank having capital and surplus in excess of $500 million at least 95% of the assets of which fund or program constitute Cash Equivalents of the kinds described in clauses (a) through (f) of this definition, (y) (i) offered by any other nationally recognized financial institution (ii) at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (a) through (f) (iii) are rated AAA and (iv) such fund or program is at least $4.0 billion or (z) registered under the Investment Company Act of 1940, as amended, that are administered by reputable financial institutions having capital and surplus of at least $500.0 million and the portfolios of which are limited to investments of the character described in the foregoing subclauses hereof; and

(h) in the case of any Foreign Subsidiary or in respect of operations of the Company or any Domestic Subsidiary outside the United States, (i) the currency of such country or (ii) high quality short-term investments which are customarily used for cash management purposes in any country in which such Foreign Subsidiary operates or the operations of the Company or such Domestic Subsidiary are located, as applicable.

"*Change of Control*" means the occurrence of one or more of the following events:

(a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Exchange Act and the rules of the Commission thereunder as in effect on the date of this Indenture) of Equity Interests representing more than 50% (on a fully diluted basis) of the total voting power represented by the issued and outstanding Equity Interests of the Company then entitled to vote in the election of the Board of Directors of the Company generally;

(b) during any period of twelve (12) consecutive months, a majority of the members of the Board of Directors of the Company ceases to be composed of individuals who were either (i) nominated by, or whose nomination was approved by, the Board of Directors of the Company with the affirmative vote of a majority of the members of said Board of Directors at the time of such nomination or election or (ii) appointed by directors so nominated or elected;

(c) there shall be consummated any share exchange, consolidation or merger of the Company pursuant to which the Company's Equity Interests entitled to vote in the election of the Board of Directors of the Company generally would be converted into cash, securities or other property, or the Company sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of its and its Subsidiaries' assets, taken as a whole (a "*Disposition*"), in each case other than pursuant to a share exchange, consolidation or merger of the Company or a Disposition in which the holders of the Company's Equity Interests entitled to vote in the election of the Board of Directors of the Company generally immediately prior to the share exchange, consolidation, merger or Disposition have, directly or indirectly, at least a majority of the total voting power in the aggregate of all classes of Equity Interests of the continuing or surviving entity entitled to vote in the election of the Board of Directors of such Person generally immediately after the share exchange, consolidation, merger or Disposition;

(d) the stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; or

(e) the Ordinary Shares (or other capital stock underlying the Notes) shall not be listed or quoted on at least one of the following trading markets: The New York Stock Exchange, The Nasdaq Global Select Market, The Nasdaq Global Market or the Tel Aviv Stock Exchange (or any of their respective successors).

"*Closing Sale Price*" of the Common Equity or American Depositary Shares, as applicable, on any Trading Day means the reported last sale price per share (or, if no last sale price is reported, the average of the bid and ask prices per share or, if more than one in either case, the average of the average bid and average ask prices per share) on such date reported by the principal U.S. national or regional securities exchange on which the Common Equity or American Depositary Shares, as applicable, are listed or, if not so listed, on such date reported by the Tel Aviv Stock Exchange, the London Stock Exchange or the Frankfurt Stock Exchange.

"*Close of Business*" means 5:00 p.m., New York City time.

"*Code*" means the Internal Revenue Code of 1986, as amended.

"*Commission*" means the United States Securities and Exchange Commission or any successor agency thereto.

"*Common Equity*" of any person means Capital Stock or other ownership interests of such person that is generally entitled to (a) vote in the election of directors of such person or (b) if such person is not a corporation, vote or otherwise participate in the selection of governing body, partners, managers or others that will control the management or policies of such person.

"*Company Registration Rights Agreement*" means the registration rights agreement, dated as of the Issue Date, made by and among the Company, the Guarantors and the holders of the Notes party thereto.

"*Consolidated Group Transaction*" means any of the following occurring in the ordinary course of business consistent with past practices between or among the Company or of its Restricted Subsidiaries, on the one hand, and the Parent or any of its Subsidiaries, on the other hand, (a) payments for bona fide sales or for marketing, research and development, information technologies, legal, human resources or other personnel services or for testing or other operational or fab-related services, (b) the purchase or sale of assets, including supplies and raw materials, (c) the payment of fees and disbursements of professionals providing services to the Company or any Restricted Subsidiary, (d) payments for compensation (including base salary, bonuses and other incentive compensation), benefits and travel and entertainment expenses related to the business of the Company and its Restricted Subsidiaries and (e) payments to third party vendors for assets purchased by, or services rendered to the Company or any Restricted Subsidiary.

"*Consolidated Net Income*" means, for any period, the aggregate net income (or loss) of the Company and its Restricted Subsidiaries for such period determined on a consolidated basis in conformity with GAAP, *provided* that the following (without duplication) will be excluded in computing Consolidated Net Income:

(a) the net income (but not loss) of any Person that is not a Restricted Subsidiary, except to the extent of the lesser of (i) the dividends or other distributions actually paid in cash to the Company or any of its Restricted Subsidiaries (subject to clause (c) below) by such Person during such period, and (ii) the Company's pro rata share of such Person's net income earned during such period;

(b) any net income (or loss) of any Person acquired in a pooling of interests transaction for any period prior to the date of such acquisition;

(c) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income would not have been permitted for the relevant period by charter or by any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;

(d) any net after-tax extraordinary gains or losses;

(e) any net after-tax non-cash goodwill impairment charges;

(f) any net after-tax income (or loss) from the early extinguishment of Indebtedness; and

(g) any net after-tax income (or loss) from agreements evidencing Hedging Obligations until such income (or loss) is actually realized (at which time such income (or loss) shall be included).

In calculating the aggregate net income (or loss) of the Company and its Restricted Subsidiaries on a consolidated basis, income attributable to Unrestricted Subsidiaries will be excluded altogether.

"*Conversion Agent*" means any Person authorized by the Company to convert Securities in accordance with Article 11. The Company has initially appointed the Trustee as its Conversion Agent.

"*Conversion Price*" means, as of any date, an amount equal to U.S. $1,000 divided by the Conversion Rate as of such date.

"*Corporate Trust Office of the Trustee*" shall be at the address of the Trustee specified in Section 12.02 or such other address as to which the Trustee may give notice to the Company's or Holders pursuant to the procedures set forth in Section 12.02.

"*Credit Facilities*" means one or more credit agreements or debt facilities or other financing arrangements to which the Company and/or one or more of its Restricted Subsidiaries is party from time to time, in each case with banks, investment banks, insurance companies, mutual funds, institutional investors or any other lenders, in each case, providing for revolving credit loans, term loans, debt securities, bankers' acceptances, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables), swing-line or commercial paper facilities or letters of credit or note facilities, including any notes, mortgages, guarantees, collateral documents, instruments and agreements entered into in connection therewith, in each case as such agreements or facilities may be amended (including any amendment and restatement thereof), supplemented or otherwise modified from time to time, including any agreement Refinancing any Credit Facility, whether in the bank or debt capital markets or otherwise (or combination thereof) (including increasing the amount of available borrowings thereunder or adding Subsidiaries as additional borrowers or guarantors thereunder), all or any portion of the Indebtedness under such agreement or facility or any successor or replacement agreement or facility.

"*Current Market Price*" means the average of the Closing Sale Price of the Common Equity or American Depositary Shares, as the case may be, for the ten (10) consecutive Trading Days ending three Trading Days before the Change of Control Payment Date.

"*Daily Conversion Value*" means, for each of the 20 consecutive Trading Days during the Observation Period, 5.00% of the product of (a) the Conversion Rate in effect on such Trading Day and (b) the Daily VWAP on such Trading Day.

"*Daily Measurement Value*" means: (a) if the Company does not elect a Cash Percentage pursuant to Section 11.03(d), the Specified Dollar Amount divided by 20; or (b) if the Company elects a Cash Percentage pursuant Section 11.03(d), the product of (i) the Cash Percentage, (ii) the Conversion Rate in effect on such Trading Day and (iii) the Daily VWAP for such Trading Day, divided by 20.

"*Daily Settlement Amount*" means for each of the 20 consecutive Trading Days during the applicable Observation Period: (a) if the Company does not elect a Cash Percentage pursuant to Section 11.03(d), (i) cash in an amount equal to the lesser of (A) the Daily Measurement Value and (B) the Daily Conversion Value; and (ii) if the Daily Conversion Value on such Trading Day exceeds the Daily Measurement Value, a number of Ordinary Shares equal to (X) the difference between the Daily Conversion Value and the Daily Measurement Value, divided by (Y) the Daily VWAP for such Trading Day; or (b) if the Company elects a Cash Percentage pursuant to Section 11.03(d), (i) cash in an amount equal to the Daily Measurement Value; and (ii) if the Daily Conversion Value exceeds the Daily Measurement Value, a number of Ordinary Shares equal to (X) the difference between the Daily Conversion Value and the Daily Measurement Value, divided by (Y) the Daily VWAP for such Trading Day.

"*Daily VWAP*" means, for each of the 20 consecutive Trading Days during the applicable Observation Period, the Volume Weighted Average Price.

"*Default*" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"*Definitive Note*" means a certificated Note registered in the name of the Holder thereof and issued in accordance with Section 2.06 hereof, substantially in the form of Exhibit A hereto except that such Note shall not bear the Global Note Legend and shall not have the "Schedule of Exchanges of Interests in the Global Note" attached thereto.

"*Depositary*" means The Depository Trust Company and any and all successors thereto appointed as depositary hereunder and having become such pursuant to an applicable provision hereof.

"*Disqualified Stock*" means any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to the date on which the Notes mature; *provided, however*, that any such Capital Stock may require the issuer of such Capital Stock to make an offer to purchase such Capital Stock upon the occurrence of any asset sale or change of control if the terms of such Capital Stock provide that such an offer may not be satisfied and the purchase of such Capital Stock may not be consummated until the 91st day after the purchase of any Notes tendered as permitted by Section 3.08 or 4.15, as applicable.

"*Domestic Restricted Subsidiaries*" shall mean all Restricted Subsidiaries that are Domestic Subsidiaries.

"*Domestic Subsidiary*" shall mean any Subsidiary other than a Foreign Subsidiary.

"*EBITDA*" means, for any period, the sum of:

(a) Consolidated Net Income, plus

(b) Fixed Charges, to the extent deducted in calculating Consolidated Net Income, plus

(c) to the extent deducted in calculating Consolidated Net Income and as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP and without duplication:

(i) income taxes, other than income taxes or income tax adjustments (whether positive or negative) attributable to extraordinary gains or losses; and

(ii) depreciation, amortization and all other non-cash items reducing Consolidated Net Income (other than any such non-cash items in a period which reflect cash payments made or to be made in another period), less all non-cash items increasing Consolidated Net Income (other than any such non-cash items in a period that will result in a cash receipt or a reduction in a cash payment in another period); plus

(d) without duplication, net after-tax non-recurring losses (minus any net after-tax non-recurring gains), to the extent reducing Consolidated Net Income, plus

(e) without duplication, the amount of any restructuring charges deducted (and not added back) in such period in computing Consolidated Net Income.

"*Eligible Institution*" means a commercial banking institution that has combined capital and surplus of not less than $500 million or its equivalent in foreign currency, whose debt is rated by at least two nationally recognized statistical rating organizations in one of each such organization's four highest generic rating categories at the time as of which any investment or rollover therein is made.

"*Equity Interests*" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

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

"*Exchange Agreement*" means that certain Exchange Agreement, dated as of March 19, 2014, among the Company, the Guarantors, Parent and the holders of Existing Notes party thereto, entered into in connection with the issuance of the Notes.

"*Ex-Date*" means the first date on which the Ordinary Shares trade on the applicable exchange or in the applicable market, regular way, without the right to receive the issuance, dividend or distribution in question, from the Parent or, if applicable, the seller of Ordinary Shares on such exchange or market (in the form of due bills or otherwise) as determined by such exchange or market.

"*Existing Indebtedness*" means any Indebtedness (other than the Notes and the Guarantees and Indebtedness incurred pursuant to Section 4.09(b)(2)) of the Company and its Subsidiaries in existence on the Issue Date.

"*Existing Notes*" means the 8% Senior Notes due 2015 of the Company issued under an indenture dated as of July 15, 2010, made by and among the Company, the guarantors party thereto and U.S. Bank National Association, as trustee.

"*Fixed Charge Coverage Ratio*" means, on any date (the "*transaction date*"), the ratio of

(x) the aggregate amount of EBITDA for the four fiscal quarters immediately prior to the transaction date for which internal financial statements are available (the "reference period") to

(y) the aggregate Fixed Charges during such reference period, excluding (i) amortization of debt discount and issuance costs and (ii) non-cash interest on any convertible or exchangeable notes that exists by virtue of the bifurcation of the debt and equity components of such convertible or exchangeable notes in accordance with GAAP, non-cash interest expense attributable to required marking-to-market of obligations under Hedging Obligations or other derivative instruments in accordance with GAAP and non-cash interest expense attributable to required marking-to-market of obligations due to changes in fair or market value of tradable securities in accordance with GAAP.

In making the foregoing calculation,

(a) pro forma effect will be given to any Indebtedness, Disqualified Stock or Preferred Equity Interests Incurred during or after the reference period to the extent the Indebtedness, Disqualified Stock or Preferred Equity Interest is outstanding or is to be Incurred on the transaction date as if the Indebtedness, Disqualified Stock or Preferred Equity Interests had been Incurred on the first day of the reference period;

(b) pro forma calculations of interest on Indebtedness bearing a floating interest rate will be made as if the rate in effect on the transaction date (taking into account any Hedging Obligations applicable to the Indebtedness if the Hedging Obligation has a remaining term of at least 12 months) had been the applicable rate for the entire reference period;

(c) Fixed Charges related to any Indebtedness, Disqualified Stock or Preferred Equity Interests no longer outstanding or to be repaid or redeemed on the transaction date, except for Interest Expense accrued during the reference period under a revolving credit to the extent of the commitment thereunder (or under any successor revolving credit) in effect on the transaction date, will be excluded;

(d) pro forma effect will be given to

(i) he creation, designation or redesignation of Restricted and Unrestricted Subsidiaries,

(ii) the acquisition or disposition of companies, divisions or lines of businesses by the Company and its Restricted Subsidiaries, including any acquisition or disposition of a company, division or line of business since the beginning of the reference period by a person that became a Restricted Subsidiary after the beginning of the reference period, and

(iii) the discontinuation of any discontinued operations but, in the case of Fixed Charges, only to the extent that the obligations giving rise to the Fixed Charges will not be obligations of the Company or any Restricted Subsidiary following the transaction date

that have occurred since the beginning of the reference period as if such events had occurred, and, in the case of any disposition, the proceeds thereof applied, on the first day of the reference period. To the extent that pro forma effect is to be given to an acquisition or disposition of a company, division or line of business, the pro forma calculation will be based upon the most recent four full fiscal quarters for which the relevant financial information is available.

"*Fixed Charges*" means, for any period, the sum of

(a) Interest Expense for such period; and

(b) the product of

(i) (x) cash and non-cash dividends paid on any Disqualified Stock or Preferred Equity Interests of the Company or a Restricted Subsidiary plus (y) without duplication, declared, accrued or accumulated on any Disqualified Stock of the Company or a Restricted Subsidiary, in each case except for dividends payable in the Company's Qualified Stock or paid to the Company or to a Restricted Subsidiary, and

(ii) a fraction, the numerator of which is one and the denominator of which is one minus the sum of the currently effective combined Federal, state, local and foreign tax rate applicable to the Company and its Restricted Subsidiaries.

"*Foreign Currency Obligations*" means, with respect to any Person, the obligations of such Person pursuant to any foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect the Company or any Restricted Subsidiary of the Company against fluctuations in currency values.

"*Foreign Subsidiary*" shall mean any Subsidiary that is not incorporated, formed or organized under the laws of the United States of America, any state thereof or the District of Columbia.

"*GAAP*" means United States generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, which are applicable as of the date of determination; *provided* that, except as otherwise specifically provided, all calculations made for purposes of determining compliance with the terms of the provisions of this Indenture shall utilize GAAP as in effect on the Issue Date.

"*Global Note Legend*" means the legend set forth in Section 2.01(b) hereof, which is required to be placed on all Global Notes issued under this Indenture.

"*Global Notes*" means, individually and collectively, each of the Restricted Global Notes and the Unrestricted Global Notes, substantially in the form of Exhibit A hereto issued in accordance with Section 2.01 or 2.06 hereof.

"*Government Securities*" means direct obligations of, or obligations guaranteed or insured by, the United States or any agency or instrumentality thereof for the payment of which guarantee or obligations the full faith and credit of the United States is pledged (in each case including a certificate representing an ownership interest in such obligations).

"*guarantee*" means a guarantee (other than by endorsement of negotiable instruments for collection in the ordinary course of business), direct or indirect, in any manner (including, without limitation, letters of credit and reimbursement agreements in respect thereof), of all or any part of any Indebtedness.

"*Guarantee*" means a guarantee by a Guarantor of the Notes.

"*Guarantor*" means any Subsidiary of the Company that guarantees the Company's obligations under this Indenture and the Notes on or after the date of this Indenture pursuant to Section 4.13.

"*Hedging Obligations*" means, with respect to any Person, the obligations of such Person pursuant to any arrangement with any other Person, whereby, directly or indirectly, such Person is entitled to receive from time to time periodic payments calculated by applying either a floating or a fixed rate of interest on a stated notional amount in exchange for periodic payments made by such other Person calculated by applying a fixed or a floating rate of interest on the same notional amount and shall include, without limitation, interest rate swaps, caps, floors, collars and similar agreements designed to protect such Person against fluctuations in interest rates.

"*Holder*" means, with respect to any Note, the Person in whose name such Note is registered with the Registrar.

"*IAI*" means an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act.

"*IAI Global Note*" means a global note substantially in the form of Exhibit A hereto bearing the Global Note Legend and the Private Placement Legend and deposited with or on behalf of, and registered in the name of, the Depositary or its nominee that will be issued in a denomination equal to the outstanding principal amount of the Notes sold to IAIs.

"*Indebtedness*" means, with respect to any Person, any indebtedness of such Person, whether or not contingent, in respect of borrowed money or evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof, but excluding, in any case, any undrawn letters of credit) or representing the balance deferred and unpaid of the purchase price of any property (including pursuant to capital leases) or representing any Hedging Obligations or Foreign Currency Obligations, except any such balance that constitutes an accrued expense or trade payable, if and to the extent any of the foregoing (other than Hedging Obligations or Foreign Currency Obligations) would appear as a liability upon a balance sheet of such Person prepared in accordance with GAAP, and also includes, to the extent not otherwise included, the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock or, with respect to any Restricted Subsidiary of such Person, the liquidation preference with respect to, any Preferred Equity Interests (but excluding, in each case, any accrued dividends) as well as the guarantee of items that would be included within this definition.

In no event shall the term "Indebtedness" include (a) any indebtedness under any overdraft or cash management facilities so long as any such indebtedness is repaid in full no later than five Business Days following the date on which it was incurred or in the case of such indebtedness in respect of credit or purchase cards, within 60 days of its incurrence, (b) obligations in respect of performance, appeal or other surety bonds or completion guarantees or in respect of reimbursement obligations for undrawn letters of credit, bankers' guarantees or bankers' acceptances (whether or not secured by a lien), each incurred in the ordinary course of business and not as a part of a financing transaction, (c) any liability for Federal, state, local or other taxes not more than thirty (30) days past due, (d) any balances that constitute accrued expenses, accounts payable, trade payables, deferred revenue or deferred rent in the ordinary course of business, or (e) any obligations in respect of a lease properly classified as an operating lease in accordance with GAAP.

"*Indenture*" means this Indenture, as amended or supplemented from time to time.

"*Independent Financial Advisor*" means a Person or entity which, in the judgment of the Board of Directors of the Company, is independent and otherwise qualified to perform the task for which it is to be engaged.

"*Indirect Participant*" means a Person who holds a beneficial interest in a Global Note through a Participant.

"*Initial Notes*" means the $48,307,000 in aggregate principal amount of 8% Convertible Senior Notes due 2018 of the Company issued under this Indenture on the Issue Date, but excluding the Additional Notes.

"*Interest Expense*" means, for any period, the consolidated interest expense of the Company and its Restricted Subsidiaries, plus, to the extent not included in such consolidated interest expense, and to the extent incurred, accrued or payable by the Company or its Restricted Subsidiaries, without duplication, (a) amortization of debt discount and debt issuance costs (other than any such amortization resulting from the issuance of the Notes or any other Indebtedness Incurred on or prior to the Issue Date), (b) capitalized interest, (c) non-cash interest expense (excluding non-cash interest expense attributable to required marking-to-market of obligations under Hedging Obligations or other derivative instruments in accordance with GAAP or non-cash interest expense attributable to required marking-to-market of obligations due to changes in fair or market value of tradable securities in accordance with GAAP), (d) commissions, discounts and other fees and charges owed with respect to letters of credit, bankers' acceptances and similar instruments, (e) net payments, if any, made (less net payments, if any, received) pursuant to Hedging Obligations (including the amortization of fees) and (f) any of the above expenses with respect to Indebtedness of another Person guaranteed by the Company or any of its Restricted Subsidiaries to the extent of such expenses accruing after such guarantee is called upon, as determined on a consolidated basis and in accordance with GAAP.

"*Interest Payment Date*" means July 15 and January 15 of each year, commencing July 15, 2014.

"*Investment Grade*" designates a rating of BBB- or higher by S&P and Baa3 or higher by Moody's or the equivalent of such ratings by S&P or Moody's.

"*Investments*" means, with respect to any Person, all investments by such Person in other persons (including Affiliates) in the forms of loans (including guarantees), advances or capital contributions, purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities and all other items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP (excluding accounts receivable, deposits and prepaid expenses in the ordinary course of business, endorsements for collection or deposits arising in the ordinary course of business, guarantees and intercompany notes permitted by Section 4.09, and commission, travel and similar advances to officers and employees made in the ordinary course of business). For purposes of Section 4.07, the sale of Equity Interests of a Person that is a Restricted Subsidiary following which such Person ceases to be a Subsidiary shall be deemed to be an Investment by the Company in an amount equal to the fair market value (as determined in good faith by the Company) of the Equity Interests of such Person held by the Company and its Restricted Subsidiaries immediately following such sale.

"*Issue Date*" means the first date on which Notes under this Indenture are issued.

"*Legal Holiday*" means a Saturday, a Sunday or a day on which banking institutions in the City of New York or at a place of payment are authorized by law, regulation or executive order to remain closed.

"*Lien*" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law (including any conditional sale or other title retention agreement and any lease in the nature thereof).

"*Market Disruption Event*" means (a) a failure by the primary U.S. exchange or quotation system on which the Common Equity or American Depositary Shares, as applicable, trades or is quoted (or if the Common Equity or American Depositary Shares, as applicable, are no longer traded or quoted on any such U.S. exchange or quotation system but are listed on the Tel Aviv Stock Exchange, the Tel Aviv Stock Exchange) to open for trading during its regular trading session or (b) the occurrence or existence prior to 1:00 p.m. New York City time (or 1:00 p.m. Tel Aviv, Israel time if the Common Equity or American Depositary Shares, as applicable, are no longer traded or quoted on any U.S. exchange or quotation system but are listed on the Tel Aviv Stock Exchange) on any Trading Day for the Common Equity or American Depositary Shares, as applicable, of an aggregate on half-hour period, of any suspension or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the stock exchange or otherwise) in the Common Equity or American Depositary Shares, as applicable, or in any options, contracts or future contracts relating to the Common Equity or American Depositary Shares, as applicable, traded in the United States (or Israel if the Common Equity or American Depositary Shares, as applicable, are no longer traded or quoted on any U.S. exchange or quotation system but are listed on the Tel Aviv Stock Exchange).

"*Marketable Securities*" means: (a) Government Securities; (b) any certificate of deposit maturing not more than 365 days after the date of acquisition issued by, or time deposit of, an Eligible Institution; (c) commercial paper maturing not more than 365 days after the date of acquisition issued by a corporation (other than an Affiliate of the Company) with a rating by at least two nationally recognized statistical rating organizations in one of each such organization's four highest generic rating categories at the time as of which any investment therein is made, issued or offered by an Eligible Institution; (d) any bankers' acceptances or money market deposit accounts issued or offered by an Eligible Institution; (e) debt securities which (i) have a remaining maturity not to exceed five years at the time of acquisition thereof and (ii) are rated at least A (or the equivalent) or higher by S&P and A2 (or the equivalent) or higher by Moody's at the time of acquisition thereof; and (f) any fund investing exclusively in investments of the types described in clauses (a) through (e) above.

"*Maturity Date*" means December 31, 2018

"*Moody's*" means Moody's Investors Service, Inc. or any successor to the rating agency business thereof.

"*Net Income*" means, with respect to any Person, the net income (loss) of such Person, determined in accordance with GAAP.

"*Net Proceeds*" means the aggregate cash proceeds received by the Company or any of its Restricted Subsidiaries, as the case may be, in respect of any Asset Sale, net of the direct costs relating to such Asset Sale (including, without limitation, legal, accounting and investment banking fees, and sales commissions) , any relocation expenses incurred as a result thereof, taxes paid or payable as a result thereof (estimated reasonably and in good faith by the Company and after taking into account any available tax credits or deductions and any tax sharing arrangements), and any amounts required to be applied to the repayment of Indebtedness secured by a Lien on the asset or assets that are the subject of such Asset Sale, any reserve for adjustment in respect of the sale price of such asset or assets and any reserve in accordance with GAAP against any liabilities associated with the asset disposed of in such Asset Sale and retained by the Company or any of its Subsidiaries after such Asset Sale, including pension and other post-employment benefit liabilities and liabilities related to environmental matters, or against any indemnification obligations associated with such Asset Sale, and all distributions and payments required to be made to minority interest holders in Subsidiaries or joint ventures as a result of any such Asset Sale of assets of such Subsidiary or joint venture. Net Proceeds shall exclude any non-cash proceeds received from any Asset Sale, but shall include such proceeds when and as converted by the Company or any Restricted Subsidiary to cash, and shall exclude any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to the asset or assets subject to the Asset Sale.

"*Non-U.S. Person*" means a Person who is not a U.S. Person.

"*Notes*" means the Initial Notes and the Additional Notes.

"*Obligations*" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"*Observation Period*" with respect to any Note surrendered for conversion means: (i) if the relevant Conversion Date occurs prior to the 24th Trading Day prior to the Maturity Date, the 20 consecutive Trading Day period beginning on, and including, the second Trading Day immediately succeeding the Conversion Date; and (ii) if the relevant Conversion Date occurs on or after the 24th Trading Day prior to the Maturity Date, the 20 consecutive Trading Days beginning on, and including, the 22nd Trading Day immediately preceding the Maturity Date.

"*Officer*" means, with respect to any Person, the Chairman of the Board, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer, the Treasurer, any Assistant Treasurer, Controller, Secretary or any Vice President of such Person, or any other officer designated by the Board of Directors.

"*Officers' Certificate*" means a certificate signed on behalf of the Company by two Officers of such Person or of such Person's partner or managing member, one of whom must be the principal executive officer, principal financial officer or principal accounting officer of such Person or of such Person's partner or managing member, that meets the requirements of Section 12.05.

"*Opinion of Counsel*" means an opinion from legal counsel, reasonably satisfactory to the Trustee, who may be an employee of or counsel to the Company or any Subsidiary of the Company, that meets the requirements of Section 12.05.

"*Ordinary Shares*" means the ordinary shares, par value NIS 15.00, of Parent, subject to Section 11.09.

"*Parent Company Event*" means any share dividend or other distribution, rights offering, unification of capital, stock split or reduction in capital by Parent, the record date or Ex-Date for which is a date on which the Tel Aviv Stock Exchange rules would prohibit conversion of Notes or any portion thereof.

"*Parent Registration Rights Agreement*" means the registration rights agreement, dated as of the Issue Date, made by and among the Parent and the holders of the Notes party thereto.

"*Participant*" means, with respect to the Depositary, a Person who has an account with the Depositary.

"*Permitted Business*" means the businesses of the Company and its Restricted Subsidiaries conducted (or proposed to be conducted) on the Issue Date and any business reasonably related, ancillary or complementary thereto and any reasonable extension or evolution of any of the foregoing, whether domestic or international.

"*Permitted Investments*" means:

(a) Investments in the Company or in a Restricted Subsidiary;

(b) Investments in Cash Equivalents or Marketable Securities;

(c) any guarantee of obligations of the Company or a Restricted Subsidiary permitted by Section 4.09;

(d) Investments by the Company or any of its Subsidiaries in a Person if, as a result of such Investment: (i) such Person becomes a Restricted Subsidiary or (ii) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Company or a Restricted Subsidiary;

(e) Investments received in settlement of debts created in the ordinary course of business and owing to the Company or any of its Restricted Subsidiaries, in satisfaction of judgments or as payment on a claim made in connection with any bankruptcy, liquidation, receivership or other insolvency proceeding;

(f) Investments in existence on the Issue Date;

(g) Investments in any Person to the extent such Investment represents the non-cash portion (including, for the avoidance of doubt, any consideration that is deemed cash for purposes of Section 4.10) of the consideration received for an Asset Sale that was made pursuant to and in compliance with Section 4.10 or for an asset disposition that does not constitute an Asset Sale;

(h) loans or advances or other similar transactions with customers, distributors, clients, developers, suppliers or purchasers or sellers of goods or services, in each case, in the ordinary course of business, regardless of frequency;

(i) other Investments in an amount not to exceed $2.0 million outstanding at any time for all such Investments made after the Issue Date;

(j) any Investment solely in exchange for the issuance of Qualified Capital Stock;

(k) any Investment in connection with Hedging Obligations and Foreign Currency Obligations otherwise permitted under this Indenture;

(l) any contribution of any Investment in a joint venture or partnership that is not a Restricted Subsidiary to a Person that is not a Restricted Subsidiary in exchange for an Investment in the Person to whom such contribution is made;

(m) loans and advances to employees not in excess of $1.0 million outstanding at any one time, in the aggregate; and

(n) lease, utility, workers' compensation, unemployment insurance, performance and other deposits made in the ordinary course of business.

"*Permitted Liens*" means:

(a) Liens securing the Notes and Liens securing any Guarantee;

(b) Liens securing Indebtedness under any Credit Facility (and Hedging Obligations and treasury and cash management obligations to the extent such Liens arise under the definitive documentation governing such Indebtedness and the incurrence of such obligations is not otherwise prohibited by this Indenture) permitted by Section 4.09(b)(2);

(c) Liens securing (i) Hedging Obligations and Foreign Currency Obligations permitted to be incurred under Section 4.09 and (ii) cash management obligations not otherwise prohibited by this Indenture;

(d) Liens securing Purchase Money Indebtedness permitted under Section 4.09; *provided* that such Liens do not extend to any assets of the Company or its Restricted Subsidiaries other than the assets so acquired, constructed, installed, improved or leased, products and proceeds, improvements or accessions thereof and insurance proceeds with respect thereto;

(e) Liens on property or shares of Capital Stock of a Person existing at the time such Person becomes a Subsidiary or is merged into or consolidated with the Company or any of its Restricted Subsidiaries; *provided* that such Liens were not incurred in connection with, or in contemplation of, such merger or consolidation and do not apply to any assets other than the assets of the Person acquired in such merger or consolidation;

(f) Liens on property of an Unrestricted Subsidiary at the time that it is designated as a Restricted Subsidiary pursuant to the definition of "Unrestricted Subsidiary"; *provided* that such Liens were not incurred in connection with, or contemplation of, such designation;

(g) Liens on property existing at the time of acquisition thereof by the Company or any Restricted Subsidiary of the Company; *provided* that such Liens were not incurred in connection with, or in contemplation of, such acquisition and do not extend to any assets of the Company or any of its Restricted Subsidiaries other than the property so acquired, products and proceeds thereof and insurance proceeds with respect thereto;

(h) Liens to secure the performance of statutory obligations, surety or appeal bonds or performance bonds, or landlords', carriers', warehousemen's, mechanics', suppliers', materialmen's or other like Liens, in any case incurred in the ordinary course of business and with respect to amounts not yet delinquent for a period of more than 30 days or being contested in good faith by appropriate process of law, if a reserve or other appropriate provision, if any, as is required by GAAP is made therefor;

(i) Liens existing on the Issue Date;

(j) Liens for taxes, assessments or governmental charges or levies or claims that are not yet delinquent for a period of more than 30 days or that can thereafter be paid without penalty or that are being contested in good faith by appropriate proceedings; *provided* that any reserve or other appropriate provision as shall be required in conformity with GAAP is made therefor;

(k) Liens securing Indebtedness permitted under Section 4.09(b)(9); *provided* that such Liens shall not extend to assets other than the assets that secure such Indebtedness being Refinanced;

(l) Liens (other than Liens created or imposed under the Employee Retirement Income Security Act of 1974, as amended) incurred or deposits made by the Company or any of its Restricted Subsidiaries in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations or deposits as security for contested taxes or import duties or for the payment of rent (exclusive of obligations for the payment of borrowed money);

(m) easements, rights-of-way, covenants, restrictions (including zoning restrictions), minor defects or irregularities in title and other similar charges or encumbrances not, in any material respect, impairing the use of the encumbered property for its intended purposes;

(n) licenses, sublicenses, leases or subleases granted to others not interfering in any material respect with the business of the Company or its Restricted Subsidiaries;

(o) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods and Liens deemed to exist in connection with Investments in repurchase agreements that constitute Cash Equivalents;

(p) normal and customary rights of setoff upon deposits of cash, Cash Equivalents or Marketable Securities in favor of banks or other depository or financial institutions;

(q) Liens of a collection bank arising under Section 4-210 of the Uniform Commercial Code on items in the course of collection;

(r) Liens securing Indebtedness of any Foreign Subsidiary incurred in accordance with Section 4.09(b)(13);

(s) Liens in favor of the Company or any Guarantor;

(t) Liens securing reimbursement obligations with respect to commercial letters of credit which solely encumber goods and/or documents of title and other property relating to such letters of credit and products and proceeds thereof;

(u) extensions, renewals, replacements, Refinancings or refundings of any Liens referred to in clause (e), (g) or (i) above; *provided* that any such extension, renewal, Refinancing or refunding does not extend to any assets or secure any Indebtedness not securing or secured by the Liens being extended, renewed, replaced, Refinanced or refunded;

(v) judgment Liens not giving rise to a Default or Event of Default so long as such Lien is adequately bonded and any appropriate legal proceedings that may have been initiated for the review of such judgment, decree or order shall not have been finally terminated or the period within which such proceedings may be initiated shall not have expired;

(w) Liens upon specific items of inventory or other goods and proceeds of any Person securing such Person's obligations in respect of bankers' acceptances issued or credited for the account of such Person to facilitate the purchase, shipment or storage of such inventory or goods;

(x) Liens arising under consignment or similar arrangements for the sale of goods in the ordinary course of business;

(y) Liens arising from Uniform Commercial Code financing statement filings regarding operating leases entered into by the Company in the ordinary course of business;

(z) deposits made in the ordinary course of business to secure liability to insurance carriers;

(aa) Liens granted by a Restricted Subsidiary that is not a Guarantor in favor of the Company or a Guarantor;

(bb) Liens arising in connection with Cash Equivalents described in clause (d) of the definition of the term "Cash Equivalents";

(cc) deposits as security for contested taxes and contested import or customs duties;

(dd) Liens on insurance policies and the proceeds thereof granted in the ordinary course of business to secure the financing of insurance premiums with respect thereto;

(ee) Liens in favor of credit card processors granted in the ordinary course of business; and

(ff) other Liens securing Indebtedness that is permitted by the terms of this Indenture to be outstanding or other obligations having an aggregate principal amount at any one time outstanding not to exceed $1.0 million.

"*Person*" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government (including any agency or political subdivision thereof) or any other entity.

"*Preferred Equity Interest*" in any Person, means an Equity Interest of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over Equity Interests of any other class in such Person.

"*Private Placement Legend*" means the legend set forth in Section 2.01(c) hereof to be placed on all Notes issued under this Indenture except where otherwise permitted by the provisions hereof.

"*Purchase Money Indebtedness*" means Indebtedness (including Capital Lease Obligations) incurred (within 365 days of such purchase) to finance or refinance the purchase (including in the case of Capital Lease Obligations the lease), construction, installation or improvement of any assets used or useful in a Permitted Business (whether through the direct purchase of assets or through the purchase of Capital Stock of any Person owning such assets); *provided* that the amount of Indebtedness thereunder does not exceed the sum of (a) 100% of the purchase cost of such assets and costs incurred in such construction, installation or improvement and (b) reasonable fees and expenses of such Person incurred in connection therewith.

"*QIB*" means a "qualified institutional buyer" as defined in Rule 144A.

"*Qualified Capital Stock*" means any Capital Stock of the Company that is not Disqualified Stock.

"*Refinance*" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, purchase, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for or to consolidate, such Indebtedness. "*Refinanced*" and "*Refinancing*" shall have correlative meanings.

"*Regular Record Date*" for the interest payable on any Interest Payment Date means the June 30 or December 31 next preceding such Interest Payment Date.

"*Regulation S*" means Regulation S promulgated under the Securities Act.

"*Regulation S Global Note*" means a Global Note bearing the Private Placement Legend and deposited with or on behalf of the Depositary and registered in the name of the Depositary or its nominee, issued in an initial denomination equal to the outstanding principal amount of the Notes initially sold in reliance on Rule 903 of Regulation S.

"*Responsible Officer*" when used with respect to the Trustee, means any officer within the Corporate Trust Office of the Trustee (or any successor group of the Trustee) or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of such officer's knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of this Indenture.

"*Restricted Definitive Note*" means a Definitive Note bearing the Private Placement Legend.

"*Restricted Global Note*" means a Global Note bearing the Private Placement Legend.

"*Restricted Investment*" means an Investment other than a Permitted Investment.

"*Restricted Period*" means the relevant 40-day distribution compliance period as defined in Regulation S.

"*Restricted Subsidiary*" or "*Restricted Subsidiaries*" means any Subsidiary, other than Unrestricted Subsidiaries.

"*Rule 144*" means Rule 144 promulgated under the Securities Act.

"*Rule 144A*" means Rule 144A promulgated under the Securities Act.

"*Rule 903*" means Rule 903 promulgated under the Securities Act.

"*Rule 904*" means Rule 904 promulgated under the Securities Act.

"*S&P*" means Standard & Poor's Rating Services or any successor to the rating agency business thereof.

"*Secured Indebtedness*" means any Indebtedness secured by a Lien on any assets of the Company or any Domestic Subsidiary that is a Restricted Subsidiary.

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

"*Shelf Registration Statement*" means the Shelf Registration Statement as defined in the Company Registration Rights Agreement.

"*Significant Subsidiary*" means any Subsidiary that would be a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X promulgated pursuant to the Securities Act, as such regulation is in effect on the date of this Indenture.

"*Specified Dollar Amount*" means the maximum cash amount per $1,000 principal amount of Notes to be received upon conversion as specified in the Settlement Notice specifying the Company's chosen Settlement Method.

"*Subordinated Indebtedness*" means Indebtedness of the Company or any Restricted Subsidiary that is expressly subordinated in right of payment to the Notes or the Guarantees, as the case may be. No Indebtedness of the Company or any Restricted Subsidiary shall be deemed subordinated in right of payment to any other Indebtedness of the Company or such Restricted Subsidiary solely by virtue of any Liens, guarantees, maturity of payments or structural subordination.

"*Subsidiary*" or "*Subsidiaries*" means, with respect to any Person, any corporation, limited liability company, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person or a combination thereof.

"*TIA*" means the Trust Indenture Act of 1939 as in effect on the date hereof, except as provided in Section 9.03 hereof.

"*Trading Day*" means a day on which (a) trading in the Common Equity or American Depositary Shares, as applicable, generally occurs on the primary U.S. national or regional securities exchange on which the Common Equity or American Depositary Shares, as applicable, are listed or, if the Common Equity or American Depositary Shares, as applicable, are not then listed on a U.S. national or regional securities exchange, on the primary other market on which the Common Equity or American Depositary Shares, as applicable, are then traded and (b) there is no Market Disruption Event.

"*Trustee*" means U.S. Bank National Association until a successor replaces U.S. Bank National Association in accordance with the applicable provisions hereof and thereafter means the successor serving hereunder.

"*Unrestricted Definitive Note*" means one or more Definitive Notes that do not bear and are not required to bear the Private Placement Legend.

"*Unrestricted Global Note*" means a permanent Global Note substantially in the form of Exhibit A attached hereto that bears the Global Note Legend and that has the "Schedule of Exchanges of Interests in the Global Note" attached thereto, and that is deposited with or on behalf of and registered in the name of the Depositary, representing Notes that do not bear the Private Placement Legend.

"*Unrestricted Subsidiary*" or "*Unrestricted Subsidiaries*" means: (a) any Subsidiary designated as an Unrestricted Subsidiary in a resolution of the Board of Directors of the Company in accordance with Section 4.18; and (b) any Subsidiary of an Unrestricted Subsidiary.

"*U.S. Person*" means a U.S. Person as defined in Rule 902(k) under the Securities Act.

"*Volume Weighted Average Price*" means the per share volume weighted average price of Ordinary Shares as displayed under the heading "Bloomberg VWAP" on Bloomberg page "TSEM<equity>AQR" (or its equivalent if such page is not available) in respect of the period from the scheduled open of trading until the scheduled close of trading of the primary trading session on such Trading Day; or, if such price is not available, the Volume Weighted Average Price means the market value of one Ordinary Share on such Trading Day, using a volume-weighted average method, as determined by a nationally recognized independent investment banking firm retained for this purpose by the Company. The Volume Weighted Average Price shall be determined without regard to after-hours trading or any other trading outside of the regular trading session's trading hours.

"*Weighted Average Life to Maturity*" means, when applied to any Indebtedness at any date, the number of years obtained by dividing (a) the total of the product obtained by multiplying (i) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect thereof, by (ii) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment by (b) the then outstanding principal amount of such Indebtedness.

SECTION 1.02. ***Other Definitions.***

Term	*Defined in Section*
"Affiliate Transaction"	4.11(a)
"Additional Shares"	11.21(a)
"Cash Percentage"	11.03(d)
"Cash Settlement"	11.03(a)
"Change of Control Offer"	4.15(a)
"Change of Control Payment"	4.15(a)
"Change of Control Payment Date"	4.15(a)
"Combination Settlement"	11.03(a)
"Company"	Preamble
"Conversion Consideration"	11.01
"Conversion Date"	11.02(a)
"Conversion Obligation"	11.01
"Conversion Rate"	11.01
"Covenant Defeasance"	8.04
"Disposition"	"Change of Control"
"Distributed Assets"	11.07(c)
"DTC"	2.01(b)
"Effective Date"	11.21(c)
"Event of Default"	6.01
"Excess Proceeds"	4.10(c)
"Excess Proceeds Offer"	3.08(a)
"Expiration Date"	11.07(e)
"incur"	4.09
"Initial Lien"	4.12
"Legal Defeasance"	8.03
"Merger Event"	11.09
"Net Share Settlement"	11.03(e)
"Net Share Settlement Election"	11.03(e)
"Offer Amount"	3.08(b)
"Offer Period"	3.08(b)
"Parent"	Preamble
"Paying Agent"	2.03
"Payment Default"	6.01(f)
"Physical Settlement"	11.03(a)
"Purchase Date"	3.08(b)
"Reference Period"	11.07(c)
"Reference Property"	11.09
"Refinancing Indebtedness"	4.09(b)(10)
"Registrar"	2.03
"Restricted Payments"	4.07(a)
"Rights"	11.19
"Settlement Method"	11.03(a)
"Settlement Notice"	11.03(c)
"Shareholders Rights Plan"	11.19
"Spin-Off"	11.07(c)
"Trigger Event"	11.08
"Unit of Reference Property"	11.09

SECTION 1.03. ***Incorporation by Reference of Trust Indenture Act.***

Whenever this Indenture refers to a provision of the TIA, the provision is incorporated by reference in and made a part hereof.

The following TIA terms used in this Indenture have the following meanings:

"*indenture securities*" means the Notes;

"*indenture security holder*" means a Holder of a Note;

"*indenture to be qualified*" means this Indenture;

"*indenture trustee*" or "*institutional trustee*" means the Trustee; and

"*obligor*" on the Notes means each of the Company and any successor obligor upon the Notes.

All other terms used in this Indenture that are defined by the TIA, defined by reference to another statute or defined by the Commission rule under the TIA have the meanings so assigned to them.

SECTION 1.04. ***Rules of Construction.***

Unless the context otherwise requires,

(1) a term has the meaning assigned to it;

(2) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;

(3) "or" is not exclusive and "including" means "including without limitation";

(4) words in the singular include the plural, and in the plural include the singular;

(5) provisions apply to successive events and transactions; and

(6) references to sections of or rules under the Securities Act shall be deemed to include substitute, replacement of successor sections or rules adopted by the Commission from time to time.

SECTION 1.05. ***Acts of Holders; Record Dates.***

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders shall be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in Person or by an agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose hereof and conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section 1.05.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to such Person the execution thereof. Where such execution is by a signer acting in a capacity other than such Person's individual capacity, such certificate or affidavit shall also constitute sufficient proof of such Person's authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(c) The Company may, in the circumstances permitted by the TIA, fix any date as the record date for the purpose of determining the Holders entitled to give or take any request, demand, authorization, direction, notice, consent, waiver or other action, or to vote on any action, authorized or permitted to be given or taken by Holders. If not set by the Company prior to the first solicitation of a Holder made by any Person in respect of any such action, or, in the case of any such vote, prior to such vote, the record date for any such action or vote shall be the 30th day (or, if later, the date of the most recent list of Holders required to be provided pursuant to Section 2.05 hereof) prior to such first solicitation or vote, as the case may be. With regard to any record date, only the Holders on such date (or their duly designated proxies) shall be entitled to give or take, or vote on, the relevant action.

ARTICLE 2

THE NOTES

SECTION 2.01. ***Form and Dating.***

(a) The Notes and the Trustee's certificate of authentication shall be substantially in the form of Exhibit A hereto, the terms of which are incorporated in and made a part hereof. The Notes may have notations, legends or endorsements approved as to form by the Company, and required by law, stock exchange rule, agreements to which the Company is subject or usage. Each Note shall be dated the date of its authentication. The Notes shall be issuable only in denominations of $2,000 and integral multiples of $1,000 in excess thereof.

(b) The Notes shall initially be issued in the form of one or more Global Notes and The Depository Trust Company ("*DTC*"), its nominees, and their respective successors, shall act as the Depositary with respect thereto. Each Global Note (i) shall be registered in the name of the Depositary for such Global Note or the nominee of such Depositary, (ii) shall be delivered by the Trustee to such Depositary or pursuant to such Depositary's instructions, and (iii) shall bear a Global Note Legend in substantially the following form:

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("*DTC*"), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE AND IS REGISTERED IN THE NAME OF THE DEPOSITARY OR A NOMINEE OF THE DEPOSITARY OR A SUCCESSOR DEPOSITARY. THIS NOTE IS NOT EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE, AND NO TRANSFER OF THIS NOTE (OTHER THAN A TRANSFER OF THIS NOTE AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY OR BY THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY) MAY BE REGISTERED EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

(c) Except as permitted by Section 2.06(g) hereof, any Note not registered under the Securities Act shall bear the following Private Placement Legend on the face thereof:

THIS SECURITY AND THE ORDINARY SHARES, IF ANY, ISSUABLE UPON CONVERSION OF THIS SECURITY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY, NOR THE ORDINARY SHARES, IF ANY, ISSUABLE UPON CONVERSION OF THIS SECURITY, NOR ANY INTEREST OR PARTICIPATION HEREIN OR THEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY [INSERT FOR REGULATION S NOTES: PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") THAT IS 40 DAYS AFTER THE ORIGINAL ISSUE DATE HEREOF] ONLY (A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (D) PURSUANT TO OFFERS AND SALES TO A "NON-U.S. PERSON" AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF, AND IN COMPLIANCE WITH, REGULATION S UNDER THE SECURITIES ACT, (E) TO AN INSTITUTIONAL "ACCREDITED INVESTOR" WITHIN THE MEANING OF RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT THAT IS AN INSTITUTIONAL ACCREDITED INVESTOR ACQUIRING THE SECURITY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF SUCH AN INSTITUTIONAL ACCREDITED INVESTOR, IN EACH CASE IN A MINIMUM PRINCIPAL AMOUNT OF THE SECURITIES OF $250,000, FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO OR FOR OFFER OR SALE IN CONNECTION WITH ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, OR (F) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D), (E) OR (F) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. [INSERT FOR REGULATION S NOTES: THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.]

THE HOLDER OF THIS SECURITY WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

The Private Placement Legend shall be deemed removed from the face of any Note without further action of the Company, the Trustee or the Holder of such Note at such time as the Company shall have delivered an Officers' Certificate to the Trustee certifying that the Private Placement Legend can be removed because such Note may be resold to the public in accordance with Rule 144 or any successor provision thereof without regard to volume, manner of sale or any other restrictions contained in Rule 144 (other than the holding period requirement in paragraph (d)(1)(ii) of Rule 144 so long as such holding period requirement is satisfied at such time of determination) by Holders that are not Affiliates of the Company. To effect the foregoing, the Company shall comply with all Applicable Procedures.

(d) Any certificate representing Ordinary Shares issued upon conversion of any Note shall bear a legend in substantially the following form (unless such Ordinary Shares have been transferred pursuant to a registration statement that has become or been declared effective under the Securities Act and that continues to be effective at the time of such transfer, or pursuant to the exemption from registration provided by Rule 144 or similar provision then in force under the Securities Act):

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. THIS SECURITY, NOR ANY INTEREST OR PARTICIPATION HEREIN OR THEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY ONLY (A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (D) PURSUANT TO OFFERS AND SALES TO A "NON-U.S. PERSON" AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF, AND IN COMPLIANCE WITH, REGULATION S UNDER THE SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRANSFER AGENT'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM.

THE HOLDER OF THIS SECURITY WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

SECTION 2.02. ***Form of Execution and Authentication.***

An Officer shall sign the Notes for the Company by manual or facsimile signature.

If an Officer whose signature is on a Note no longer holds that office at the time the Note is authenticated, the Note shall nevertheless be valid.

A Note shall not be entitled to any benefit under this Indenture or be valid or obligatory for any purpose until authenticated by the manual or facsimile signature of the Trustee. The signature shall be conclusive evidence that the Note has been duly authenticated and delivered under this Indenture.

The Trustee shall authenticate (i) Initial Notes for original issue on the Issue Date in an aggregate principal amount of $48,307,000 and (ii) Additional Notes for original issue on the Issue Date in an aggregate principal amount of $10,000,000, in each case upon written order of the Company in the form of an Officers' Certificate. The Officers' Certificate shall specify the amount of Notes to be authenticated, the date on which the Notes are to be authenticated, whether the securities are to be Initial Notes or Additional Notes and the aggregate principal amount of Notes outstanding on the date of authentication, and shall further specify the amount of such Notes to be issued as Global Notes or Definitive Notes. Such Notes shall initially be in the form of one or more Global Notes, which (i) shall represent, and shall be denominated in an amount equal to the aggregate principal amount of, the Notes to be issued, (ii) shall be registered in the name of the Depositary or its nominee and (iii) shall be delivered by the Trustee to the Depositary or pursuant to the Depositary's instruction. All Notes issued under this Indenture shall vote and consent together on all matters as one class and no series of Notes will have the right to vote or consent as a separate class on any matter.

The Trustee may appoint an authenticating agent acceptable to the Company to authenticate Notes. Unless limited by the terms of such appointment, an authenticating agent may authenticate Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as an Agent to deal with the Company or any Affiliate of the Company.

SECTION 2.03. ***Registrar and Paying Agent.***

The Company shall maintain (i) an office or agency where Notes may be presented for registration of transfer or for exchange (including any co-registrar, the "*Registrar*") and (ii) an office or agency where Notes may be presented for payment ("*Paying Agent*"). The Registrar shall keep a register of the Notes and of their transfer and exchange. The Company may appoint one or more co-registrars and one or more additional paying agents. The term "Paying Agent" includes any additional paying agent. The Company may change any Paying Agent, Registrar or co-registrar without prior notice to any Holder of a Note. The Company shall notify the Trustee in writing and the Trustee shall notify the Holders of the Notes of the name and address of any Agent not a party to this Indenture. The Company may act as Paying Agent, Registrar or co-registrar. The Company shall enter into an appropriate agency agreement with any Agent not a party to this Indenture, which shall incorporate the provisions of the TIA. The agreement shall implement the provisions hereof that relate to such Agent. The Company shall notify the Trustee in writing of the name and address of any such Agent. If the Company fails to maintain a Registrar or Paying Agent, or fails to give the foregoing notice, the Trustee shall act as such, and shall be entitled to appropriate compensation in accordance with Section 7.07 hereof.

The Company initially appoints the Trustee as Registrar, Paying Agent and agent for service of notices and demands in connection with the Notes.

SECTION 2.04. ***Paying Agent To Hold Money in Trust.***

The Company shall require each Paying Agent other than the Trustee to agree in writing that the Paying Agent shall hold in trust for the benefit of the Holders of the Notes or the Trustee all money held by the Paying Agent for the payment of principal of, premium, if any, and interest on the Notes, and shall notify the Trustee in writing of any Default by the Company in making any such payment. While any such Default continues, the Trustee may require a Paying Agent to pay all money held by it to the Trustee. The Company at any time may require a Paying Agent to pay all money held by such Paying Agent to the Trustee. Upon payment over to the Trustee, the Paying Agent (if other than the Company) shall have no further liability for the money delivered to the Trustee. If the Company acts as Paying Agent, it shall segregate and hold in a separate trust fund for the benefit of the Holders of the Notes all money held by it as Paying Agent.

SECTION 2.05. ***Lists of Holders of the Notes.***

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Holders of the Notes and shall otherwise comply with TIA § 312(a). If the Trustee is not the Registrar, the Company shall furnish to the Trustee at least seven Business Days before each interest payment date and at such other times as the Trustee may request in writing a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Holders of the Notes, including the aggregate principal amount of the Notes held by each thereof, and the Company shall otherwise comply with TIA § 312(a).

SECTION 2.06. ***Transfer and Exchange.***

(a) *Transfer and Exchange of Global Notes.* A Global Note may not be transferred as a whole except by the Depositary to a nominee of the Depositary, by a nominee of the Depositary to the Depositary or to another nominee of the Depositary, or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary. Global Notes will be exchanged by the Company for Definitive Notes, subject to any applicable laws, only if (i) the Company delivers to the Trustee notice from the Depositary that (A) the Depositary is unwilling or unable to continue to act as Depositary for the Global Notes or (B) the Depositary is no longer a clearing agency registered under the Exchange Act and, in either case, the Company fails to appoint a successor Depositary within 90 days after the date of such notice from the Depositary, (ii) the Company in its sole discretion determines that the Global Notes (in whole but not in part) should be exchanged for Definitive Notes and delivers a written notice to such effect to the Trustee or (iii) upon request of the Trustee or Holders of a majority of the aggregate principal amount of outstanding Notes if there shall have occurred and be continuing an Event of Default with respect to the Notes. In any such case, the Company will notify the Trustee in writing that, upon surrender by the Participants and Indirect Participants of their interests in such Global Note, certificated Notes will be issued to each Person that such Participants, Indirect Participants and DTC jointly identify as being the beneficial owner of the related Notes. Global Notes also may be exchanged or replaced, in whole or in part, as provided in Sections 2.07 and 2.10 hereof. Every Note authenticated and delivered in exchange for, or in lieu of, a Global Note or any portion thereof, pursuant to this Section 2.06 or Section 2.07 or 2.10 hereof, shall be authenticated and delivered in the form of, and shall be, a Global Note. A Global Note may not be exchanged for another Note other than as provided in this Section 2.06. However, beneficial interests in a Global Note may be transferred and exchanged as provided in paragraph (b) or (c) below.

(b) *Transfer and Exchange of Beneficial Interests in the Global Notes*. The transfer and exchange of beneficial interests in the Global Notes shall be effected through the Depositary, in accordance with the provisions hereof and the Applicable Procedures. Beneficial interests in the Restricted Global Notes shall be subject to restrictions on transfer comparable to those set forth in this Indenture to the extent required by the Securities Act. Transfers of beneficial interests in the Global Notes also shall require compliance with the applicable subparagraphs below.

(i) *Transfer of Beneficial Interests in the Same Global Note*. Beneficial interests in any Restricted Global Note may be transferred to Persons who take delivery thereof in the form of a beneficial interest in the same Restricted Global Note in accordance with the transfer restrictions set forth in the Private Placement Legend; *provided, however*, that prior to the expiration of the Restricted Period, no transfer of beneficial interests in a Regulation S Global Note may be made to a U.S. Person or for the account or benefit of a U.S. Person unless permitted by applicable law and made in compliance with subparagraphs (ii) and (iii) below. Beneficial interests in any Unrestricted Global Note may be transferred to Persons who take delivery thereof in the form of a beneficial interest in an Unrestricted Global Note. No written orders or instructions shall be required to be delivered to the Registrar to effect the transfers described in this subparagraph (i) unless specifically stated above.

(ii) *All Other Transfers and Exchanges of Beneficial Interests in Global Notes*. In connection with all transfers and exchanges of beneficial interests that are not subject to subparagraph (i) above, the transferor of such beneficial interest must deliver to the Registrar either (A) (1) a written order from a Participant or an Indirect Participant given to the Depositary in accordance with the Applicable Procedures directing the Depositary to credit or cause to be credited a beneficial interest in another Global Note in an amount equal to the beneficial interest to be transferred or exchanged and (2) instructions given in accordance with the Applicable Procedures containing information regarding the Participant account to be credited with such increase, or (B) (1) if Definitive Notes are at such time permitted to be issued pursuant to this Indenture, a written order from a Participant or an Indirect Participant given to the Depositary in accordance with the Applicable Procedures directing the Depositary to cause to be issued a Definitive Note in an amount equal to the beneficial interest to be transferred or exchanged and (2) instructions given by the Depositary to the Registrar containing information regarding the Person in whose name such Definitive Note shall be registered to effect the transfer or exchange referred to in (1) above. Upon satisfaction of all of the requirements for transfer or exchange of beneficial interests in Global Notes contained in this Indenture and the Notes or otherwise applicable under the Securities Act, the Trustee shall adjust the principal amount of the relevant Global Note(s) pursuant to paragraph (h) below.

(iii) *Transfer of Beneficial Interests to Another Restricted Global Note*. A beneficial interest in any Restricted Global Note may be transferred to a Person who takes delivery thereof in the form of a beneficial interest in another Restricted Global Note if the transfer complies with the requirements of subparagraph (ii) above and the Registrar receives the following:

(A) if the transferee will take delivery in the form of a beneficial interest in a 144A Global Note, then the transferor must deliver a certificate in the form of Exhibit C hereto, including the certifications in item (1) thereof;

(B) if the transferee will take delivery in the form of a beneficial interest in a Regulation S Global Note, then the transferor must deliver a certificate in the form of Exhibit C hereto, including the certifications in item (2) thereof; and

(C) if the transferee will take delivery in the form of a beneficial interest in an IAI Global Note, then the transferor must deliver a certificate in the form of Exhibit C hereto, including the certifications in item (3) thereof.

(iv) Transfer and Exchange of Beneficial Interests in a Restricted Global Note for Beneficial Interests in an Unrestricted Global Note. A beneficial interest in any Restricted Global Note may be exchanged by any holder thereof for a beneficial interest in an Unrestricted Global Note or transferred to a Person who takes delivery thereof in the form of a beneficial interest in an Unrestricted Global Note if the exchange or transfer complies with the requirements of subparagraph (ii) above, and

(A) [Intentionally omitted];

(B) such transfer is effected pursuant to a Shelf Registration Statement in accordance with the Company Registration Rights Agreement;

(C) [Intentionally omitted]; or

(D) the Registrar receives the following:

(y) if the holder of such beneficial interest in a Restricted Global Note proposes to exchange such beneficial interest for a beneficial interest in an Unrestricted Global Note, a certificate from such holder in the form of Exhibit D hereto, including the certifications in item (1)(a) thereof, or

(z) if the holder of such beneficial interest in a Restricted Global Note proposes to transfer such beneficial interest to a Person who shall take delivery thereof in the form of a beneficial interest in an Unrestricted Global Note, a certificate from such holder in the form of Exhibit C hereto, including the applicable certifications in item (5) thereof;

and, in each such case set forth in this subparagraph (D), if the Registrar so requests or if the Applicable Procedures so require, an Opinion of Counsel in form reasonably acceptable to the Registrar to the effect that such exchange or transfer is in compliance with the Securities Act and that the restrictions on transfer contained in this Indenture and in the Private Placement Legend are no longer required in order to maintain compliance with the Securities Act.

If any such transfer is effected pursuant to subparagraph (B) or (D) above at a time when an Unrestricted Global Note has not yet been issued, the Company shall issue and, upon receipt of an authentication order in accordance with Section 2.02 hereof, the Trustee shall authenticate one or more Unrestricted Global Notes in an aggregate principal amount equal to the aggregate principal amount of beneficial interests transferred pursuant to subparagraph (B) or (D) above.

Beneficial interests in an Unrestricted Global Note cannot be exchanged for, or transferred to Persons who take delivery thereof in the form of, a beneficial interest in a Restricted Global Note.

(c) *Transfer and Exchange of Beneficial Interests for Definitive Notes.*

(i) *Transfer and Exchange of Beneficial Interests in Restricted Global Notes for Restricted Definitive Notes*. If any holder of a beneficial interest in a Restricted Global Note proposes to exchange such beneficial interest for a Restricted Definitive Note or to transfer such beneficial interest to a Person who takes delivery thereof in the form of a Restricted Definitive Note, then, subject to Section 2.06(a), upon receipt by the Registrar of the following documentation:

(A) if the holder of such beneficial interest in a Restricted Global Note proposes to exchange such beneficial interest for a Restricted Definitive Note, a certificate from such holder in the form of Exhibit D hereto, including the certifications in item (2)(a) thereof;

(B) if such beneficial interest is being transferred to a QIB in accordance with Rule 144A under the Securities Act, a certificate to the effect set forth in Exhibit C hereto, including the certifications in item (1) thereof;

(C) if such beneficial interest is being transferred to a Non-U.S. Person in an offshore transaction in accordance with Rule 903 or Rule 904 under the Securities Act, a certificate to the effect set forth in Exhibit C hereto, including the certifications in item (2) thereof;

(D) if the transferee will take delivery in the form of a beneficial interest in an IAI Global Note, then the transferor must deliver a certificate in the form of Exhibit C hereto, including the certifications in item (3) thereof; or

(E) if such beneficial interest is being transferred to the Company or any of its Subsidiaries, a certificate to the effect set forth in Exhibit C hereto, including the certifications in item (4)(b) thereof.

the Trustee shall cause the aggregate principal amount of the applicable Global Note to be reduced accordingly pursuant to paragraph (h) below, and the Company shall execute and the Trustee shall authenticate and deliver to the Person designated in the certificate a Restricted Definitive Note in the appropriate principal amount. Any Restricted Definitive Note issued in exchange for a beneficial interest in a Restricted Global Note pursuant to this paragraph (c) shall be registered in such name or names and in such authorized denomination or denominations as the holder of such beneficial interest shall instruct the Registrar through instructions from the Depositary and the Participant or Indirect Participant. The Trustee shall deliver such Restricted Definitive Notes to the Persons in whose names such Notes are so registered. Any Restricted Definitive Note issued in exchange for a beneficial interest in a Restricted Global Note pursuant to this subparagraph (i) shall bear the Private Placement Legend and shall be subject to all restrictions on transfer contained therein.

(ii) *Transfer and Exchange of Beneficial Interests in Restricted Global Notes for Unrestricted Definitive Notes*. Subject to Section 2.06(a), a holder of a beneficial interest in a Restricted Global Note may exchange such beneficial interest for an Unrestricted Definitive Note or may transfer such beneficial interest to a Person who takes delivery thereof in the form of an Unrestricted Definitive Note only if

(A) [Intentionally omitted];

(B) such transfer is effected pursuant to a Shelf Registration Statement in accordance with the Company Registration Rights Agreement;

(C) [Intentionally omitted]; or

(D) the Registrar receives the following:

(y) if the holder of such beneficial interest in a Restricted Global Note proposes to exchange such beneficial interest for a Definitive Note that does not bear the Private Placement Legend, a certificate from such holder in the form of Exhibit D hereto, including the certifications in item (1)(b) thereof; or

(z) if the holder of such beneficial interest in a Restricted Global Note proposes to transfer such beneficial interest to a Person who shall take delivery thereof in the form of a Definitive Note that does not bear the Private Placement Legend, a certificate from such holder in the form of Exhibit C hereto, including the applicable certifications in item (5) thereof,

and, in each such case set forth in this subparagraph (D), if the Registrar so requests or if the Applicable Procedures so require, an Opinion of Counsel in form reasonably acceptable to the Registrar to the effect that such exchange or transfer is in compliance with the Securities Act and that the restrictions on transfer contained in this Indenture and in the Private Placement Legend are no longer required in order to maintain compliance with the Securities Act.

(iii) *Transfer and Exchange of Beneficial Interests in Unrestricted Global Notes for Unrestricted Definitive Notes*. Subject to Section 2.06(a), if any holder of a beneficial interest in an Unrestricted Global Note proposes to exchange such beneficial interest for a Definitive Note or to transfer such beneficial interest to a Person who takes delivery thereof in the form of a Definitive Note, then, upon satisfaction of the conditions set forth in subparagraph (b)(ii) above, the Trustee shall cause the aggregate principal amount of the applicable Global Note to be reduced accordingly pursuant to paragraph (h) below, and the Company shall execute and the Trustee shall authenticate and deliver to the Person designated in the certificate a Definitive Note in the appropriate principal amount. Any Definitive Note issued in exchange for a beneficial interest pursuant to this subparagraph (c)(iii) shall be registered in such name or names and in such authorized denomination or denominations as the holder of such beneficial interest shall instruct the Registrar through instructions from the Depositary and the Participant or Indirect Participant. The Trustee shall deliver such Definitive Notes to the Persons in whose names such Notes are so registered. Any Definitive Note issued in exchange for a beneficial interest pursuant to this subparagraph (c)(iii) shall not bear the Private Placement Legend.

(d) *Transfer and Exchange of Definitive Notes for Beneficial Interests.*

(i) *Transfer and Exchange of Restricted Definitive Notes for Beneficial Interests in Restricted Global Notes.* If any Holder of a Restricted Definitive Note proposes to exchange such Note for a beneficial interest in a Restricted Global Note or to transfer such Restricted Definitive Notes to a Person who takes delivery thereof in the form of a beneficial interest in a Restricted Global Note, then, upon receipt by the Registrar of the following documentation:

(A) if the Holder of such Restricted Definitive Note proposes to exchange such Note for a beneficial interest in a Restricted Global Note, a certificate from such Holder in the form of Exhibit D hereto, including the certifications in item (2)(b) thereof;

(B) if such Restricted Definitive Note is being transferred to a QIB in accordance with Rule 144A under the Securities Act, a certificate to the effect set forth in Exhibit C hereto, including the certifications in item (1) thereof;

(C) if such Restricted Definitive Note is being transferred to a Non-U.S. Person in an offshore transaction in accordance with Rule 903 or Rule 904 under the Securities Act, a certificate to the effect set forth in Exhibit C hereto, including the certifications in item (2) thereof; or

(D) if the transferee will take delivery in the form of a beneficial interest in an IAI Global Note, then the transferor must deliver a certificate in the form of Exhibit C hereto, including the certifications in item (3) thereof,

the Trustee shall cancel the Restricted Definitive Note, increase or cause to be increased the aggregate principal amount of, in the case of clause (A) above, the appropriate Restricted Global Note, in the case of clause (B) above, the 144A Global Note, in the case of clause (C) above, the Regulation S Global Note, and in the case of clause (D) above, the IAI Global Note.

(ii) *Transfer and Exchange of Restricted Definitive Notes for Beneficial Interests in Unrestricted Global Notes*. A Holder of a Restricted Definitive Note may exchange such Note for a beneficial interest in an Unrestricted Global Note or transfer such Restricted Definitive Note to a Person who takes delivery thereof in the form of a beneficial interest in an Unrestricted Global Note only if

(A) [Intentionally omitted]

(B) such transfer is effected pursuant to a Shelf Registration Statement in accordance with the Company Registration Rights Agreement;

(C) [Intentionally omitted]; or

(D) the Registrar receives the following:

(y) if the Holder of such Definitive Notes proposes to exchange such Notes for a beneficial interest in an Unrestricted Global Note, a certificate from such Holder in the form of Exhibit D hereto, including the certifications in item (1)(c) thereof; or

(z) if the Holder of such Definitive Notes proposes to transfer such Notes to a Person who shall take delivery thereof in the form of a beneficial interest in an Unrestricted Global Note, a certificate from such Holder in the form of Exhibit C hereto, including the applicable certifications in item (5) thereof;

and, in each such case set forth in this subparagraph (D), if the Registrar so requests or if the Applicable Procedures so require, an Opinion of Counsel in form reasonably acceptable to the Registrar to the effect that such exchange or transfer is in compliance with the Securities Act and that the restrictions on transfer contained in this Indenture and in the Private Placement Legend are no longer required in order to maintain compliance with the Securities Act.

Upon satisfaction of the conditions of any of the subparagraphs in this subparagraph (d)(ii), the Trustee shall cancel the Definitive Notes and increase or cause to be increased the aggregate principal amount of the Unrestricted Global Note.

(iii) *Transfer and Exchange of Unrestricted Definitive Notes for Beneficial Interests in Unrestricted Global Notes*. A Holder of an Unrestricted Definitive Note may exchange such Note for a beneficial interest in an Unrestricted Global Note or transfer such Unrestricted Definitive Notes to a Person who takes delivery thereof in the form of a beneficial interest in an Unrestricted Global Note at any time. Upon receipt of a request for such an exchange or transfer, the Trustee shall cancel the applicable Unrestricted Definitive Note and increase or cause to be increased the aggregate principal amount of one of the Unrestricted Global Notes.

If any such exchange or transfer from an Unrestricted Definitive Note or a Restricted Definitive Note, as the case may be, to a beneficial interest is effected pursuant to subparagraph (ii)(B), (ii)(D) or (iii) above at a time when an Unrestricted Global Note has not yet been issued, the Company shall issue and, upon receipt of an authentication order in accordance with Section 2.02 hereof, the Trustee shall authenticate one or more Unrestricted Global Notes in an aggregate principal amount equal to the principal amount of Unrestricted Definitive Notes or Restricted Definitive Notes, as the case may be, so transferred.

(e) *Transfer and Exchange of Definitive Notes for Definitive Notes*. Upon request by a Holder of Definitive Notes and such Holder's compliance with the provisions of this paragraph (e), the Registrar shall register the transfer or exchange of Definitive Notes. Prior to such registration of transfer or exchange, the requesting Holder shall present or surrender to the Registrar the Definitive Notes duly endorsed or accompanied by a written instruction of transfer in form satisfactory to the Registrar duly executed by such Holder or its attorney, duly authorized in writing. In addition, the requesting Holder shall provide any additional certifications, documents and information, as applicable, required pursuant to the following provisions of this paragraph (e).

(i) *Transfer of Restricted Definitive Notes to Restricted Definitive Notes*. Any Restricted Definitive Note may be transferred to and registered in the name of Persons who take delivery thereof in the form of a Restricted Definitive Note if the Registrar receives the following:

(A) if the transfer will be made pursuant to Rule 144A under the Securities Act, then the transferor must deliver a certificate in the form of Exhibit C hereto, including the certifications in item (1) thereof;

(B) if the transfer will be made pursuant to Rule 903 or Rule 904, then the transferor must deliver a certificate in the form of Exhibit C hereto, including the certifications in item (2) thereof;

(C) if the transferee will take delivery in the form of a beneficial interest in an IAI Global Note, then the transferor must deliver a certificate in the form of Exhibit C hereto, including the certifications in item (3) thereof; and

(D) if the transfer will be made pursuant to any other exemption from the registration requirements of the Securities Act, then the transferor must deliver a certificate in the form of Exhibit C hereto, including, if the Registrar so requests, a certification or Opinion of Counsel in form reasonably acceptable to the Company to the effect that such transfer is in compliance with the Securities Act.

(ii) *Transfer and Exchange of Restricted Definitive Notes for Unrestricted Definitive Notes*. Any Restricted Definitive Note may be exchanged by the Holder thereof for an Unrestricted Definitive Note or transferred to a Person or Persons who take delivery thereof in the form of an Unrestricted Definitive Note if

(A) [Intentionally omitted]

(B) any such transfer is effected pursuant to a Shelf Registration Statement in accordance with the Company Registration Rights Agreement;

(C) [Intentionally omitted]; or

(D) the Registrar receives the following:

(y) if the Holder of such Restricted Definitive Notes proposes to exchange such Notes for an Unrestricted Definitive Note, a certificate from such Holder in the form of Exhibit D hereto, including the certifications in item (1)(d) thereof; or

(z) if the Holder of such Restricted Definitive Notes proposes to transfer such Notes to a Person who shall take delivery thereof in the form of an Unrestricted Definitive Note, a certificate from such Holder in the form of Exhibit C hereto, including the applicable certifications in item (5) thereof;

and, in each such case set forth in this subparagraph (D), if the Registrar so requests, an Opinion of Counsel in form reasonably acceptable to the Company to the effect that such exchange or transfer is in compliance with the Securities Act and that the restrictions on transfer contained in this Indenture and in the Private Placement Legend are no longer required in order to maintain compliance with the Securities Act.

(iii) *Transfer of Unrestricted Definitive Notes to Unrestricted Definitive Notes*. A Holder of Unrestricted Definitive Notes may transfer such Notes to a Person who takes delivery thereof in the form of an Unrestricted Definitive Note. Upon receipt of a request to register such a transfer, the Registrar shall register the Unrestricted Definitive Notes pursuant to the instructions from the Holder thereof.

(f) [Intentionally omitted]

(g) *Legends*. The following legends shall appear on the faces of all Global Notes and Definitive Notes issued under this Indenture unless specifically stated otherwise in the applicable provisions hereof.

(i) *Private Placement Legend*.

(A) Except as permitted by subparagraph (B) below, each Global Note (other than an Unrestricted Global Note) and each Definitive Note (and all Notes issued in exchange therefor or substitution thereof) shall bear the Private Placement Legend.

(B) Notwithstanding the foregoing, any Global Note or Definitive Note issued pursuant to subparagraph (b)(iv), (c)(ii), (c)(iii), (d)(ii), (d)(iii), (e)(ii) or (e)(iii) of this Section 2.06 (and all Notes issued in exchange therefor or substitution thereof) shall not bear the Private Placement Legend.

(ii) *Global Note Legend*. Each Global Note shall bear the Global Note Legend.

(h) *Cancellation and/or Adjustment of Global Notes*. At such time as all beneficial interests in a particular Global Note have been exchanged for Definitive Notes or a particular Global Note has been redeemed, repurchased or canceled in whole and not in part, each such Global Note shall be returned to or retained and canceled by the Trustee in accordance with Section 2.11 hereof. At any time prior to such cancellation, if any beneficial interest in a Global Note is exchanged for or transferred to a Person who will take delivery thereof in the form of a beneficial interest in another Global Note or for Definitive Notes, the principal amount of Notes represented by such Global Note shall be reduced accordingly and an endorsement shall be made on such Global Note by the Trustee or by the Depositary at the direction of the Trustee to reflect such reduction; and if the beneficial interest is being exchanged for or transferred to a Person who will take delivery thereof in the form of a beneficial interest in another Global Note, such other Global Note shall be increased accordingly and an endorsement shall be made on such Global Note by the Trustee or by the Depositary at the direction of the Trustee to reflect such increase.

(i) *General Provisions Relating to Transfers and Exchanges.*

(i) To permit registrations of transfers and exchanges, the Company shall execute and the Trustee shall authenticate Global Notes and Definitive Notes upon the Company's order or at the Registrar's request.

(ii) No service charge shall be made to a holder of a beneficial interest in a Global Note or to a Holder of a Definitive Note for any registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith (other than any such transfer taxes or similar governmental charge payable upon exchange or transfer pursuant to Sections 2.02, 2.10, 3.06, 3.08 and 9.05 hereof).

(iii) The Registrar shall not be required to register the transfer of or exchange any Note selected for redemption in whole or in part, except for the unredeemed portion of any Note being redeemed in part.

(iv) All Global Notes and Definitive Notes issued upon any registration of transfer or exchange of Global Notes or Definitive Notes shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits hereof, as the Global Notes or Definitive Notes surrendered upon such registration of transfer or exchange.

(v) The Company shall not be required (A) to issue, to register the transfer of or to exchange any Notes during a period beginning at the opening of business on a Business Day 15 days before the mailing of a notice of redemption of Notes and ending at the Close of Business on the day of such mailing or (B) to register the transfer of or to exchange any Note so selected for redemption in whole or in part, except the unredeemed portion of any Note being redeemed in part.

(vi) Prior to due presentment for the registration of a transfer of any Note, the Trustee, any Agent and the Company may deem and treat the Person in whose name any Note is registered as the absolute owner of such Note for the purpose of receiving payment of principal of and interest on such Notes and for all other purposes, and none of the Trustee, any Agent or the Company shall be affected by notice to the contrary.

(vii) The Trustee shall authenticate Global Notes and Definitive Notes in accordance with the provisions of Section 2.02 hereof.

(viii) All certifications, certificates and Opinions of Counsel required to be submitted to the Registrar pursuant to this Section 2.06 to effect a registration of transfer or exchange may be submitted by facsimile.

(ix) The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Note (including any transfers between or among Depositary Participants or beneficial owners of interests in any Global Note) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by the terms of, this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

(x) Neither the Trustee nor any Agent shall have any responsibility for any actions taken or not taken by the Depositary.

SECTION 2.07. ***Replacement Notes.***

If any mutilated Note is surrendered to the Trustee, or the Company and the Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Note, the Company shall issue and the Trustee, upon the written order of the Company signed by two Officers of the Company, shall authenticate a replacement Note if the Trustee's requirements for replacements of Notes are met. The Holder must supply an indemnity bond sufficient in the judgment of the Trustee and the Company to protect the Company, the Trustee, any Agent or any authenticating agent from any loss, expense, claim or liability which any of them may suffer if a Note is replaced. The Company and the Trustee may charge for their expenses in replacing a Note including reasonable fees and expenses of its counsel and of the Trustee and its counsel.

Every replacement Note is an obligation of the Company.

SECTION 2.08. ***Outstanding Notes.***

The Notes outstanding at any time are all the Notes authenticated by the Trustee except for those canceled by it, those delivered to it for cancellation and those described in this Section 2.08 as not outstanding.

If a Note is replaced pursuant to Section 2.07 hereof, it ceases to be outstanding unless the Trustee receives proof satisfactory to it that the replaced Note is held by a protected purchaser.

If the principal amount of any Note is considered paid under Section 4.01 hereof, it shall cease to be outstanding and interest on it shall cease to accrue.

Subject to Section 2.09 hereof, a Note does not cease to be outstanding because the Company, a Subsidiary of the Company or an Affiliate of the Company holds the Note.

SECTION 2.09. ***Treasury Notes.***

In determining whether the Holders of the required principal amount of Notes have concurred in any direction, waiver or consent, Notes owned by the Company, any Subsidiary of the Company or any Affiliate of the Company shall be considered as though not outstanding, except that for purposes of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Notes which a Responsible Officer actually knows to be so owned shall be so considered. Notwithstanding the foregoing, Notes that are to be acquired by the Company, any Subsidiary of the Company or an Affiliate of the Company pursuant to an exchange offer, tender offer or other agreement shall not be deemed to be owned by the Company, a Subsidiary of the Company or an Affiliate of the Company until legal title to such Notes passes to the Company, such Subsidiary or such Affiliate, as the case may be.

SECTION 2.10. ***Temporary Notes.***

Until Definitive Notes are ready for delivery, the Company may prepare and the Trustee shall authenticate temporary Notes. Temporary Notes shall be substantially in the form of Definitive Notes but may have variations that the Company and the Trustee consider appropriate for temporary Notes. Without unreasonable delay, the Company shall prepare and the Trustee, upon receipt of the written order of the Company signed by two Officers of the Company, shall authenticate definitive Notes in exchange for temporary Notes. Until such exchange, temporary Notes shall be entitled to the same rights, benefits and privileges as Definitive Notes.

SECTION 2.11. ***Cancellation.***

The Company at any time may deliver Notes to the Trustee for cancellation. The Registrar and Paying Agent shall forward to the Trustee any Notes surrendered to them for registration of transfer, exchange, conversion or payment. The Trustee shall cancel all Notes surrendered for registration of transfer, exchange, conversion, payment, replacement or cancellation and shall dispose of all canceled Notes in its customary manner (subject to the record retention requirements of the Exchange Act), unless the Company directs copies of canceled Notes to be returned to it. The Company may not issue new Notes to replace Notes that it has redeemed or paid or that have been delivered to the Trustee for cancellation.

SECTION 2.12. ***Defaulted Interest.***

If the Company defaults in a payment of interest on the Notes, it shall pay the defaulted interest in any lawful manner plus, to the extent lawful, interest payable on the defaulted interest, to the Persons who are Holders of the Notes on a subsequent special record date, which date shall be at the earliest practicable date but in all events at least five Business Days prior to the payment date, in each case at the rate provided in the Notes. The Company shall notify the Trustee in writing in the form of an Officers' Certificate of the amount of defaulted interest proposed to be paid on each Note and the date of the proposed payment, and at the same time the Company shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such defaulted interest as provided in this Section 2.12. The Company shall, with the consent of the Trustee, fix or cause to be fixed each such special record date and payment date. At least 15 days before the special record date, the Company (or the Trustee, in the name of and at the expense of the Company) shall mail to Holders of the Notes a notice that states the special record date, the related payment date and the amount of such interest to be paid.

SECTION 2.13. ***Record Date.***

The record date for purposes of determining the identity of Holders of the Notes entitled to vote or consent to any action by vote or consent authorized or permitted under this Indenture shall be determined as provided for in TIA §316(c).

SECTION 2.14. ***CUSIP Number.***

The Company in issuing the Notes may use a "CUSIP" number and, if it does so, the Trustee shall use the CUSIP number in notices of redemption or exchange as a convenience to Holders; *provided* that any such notice may state that no representation is made as to the correctness or accuracy of the CUSIP number printed in the notice or on the Notes and that reliance may be placed only on the other identification numbers printed on the Notes. The Company shall promptly notify the Trustee in writing of any change in the CUSIP number.

ARTICLE 3

NO REDEMPTION; EXCESS PROCEEDS OFFER

SECTION 3.01. ***Notices to Trustee.***

If the Company is required to make an Excess Proceeds Offer pursuant to Section 3.08 hereof, it shall furnish the Trustee, at least five (unless a shorter period is acceptable to the Trustee) but not more than ten Business Days before the applicable purchase date, an Officers' Certificate of the Company setting forth (i) the purchase date, (ii) the principal amount of Notes offered to be purchased and (iii) the purchase price.

SECTION 3.02. ***Selection of Notes To Be Purchased.***

If the aggregate principal amount of Notes surrendered by Holders and other parity Indebtedness tendered by the holders thereof exceeds the Offer Amount, the Company shall select the Notes and other parity Indebtedness to be purchased on a *pro rata* basis (with such adjustments as may be deemed appropriate by the Company so that only Notes in denominations of $2,000, or integral multiples of $1,000 in excess thereof, shall be purchased).

SECTION 3.03. ***[Reserved].***

SECTION 3.04. ***[Reserved].***

SECTION 3.05. ***Deposit of Purchase Price.***

On or prior to 11:00 a.m. Eastern Time on any Purchase Date, the Company shall deposit with the Trustee or with the Paying Agent money sufficient to pay the purchase price of and accrued interest on all Notes to be purchased on that date. The Trustee or the Paying Agent shall promptly return to the Company any money deposited with the Trustee or the Paying Agent by the Company in excess of the amounts necessary to pay the purchase price of, and accrued interest on, all Notes to be purchased.

On and after the Purchase Date, if the Company does not default in the payment of the purchase price, interest shall cease to accrue on the Notes or the portions of Notes accepted for payment on such Purchase Date. If any Note accepted for payment shall not be so paid upon surrender for purchase because of the failure of the Company to comply with the preceding paragraph, interest shall be paid on the unpaid principal, from the Purchase Date until such principal is paid, and to the extent lawful on any interest not paid on such unpaid principal, in each case at the rate provided in the Notes.

SECTION 3.06. ***Notes Purchased in Part.***

Upon surrender and cancellation of a Definitive Note that is purchased in part in connection with an Excess Proceeds Offer, the Company shall issue and the Trustee shall authenticate for the Holder of such Note, at the expense of the Company, a new Definitive Note in principal amount equal to the unpurchased portion of the Definitive Note surrendered.

SECTION 3.07. ***No Optional Redemption.***

The Company shall have no right to redeem the Notes prior to the Maturity Date.

SECTION 3.08. ***Excess Proceeds Offer.***

(a) When the cumulative amount of Excess Proceeds that have not been applied in accordance with Section 4.10 exceeds $2.0 million, the Company shall make an offer to all Holders of the Notes (an "*Excess Proceeds Offer*") to purchase the maximum principal amount of Notes that may be purchased out of such Excess Proceeds (or the *pro rata* amount of Excess Proceeds available to the Notes as contemplated by this paragraph (a)) at an offer price in cash in an amount equal to 100% of the principal amount thereof, together with accrued and unpaid interest to but excluding the date fixed for the closing of such offer in accordance with the procedures set forth in this Indenture. To the extent the Company or a Restricted Subsidiary is required under the terms of Indebtedness of the Company or such Restricted Subsidiary (other than Subordinated Indebtedness), the Company shall also make a *pro rata* offer to the holders of such Indebtedness (including the Notes) with such proceeds. If the aggregate principal amount of Notes and other parity Indebtedness surrendered by holders thereof exceeds the amount of such Excess Proceeds, the Notes and other parity Indebtedness shall be purchased on a *pro rata* basis. To the extent that the principal amount of Notes tendered pursuant to an Excess Proceeds Offer is less than the amount of such Excess Proceeds available to purchase Notes, the Company may use any remaining Excess Proceeds for general corporate purposes in compliance with the provisions of this Indenture. Upon completion of an Excess Proceeds Offer, the amount of Excess Proceeds shall be reset at zero.

(b) The Excess Proceeds Offer shall remain open for a period of 20 Business Days following its commencement and no longer, except to the extent that a longer period is required or a shorter period is permitted by applicable law (the "*Offer Period*"). No later than five Business Days after the termination of the Offer Period (the "*Purchase Date*"), the Company shall purchase the maximum principal amount of Notes and parity Indebtedness that may be purchased with such Excess Proceeds (which maximum principal amount of Notes and parity Indebtedness shall be the "*Offer Amount*") or, if less than the Offer Amount has been tendered, all Notes tendered in response to the Excess Proceeds Offer.

(c) The Company shall comply with the requirements of Section 14(e) of the Exchange Act and any other securities laws, rules and regulations thereunder to the extent such laws, rules and regulations are applicable in connection with the repurchase of the Notes required in the event of an Excess Proceeds Offer and shall not be deemed to have violated or breached the Company's obligations under this Section 3.08 as a result thereof.

(d) If the Purchase Date is on or after an interest record date and on or before the related interest payment date, any accrued and unpaid interest shall be paid to the Person in whose name a Note is registered at the Close of Business on such record date, and no additional interest shall be payable to Holders who tender Notes pursuant to the Excess Proceeds Offer.

(e) Upon the commencement of any Excess Proceeds Offer, the Company shall send, by first class mail (or, if the Notes are held in book-entry form, send by electronic transmission in accordance with the applicable procedures of the Depositary) a notice to each of the Holders of the Notes, with a copy to the Trustee. The notice shall contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Excess Proceeds Offer. The notice, which shall govern the terms of the Excess Proceeds Offer, shall state:

(i) that the Excess Proceeds Offer is being made pursuant to this Section 3.08 and the length of time the Excess Proceeds Offer shall remain open;

(ii) the Offer Amount, the purchase price and the Purchase Date;

(iii) that any Note not tendered or accepted for payment shall continue to accrue interest;

(iv) that, unless the Company defaults in making such payment, any Note accepted for payment pursuant to the Excess Proceeds Offer shall cease to accrue interest after the Purchase Date;

(v) that Holders electing to have a Note purchased pursuant to any Excess Proceeds Offer shall be required to surrender the Note, with the form entitled "Option of Holder To Elect Purchase" on the reverse of the Note completed, to the Company, a Depositary, if appointed by the Company, or a Paying Agent at the address specified in the notice at least three Business Days before the Purchase Date;

(vi) that Holders shall be entitled to withdraw their election if the Company, Depositary or Paying Agent, as the case may be, receives, not later than the expiration of the Offer Period, a facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Note the Holder delivered for purchase and a statement that such Holder is unconditionally withdrawing his election to have the Note purchased;

(vii) that, if the aggregate principal amount of Notes surrendered by Holders and other parity Indebtedness tendered by the holders thereof exceeds the Offer Amount, the Company shall select the Notes and other parity Indebtedness to be purchased on a *pro rata* basis (with such adjustments as may be deemed appropriate by the Company so that only Notes in denominations of $2,000, or integral multiples of $1,000 in excess thereof, shall be purchased); and

(viii) that Holders whose Notes were purchased only in part shall be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered.

(f) On or before the Purchase Date, the Company shall, to the extent lawful, accept for payment, on a *pro rata* basis to the extent necessary, the Offer Amount of Notes or portions thereof tendered pursuant to the Excess Proceeds Offer, or if less than the Offer Amount has been tendered, all Notes or portion thereof tendered, and deliver to the Trustee an Officers' Certificate stating that such Notes or portions thereof were accepted for payment by the Company in accordance with the terms of this Section 3.08. The Company, Depositary or Paying Agent, as the case may be, shall promptly (but in any case not later than five days after the Purchase Date) mail or deliver to each tendering Holder an amount equal to the purchase price of the Note tendered by such Holder and accepted by the Company for purchase, and the Company shall promptly issue a new Note, and the Trustee shall, upon receipt of a written order of the Company in the form of an Officers' Certificate, authenticate and mail or deliver such new Note, to such Holder equal in principal amount to any unpurchased portion of the Note surrendered. Any Note not so accepted shall be promptly mailed or delivered by the Company to the Holder thereof. The Company shall publicly announce the results of the Excess Proceeds Offer on the Purchase Date.

(g) Pending the final application of any such Net Proceeds, the Company or such Restricted Subsidiary may temporarily reduce revolving indebtedness under a Credit Facility, if any, or otherwise invest such Net Proceeds in Cash Equivalents or Marketable Securities.

(h) Other than as specifically provided in this Section 3.08, any purchase pursuant to this Section 3.08 shall be made pursuant to the provisions of Sections 3.01 through 3.06 hereof.

ARTICLE 4

COVENANTS

SECTION 4.01. ***Payment of Notes.***

(a) The Company shall pay or cause to be paid the principal of, premium, if any, and interest on the Notes on the dates and in the manner provided in the Notes. Principal, premium, if any, and interest shall be considered paid on the date due if the Paying Agent, if other than the Company, holds as of 11:00 a.m. Eastern Time on the due date money deposited by or on behalf of the Company in immediately available funds and designated for and sufficient to pay all principal, premium, if any, and interest then due. If a payment date is a Legal Holiday at a place of payment, payment may be made at that place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period.

(b) The Company shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue principal at the rate equal to the then applicable interest rate on the Notes to the extent lawful; it shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue installments of interest (without regard to any applicable grace period) at the same rate to the extent lawful.

SECTION 4.02. ***Maintenance of Office or Agency.***

(a) The Company shall maintain an office or agency (which may be an office of the Trustee or an affiliate of the Trustee, Registrar or co-registrar) where Notes may be surrendered for registration of transfer or for exchange and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Company shall give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee.

(b) The Company may also from time to time designate one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; *provided, however*, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency for such purposes. The Company shall give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

(c) The Company hereby designates the Corporate Trust Office of the Trustee as one such office or agency of the Company in accordance with Section 2.03 hereof.

SECTION 4.03. ***Reports.***

(a) Whether or not required by the rules and regulations of the Commission, so long as any Notes are outstanding, each of the Company and Parent shall furnish to the Trustee and the Holders of Notes, within 15 days after it is or would be required to be filed with the Commission, (i) all quarterly and annual financial information that would be required to be contained in a filing with the Commission on Forms 10-Q and 10-K or 20-F, as applicable, if the Company or Parent was required to file such forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" and, with respect to the annual information only, a report thereon by the independent registered public accounting firm of the Company or Parent, respectively, and (ii) all current reports that would be required to be filed with the Commission on Form 8-K or 6-K, as applicable, if the Company or Parent were required to file such reports; *provided, however*, that to the extent such reports are filed with the Commission and publicly available, such reports shall be deemed to have been furnished to the Trustee and the Holders and no additional copies need be provided to the Trustee or to the Holders of the Notes; *provided, further*, that the Trustee shall not be responsible for determining whether the filing of such reports has occurred.

(b) The Company and Parent will file the information described in Section 4.03(a) with the Commission to the extent that the Commission is accepting such filings. In addition, for so long as any Notes remain outstanding during any period when the Company is not subject to Section 13 or 15(d) of the Exchange Act, or otherwise permitted to furnish the Commission with certain information pursuant to Rule 12g3-2(b) of the Exchange Act, the Company will furnish to the Holders of the Notes and to prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

(c) The Company shall provide the Trustee with a sufficient number of copies of all reports and other documents and information that the Trustee may be required to deliver to the Holders of the Notes under this Section 4.03.

(d) Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

SECTION 4.04. ***Compliance Certificate.***

The Company shall deliver to the Trustee, within 120 days after the end of each fiscal year, an Officers' Certificate of the Company stating that a review of the activities of the Company and its Subsidiaries during the preceding fiscal year has been made under the supervision of the signing Officers with a view to determining whether the Company and Guarantors have kept, observed, performed and fulfilled their obligations under this Indenture and further stating, as to each such Officer signing such certificate, that to his or her knowledge each such entity is not in default in the performance or observance of any of the terms, provisions and conditions hereof (or, if a Default or Event of Default shall exist, describing all such Defaults or Events of Default of which he or she may have knowledge and what action each is taking or proposes to take with respect thereto).

SECTION 4.05. ***Taxes.***

The Company shall pay, and shall cause each of its Restricted Subsidiaries to pay, prior to delinquency, all material taxes, assessments, and governmental levies imposed upon the Company or its Restricted Subsidiaries except as contested in good faith and by appropriate proceedings or where the failure to effect such payment is not adverse in any material respect to the Holders of the Notes.

SECTION 4.06. ***Stay, Extension and Usury Laws.***

The Company covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law wherever enacted, now or at any time hereafter in force, that may affect the covenants or the performance hereof; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it shall not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law has been enacted.

SECTION 4.07. ***Limitation on Restricted Payments.***

(a) Neither the Company nor any of its Restricted Subsidiaries may, directly or indirectly:

(i) pay any dividend or make any distribution on account of any Equity Interests of the Company other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Company;

(ii) purchase, redeem or otherwise acquire or retire for value any of the Company's Equity Interests or any Subordinated Indebtedness, other than (x) Subordinated Indebtedness within one year of the stated maturity date thereof and (y) any such Equity Interests or Subordinated Indebtedness owned by the Company or by any Restricted Subsidiary;

(iii) pay any dividend or make any distribution on account of any Equity Interests of any Restricted Subsidiary, other than:

(A) to the Company or any Restricted Subsidiary; or

(B) to all holders of any class or series of Equity Interests of such Restricted Subsidiary on a *pro rata* basis; or

(iv) make any Restricted Investment

(all such prohibited payments and other actions set forth in clauses (i) through (iv) being collectively referred to as "*Restricted Payments*"), unless, at the time of such Restricted Payment:

(1) no Default or Event of Default shall have occurred and be continuing or would occur as a consequence thereof;

(2) after giving effect to the incurrence of any Indebtedness the net proceeds of which are used to finance such Restricted Payment, the Company is able to incur at least $1.00 of additional Indebtedness in compliance with Section 4.09(a); and

(3) such Restricted Payment, together with the aggregate of all other Restricted Payments made after the Issue Date, is less than the sum of:

(A) 50% of the aggregate amount of the Consolidated Net Income accrued on a cumulative basis during the period, taken as one accounting period, beginning on the first day of the fiscal quarter during which the Issue Date occurs and ending on the last day of the Company's most recently completed fiscal quarter for which internal financial statements are available at the time of such Restricted Payment, or in the case that such Consolidated Net Income for such period is a deficit, minus 100% of such deficit, *plus*

(B) an amount equal to the sum of (x) 100% of the aggregate net cash proceeds and the fair market value of any property or assets received by the Company from the issue or sale of Equity Interests (other than Disqualified Stock) of the Company (other than Equity Interests sold to any of the Company's Subsidiaries), following the Issue Date and (y) the aggregate amount by which Indebtedness (other than any Indebtedness owed to the Company or a Subsidiary) incurred by the Company or any Restricted Subsidiary subsequent to the Issue Date is reduced on the Company's balance sheet upon the conversion or exchange thereof into Qualified Capital Stock (less the amount of any cash, or the fair market value of assets, distributed by the Company or any Restricted Subsidiary upon such conversion or exchange); *plus*

(C) if any Unrestricted Subsidiary is designated by the Company as a Restricted Subsidiary, an amount equal to the fair market value of the net Investment by the Company or a Restricted Subsidiary in such Subsidiary at the time of such designation; *provided, however*, that the foregoing amount shall not exceed the amount of Restricted Investments made by the Company or any Restricted Subsidiary in any such Unrestricted Subsidiary following the Issue Date which reduced the amount available for Restricted Payments pursuant to this clause (3) *less* amounts received by the Company or any Restricted Subsidiary from such Unrestricted Subsidiary that increased the amount available for Restricted Payments pursuant to clause (D) below; *plus*

(D) 100% of any cash dividends and other cash distributions received by the Company and the Company's Restricted Subsidiaries from an Unrestricted Subsidiary since the Issue Date to the extent not included in Consolidated Net Income; *provided, however*, that the foregoing amount shall not exceed the amount of Restricted Investments made by the Company or any Restricted Subsidiary in any such Unrestricted Subsidiary following the Issue Date which reduced the amount available for Restricted Payments pursuant to this clause (3); *plus*

(E) to the extent not included in clauses (A) through (D) above, an amount equal to the net reduction in Restricted Investments of the Company and the Company's Restricted Subsidiaries following the Issue Date resulting from payments in cash of interest on Indebtedness, dividends, or repayment of loans or advances, or other transfers of property, in each case, to the Company or to a Restricted Subsidiary or from the net cash proceeds from the sale, conveyance, liquidation or other disposition of any such Restricted Investment, not to exceed the amount of such Restricted Investment so made.

(b) The foregoing provisions will not prohibit the following (*provided* that with respect to clause (6) below, no Default or Event of Default shall have occurred and be continuing):

(1) the payment of any dividend or distribution within 60 days after the date of declaration thereof, if at the date of declaration such payment would have complied with the provisions hereof;

(2) the redemption, repurchase, retirement or other acquisition of (x) any Equity Interests of the Company in exchange for, or out of the net proceeds of the substantially concurrent issue or sale of, Equity Interests (other than Disqualified Stock) of the Company (other than Equity Interests (other than Disqualified Stock) issued or sold to any Subsidiary) or (y) Subordinated Indebtedness or Disqualified Stock of the Company or any Restricted Subsidiary (A) in exchange for, or out of the proceeds of the substantially concurrent issuance and sale of, Qualified Capital Stock, (B) in exchange for, or out of the proceeds of the substantially concurrent incurrence of, Refinancing Indebtedness permitted to be incurred under clause (9) of Section 4.09(b) or other Indebtedness permitted to be incurred under Section 4.09 or (C) with the Net Proceeds from an Asset Sale or upon a Change of Control, in each case with respect to Subordinated Indebtedness redeemed, repurchased, retired or acquired under this clause (C), to the extent required by the agreement governing such Subordinated Indebtedness but only if the Company shall have previously applied such Net Proceeds to make an Excess Proceeds Offer or made a Change of Control Offer, as the case may be, in accordance with Section 3.08 or 4.15, as applicable, and purchased all Notes validly tendered pursuant to the relevant offer prior to redeeming or repurchasing such Subordinated Indebtedness;

(3) the accrual, declaration and payment of dividends to holders of any class or series of Disqualified Stock of the Company or any of its Restricted Subsidiaries or shares of Preferred Equity Interests of any Restricted Subsidiary issued in accordance with Section 4.09;

(4) repurchases or other acquisitions of Equity Interests deemed to occur upon exercise of stock options or warrants or upon the vesting of restricted stock units if such Equity Interests represent the exercise price of such options or warrants or represent withholding taxes due upon such exercise or vesting;

(5) Restricted Payments in an amount not to exceed $2.0 million;

(6) the purchase of Equity Interests or options, warrants, equity appreciation rights or other rights to purchase or acquire Equity Interests of the Company held by any existing or former employees, management or directors of the Company or any Restricted Subsidiary of the Company or their assigns, estates or heirs, in each case in connection with the repurchase provisions under employee stock option or stock purchase agreements or other agreements to compensate management, employees or directors; *provided* that such redemptions or repurchases pursuant to this clause (6) during any calendar year will not exceed $1.0 million in the aggregate (with unused amounts in any calendar year being carried over to succeeding calendar years);

(7) the purchase of fractional shares of Capital Stock of the Company arising out of stock dividends, splits or combinations or mergers, consolidations or other acquisitions or the payment of cash in lieu of fractional shares upon the exercise of warrants, options or other securities convertible into or exercisable for Capital Stock of the Company;

(8) in connection with any acquisition by the Company or by any of its Restricted Subsidiaries, the receipt or acceptance of the return to the Company or any of its Restricted Subsidiaries of Capital Stock of the Company or any Restricted Subsidiaries constituting a portion of the purchase price consideration in settlement of indemnification claims or as a result of a purchase price adjustment (including earn-outs and similar obligations);

(9) the honoring of any conversion request by a holder of any convertible Indebtedness that is convertible into Capital Stock of the Company or its Restricted Subsidiaries and the making of cash payments in lieu of fractional shares in connection with any conversion of convertible Indebtedness in accordance with the terms of any convertible Indebtedness; and

(10) payments or distributions to stockholders in an amount not to exceed $1.0 million pursuant to appraisal rights required under applicable law in connection with any merger, consolidation or other acquisition by the Company or any Restricted Subsidiary.

(c) Restricted Payments made pursuant to Section 4.07(a) and clause (1) of Section 4.07(b) shall be included as Restricted Payments in any computation made pursuant to clause (3) of Section 4.07(a). Restricted Payments made pursuant to clauses (2) through (10) of Section 4.07(b) shall not be included as Restricted Payments in any computation made pursuant to clause (3) of Section 4.07(a).

(d) If the Company or any Restricted Subsidiary makes a Restricted Investment and the Person in which such Investment was made subsequently becomes a Restricted Subsidiary, to the extent such Investment resulted in a reduction in the amounts calculated under clause (3) of Section 4.07(a) or under any other provision of this Section 4.07 (which was not subsequently reversed), then such amount shall be increased by the amount of such reduction.

(e) For purposes of determining compliance with this Section 4.07, (i) the amount of any Restricted Payment shall be counted only once, and (ii) if a Restricted Payment (A) meets the criteria of more than one of the categories described in clauses (1) through (10) of Section 4.07(b), or (B) is permitted to be made pursuant to Section 4.07(a) and also meets the criteria of one or more of the categories described in clauses (1) through (10) of Section 4.07(b), or (C) meets the criteria of one or more of the categories of Permitted Investments and is also permitted to be made pursuant to Section 4.07(a) and/or also meets the criteria of one or more categories described in clauses (1) through (10) of Section 4.07(b), the Company shall, in its sole discretion, divide and classify such Restricted Payment in any manner that complies with this Section 4.07 and may from time to time reclassify such Restricted Payment in any manner in which such item could be incurred at the time such Restricted Payment was made.

SECTION 4.08. ***Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries.***

(a) The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distribution to the Company or any of its Restricted Subsidiaries on its Capital Stock or with respect to any other interest or participation in, or measured by, its profits, or pay any Indebtedness owed to the Company or any of its Subsidiaries;

(2) make loans or advances to the Company or any of its Subsidiaries; or

(3) transfer any of its properties or assets to the Company or any of its Subsidiaries.

(b) The foregoing limitations shall not apply to any such encumbrances or restrictions existing under or by reason of:

(1) Existing Indebtedness and existing agreements as in effect on the Issue Date;

(2) applicable law, regulation, order, approval, license, permit, grant or similar restriction, in each case issued or imposed by a governmental authority;

(3) pursuant to an agreement existing at the time a Person became a Restricted Subsidiary or property is acquired by the Company or any Restricted Subsidiary (including those existing by reason of Acquired Debt); *provided, however*, that such encumbrances or restrictions were not created in anticipation of such Person becoming a Restricted Subsidiary or such property being acquired and are not applicable to the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired;

(4) by reason of customary nonassignment provisions in leases, licenses and other agreements entered into in the ordinary course of business and consistent with past practices;

(5) Refinancing Indebtedness; *provided* that the restrictions contained in the agreements governing such Refinancing Indebtedness are no more restrictive than those contained in the agreements governing the Indebtedness being Refinanced;

(6) this Indenture and the Notes or by the Company's other Indebtedness ranking *pari passu* with the Notes; *provided* that such restrictions are no more restrictive taken as a whole than those imposed by this Indenture and the Notes;

(7) any Credit Facility;

(8) any agreement, contract or instrument entered into in connection with Permitted Liens to the extent imposing restrictions on the assets subject to such Liens;

(9) any agreement for the sale of any Subsidiary or its assets that restricts distributions by that Subsidiary (or sale of such Subsidiary's Equity Interests) pending its sale; *provided* that during the entire period in which such encumbrance or restriction is effective, such sale (together with any other sales pending) would be permitted under the terms of this Indenture;

(10) secured Indebtedness otherwise permitted to be incurred by this Indenture that limits the right of the debtor to dispose of the assets securing such Indebtedness;

(11) customary provisions in joint venture agreements and other similar agreements which are applicable to the Equity Interests of such joint venture;

(12) Purchase Money Indebtedness permitted under Section 4.09 that imposes restrictions of the type described in clause (3) of Section 4.08(a) on the property so acquired;

(13) any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings of the contracts, instruments or obligations referred to in clauses (1) through (12) of this Section 4.08(b); *provided* that such amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings are, in the good faith judgment of the Company, not materially more restrictive as a whole with respect to such encumbrances and restrictions than those prior to such amendment, modification, restatement, renewal, increase, supplement, refunding, replacement or refinancing;

(14) under any contract, instrument or agreement relating to Indebtedness of any Foreign Subsidiary permitted under Section 4.09 which imposes restrictions solely on such Foreign Subsidiary and its Subsidiaries; or

(15) any restriction on cash or other deposits or net worth imposed by customers or lessors or required by insurance, surety or bonding companies, in each case under contracts entered into in the ordinary course of business.

SECTION 4.09. ***Limitation on Incurrence of Indebtedness.***

(a) The Company shall not, and shall not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable with respect to (collectively, "*incur*") any Indebtedness (including Acquired Debt) or permit any of its Restricted Subsidiaries to issue any Preferred Equity Interests; *provided, however*, that, notwithstanding the foregoing, the Company and any Guarantor may incur Indebtedness (including Acquired Debt and the issuance of Disqualified Stock) and any Guarantor may issue Preferred Equity Interests, if, after giving effect to the incurrence of such Indebtedness or the issuance of such Preferred Equity Interests and the application of the net proceeds thereof on a *pro forma* basis, the Company's Fixed Charge Coverage Ratio is not less than 2.5 to 1.0 and no Default or Event of Default would occur as a consequence of such incurrence or be continuing following such incurrence.

(b) The foregoing limitation will not apply to any of the following incurrences of Indebtedness:

(1) Indebtedness represented by the Notes issued on the Issue Date and the related Guarantees;

(2) Indebtedness of the Company or any Restricted Subsidiary under any Credit Facility in an aggregate principal amount at any time outstanding not to exceed the excess of (x) $70.0 million over (y) the aggregate principal amount of Indebtedness under the Credit Facilities permanently repaid pursuant to clause (1) of Section 4.10(b);

(3) (x) Indebtedness among the Company and its Restricted Subsidiaries; *provided* that any such Indebtedness owed by the Company or a Guarantor to any Restricted Subsidiary that is not a Guarantor shall be subordinated to the prior payment in full of the Notes or the Guarantees, as applicable, and (y) Preferred Equity Interests of a Restricted Subsidiary held by the Company or a Restricted Subsidiary; *provided* that if such Preferred Equity Interests are issued by a Guarantor, such Preferred Equity Interests are held by the Company or a Guarantor;

(4) Existing Indebtedness;

(5) Indebtedness consisting of Purchase Money Indebtedness in an aggregate principal amount (when aggregated with the amount of Refinancing Indebtedness outstanding under clause (9) below in respect of Indebtedness incurred pursuant to this clause (5)) not to exceed $9.0 million outstanding at any time;

(6) Hedging Obligations of the Company or any of its Restricted Subsidiaries covering Indebtedness of the Company or such Restricted Subsidiary; *provided, however*, that such Hedging Obligations are entered into for purposes of managing interest rate exposure of the Company and its Restricted Subsidiaries and not for speculative purposes;

(7) Foreign Currency Obligations of the Company or any of its Restricted Subsidiaries entered into to manage exposure of the Company and its Restricted Subsidiaries to fluctuations in currency values and not for speculative purposes;

(8) Indebtedness of the Company or any of its Restricted Subsidiaries in respect of performance bonds, bankers' acceptances, bank guarantees or letters of credit of the Company or any Restricted Subsidiary or surety or appeal bonds provided by the Company or any Restricted Subsidiary incurred in the ordinary course of business and on ordinary business terms in connection with a Permitted Business;

(9) the incurrence by the Company or any Restricted Subsidiary of Indebtedness Refinancing, in whole or in part, Indebtedness referred to in Section 4.09(a) or in clause (1), (4) or (5) above or this clause (9) ("*Refinancing Indebtedness*"); *provided, however*, that:

(A) the principal amount of such Refinancing Indebtedness shall not exceed the principal amount and accrued interest of the Indebtedness so Refinanced and any premiums payable and reasonable fees, expenses, commissions and costs in connection therewith;

(B) the Refinancing Indebtedness shall have a final maturity equal to or later than, and a Weighted Average Life to Maturity equal to or greater than, the final maturity and Weighted Average Life to Maturity, respectively, of the Indebtedness being Refinanced;

(C) if the Indebtedness being Refinanced is subordinated in right of payment to the Notes and the Guarantees, the Refinancing Indebtedness shall be subordinated in right of payment to the Notes and the Guarantees on terms at least as favorable, taken as a whole, to the Holders of Notes as those contained in the documentation governing the Indebtedness being Refinanced; and

(D) if the Indebtedness to be Refinanced was the obligation of the Company or Guarantor, such Indebtedness shall not be incurred by any of its Restricted Subsidiaries other than a Guarantor or any Restricted Subsidiary that was an obligor under the Indebtedness so Refinanced;

(10) additional Indebtedness in an aggregate principal amount not to exceed $2.0 million at any one time outstanding;

(11) the guarantee by the Company or any Guarantor of Indebtedness of the Company or a Restricted Subsidiary that was permitted to be incurred by another provision of this Section 4.09 and the guarantee by any Restricted Subsidiary that is not a Guarantor of any Indebtedness of any Restricted Subsidiary that is not a Guarantor;

(12) the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, and the payment of dividends on Disqualified Stock in the form of additional shares of the same class of Disqualified Stock;

(13) Indebtedness of Foreign Subsidiaries in an aggregate principal amount outstanding at any time not to exceed $5.0 million;

(14) customary purchase price adjustments (including earn-outs) and indemnifications and similar obligations in connection with acquisition or disposition of stock or assets; and

(15) guarantees to suppliers, licensors or franchisees (other than guarantees of Indebtedness) in the ordinary course of business.

(c) For purposes of determining compliance with this Section 4.09, (1) the outstanding principal amount of any item of Indebtedness shall be counted only once, and any obligation arising under any guarantee, Lien, letter of credit or similar instrument supporting such Indebtedness incurred in compliance with this Section 4.09 shall be disregarded, and (2) if an item of Indebtedness meets the criteria of more than one of the categories described in clauses (1) through (15) of Section 4.09(b) or is permitted to be incurred pursuant to Section 4.09(a) and also meets the criteria of one or more of the categories described in clauses (1) through (15) of Section 4.09(b), the Company shall, in its sole discretion, divide and classify such item of Indebtedness in any manner that complies with this Section 4.09 and may from time to time reclassify such item of Indebtedness in any manner in which such item could be incurred at the time of such reclassification.

(d) Accrual of interest, the accretion of original issue discount and the payment of interest in the form of additional Indebtedness of the same class, the accumulation of dividends on Disqualified Stock or Preferred Equity Interests of a Restricted Subsidiary (to the extent not paid), and the payment of dividends on Disqualified Stock or Preferred Equity Interests of Restricted Subsidiaries in the form of additional shares of the same class shall not be deemed to be an incurrence of Indebtedness for purposes of determining compliance with this Section 4.09. Any increase in the amount of Indebtedness solely by reason of currency fluctuations shall not be deemed to be an incurrence of Indebtedness for purposes of determining compliance with this Section 4.09. A change in GAAP that results in an obligation existing at the time of such change, not previously classified as Indebtedness, becoming Indebtedness shall not be deemed to be an incurrence of Indebtedness for purposes of determining compliance with this Section 4.09.

(e) The amount of Indebtedness outstanding as of any date shall be (1) the accreted value thereof, in the case of any Indebtedness issued with original issue discount, (2) the principal amount thereof, in the case of any other Indebtedness, (3) in the case of the guarantee by the specified Person of any Indebtedness of any other Person, the maximum liability to which the specified Person may be subject upon the occurrence of the contingency giving rise to the obligation and (4) in the case of Indebtedness of others guaranteed by means of a Lien on any asset of the Company or any Restricted Subsidiary, the lesser of (A) the fair market value of such asset on the date on which Indebtedness is required to be determined pursuant to this Indenture and (B) the amount of the Indebtedness so secured.

(f) For purposes of determining compliance with any U.S. dollar-denominated restriction on the incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; *provided* that if such Indebtedness is incurred to Refinance other Indebtedness denominated in a foreign currency, and such Refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such Refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such Refinancing Indebtedness does not exceed the principal amount of such Indebtedness being Refinanced. Notwithstanding any other provision of this Section 4.09, the maximum amount of Indebtedness that the Company may incur pursuant to this Section 4.09 shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Indebtedness incurred to Refinance other Indebtedness, if incurred in a different currency from the Indebtedness being Refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Refinancing Indebtedness is denominated that is in effect on the date of such Refinancing.

SECTION 4.10. ***Limitation on Asset Sales.***

(a) The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, consummate any Asset Sale unless:

(1) the Company or such Restricted Subsidiary receives consideration at the time of such Asset Sale at least equal to the fair market value (determined as of the time of contractually agreeing to such Asset Sale) of the assets included in such Asset Sale (such fair market value to be determined by (i) an executive officer of the Company or such Subsidiary if the value is less than $5.0 million or (ii) in all other cases by a resolution of the Board of Directors of the Company (or of a committee appointed thereby for such purposes));

(2) at least 75% of the total consideration in such Asset Sale consists of cash or Cash Equivalents or Marketable Securities received at the closing of such Asset Sale; and

(3) the Company delivers Officers' Certificate to the Trustee certifying that clauses (1) and (2) above have been complied with.

For purposes of clause (2) above, the following shall be deemed to be cash received at closing:

(A) the amount (without duplication) of any Indebtedness or other liabilities (other than Subordinated Indebtedness) of the Company or such Restricted Subsidiary that is expressly assumed by the transferee in such Asset Sale and with respect to which the Company or such Restricted Subsidiary, as the case may be, is unconditionally released by the holder of such Indebtedness or liability,

(B) the amount of any obligations or securities received from such transferee that are within 180 days converted by the Company or such Restricted Subsidiary to cash (to the extent of the cash actually so received), and

(C) the fair market value (determined in good faith by the Board of Directors of the Company) of any assets received by the Company or any Restricted Subsidiary to be used by the Company or any Restricted Subsidiary in a Permitted Business.

(b) If the Company or any Restricted Subsidiary engages in an Asset Sale, the Company or such Restricted Subsidiary shall apply all or any of the Net Proceeds therefrom, at the Company's election, to:

(1) repay, prepay, purchase, redeem or otherwise retire Indebtedness under any Credit Facility, and in the case of any such repayment under any revolving credit facility, effect a permanent reduction in the availability under such revolving credit facility in an amount equal to the principal amount so prepaid;

(2) (A) invest all or any part of the Net Proceeds thereof in capital expenditures or the purchase of assets to be used by the Company or any Restricted Subsidiary in a Permitted Business, (B) acquire Equity Interests in a Person that is a Restricted Subsidiary or in a Person engaged primarily in a Permitted Business that shall become a Restricted Subsidiary immediately upon the consummation of such acquisition or (C) a combination of (A) and (B); or

(3) any combination of (1) and (2).

(c) Any Net Proceeds from any Asset Sale that are not applied or invested (or committed pursuant to a written agreement to be applied) as provided in Section 4.10(b) within 365 days after the receipt thereof and, in the case of any amount committed to a reinvestment, which are not actually so applied within 180 days following such 365 day period shall constitute "*Excess Proceeds*."

SECTION 4.11. ***Limitation on Transactions with Affiliates.***

(a) The Company shall not and shall not permit any Restricted Subsidiary to, directly or indirectly, sell, lease, transfer or otherwise dispose of any of the Company's or any Restricted Subsidiary's properties or assets to, or purchase any property or assets from, or enter into any contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (including any Unrestricted Subsidiary) (each of the foregoing, an "*Affiliate Transaction*"), unless:

(1) such Affiliate Transaction is on terms that are not materially less favorable, taken as a whole, to the Company or such Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or such Restricted Subsidiary with an unrelated Person; *provided* that such transaction shall be deemed to be on terms at least as favorable as terms that could have been obtained in a comparable transaction with an unrelated Person (i) if the Company or such Restricted Subsidiary has obtained the favorable opinion of an independent certified public accounting firm, which may be the Company's auditors, as to the fairness of such Affiliate Transaction to us or the relevant Restricted Subsidiary, as the case may be, from a financial point of view or (ii) if such transaction is approved by the members of (x) the Board of Directors of the Company or (y) any duly constituted committee thereof, in each case including a majority of the disinterested members thereof who meet the independence requirements of the New York Stock Exchange or the Nasdaq Stock Market; and

(2) if such Affiliate Transaction involves aggregate payments in excess of $5.0 million, either (i) such Affiliate Transaction has been approved by a resolution of the members of (x) the Board of Directors of the Company or (y) any duly constituted committee thereof, in each case including a majority of the disinterested members thereof who meet the independence requirements of the New York Stock Exchange or the Nasdaq Stock Market, (ii) the Company or such Restricted Subsidiary has obtained the favorable opinion of an Independent Financial Advisor as to the fairness of such Affiliate Transaction to the Company or the relevant Restricted Subsidiary, as the case may be, from a financial point of view or (iii) the Company or such Restricted Subsidiary has obtained the favorable opinion of an independent certified public accounting firm, which may be the Company's auditors, as to the fairness of such Affiliate Transaction to the Company or the relevant Restricted Subsidiary, as the case may be, from a financial point of view.

(b) Notwithstanding the foregoing, the following shall, in each case, not be deemed Affiliate Transactions:

(1) the payment of compensation (including fees, benefits, severance, change of control payments and incentive arrangements) to, and the reimbursement of expenses of, directors and management of the Company and its Subsidiaries;

(2) indemnification or similar arrangements for officers, directors, employees or agents of the Company or any of its Restricted Subsidiaries pursuant to charter, bylaw, statutory or contractual provisions;

(3) transactions between or among the Company and its Restricted Subsidiaries;

(4) Restricted Payments permitted by Section 4.07 and Permitted Investments (other than transactions with a Person that is an Affiliate other than as a result of such Investment);

(5) any transactions between the Company or any of its Restricted Subsidiaries and any Affiliate of the Company the Equity Interests of which Affiliate are owned solely by the Company or one of its Restricted Subsidiaries, on the one hand, and by persons who are not Affiliates of the Company or Restricted Subsidiaries, on the other hand;

(6) any agreements or arrangements in effect on the Issue Date and described in the Exchange Agreement and any modifications, extensions or renewals thereof that are no less favorable to the Company or the applicable Restricted Subsidiary in any material respect than such agreement as in effect on the Issue Date;

(7) so long as it complies with clause (1) of Section 4.11(a), customary transactions with suppliers or purchasers or sellers of goods or services in the ordinary course of business;

(8) transactions with Persons who are Affiliates of the Company solely as a result of the Company's or a Restricted Subsidiary's Investment in such Person;

(9) loans and advances to directors, employees or officers made in the ordinary course of business in compliance with applicable laws, *provided* that such loans and advances do not exceed $1.0 million in the aggregate at any one time outstanding;

(10) the entering into, maintaining and performance of any employment contract, collective bargaining agreement, benefit plan, program or arrangement, related trust agreement or other similar arrangement, in each case in the ordinary course of business, for or with any employee, officer or director, including vacation, health, insurance, deferred compensation, retirement, savings or other similar plans; and

(11) so long as it complies with clause (1) of Section 4.11(a), a Consolidated Group Transaction.

SECTION 4.12. ***Limitation on Liens.***

The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, create, incur or assume any Lien (the "*Initial Lien*") on any asset now owned or hereafter acquired by the Company or any Restricted Subsidiary, or on any income or profits therefrom, except Permitted Liens unless provision is made so that the Notes are or will be secured by the assets subject to such Liens on an equal and ratable basis or on a basis prior to such Liens; *provided* that to the extent that such Lien secures Indebtedness that is subordinated to the Notes, such Lien shall be subordinated to and be later in priority than the Notes on the same basis for so long as such other Indebtedness is secured by such Liens.

Any Lien created to secure the Notes pursuant to this Section 4.12 shall provide by its terms that such Lien shall be automatically and unconditionally released and discharged upon the release and discharge of the Initial Lien and the Company may take such action, if any, as is necessary to memorialize such release and discharge.

SECTION 4.13. ***Additional Subsidiary Guarantees.***

If the Company or any of its Domestic Restricted Subsidiaries acquires or creates another Domestic Restricted Subsidiary after the Issue Date, then such Domestic Restricted Subsidiary shall become a Guarantor and shall, within thirty (30) days after such Domestic Restricted Subsidiary was acquired or created (i) execute and deliver to the Trustee a supplemental indenture in form of Exhibit E hereto pursuant to which such Restricted Subsidiary shall unconditionally guarantee all of the Company's obligations under the Notes and this Indenture on the terms set forth in this Indenture and (ii) deliver to the Trustee an Opinion of Counsel and an Officers' Certificate that such supplemental indenture has been duly authorized, executed and delivered by such Restricted Subsidiary and constitutes a legal, valid, binding and enforceable obligation of such Restricted Subsidiary.

SECTION 4.14. ***Organizational Existence.***

Subject to Article 5 hereof and the proviso to this Section 4.14, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect (i) its existence as a corporation and, subject to Section 4.10 hereof, the corporate, limited liability company, partnership or other existence of any Restricted Subsidiary, in accordance with the respective organizational documents (as the same may be amended from time to time) of the Company or any Restricted Subsidiary and (ii) subject to Section 4.10 hereof, the rights (charter and statutory), licenses and franchises of the Company and its Restricted Subsidiaries; *provided, however*, that the Company shall not be required to preserve any such right, license or franchise, or the corporate, partnership or other existence of any Restricted Subsidiary if the Company shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and its Subsidiaries, taken as a whole, and that the loss thereof is not adverse in any material respect to the Holders of the Notes.

SECTION 4.15. ***Change of Control.***

(a) Upon the occurrence of a Change of Control, the Company shall make an offer (a "*Change of Control Offer*") to each Holder of Notes to repurchase all or any part (equal to $2,000 and integral multiples of $1,000 in excess thereof) of such Holder's Notes at a cash purchase price equal to 101% of the aggregate principal amount thereof, together with accrued and unpaid interest thereon to but excluding the date of repurchase (subject to the rights of holders of record of the Notes on the relevant record date to receive payments of interest on the related interest payment date) (in either case, the "*Change of Control Payment*"). Within 30 days following any Change of Control, the Company shall provide notice to each Holder with a copy to the Trustee stating:

(1) that the Change of Control Offer is being made pursuant to this Section 4.15;

(2) the purchase price and the purchase date, which shall be no earlier than 30 days and not later than 60 days after the date such notice is mailed or delivered (the "*Change of Control Payment Date*");

(3) that any Notes not tendered will continue to accrue interest in accordance with the terms of this Indenture;

(4) that, unless the Company defaults in the payment of the Change of Control Payment, all Notes accepted for payment pursuant to the Change of Control Offer shall cease to accrue interest on the Change of Control Payment Date;

(5) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the Close of Business on the second Business Day preceding the Change of Control Payment Date, a facsimile transmission or letter setting forth the name of the Holder, the principal amount of Notes delivered for purchase, and a statement that such Holder is unconditionally withdrawing its election to have such Notes purchased;

(6) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered, which unpurchased portion must be equal to $2,000 in principal amount or an integral multiple of $1,000 in excess thereof;

(7) if the Company is making the election to make the Change of Control Payment in Common Equity or American Depositary Shares of the acquiring person;

(8) that if a Holder has exercised its right to require the Company to repurchase its Notes (or a portion thereof), such Holder may exercise its right to convert such Notes (or portion thereof) only if such Holder's repurchase election with respect to such Notes has been withdrawn within the time frame and as otherwise provided in clause (5) above; and

(9) any other information material to such Holder's decision to tender Notes.

Notwithstanding the foregoing, if the acquiring person in the Change of Control transaction (i) is a corporation or limited liability company formed and validly existing under the laws of the United States of America or any State thereof or any member country of the European Union and (ii) the corporate family rating of the acquiring person is Investment Grade, the Company may elect to pay all of the Change of Control Payment in such acquiring person's Common Equity or American Depositary Shares that have been (x) registered under the Securities Act and with any U.S. governmental authority under any state law or any other federal law that is necessary for such shares to be validly issued or delivered, and (y) approved for listing on a U.S. national securities exchange, the London Stock Exchange or the Frankfurt Stock Exchange. The Company shall provide notice of such election, at the time it provides notice to the holders of the Change of Control Offer. If such election is made, on the Change of Control Payment Date, the Company shall deliver to holders tendering Notes in connection with such Change of Control Offer the number of shares of Common Equity or American Depositary Shares of such acquiring person equal to the Change of Control Payment payable to such holder divided by 97% of the Current Market Price of such acquiring person's Common Equity or American Depositary Shares.

(b) The Company shall comply with the requirements of Section 14(e) of the Exchange Act and any other securities laws, rules and regulations thereunder to the extent such laws, rules and regulations are applicable in connection with the repurchase of the Notes required in the event of a Change of Control and shall not be deemed to have violated or breached the Company's obligations under this Section 4.15 as a result of such compliance. The Company shall not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in this Indenture applicable to Change of Control Offer made by the Company. The Company's obligations in respect of a Change of Control Offer can be modified with the consent of Holders of a majority of the aggregate principal amount of Notes then outstanding at any time prior to the occurrence of a Change of Control. Notwithstanding anything to the contrary herein, a Change of Control Offer may be made in advance of a Change of Control, conditional upon the occurrence of such Change of Control, if a definitive agreement is in place for the Change of Control at the time of making of the Change of Control Offer.

SECTION 4.16. ***Payments for Consent.***

The Company shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder of a Note for or as an inducement to any consent, waiver or amendment of any of the terms or provisions hereof or the Notes unless such consideration is offered to be paid or agreed to be paid to all Holders of the Notes that are (i) QIBs, (ii) located outside of the United States or (iii) IAIs and, in each case, that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

SECTION 4.17. ***Limitation on Repayment and Exchanges of Existing Notes.***

(a) The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, exchange, purchase or otherwise acquire or retire for value any Existing Notes for consideration that is not solely cash on terms more favorable to the holders thereof than the terms set forth in the Exchange Agreement unless such terms are offered to be paid or agreed to be paid to all Holders of the Notes that are (i) QIBs, (ii) located outside of the United States or (iii) IAIs and, in each case, that agree to have their Notes exchanged, purchased or otherwise acquired or retired in the time frame set forth in the solicitation documents relating to such exchange, purchase, acquisition or retirement.

(b) The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, purchase, redeem or otherwise acquire or retire for value any Existing Notes for cash consideration in excess of (i) $1,000 per $1,000 principal amount of the Convertible Notes to be so purchased, redeemed, acquired or retired, plus accrued and unpaid interest thereon, and (ii) the then applicable redemption price of the Existing Notes, plus accrued and unpaid interest on the principal thereof, whichever is greater.

SECTION 4.18. ***Designation of Unrestricted Subsidiaries.***

(a) As of the Issue Date, all of the Company's Subsidiaries shall be Restricted Subsidiaries. After the Issue Date, the Board of Directors of the Company may designate any Subsidiary (including any newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary so long as no Default or Event of Default shall have occurred and be continuing or would result therefrom and:

(1) no portion of the Indebtedness or any other obligation (contingent or otherwise) of such Subsidiary, immediately after such designation: (i) is guaranteed by the Company or any other Subsidiary of the Company (other than another Unrestricted Subsidiary); (ii) is recourse to or obligates the Company or any other Subsidiary of the Company (other than another Unrestricted Subsidiary) in any way; or (iii) subjects any property or asset of the Company or any other Subsidiary of the Company (other than another Unrestricted Subsidiary), or Equity Interests issued by such Subsidiary, directly or indirectly, contingently or otherwise, to satisfaction thereof;

(2) neither the Company nor any other Subsidiary (other than another Unrestricted Subsidiary) has any contract, agreement, arrangement or understanding with such Subsidiary, written or oral, other than on terms no less favorable to the Company or such other Subsidiary than those that might be obtained at the time from persons who are not the Company's Affiliates; and

(3) neither the Company nor any other Subsidiary (other than another Unrestricted Subsidiary) has any obligation: (i) to subscribe for additional shares of Capital Stock of such Subsidiary or other equity interests therein; or (ii) to maintain or preserve such Subsidiary's financial condition or to cause such Subsidiary to achieve certain levels of operating results.

(b) If at any time after the Issue Date the Company designates an additional Subsidiary as an Unrestricted Subsidiary, the Company will be deemed to have made a Restricted Investment in an amount equal to the fair market value (as determined in good faith by the Board of Directors of the Company evidenced by a resolution of the Board of Directors of the Company and set forth in an Officers' Certificate delivered to the Trustee no later than ten Business Days following a request from the Trustee) of such Subsidiary.

(c) An Unrestricted Subsidiary may be designated as a Restricted Subsidiary if, at the time of such designation after giving pro forma effect thereto, no Default or Event of Default shall have occurred or be continuing.

ARTICLE 5

SUCCESSORS

SECTION 5.01. ***Merger, Consolidation or Sale of Assets.***

(a) The Company shall not consolidate or merge with or into (whether or not the Company is the surviving entity), or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets, in one or more related transactions, to, another Person unless:

(1) the Company is the surviving Person or the Person formed by or surviving any such consolidation or merger (if other than the Company) or to which such sale, assignment, transfer, lease, conveyances or other disposition shall have been made is a corporation, limited partnership or limited liability company organized or existing under the laws of the United States, any state thereof or the District of Columbia; *provided, however*, that if the surviving Person is a limited liability company or limited partnership, such entity shall also form a co-Company that is a corporation;

(2) the Person formed by or surviving any such consolidation or merger (if other than the Company), including any co-Company, or the Person to which such sale, assignment, transfer, lease, conveyance or other disposition shall have been made expressly assumes all of the Company's obligations under the Notes and this Indenture pursuant to a supplemental indenture in form reasonably satisfactory to the Trustee;

(3) immediately after such transaction, no Default or Event of Default exists;

(4) the Company shall have delivered to the Trustee an Officers' Certificate and Opinion of Counsel, each stating that such merger, consolidation, sale or transfer and such supplemental indenture comply with this Indenture; and

(5) the Company or the Person formed by or surviving any such consolidation or merger (if other than the Company) or to which such sale, assignment, transfer, lease, conveyance or other disposition will have been made (A) will have a Fixed Charge Coverage Ratio after the transaction (but prior to any purchase accounting adjustments or accrual of deferred tax liabilities resulting from the transaction) not less than the Company's Fixed Charge Coverage Ratio immediately preceding the transaction or (B) would, at the time of such transaction after giving pro forma effect thereto as if such transaction had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least $1.00 of additional Indebtedness pursuant to Section 4.09(a).

For purposes of this covenant, the sale, lease, conveyance, assignment, transfer or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of the Company, which property and assets, if held by the Company instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Company on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

(b) Notwithstanding the foregoing clause (5) of Section 5.01(a):

(1) any Restricted Subsidiary may consolidate with or merge into or transfer all or part of its properties and assets to the Company or another Restricted Subsidiary; and

(2) the Company may merge with a Restricted Subsidiary solely for the purpose of reincorporating the Company in any state of the United States or the District of Columbia so long as the amount of Indebtedness of the Company and the Restricted Subsidiaries is not increased thereby.

(c) Each Guarantor (other than any Guarantor whose Guarantee is to be released in accordance with the terms of such Guarantee and this Indenture) shall not, and the Company shall not cause or permit any Guarantor to, consolidate or merge with or into (whether or not such Guarantor is the surviving entity) any Person other than the Company or a Guarantor (in each case, other than in accordance with Section 4.10) unless:

(1) the Guarantor is the surviving Person or the Person formed by or surviving any such consolidation or merger (if other than the Guarantor) is a corporation, limited partnership or limited liability company organized or existing under the laws of the United States, any state thereof or the District of Columbia;

(2) the Person formed by or surviving any such consolidation or merger (if other than the Guarantor) expressly assumes all the obligations of the Guarantor, pursuant to a supplemental indenture in form reasonably satisfactory to the Trustee, under the Notes and this Indenture;

(3) immediately after such transaction, no Default or Event of Default exists; and

(4) the Guarantor shall have delivered to the Trustee an Officers' Certificate and Opinion of Counsel, each stating that such merger, consolidation, sale or transfer and such supplemental indenture comply with this Indenture.

SECTION 5.02. ***Successor Corporation Substituted.***

Upon satisfaction of Section 5.01 hereof, the successor Person shall succeed to, and be substituted for, and may exercise every right and power of, the Company or the Guarantor, as applicable, under this Indenture; *provided* that the predecessor company in the case of a lease of all or substantially all of the assets of the Company and its Restricted Subsidiaries shall not be released from any of the obligations or covenants under this Indenture and the Notes, including with respect to the payment of the Notes, and in all other cases the predecessor company shall be released from all obligations and covenants under this Indenture and the Notes.

ARTICLE 6

DEFAULTS AND REMEDIES

SECTION 6.01. ***Events of Default.***

Each of the following constitutes an "*Event of Default*":

(a) default for 30 days in the payment when due of interest or additional interest, if any, on the Notes;

(b) default in payment when due of principal of or premium, if any, on the Notes at maturity, upon repurchase, redemption or otherwise;

(c) failure by the Company to comply with its obligations to convert the Notes in accordance with this Indenture upon exercise of a Holder's conversion right, and such failure continues for three Business Days;

(d) failure to comply with the provisions described under Section 5.01;

(e) failure to comply with any obligations under the provisions described under Section 3.08 or 4.15 (other than a failure to purchase Notes duly tendered to the Company for repurchase pursuant to a Change of Control Offer or an Excess Proceeds Offer);

(f) default under any other provision of this Indenture or the Notes, which default remains uncured for 60 days after notice from the Trustee or the Holders of at least 25% of the aggregate principal amount then outstanding of the Notes;

(g) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Company and any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Company and any of its Restricted Subsidiaries), which default is caused by a failure to pay the principal of such Indebtedness at the final stated maturity thereof within the grace period provided in the agreements or instruments governing such Indebtedness (a "*Payment Default*"), and the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default, aggregates $5.0 million or more;

(h) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Company and any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Company or any of its Restricted Subsidiaries), which default results in the acceleration of such Indebtedness prior to its express maturity not rescinded or cured within 30 days after such acceleration, and the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated and remains undischarged after such 30 day period, aggregates $5.0 million or more;

(i) failure by the Company and any of its Restricted Subsidiaries to pay final judgments (other than any judgment as to which a reputable insurance company has accepted full liability) aggregating $5.0 million or more, which judgments remain unsatisfied or undischarged for any period of 30 consecutive days during which a stay of enforcement of such judgments shall not be in effect;

(j) any Guarantee of a Significant Subsidiary of the Company shall be held in a judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect, or any Guarantor that qualifies as a Significant Subsidiary, or any person acting on behalf of any Guarantor that qualifies as a Significant Subsidiary, shall deny or disaffirm its obligations under its Guarantee;

(k) the Company or any Significant Subsidiary of the Company pursuant to or within the meaning of any Bankruptcy Law (i) commences a voluntary case; (ii) consents to the entry of an order for relief against it in an involuntary case; (iii) consents to the appointment of a custodian of it or for all or substantially all of its property; or (iv) makes a general assignment for the benefit of its creditors; and

(l) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that: (i) is for relief against the Company or any Significant Subsidiary of the Company in an involuntary case; (ii) appoints a custodian of the Company or any Significant Subsidiary of the Company or for all or substantially all of the property of the Company or any Significant Subsidiary of the Company; or (iii) orders the liquidation of the Company or any Significant Subsidiary of the Company, and the order or decree remains unstayed and in effect for 60 consecutive days.

SECTION 6.02. ***Acceleration.***

If any Event of Default occurs and is continuing, the Trustee by notice to the Company, or the Holders of at least 25% of the aggregate principal amount then outstanding of the Notes by written notice to the Company and the Trustee, may declare all the Notes to be due and payable immediately. Notwithstanding the foregoing, in the case of an Event of Default specified in paragraph (k) or (l) of Section 6.01 hereof with respect to the Company, all outstanding Notes shall become due and payable without further action or notice. Holders of the Notes may not enforce this Indenture or the Notes except as provided in Section 6.06 hereof. The Trustee may withhold from Holders of the Notes notice of any continuing Default or Event of Default (except a Default or Event of Default relating to the payment of principal or interest) if it determines that withholding notice is in such Holders' interest.

Notwithstanding the foregoing, the sole remedy for an Event of Default relating to the failure by the Company or Parent to comply with its obligations under Section 4.03 and for any failure by the Company to comply with the requirements of TIA §314(a)(1), shall for the first 120 days after the occurrence and during the continuance of such an Event of Default consist exclusively of the right to receive special interest on the Notes at an annual rate equal to 0.50% of the principal amount of the Notes then outstanding (the "*Special Interest*"). The Special Interest will be in addition to any Additional Interest that may accrue and be payable under the Company Registration Rights Agreement and will be payable in the same manner as Additional Interest accruing under the Company Registration Rights Agreement. The Special Interest will accrue on all outstanding Notes from and including the date on which an Event of Default relating to a failure to comply with Section 4.03 or the failure to comply with the requirements of TIA §314(a)(1) first occurs to but not including the 120th day thereafter (or such earlier date on which the Event of Default relating to such obligations shall have been cured or waived). After the 120th day (or earlier, if such Event of Default is cured or waived on or before such 120th day), such Special Interest will cease to accrue and, if such Event of Default has not been cured or waived prior to such 120th day, then the Trustee or the Holders of not less than 25% in principal amount of the outstanding Notes may declare the principal of and accrued and unpaid interest and Special Interest on all such Notes to be due and payable immediately.

SECTION 6.03. ***Other Remedies.***

If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal, premium, if any, and interest on the Notes or to enforce the performance of any provision of the Notes and this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Holder of a Note in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. All remedies are cumulative to the extent permitted by law.

SECTION 6.04. ***Waiver of Past Defaults.***

Holders of a majority in aggregate principal amount of then outstanding Notes, by written notice to the Trustee, may on behalf of the Holders of all of the Notes waive any existing Default or Event of Default and its consequences under this Indenture, except a continuing Default or Event of Default in the payment of interest or premium on, or principal of, the Notes. Upon any such waiver, such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured for every purpose hereof; but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

SECTION 6.05. ***Control by Majority.***

The Holders of a majority in aggregate principal amount of the then outstanding Notes by notice to the Trustee may on behalf of all the Holders rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default (except nonpayment of principal, interest or premium that has become due solely because of the acceleration) have been cured or waived.

Holders of a majority in principal amount of the then outstanding Notes may direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee or exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with the law or this Indenture, that the Trustee determines may be unduly prejudicial to the rights of other Holders of Notes, or that may involve the Trustee in personal liability.

SECTION 6.06. ***Limitation on Suits.***

A Holder of a Note may pursue a remedy with respect to this Indenture or the Notes only if

(a) the Holder of a Note gives to the Trustee written notice of a continuing Event of Default;

(b) the Holders of at least 25% in principal amount of the then outstanding Notes make a written request to the Trustee to pursue the remedy;

(c) such Holder of a Note or Holders of Notes offer and provide to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense;

(d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer and the provision of indemnity; and

(e) during such 60-day period the Holders of a majority in principal amount of the then outstanding Notes do not give the Trustee a direction inconsistent with the request.

A Holder of a Note may not use this Indenture to prejudice the rights of another Holder of a Note or to obtain a preference or priority over another Holder of a Note (it being understood that the Trustee does not have an affirmative duty to ascertain whether or not such actions or forbearances are unduly prejudicial to such Holders).

SECTION 6.07. ***Rights of Holders of Notes To Receive Payment.***

Notwithstanding any other provision hereof, the right of any Holder of a Note to receive payment of principal, premium, if any, and interest on the Note, on or after the respective due dates expressed in the Note, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of the Holder of the Note.

SECTION 6.08. ***Collection Suit by Trustee.***

If an Event of Default specified in Section 6.01(a) or (b) hereof occurs and is continuing, the Trustee is authorized to commence a legal proceeding to recover judgment in its own name and as trustee of an express trust against the Company for the whole amount of principal of, premium, if any, and interest remaining unpaid on the Notes and interest on overdue principal and, to the extent lawful, interest and such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

SECTION 6.09. ***Trustee May File Proofs of Claim.***

The Trustee is authorized to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and the Holders of the Notes allowed in any judicial proceedings relative to the Company (or any other obligor upon the Notes), the Company's creditors or the Company's property and shall be entitled and empowered to collect, receive and distribute any money or other property payable or deliverable on any such claims and any custodian in any such judicial proceeding is hereby authorized by each Holder of a Note to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments directly to the Holders of the Notes, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 7.07 hereof. To the extent that the payment of any such compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 7.07 hereof out of the estate in any such proceeding, shall be denied for any reason, payment of the same shall be secured by a Lien on, and shall be paid out of, any and all distributions, dividends, money, securities and other properties which the Holders of the Notes may be entitled to receive in such proceeding whether in liquidation or under any plan of reorganization or arrangement or otherwise. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder of a Note any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder of a Note thereof, or to authorize the Trustee to vote in respect of the claim of any Holder of a Note in any such proceeding.

SECTION 6.10. ***Priorities.***

If the Trustee collects any money pursuant to this Article 6, it shall pay out the money in the following order:

First: to the Trustee, its agents and attorneys for amounts due under Section 7.07 hereof, including payment of all compensation, expenses and liabilities incurred, and all advances made, by the Trustee and the costs and expenses of collection;

Second: to Holders of Notes for amounts due and unpaid on the Notes for principal, premium, if any, and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for principal, premium, if any and interest, respectively; and

Third: to the Company or to such party as a court of competent jurisdiction shall direct in writing.

The Trustee may fix a record date and payment date for any payment to Holders of Notes.

SECTION 6.11. ***Undertaking for Costs.***

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as a Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section 6.11 does not apply to a suit by the Trustee, a suit by a Holder of a Note pursuant to Section 6.07 hereof, or a suit by Holders of more than 10% in principal amount of the then outstanding Notes pursuant to this Article 6.

ARTICLE 7

TRUSTEE

SECTION 7.01. ***Duties of Trustee.***

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture and use the same degree of care of a prudent Person in the conduct of his or her own affairs.

(b) Except during the continuance of an Event of Default,

(i) the duties of the Trustee shall be determined solely by the express provisions hereof and the Trustee need perform only those duties that are specifically set forth in this Indenture and no others, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements hereof. However, in the case of certificates or opinions specifically required by any provision hereof to be furnished to it, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements hereof but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein.

(c) The Trustee shall not be relieved from liabilities for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) this paragraph shall not limit Section 7.01(b);

(ii) the Trustee shall not be liable for any error of judgment made in good faith, unless it is proved in a court of competent jurisdiction that the Trustee was negligent in ascertaining the pertinent facts;

(iii) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.05 hereof; and

(iv) no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision hereof that in any way relates to the Trustee is subject to paragraphs (a), (b) and (c) of this Section 7.01.

(e) Subject to the provisions of this Section 7.01, the Trustee shall be under no obligation to exercise any of its rights or powers under this Indenture at the request or direction of any Holders of Notes, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to the Trustee against any loss, liability or expense.

(f) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

SECTION 7.02. ***Rights of Trustee.***

(a) The Trustee may conclusively rely upon any document (whether in original or facsimile form) believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in the document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney at the sole cost of the Company and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation.

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel or both. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officers' Certificate or Opinion of Counsel. The Trustee may consult with counsel of its selection and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection from liability in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(c) The Trustee may act through its attorneys and agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers conferred upon it by this Indenture.

(e) Unless otherwise specifically provided in this Indenture, any demand, request, direction or notice from the Company shall be sufficient if signed by an Officer of the Company.

(f) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders unless such Holders shall have offered to the Trustee security or indemnity reasonably satisfactory to it against the costs, expenses and liabilities that might be incurred by it in compliance with such request or direction.

(g) Except with respect to Section 4.01 hereof, the Trustee shall have no duty to inquire as to the performance of the Company's covenants in Article 4. In addition, the Trustee shall not be deemed to have knowledge of any Default or Event of Default except (i) any Event of Default occurring pursuant to Sections 4.01(a), 6.01(a) and 6.01(b) hereof or (ii) any Default or Event of Default of which the Trustee shall have received written notification or obtained actual knowledge.

(h) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and each agent, custodian and other Person employed to act hereunder.

(i) The Trustee may request that the Company deliver a certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture.

(j) In no event shall the Trustee be responsible or liable for special, indirect, or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit) irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

(k) The Trustee shall not be required to give any bond or surety in respect of the performance of its powers and duties hereunder.

SECTION 7.03. ***Individual Rights of Trustee.***

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and, subject to Sections 7.10 and 7.11 hereof, may otherwise deal with the Company or any Affiliate of the Company with the same rights it would have if it were not Trustee. Any Agent may do the same with like rights and duties.

SECTION 7.04. ***Trustee's Disclaimer.***

(a) The Trustee shall not be responsible for and makes no representation as to the validity or adequacy hereof or the Notes, it shall not be accountable for the Company's use of the proceeds from the Notes or any money paid to the Company or upon the Company's direction under any provision hereof, it shall not be responsible for the use or application of any money received by any Paying Agent other than the Trustee, and it shall not be responsible for any statement or recital herein or any statement in the Notes or any other document in connection with the sale of the Notes or pursuant to this Indenture other than its certificate of authentication.

(b) The Trustee shall not be bound to make any investigation into facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture or other paper or document.

SECTION 7.05. ***Notice of Defaults.***

If a Default or Event of Default occurs and is continuing and if a Responsible Officer of the Trustee has actual knowledge of such Default or Event of Default, the Trustee shall mail (or, if the Notes are held in book-entry form, send by electronic transmission) to Holders of Notes a notice of the Default or Event of Default within 90 days after it occurs. Except in the case of a Default or Event of Default in payment of principal of, premium, if any, or interest on any Note, the Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Holders of the Notes.

SECTION 7.06. ***Reports by Trustee to Holders of the Notes.***

This Section 7.06 shall not be operative as a part of this Indenture until this Indenture is qualified under the TIA. Within 60 days after each May 1, beginning with May 1, 2015, the Trustee shall mail to the Holders of the Notes a brief report dated as of such reporting date that complies with TIA § 313(a) (but if no event described in TIA § 313(a) has occurred within the twelve months preceding the reporting date, no report need be transmitted). The Trustee also shall comply with TIA § 313(b). The Trustee shall also transmit by mail all reports as required by TIA § 313(c).

A copy of each report at the time of its mailing to the Holders of Notes shall be mailed to the Company and filed with the Commission and each stock exchange on which any Notes are listed. The Company shall promptly notify the Trustee in writing when any Notes are listed on any stock exchange and of any delisting thereof.

SECTION 7.07. ***Compensation and Indemnity.***

The Company shall pay to the Trustee from time to time such compensation as shall be agreed in writing between the Company and the Trustee for its acceptance hereof and services hereunder. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee promptly upon request for all reasonable disbursements, advances and expenses incurred or made by it in addition to the compensation for its services. Such expenses shall include the reasonable compensation, disbursements and expenses of the Trustee's agents and counsel.

The Company shall indemnify each of the Trustee or any predecessor Trustee against any and all losses, liabilities, claims, damages or expenses incurred by it arising out of or in connection with the acceptance or administration of its duties under this Indenture, including the costs and expenses of defending itself against any claim (whether asserted by the Company or any Holder or any other Person), except any such loss, liability, claim, damage or expense as shall be determined to have been caused by the gross negligence or willful misconduct of the Trustee. The Trustee shall notify the Company promptly of any claim of which a Responsible Officer has received written notice for which it may seek indemnity. Failure by the Trustee to so notify the Company shall not relieve the Company of its obligations hereunder. The Trustee may retain counsel of its choice to defend any claim against it and the Company shall pay the reasonable fees and expenses of such counsel. The Company need not pay for any settlement made without its consent, which consent shall not be unreasonably withheld.

The obligations of the Company under this Section 7.07 shall survive the satisfaction and discharge hereof or the earlier resignation or removal of the Trustee.

To secure the Company's payment obligations in this Section 7.07, the Trustee shall have a Lien prior to the Notes on all money or property held or collected by the Trustee, except for money or property held in trust to pay principal and interest on the Notes pursuant to Section 8.01(a)(1)(b). Such Lien shall survive the satisfaction and discharge hereof.

When the Trustee incurs expenses or renders services after an Event of Default specified in Section 6.01(k) or (l) hereof occurs, the expenses and the compensation for the services (including the fees and expenses of its agents and counsel) are intended to constitute expenses of administration under any Bankruptcy Law.

SECTION 7.08. ***Replacement of Trustee.***

A resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon the successor Trustee's acceptance of appointment as provided in this Section 7.08.

The Trustee may resign in writing at any time and be discharged from the trust hereby created by so notifying the Company. The Holders of at least a majority in principal amount of the then outstanding Notes may remove the Trustee by so notifying the Trustee and the Company in writing. The Company may remove the Trustee if:

(a) the Trustee fails to comply with Section 7.10 hereof;

(b) the Trustee is adjudged a bankrupt or an insolvent or an order for relief is entered with respect to the Trustee under any Bankruptcy Law;

(c) a custodian or public officer takes charge of the Trustee or its property; or

(d) the Trustee becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint a successor Trustee. Within one year after the successor Trustee takes office, the Holders of a majority in principal amount of the then outstanding Notes may appoint a successor Trustee to replace the successor Trustee appointed by the Company.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of Notes of at least 10% in principal amount of the then outstanding Notes may petition at the expense of the Company any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee after written request by any Holder of a Note who has been a Holder of a Note for at least six months fails to comply with Section 7.10 hereof, such Holder of a Note may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon, the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Holders of the Notes. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, *provided* all sums owing to the Trustee hereunder have been paid and subject to the Lien provided for in Section 7.07 hereof. Notwithstanding replacement of the Trustee pursuant to this Section 7.08, the Company's obligations under Section 7.07 hereof shall continue for the benefit of the retiring Trustee.

If a Trustee is removed without cause, all fees and expenses of the Trustee incurred in the administration of the trust or in the performance of the duties hereunder shall be paid to the Trustee.

SECTION 7.09. ***Successor Trustee by Merger, Etc.***

If the Trustee consolidates, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation, the successor corporation without any further act shall be the successor Trustee.

SECTION 7.10. ***Eligibility; Disqualification.***

There shall at all times be a Trustee hereunder which shall be a corporation organized and doing business under the laws of the United States of America or of any state thereof authorized under such laws to exercise corporate trustee power, shall be subject to supervision or examination by federal or state authority and shall have a combined capital and surplus of at least $25 million as set forth in its most recent published annual report of condition.

This Indenture shall always have a Trustee who satisfies the requirements of TIA § 310(a)(1) and (5). The Trustee is subject to TIA § 310(b).

SECTION 7.11. ***Preferential Collection of Claims Against Company.***

The Trustee is subject to TIA § 311(a), excluding any creditor relationship listed in TIA § 311(b). A Trustee who has resigned or been removed shall be subject to TIA § 311(a) to the extent indicated therein.

ARTICLE 8

DISCHARGE OF INDENTURE; DEFEASANCE

SECTION 8.01. ***Termination of the Company's Obligations.***

(a) The Company may terminate its Obligations as to all outstanding Notes and this Indenture will be discharged and will cease to be of further effect, except those obligations referred to in paragraph (b) of this Section 8.01, when

(1) either:

(a) all the Notes theretofore authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust) have been delivered to the Trustee for cancellation; or

(b) all Notes not theretofore delivered to the Trustee for cancellation have become due and payable or within one year will become due and payable, and the Company has irrevocably deposited or caused to be deposited with the Trustee cash in U.S. dollars, Government Securities or a combination thereof in an amount sufficient to pay and discharge the entire Indebtedness on the Notes not theretofore delivered to the Trustee for cancellation, for principal of, premium, if any, and accrued interest on the Notes to the date of deposit together with irrevocable instructions from the Company directing the Trustee to apply such funds to the payment thereof at maturity or redemption, as the case may be;

(2) the Company has paid all other sums payable under this Indenture by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel stating that all conditions precedent under this Indenture relating to the satisfaction and discharge of this Indenture have been complied with; *provided*, *however*, that such counsel may rely, as to matters of fact, on a certificate or certificates of Officers of the Company.

(b) Notwithstanding paragraph (a) of this Section 8.01, the Company's and the Parent's obligations in Sections 2.03, 2.04, 2.05, 2.06, 7.07, 7.08, 8.07, 8.08 and Article 11 hereof shall survive until the Notes are no longer outstanding pursuant to Section 2.08 hereof. After the Notes are no longer outstanding, the Company's obligations in Sections 7.07, 7.08, 8.07 and 8.08 hereof shall survive such satisfaction and discharge.

SECTION 8.02. ***Option To Effect Legal Defeasance or Covenant Defeasance.***

The Company may, at the option of its Board of Directors evidenced by a resolution set forth in an Officers' Certificate, at any time, with respect to the Notes, elect to have either Section 8.03 or 8.04 hereof applied to all outstanding Notes upon compliance with the conditions set forth below in this Article 8.

SECTION 8.03. ***Legal Defeasance and Covenant Discharge.***

Upon the Company's exercise under Section 8.02 hereof of the option applicable to this Section 8.03, the Company shall be deemed to have been discharged from its obligations with respect to all outstanding Notes on the date the conditions set forth below are satisfied (hereinafter, "*Legal Defeasance*"). For this purpose, such Legal Defeasance means that the Company shall be deemed to have paid and discharged the entire Indebtedness represented by the outstanding Notes, which shall thereafter be deemed to be "outstanding" only for the purposes of Section 8.06 hereof and the other Sections hereof referred to in clauses (a) and (b) below, and to have satisfied all its other obligations under such Notes and this Indenture (and the Trustee, on demand of and at the expense of the Company, shall execute proper instruments acknowledging the same), except for the following, which shall survive until otherwise terminated or discharged hereunder: (a) the rights of Holders of outstanding Notes to (i) receive payments in respect of the principal of, premium, if any, and interest on the Notes when such payments are due, or on the redemption date, as the case may be and (ii) convert the Notes into Parent Ordinary Shares in accordance with the provisions of Article 11 hereof; (b) the Company's and the Parent's obligations with respect to such Notes under Sections 2.04, 2.05, 2.06, 2.07, 2.08, 2.10, 2.11, 4.02 and Article 11 hereof; (c) the rights, powers, trust, duties and immunities of the Trustee hereunder, and the Company's obligations in connection therewith; and (d) this Section 8.03. Subject to compliance with this Article 8, the Company may exercise its option under this Section 8.03 notwithstanding the prior exercise of its option under Section 8.04 hereof with respect to the Notes.

SECTION 8.04. ***Covenant Defeasance.***

Upon the Company's exercise under Section 8.02 hereof of the option applicable to this Section 8.04, the Company shall be released from its obligations under the covenants contained in Sections 3.08, 4.03, 4.04, 4.05, 4.07, 4.08, 4.09, 4.10, 4.11, 4.12, 4.13, 4.14 (other than existence of the Company (subject to Section 5.01)), 4.15 and 5.01 (except clauses (1) and (2) of Section 5.01 (a)) hereof with respect to the outstanding Notes on and after the date the conditions set forth below are satisfied (hereinafter, "*Covenant Defeasance*"), and the Notes shall thereafter be deemed not "outstanding" for the purposes of any direction, waiver, consent or declaration or act of Holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed "outstanding" for all other purposes hereunder (it being understood that such Notes shall not be deemed outstanding for GAAP). For this purpose, such Covenant Defeasance means that, with respect to the outstanding Notes, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of any reference in any such covenant to any other provision herein or in any other document and such omission to comply shall not constitute a Default or an Event of Default under Section 6.01(d) hereof, but, except as specified above, the remainder hereof and such Notes shall be unaffected thereby. In addition, upon the Company's exercise under Section 8.02 hereof of the option applicable to this Section 8.04, clauses (d) through (i) of Section 6.01 shall not constitute Events of Default.

SECTION 8.05. ***Conditions to Legal or Covenant Defeasance.***

The following shall be the conditions to the application of either Section 8.03 or Section 8.04 hereof to the outstanding Notes:

(a) the Company shall irrevocably have deposited with the Trustee, in trust, for the benefit of the Holders of the Notes, cash in U.S. dollars, noncallable Government Securities or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium, if any, and interest on the outstanding Notes on the stated maturity or on the applicable optional redemption date, as the case may be;

(b) in the case of an election under Section 8.03 hereof, the Company shall have delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee confirming that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the Issue Date, there has been a change in the applicable federal income tax law, in each case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Holders of the Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance, and will be subject to federal income tax in the same amount, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(c) in the case of an election under Section 8.04, the Company shall have delivered to the Trustee an Opinion of Counsel reasonably acceptable to such Trustee confirming that the holders of the Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(d) no Default or Event of Default shall have occurred and be continuing on the date of such deposit;

(e) such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, this Indenture or any other material agreement or instrument to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;

(f) the Company shall have delivered to the Trustee an Officers' Certificate stating that the deposit made by the Company pursuant to this Section 8.05 was not made by the Company with the intent of preferring the Holders of the Notes over any of its other creditors or with the intent of defeating, hindering, delaying or defrauding any of its other creditors or others; and

(g) the Company shall have delivered to the Trustee an Officers' Certificate and Opinion of Counsel stating that all conditions precedent provided for or relating to the Legal Defeasance under Section 8.03 hereof or the Covenant Defeasance under Section 8.04 hereof (as the case may be) relating to the Notes have been complied with as contemplated by this Section 8.05.

SECTION 8.06. ***Deposited Money and Government Securities To Be Held in Trust; Other Miscellaneous Provisions.***

Subject to Section 8.07 hereof, all money and Government Securities (including the proceeds thereof) deposited with the Trustee (or other qualifying trustee, collectively for purposes of this Section 8.06, the "*Trustee*") pursuant to Section 8.05 hereof in respect of the outstanding Notes shall be held in trust and applied by the Trustee, in accordance with the provisions of such Notes and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as Paying Agent) as the Trustee may determine, to the Holders of such Notes of all sums due and to become due thereon in respect of principal, premium, if any, and interest, but such money need not be segregated from other funds except to the extent required by law.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the cash or Government Securities deposited pursuant to Section 8.05 hereof or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of the outstanding Notes.

Anything in this Article 8 to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon the request of the Company any money or Government Securities held by it as provided in Section 8.05 hereof which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee (which may be the opinion delivered under Section 8.05(a) hereof), are in excess of the amount thereof which would then be required to be deposited to effect an equivalent Legal Defeasance or Covenant Defeasance.

SECTION 8.07. ***Repayment to Company.***

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of, premium, if any, or interest on any Note and remaining unclaimed for two years after such principal, and premium, if any, or interest has become due and payable shall be paid to the Company on their request or (if then held by the Company) shall be discharged from such trust; and the Holder of such Note shall thereafter, as a general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustees thereof, shall thereupon cease; *provided, however*, that, before the Trustee or such Paying Agent is required to make any such repayment, the Company at its own expense shall cause to be published once, in The New York Times and The Wall Street Journal (national edition), notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such notification or publication, any unclaimed balance of such money then remaining will be repaid to the Company.

SECTION 8.08. ***Reinstatement.***

If the Trustee or Paying Agent is unable to apply any United States Dollars or Government Securities in accordance with Section 8.03 or 8.04 hereof, as the case may be, by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under this Indenture and the Notes shall be revived and reinstated as though no deposit had occurred pursuant to Section 8.03 or 8.04 hereof until such time as the Trustee or Paying Agent is permitted to apply all such money in accordance with Section 8.03 or 8.04 hereof, as the case may be; *provided, however*, that, if the Company makes any payment of principal of, premium, if any, or interest on any Note following the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Notes to receive such payment from the money held by the Trustee or Paying Agent.

ARTICLE 9

AMENDMENT, SUPPLEMENT AND WAIVER

SECTION 9.01. ***Without Consent of Holders of Notes.***

Notwithstanding Section 9.02 hereof, the Company, the Parent, the Guarantors and the Trustee may amend or supplement this Indenture, the Notes and the Guarantees or any amended or supplemental indenture without the consent of any Holder of a Note:

(a) to cure any ambiguity, defect or inconsistency;

(b) to provide for uncertificated Notes or Guarantees in addition to or in place of certificated Notes or Guarantees (*provided* that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(B) of the Code);

(c) to provide for the assumption of the obligations of the Company or any Guarantor to the Holders of the Notes in the case of a merger, consolidation or sale of all or substantially all of the Company's assets or such Guarantor's assets;

(d) to make any change that would provide any additional rights or benefits to the Holders of Notes or that does not adversely affect the rights under this Indenture of any Holder of the Notes;

(e) to evidence and provide for the acceptance of an appointment of a successor Trustee;

(f) to add Guarantees with respect to the Notes;

(g) to comply with requirements of the Commission in order to effect or maintain the qualifications hereof under the TIA;

(h) to increase the Conversion Rate;

(i) to irrevocably elect a Settlement Method or a Specified Dollar Amount, or to eliminate the right to elect a Settlement Method;

(j) to provide collateral with respect to the Notes; or

(k) to add covenants or events of default for the benefit of the Holders of the Notes.

Upon the request of the Company accompanied by a resolution of the Board of Directors of the Company and a resolution of the Board of Directors of each Guarantor and upon receipt by the Trustee of the documents described in Section 12.04 hereof, the Trustee shall join with the Company and the Guarantors in the execution of any amended or supplemental indenture authorized or permitted by the terms hereof and shall make any further appropriate agreements and stipulations which may be therein contained, but the Trustee shall not be obligated to enter into such amended or supplemental indenture which affects its own rights, duties or immunities under this Indenture or otherwise.

SECTION 9.02. ***With Consent of Holders of Notes.***

The Company, the Parent, the Guarantors and the Trustee may amend or supplement this Indenture, the Notes or the Guarantees or any amended or supplemental indenture with the written consent of the Holders of at least a majority of the aggregate principal amount of Notes then outstanding (including consents obtained in connection with a tender offer or exchange offer for Notes of such series), and any existing Default or compliance with any provision of this Indenture or the Notes may be waived with the consent of the Holders of a majority of the aggregate principal amount of Notes then outstanding (including consents obtained in connection with a tender offer or exchange offer for the Notes). Notwithstanding the foregoing, without the consent of each Holder affected, an amendment or waiver may not (with respect to any Notes held by a non-consenting Holder):

(a) reduce the aggregate principal amount of Notes whose Holders must consent to an amendment, supplement or waiver;

(b) reduce the principal of, or change the fixed maturity of, any Note or alter the provisions with respect to the redemption of the Notes (other than as provided in clause (h) below);

(c) reduce the rate of, or change the time for payment of, interest on any Notes;

(d) waive a Default or Event of Default in the payment of principal of or premium, if any, or interest on the Notes (other than such a Default or Event of Default resulting from acceleration of the Notes that has been rescinded in accordance with the provisions of Section 6.05);

(e) make any Note payable in money other than that stated in the Notes;

(f) make any change in the provisions of this Indenture relating to waivers of past Defaults or the rights of Holders of Notes to receive payments of principal of or interest on the Notes;

(g) amend, change or modify in any material respect the obligation of the Company to make and consummate a Change of Control Offer or Excess Proceeds Offer in the event of a Change of Control or Asset Sale, respectively, after such Change of Control or Asset Sale, as applicable, has occurred;

(h) except as expressly provided in Section 11 of this Indenture, decrease the Conversion Rate or modify the provisions of this Indenture relating to conversion of the Notes in a manner adverse to the Holders of the Notes;

(i) release all or substantially all of the Guarantees of the Guarantors other than in accordance with Article 10; or

(j) make any change in the foregoing amendment and waiver provisions.

The Company's obligations in respect of a Change of Control Offer or Excess Proceeds Offer can be modified with the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding at any time prior to the occurrence of a Change of Control or Asset Sale, respectively.

Upon the request of the Company accompanied by a resolution of the Board of Directors of the Company and a resolution of the Board of Directors of each Guarantor, and upon the filing with the Trustee of evidence satisfactory to the Trustee of the consent of the Holders of Notes as aforesaid, and upon receipt by the Trustee of the documents described in Section 9.06 hereof, the Trustee shall join with the Company and the Guarantors in the execution of such amended or supplemental indenture unless such amended or supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such amended or supplemental indenture.

It shall not be necessary for the consent of the Holders of Notes under this Section 9.02 to approve the particular form of any proposed amendment or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment, supplement or waiver under this Section 9.02 becomes effective, the Company shall mail or deliver to the Holders of Notes affected thereby a notice briefly describing the amendment, supplement or waiver. Any failure of the Company to mail or deliver such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such amended or supplemental indenture or waiver. Subject to Sections 6.04 and 6.07 hereof, the Holders of a majority in aggregate principal amount of the Notes then outstanding may waive compliance in a particular instance by the Company with any provision of this Indenture or of the Notes.

SECTION 9.03. ***Compliance with Trust Indenture Act.***

Every amendment or supplement to this Indenture and the Notes shall be set forth in an amended or supplemental indenture that complies with the TIA as then in effect, if this Indenture shall then be qualified under the TIA.

SECTION 9.04. ***Revocation and Effect of Consents.***

Until an amendment, supplement or waiver becomes effective, a consent to it by a Holder of a Note is a continuing consent by the Holder of a Note and every subsequent Holder of a Note or portion of a Note that evidences the same debt as the consenting Holder's Note, even if notation of the consent is not made on any Note. However, any such Holder of a Note or subsequent Holder of a Note may revoke the consent as to its Note if the Trustee receives written notice of revocation before the date the waiver, supplement or amendment becomes effective. An amendment, supplement or waiver becomes effective in accordance with its terms and thereafter binds every Holder of a Note.

SECTION 9.05. ***Notation on or Exchange of Notes.***

The Trustee may place an appropriate notation about an amendment, supplement or waiver on any Note thereafter authenticated. The Company in exchange for all Notes may issue and the Trustee shall authenticate new Notes that reflect the amendment, supplement or waiver.

Failure to make the appropriate notation or issue a new Note shall not affect the validity and effect of such amendment, supplement or waiver.

SECTION 9.06. ***Trustee to Sign Amendments, Etc.***

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modification thereby of the trusts created by this Indenture, the Trustee shall receive, and shall be fully protected in conclusively relying upon, an Opinion of Counsel and an Officers' Certificate stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

ARTICLE 10

GUARANTEES

SECTION 10.01. ***Guarantee.***

Each of the Guarantors jointly and severally, hereby unconditionally guarantees to each Holder of a Note authenticated and delivered by the Trustee and to the Trustee and its successors and assigns, irrespective of the validity and enforceability of this Indenture, the Notes or the Obligations of the Company hereunder or thereunder, that

(a) the principal of, premium, if any, and interest on the Notes will be promptly paid in full when due, whether at maturity, by acceleration, redemption or otherwise, and interest on the overdue principal of and interest on the Notes, if any, if lawful, and all other Obligations of the Company to the Holders or the Trustee hereunder or thereunder will be promptly paid in full or performed, all in accordance with the terms hereof and thereof; and

(b) in case of any extension of time of payment or renewal of any Notes or any of such other Obligations, that the same will be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise. Failing payment when due of any amount so guaranteed or any performance so guaranteed for whatever reason, each of the Guarantors, jointly and severally, will be obligated to pay the same immediately.

Each of the Guarantors, jointly and severally, hereby agrees that its obligations hereunder shall be unconditional, irrespective of the validity, regularity or enforceability of the Notes or this Indenture, the absence of any action to enforce the same, any waiver or consent by any Holder of a Note with respect to any provisions hereof or thereof, the recovery of any judgment against the Company, any action to enforce the same or any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor.

Each of the Guarantors, jointly and severally, hereby waives diligence, presentment, demand of payment, filing of claims with a court in the event of insolvency or bankruptcy of the Company, any right to require a proceeding first against the Company, protest, notice and all demands whatsoever and covenants that this Guarantee will not be discharged except by complete performance of the Obligations guaranteed hereby. If any Holder or the Trustee is required by any court or otherwise, or any custodian, Trustee, liquidator or other similar official acting in relation to either the Company or any Guarantor, to return to the Company or any Guarantor any amount paid by either to the Trustee or such Holder, this Guarantee, to the extent theretofore discharged, shall be reinstated in full force and effect.

Each of the Guarantors, jointly and severally, agrees that it shall not be entitled to any right of subrogation in relation to the Holders in respect of any Obligations guaranteed hereby until payment in full of all Obligations guaranteed hereby. Each of the Guarantors, jointly and severally, further agrees that, as between such Guarantor, on the one hand, and the Holders and the Trustee, on the other hand, (x) the maturity of the Obligations guaranteed hereby may be accelerated as provided in Article 6 for the purposes of this Guarantee, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the Obligations guaranteed hereby, and (y) in the event of any declaration of acceleration of such Obligations as provided in Article 6, such Obligations (whether or not due and payable) shall forthwith become due and payable by each Guarantor for the purpose of this Guarantee. Notwithstanding the foregoing, in the event that any Guarantee would constitute or result in a violation of any applicable fraudulent conveyance or similar law of any relevant jurisdiction, the liability of the applicable Guarantor under its Guarantee shall be reduced to the maximum amount permissible under such fraudulent conveyance or similar law.

The Guarantors hereby agree as among themselves that each Guarantor that makes a payment or distribution under a Guarantee shall be entitled to a *pro rata* contribution from each other Guarantor hereunder based on the net assets of each other Guarantor determined in accordance with GAAP. The preceding sentence shall in no way affect the rights of the Holders of Notes to the benefits hereof, the Notes or the Guarantees.

Nothing in this Section 10.01 shall apply to claims of, or payments to, the Trustee under or pursuant to the provisions of Section 7.07 hereof. Nothing contained in this Section 10.01 or elsewhere in this Indenture, the Notes or the Guarantees shall impair, as between any Guarantor and the Holder of any Note, the obligation of such Guarantor, which is unconditional and absolute, to pay to the Holder thereof the principal of, premium, if any, and interest on such Notes in accordance with their terms and the terms of the Guarantee and this Indenture, nor shall anything herein or therein prevent the Trustee or the Holder of any Note from exercising all remedies otherwise permitted by applicable law or hereunder or thereunder upon the occurrence of an Event of Default.

SECTION 10.02. ***Execution and Delivery of Guarantees.***

To evidence its Guarantee set forth in Section 10.01 hereof, each Guarantor hereby agrees that a notation of such Guarantee substantially in the form of Exhibit B hereto shall be endorsed by an officer of such Guarantor on each Note authenticated and delivered by the Trustee and that this Indenture shall be executed on behalf of such Guarantor by any of its Officers. Each of the Guarantors, jointly and severally, hereby agrees that its Guarantee set forth in Section 10.01 hereof shall remain in full force and effect notwithstanding any failure to endorse on each Note a notation of such Guarantee. If an Officer whose signature is on this Indenture or on the Guarantee of a Guarantor no longer holds that office at the time the Trustee authenticates the Note on which the Guarantee of such Guarantor is endorsed, the Guarantee of such Guarantor shall be valid nevertheless. The delivery of any Note by the Trustee, after the authentication thereof hereunder, shall constitute due delivery of the Guarantees set forth in this Indenture on behalf of the Guarantors.

SECTION 10.03. ***Releases from Guarantees.***

The Guarantee of a Guarantor shall be deemed automatically discharged and released in accordance with the terms of this Indenture:

(a) in connection with any direct or indirect sale, conveyance or other disposition of the Capital Stock of that Guarantor (including by way of merger or consolidation) following which such Guarantor ceases to be a direct or indirect Subsidiary of the Company if such sale is made in compliance with Section 4.10 and Section 5.01;

(b) if such Guarantor is dissolved or liquidated in accordance with the provisions of this Indenture;

(c) if the Company designates any such Guarantor as an Unrestricted Subsidiary in compliance with the terms of this Indenture; or

(d) upon a discharge or defeasance of this Indenture in compliance with the terms of Article 8.

Upon delivery by the Company to the Trustee of an Officers' Certificate and an Opinion of Counsel to the effect that such sale or other disposition was made by the Company in accordance with the provisions hereof, including without limitation Section 4.10 or 5.01 hereof, if applicable, the Trustee shall execute any documents pursuant to written direction of the Company in order to evidence the release of any such Guarantor from its obligations under its Guarantee. Any such Guarantor not released from its obligations under its Guarantee shall remain liable for the full amount of principal of and interest on the Notes and for the other obligations of such Guarantor under this Indenture as provided in this Article 10.

ARTICLE 11

CONVERSION

SECTION 11.01. ***Conversion Privilege.***

Subject to and upon compliance with the provisions of this Article 11, each Holder shall have the right, at such Holder's option, to convert all or any portion (if the portion to be converted is $1,000 principal amount or an integral multiple thereof) of such Holder's Notes at any time prior to the Close of Business on the Business Day immediately preceding the Maturity Date, at an initial Conversion Rate (subject to adjustment as provided in this Article 11, the "*Conversion Rate*") of 99.3049 Ordinary Shares per $1,000 principal amount of Notes. Upon conversion of any Notes, the Company shall deliver to the converting Holder cash, Ordinary Shares or a combination thereof, at the Company's election, as described in Section 11.03 and subject to adjustment as set forth in this Article 11 (the Company's obligation to deliver such consideration being herein called the "*Conversion Obligation*" and such consideration being herein called the "*Conversion Consideration*").

SECTION 11.02. ***Conversion Procedures; Conversion Settlement.***

(a) To convert a Note that is represented by a Certificated Note, a Holder must (1) complete and manually sign a Conversion Notice, a form of which is on the back of the Note, and deliver such Conversion Notice to the Conversion Agent, (2) surrender the Note to the Conversion Agent, (3) if required, furnish appropriate endorsement and transfer documents, (4) if required, pay all transfer or similar taxes and (5) if required, pay cash equal to the amount of interest due on the next Interest Payment Date for such Note. If a Holder holds a beneficial interest in a Global Note, to convert such beneficial interest, such Holder must comply with requirements (4) and (5) as set forth in the immediately preceding sentence and comply with the Applicable Procedures of the Depositary for converting a beneficial interest in a Global Note. The first date on which all of the requirements set forth in the first sentence of this Section 11.02 (in the case of a Certificated Note) or the second sentence of this Section 11.02 (in the case of a Global Note or a beneficial interest therein) have been satisfied is referred to in this Indenture as the "*Conversion Date* ;" provided, however, that so long as the Ordinary Shares are listed for trading on the Tel Aviv Stock Exchange, if the Conversion Date for any Note conversion would otherwise be deemed to occur on a record date of a Parent Company Event, or the Ex-Date with respect thereto if the Ex-Date occurs prior to the record date, then the Conversion Date for such Note conversion shall instead be deemed to occur on the Business Day immediately following such record date or Ex-Date, as the case may be. The Conversion Agent shall, within one (1) Business Day of any Conversion Date, provide notice to the Company and Parent, as set forth in Section 12.02, of the occurrence of such Conversion Date.

(b) A Note shall be deemed to have been converted immediately prior to the Close of Business on the Conversion Date. Subject to Section 11.09 and Section 11.11, the Company will pay or deliver, as the case may be, the Conversion Consideration on the third Business Day immediately following the relevant Conversion Date, if the Company elects Physical Settlement, or on the third Business Day immediately following the last Trading Day of the relevant Observation Period, in the case of any other Settlement Method. If any Ordinary Shares are due to converting Holders, the Company shall issue or cause to be issued, and deliver to the Conversion Agent or such Holder, or such Holder's nominee or nominees, certificates or book-entry transfer through the Depositary for the full number of Ordinary Shares to which such Holder shall be entitled in satisfaction of the Company's Conversion Obligation.

(c) A Holder receiving Ordinary Shares upon conversion shall not be entitled to any rights as a holder of Ordinary Shares, including, among other things, the right to vote and receive dividends and notices of shareholder meetings, until the Close of Business on (i) the Conversion Date (if the Company elects to satisfy the Conversion Obligation by Physical Settlement) or (ii) the last Trading Day of the Observation Period (if the Company elects to satisfy the Conversion Obligation by Combination Settlement). Upon conversion of Notes by a Holder, such Person shall no longer be a Holder of such Notes surrendered for conversion.

(d) No payment or adjustment will be made for dividends on, or other distributions with respect to, any Ordinary Shares issued upon conversion of a Note except as provided in this Article 11. Upon conversion of a Note, a Holder will not receive, except as described below, any cash payment representing accrued and unpaid interest (including any Additional Interest). Instead, accrued and unpaid interest (including any Additional Interest) will be deemed paid in full by the cash, Ordinary Shares or a combination thereof, received by the Holder upon conversion. Delivery to the Holder of such cash and Ordinary Shares shall be deemed to satisfy (1) the Company's obligation to pay the principal amount of a Note, and (2) the Company's obligation to pay any accrued and unpaid interest (including any Additional Interest) on the Note from the last Interest Payment Date to the Conversion Date. As a result, upon conversion of a Note, accrued and unpaid interest (including any Additional Interest) on such Note to, but not including, the Conversion Date is deemed paid in full rather than cancelled, extinguished or forfeited.

(e) Notwithstanding Section 11.02(d), if Notes are converted after the Close of Business on a Regular Record Date but prior to the next succeeding Interest Payment Date (other than the Regular Record Date immediately preceding the Maturity Date), Holders of such Notes at the Close of Business on such Regular Record Date will receive the interest payable (including Additional Interest) on such Notes on the corresponding Interest Payment Date notwithstanding the conversion. Such Notes, upon surrender for conversion, must be accompanied by cash or immediately available funds equal to the amount of interest (including any Additional Interest) payable on such Interest Payment Date on the Notes so converted; *provided* that no such payment need be made (i) if the Company has specified a Repurchase Date that is after a Regular Record Date but on or prior to the next succeeding Interest Payment Date or (ii) with respect to any Notes converted after the Regular Record Date immediately preceding the Maturity Date.

(f) If a Holder converts more than one Note at the same time, the number of Ordinary Shares, the amount of cash, if any, and the amount of cash delivered in lieu of fractional shares, if any, due upon conversion shall be determined based on the aggregate principal amount of the Notes converted.

(g) Upon conversion of an interest in a Global Note, the Trustee, or the Custodian at the direction of the Trustee, shall make a notation on such Global Note as the reduction of the principal amount represented thereby. Upon surrender of a Note that is converted in part, the Company shall execute, and the Trustee shall authenticate and deliver to the Holder, a new Note in an authorized denomination equal in principal amount to the unconverted portion of the Note surrendered.

SECTION 11.03. ***Settlement Upon Conversion.***

(a) Subject to Section 11.09, upon conversion of any Note, the Company shall pay or deliver, as the case may be, either cash ("*Cash Settlement*"), Ordinary Shares together with cash in lieu of delivering any fractional shares in accordance with Section 11.04 ("*Physical Settlement*"), or a combination of cash and Ordinary Shares together with cash in lieu of delivering any fractional shares in accordance with Section 11.04 ("*Combination Settlement*"), at its election as set forth in this Section 11.03. Each of Cash Settlement, Physical Settlement and Combination Settlement is a "*Settlement Method*."

(b) The same Settlement Method shall be used for all conversions occurring on the same Conversion Date. The Company shall not have any obligation to use the same Settlement Method with respect to conversions with that occur on different Conversion Days, except that the same Settlement Method shall be used for all conversions occurring on or after the 24th Scheduled Trading Day immediately preceding the Maturity Date.

(c) If the Company elects a Settlement Method in respect of a Conversion Date, the Company shall provide notice (the "*Settlement Notice*") of such Settlement Method and the Specified Dollar Amount or Cash Percentage, as applicable, in respect of such Conversion Date by informing the Trustee, the converting Holders, through the Trustee, and the Depositary no later than the Close of Business on the Trading Day immediately following the relevant Conversion Date (or, in the case of any conversions occurring on or after the 24th Scheduled Trading Day immediately preceding the Maturity Date, no later than the 24th Scheduled Trading Day immediately preceding the Maturity Date). If the Company elects Combination Settlement, but does not timely notify converting Holders of the Specified Dollar Amount, such Specified Dollar Amount will be deemed to be $1,000. If the Company does not timely provide Settlement Notice, it will be deemed to have elected Physical Settlement in respect of the Conversion Obligation.

(d) Subject to Section 11.03(e), with respect to any conversion of Notes by means of a Combination Settlement (other than a Net Share Settlement), the Company may specify, rather than a Specified Dollar Amount, a percentage of the Daily Settlement Amount that will be settled in cash (the "*Cash Percentage*") by specifying such Cash Percentage in the Settlement Notice.

(e) At any time on or prior to the 24th scheduled Trading Day prior to the Maturity Date, the Company may irrevocably elect (a "*Net Share Settlement Election*") to satisfy the Conversion Obligation with respect to any Notes to be converted after the date of such election by delivering cash up to the aggregate principal amount of Notes to be converted, and Ordinary Shares, Cash or a combination thereof in respect of the remainder, if any, of the Conversion Obligation ("*Net Share Settlement*"). A Net Share Settlement is one type of Combination Settlement. The Company may make a Net Share Settlement Election at its sole discretion without the consent of the Holders.

Upon making a Net Share Settlement Election, the Company will promptly (i) use reasonable efforts to post such information on its website or otherwise publicly disclose such information and (ii) provide written notice to the Holders by mailing such notice to Holders at their address in the Register (in the case of a Certificated Note), or through the facilities of the Depositary (in the case of a Global Note).

(f) The Conversion Consideration in respect of the conversion of any Notes will be computed as follows:

(i) if the Company elects Physical Settlement, the Company will deliver to the converting Holder in respect of each $1,000 principal amount of Notes being converted a number of Ordinary Shares equal to the Conversion Rate in effect on the Conversion Date;

(ii) if the Company elects Cash Settlement, the Company will pay to the converting Holder in respect of each $1,000 principal amount of Notes being converted cash in an amount equal to the sum of the Daily Conversion Values for each of the 20 consecutive Trading Days during the applicable Observation Period; and

(iii) if the Company elects (or is deemed to have elected) Combination Settlement (including Net Share Settlement), the Company will pay or deliver, as the case may be, to the converting Holder in respect of each $1,000 principal amount of Notes being converted a combination of cash and Ordinary Shares in an amount equal to the sum of the Daily Settlement Amounts for each of the 20 consecutive Trading Days during the applicable Observation Period.

(g) The Daily Settlement Amounts (if applicable) and the Daily Conversion Values (if applicable) shall be determined by the Company promptly following the last day of the Observation Period. Promptly after such determination of the Daily Settlement Amounts or the Daily Conversion Values, as the case may be, and the amount of cash deliverable (including cash in lieu of fractional shares), the Company shall notify the Trustee and the Conversion Agent (if other than the Trustee) of the Daily Settlement Amounts or the Daily Conversion Values, as the case may be, and the amount of cash deliverable (including cash in lieu of fractional shares). In calculating the Daily Settlement Amounts, the Conversion Rate on any day shall be appropriately adjusted to take into account the occurrence on or before such Trading Day of any event that would require an adjustment to the Conversion Rate as set forth in Section 11.07. The Trustee and the Conversion Agent (if other than the Trustee) shall have no responsibility for any such determination.

SECTION 11.04. ***Fractional Share.***

Fractional Ordinary Shares will not be issued upon conversion of a Note. Instead, the Company shall pay cash in lieu of fractional shares based on the Closing Sale Price of Ordinary Shares on the Trading Day prior to the applicable Conversion Date (if the Company elects to satisfy the Conversion Obligation by Physical Settlement) or the Closing Sale Price of the Ordinary Shares on the last Trading Day of the relevant Observation Period (if the Company elects to satisfy the Conversion Obligation by Combination Settlement).

SECTION 11.05. ***Taxes on Conversion.***

If a Holder converts a Note, the Company shall pay any documentary, stamp or similar issue or transfer tax due on the issue of any Ordinary Shares upon the conversion. However, the Holder shall pay any such tax which is due because the Holder requests the shares to be issued in a name other than the Holder's name. The Conversion Agent may refuse to deliver the certificates representing Ordinary Shares being issued in a name other than the Holder's name until the Conversion Agent receives a sum sufficient to pay any tax which will be due because Ordinary Shares are to be delivered in a name other than the Holder's name. Except as expressly provided herein, the Company will not pay any taxes on behalf of the Holder.

SECTION 11.06. ***Parent to Provide Ordinary Shares***.

Parent shall reserve out of its authorized but unissued Ordinary Shares a sufficient number of Ordinary Shares to permit the delivery in respect of all outstanding Notes of the number of Ordinary Shares due upon conversion. Parent shall be obligated to provide to the Company, upon the conversion of any Note, sufficient Ordinary Shares to permit the Company to satisfy its conversion obligation in respect of such Note.

All Ordinary Shares delivered upon conversion of the Notes shall be newly issued shares or treasury shares, shall be duly and validly issued and fully paid and nonassessable and shall be free from preemptive rights and free of any lien or adverse claim.

The Company and Parent will comply with all federal and state securities laws regulating the offer and delivery of Ordinary Shares upon conversion of Notes, if any, and Parent shall list or cause to have quoted such Ordinary Shares on each national securities exchange or in the over-the-counter market or such other market on which Ordinary Shares then listed or quoted.

In addition, if any Ordinary Shares that would be issuable upon conversion of Notes hereunder require registration with or approval of any governmental authority before such Ordinary Shares may be issued upon such conversion, Parent will cause such Ordinary Shares to be duly registered or approved, as the case may be.

SECTION 11.07. ***Adjustment to Conversion Rate***.

The Conversion Rate shall be adjusted, at any time and from time to time while any of the Notes are outstanding, by the Company if any of the following events occur.

(a) If the Parent issues dividends or makes distributions on Ordinary Shares payable in Ordinary Shares, or if the Parent subdivides, combines or reclassifies Ordinary Shares, the Conversion Rate shall be adjusted based on the following formula:

$$CR_1 = CR_0 \times \frac{OS_1}{OS_0}$$

where,

CR_0 = the Conversion Rate in effect immediately prior to the opening of business on the Ex-Date for such dividend or distribution, or immediately prior to the opening of business on the effective date for such subdivision, combination or reclassification, as applicable;

CR_1 = the Conversion Rate in effect immediately after the opening of business on such Ex-Date or effective date, as applicable;

OS_0 = the number of Ordinary Shares outstanding immediately prior to the opening of business on the Ex-Date for such dividend or distribution, or immediately prior to the opening of business on the effective date for such subdivision, combination or reclassification, as applicable; and

OS_1 = the number of Ordinary Shares outstanding immediately after giving effect to such dividend, distribution, subdivision, combination or reclassification.

Any adjustment made under this Section 11.07(a) shall become effective immediately after the opening of business on the Ex-Date for such dividend or distribution, or immediately after the opening of business on the effective date for such subdivision, combination or reclassification, as applicable. If any dividend or distribution of the type described in this Section 11.07(a) is declared but not so paid or made, or the outstanding Ordinary Shares are not subdivided, combined or reclassified, as the case may be, effective as of the date the Board of Directors of Parent or a committee thereof determines not to pay such dividend or distribution or to effect such subdivision, combination or reclassification, the Conversion Rate shall again be adjusted to the Conversion Rate that would then be in effect if such dividend or distribution had not been declared or subdivision, combination or reclassification had not been announced.

(b) If the Parent distributes or issues to all or substantially all holders of Ordinary Shares any rights, options or warrants (other than pursuant to a stockholder rights plan, *provided* that such rights plan provides for the issuance of such rights with respect to the Ordinary Shares issued upon conversion of the Notes) to purchase Ordinary Shares for a period expiring within 60 days after the record date for such distribution at a per share price less than the average of the Closing Sale Prices of Ordinary Shares for the five consecutive Trading Days ending on and including the Trading Day immediately preceding the public announcement of such distribution or issuance, the Conversion Rate shall be increased based on the following formula:

$$CR_1 = CR_0 \times \frac{OS_0 + X}{OS_0 + Y}$$

where,

CR_0 = the Conversion Rate in effect immediately prior to the opening of business on the Ex-Date for such distribution or issuance;

CR_1 = the Conversion Rate in effect immediately after the opening of business on such Ex-Date;

OS_0 = the number of Ordinary Shares outstanding immediately prior to the opening of business on the Ex-Date for such distribution or issuance;

X = the total number of additional Ordinary Shares so offered for purchase pursuant to such rights, options or warrants; and

Y = the number of Ordinary Shares equal to the aggregate price payable to exercise such rights, options or warrants *divided* by the average of the Closing Sale Price of the Ordinary Shares over the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the date of announcement of the issuance of such rights, options or warrants.

Any increase made under this Section 11.07(b) shall be made successively whenever any such rights, options or warrants are issued and shall become effective immediately after the opening of business on the Ex-Date for such distribution or issuance. To the extent that Ordinary Shares are not delivered pursuant to such rights or upon the expiration or termination of such rights, options or warrants, the Conversion Rate shall be readjusted to the Conversion Rate that would then be in effect had the adjustments made upon the issuance of such rights, options or warrants been made on the basis of the delivery of only the number of Ordinary Shares actually delivered. In the event that such rights, options or warrants are not so distributed or issued, the Conversion Rate shall again be adjusted to be the Conversion Rate that would then be in effect if the Ex-Date for such distribution or issuance had not occurred. In determining whether any rights, options or warrants entitle the holders to purchase Ordinary Shares at less than the average of the Closing Sale Prices for the five consecutive Trading Days immediately preceding the first public announcement of the relevant distribution, and in determining the aggregate offering price of such Ordinary Shares, there shall be taken into account any consideration received for such rights, options or warrants and any amount payable upon exercise or conversion thereof, and the value of such consideration if other than cash, to be determined in good faith by the Board of Directors of Parent. Except in connection with any readjustment expressly provided for in this clause, in no event shall the Conversion Rate be decreased pursuant to this Section 11.07(b).

(c) If the Parent distributes to all or substantially all holders of Ordinary Shares, any of its Capital Stock, assets (including shares of any Subsidiary of the Parent or business unit of the Parent) or debt securities or rights to purchase securities of the Parent (excluding (i) any dividends or distributions described in Section 11.07(a), (ii) any rights, options or warrants described in Section 11.07(b), (iii) any dividends or other distributions described in Section 11.07(d) and (iv) the initial distribution of rights issued pursuant to a stockholder rights plan; *provided* that such rights plan provides for the issuance of such rights with respect to the Ordinary Shares issued upon conversion of the Notes) (such Capital Stock, assets, debt securities or rights to purchase securities of the Parent hereinafter in this Section 11.07(c) called the "*Distributed Assets*"), the Conversion Rate shall be increased based on the following formula:

$$CR_1 = CR_0 \times \frac{CMP_0}{CMP_0 - FMV}$$

where,

CR_0= the Conversion Rate in effect immediately prior to the opening of business on the Ex-Date for such distribution;

CR_1 = the Conversion Rate in effect immediately after the opening of business on such Ex-Date for such distribution;

CMP_0 = the average of the Closing Sale Prices of the Ordinary Shares over the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the Ex-Date for such distribution; and

FMV = the fair market value, as determined by the Board of Directors of the Parent, of the portion of Distributed Assets applicable to one Ordinary Share on the Ex-Date for such Distribution.

Such increase shall become effective immediately after the opening of business on the Ex-Date for such distribution; *provided* that if "FMV" (as defined in this Section 11.07(c)) is equal to or greater than "CMP 0 " (as defined in this Section 11.07(c)), in lieu of the foregoing increase, adequate provision shall be made so that each Holder shall receive on the date on which the Distributed Assets are distributed to holders of Ordinary Shares, for each $1,000 principal amount of Notes, the amount of Distributed Assets such Holder would have received had such holder owned a number of Ordinary Shares equal to the Conversion Rate on the record date for such distribution. In the event that such distribution is not so made, the Conversion Rate shall again be adjusted to be the Conversion Rate that would then be in effect if such distribution had not been declared.

If the Board of Directors of Parent determines the fair market value of any distribution for purposes of this Section 11.07(c) by reference to the actual or when issued trading market for any Distributed Assets comprising all or part of such distribution, it must in doing so consider the prices in such market over the same period (the "*Reference Period*") used in computing the Closing Sale Price for purposes of the definition of "CMP 0 " in this Section 11.07(c), unless the Board of Directors of Parent determines in good faith that determining the fair market value during the Reference Period would not be in the best interest of the Holders.

Notwithstanding anything to the contrary in this Section 11.07(c), if the Parent distributes Capital Stock of, or similar equity interests in, any Subsidiary of the Parent or business unit of the Parent that are, or when issued will be, listed or admitted for trading on a U.S. national securities exchange (a "*Spin-Off*"), the Conversion Rate shall be increased based on the following formula:

$$CR_1 = CR_0 \times \frac{FMV_0 + MP_0}{MP_0}$$

where,

CR_0 = the Conversion Rate in effect immediately prior to the opening of business on the 15th Trading Day immediately following the Ex-Date for such Spin-Off;

CR_1 = the Conversion Rate in effect immediately after the opening of business on the Ex-Date for such Spin-Off;

FMV_0 = the average of the Closing Sale Prices of the Capital Stock or similar equity interest distributed to holders of Ordinary Shares applicable to one share of Common Stock over the ten consecutive Trading Day period immediately following, and including, the fifth Trading Day after the Ex-Date for such Spin-Off; and

MP_0 = the average of the Closing Sale Prices of Ordinary Shares over the ten consecutive Trading Day period immediately following, and including, the fifth Trading Day after the Ex-Date for such Spin-Off.

Any adjustment pursuant to the preceding paragraph shall be determined on the last Trading Day of such ten consecutive Trading Day period but shall be given effect immediately after the opening of business on the Ex-Date for the Spin-Off. In no event shall the Conversion Rate be decreased pursuant to this Section 11.07(c).

(d) If the Parent distributes dividends or makes other distributions paid entirely in cash to all or substantially all holders of Ordinary Shares, other than (i) distributions described in Section 11.07(e) or (ii) any dividend or distribution in connection with the Parent's liquidation, dissolution or winding up, the Conversion Rate shall be increased based on the following formula:

$$CR_1 = CR_0 \times \frac{CMP_0}{CMP_0 - C}$$

where,

CR_0 = the Conversion Rate in effect immediately prior to the opening of business on the Ex-Date for such dividend or distribution;

CR_1 = the Conversion Rate in effect immediately after the opening of business on such Ex-Date for such dividend or distribution;

CMP_0 = the Closing Sale Price of the Ordinary Shares on the Trading Day immediately preceding the Ex-Date for such dividend or distribution; and

C = the amount in cash per share of such dividend or distribution.

Such increase shall become effective immediately after the opening of business on the Ex-Date for such distribution or dividend; *provided* that if "C" (as defined in this Section 11.07(d)) is equal to or greater than "CMP 0 " (as defined in this Section 11.07(d)), in lieu of the foregoing increase, adequate provision shall be made so that each Holder shall have the right to receive on the date on which the relevant cash dividend or distribution is distributed to holders of Ordinary Shares, for each $1,000 principal amount of Notes upon conversion, at the same time and upon the same terms as holders of Ordinary Shares, the amount of cash such Holder would have received had such Holder owned a number of Ordinary Shares equal to the Conversion Rate on the record date for such dividend or distribution. In the event that such distribution or dividend is not so made, the Conversion Rate shall again be adjusted to be the Conversion Rate that would then be in effect if such dividend or distribution had not been declared. Except in connection with any readjustment expressly provided for in the immediately preceding sentence, in no event shall the Conversion Rate be decreased pursuant to this Section 11.07(d).

(e) If the Parent or any of its Subsidiaries makes any payment in cash or other consideration in respect of a tender offer or exchange offer for Ordinary Shares, where such cash and the value of any such other consideration per Ordinary Share validly tendered or exchanged exceeds the Closing Sale Price of Ordinary Shares on the Trading Day immediately following the last date (such last date, the "*Expiration Date*") on which tenders or exchanges may be made pursuant to the tender or exchange offer, the Conversion Rate shall be increased based on the following formula:

$$CR_1 = CR_0 \times \frac{FMV + (OS_1 \times CP_1)}{OS_0 \times CP_1}$$

where,

CR_0 = the Conversion Rate in effect immediately prior to the opening of business on the Business Day immediately following the Trading Day immediately following the Expiration Date;

CR_1 = the Conversion Rate in effect immediately prior to the opening of business on the second Trading Day immediately following the Expiration Date;

FMV = the fair market value, as determined by the Board of Directors of Parent, of the aggregate consideration payable for all Ordinary Shares that the Parent purchases in such tender or exchange offer;

OS_0 = the number of Ordinary Shares outstanding immediately prior to giving effect to the purchase of all shares accepted for purchase or exchange in such tender offer or exchange offer;

OS_1 = the number of Ordinary Shares outstanding immediately after giving effect to the purchase of all shares accepted for purchase or exchange in such tender offer or exchange offer; and

CP_1 = the Closing Sale Price of Ordinary Shares on the Trading Day immediately following the Expiration Date.

An adjustment, if any, to the Conversion Rate pursuant to this Section 11.07(e) shall become effective immediately prior to the opening of business on the second Trading Day immediately following the Expiration Date. In the event that the Parent or one of its Subsidiaries is obligated to purchase Ordinary Shares pursuant to any such tender offer or exchange offer, but the Parent or such Subsidiary is permanently prevented by applicable law from effecting any such purchases, or all such purchases are rescinded, then the Conversion Rate shall again be adjusted to be the Conversion Rate that would then be in effect if such tender offer or exchange offer had not been made. Except as provided in the immediately preceding sentence, if the application of this Section 11.07(e) to any tender offer or exchange offer would result in a decrease in the Conversion Rate, no adjustment shall be made for such tender offer or exchange offer under this Section 11.07(e).

SECTION 11.08. ***Provisions Governing Adjustment to Conversion Rate***.

Rights, options or warrants distributed by the Parent to all or substantially all holders of Ordinary Shares entitling the holders thereof to subscribe for or purchase shares of the Parent's Capital Stock (either initially or under certain circumstances), which rights, options or warrants, until the occurrence of a specified event or events ("*Trigger Event*"): (i) are deemed to be transferred with such Ordinary Shares; (ii) are not exercisable; and (iii) are also issued in respect of future issuances of Ordinary Shares, shall be deemed not to have been distributed for purposes of Section 11.07 (and no adjustment to the Conversion Rate under Section 11.07 will be required) until the occurrence of the earliest Trigger Event, whereupon such rights, options and warrants shall be deemed to have been distributed and an appropriate adjustment (if any is required) to the Conversion Rate shall be made under Section 11.07(c), and, if applicable, Section 11.19. If any such right, option or warrant, including any such existing rights, options or warrants distributed prior to the date of this Indenture, are subject to events, upon the occurrence of which such rights, options or warrants become exercisable to purchase different securities, evidences of indebtedness or other assets, then the date of the occurrence of any and each such event shall be deemed to be the date of distribution and Ex-Date with respect to new rights, options or warrants with such rights (and a termination or expiration of the existing rights, options or warrants without exercise by any of the holders thereof), except as set forth in Section 11.19. In addition, except as set forth in Section 11.19, in the event of any distribution (or deemed distribution) of rights, options or warrants, or any Trigger Event or other event (of the type described in the preceding sentence) with respect thereto that was counted for purposes of calculating a distribution amount for which an adjustment to the Conversion Rate under Section 11.07 was made (including any adjustment contemplated in Section 11.19), (1) in the case of any such rights, options or warrants that shall all have been redeemed or repurchased without exercise by any holders thereof, the Conversion Rate shall be readjusted upon such final redemption or repurchase to give effect to such distribution or Trigger Event, as the case may be, as though it were a cash distribution, equal to the per share redemption or repurchase price received by a holder or holders of Ordinary Shares with respect to such rights, options or warrants (assuming such holder had retained such rights, options or warrants), made to all holders of Ordinary Shares as of the date of such redemption or repurchase, and (2) in the case of such rights, options or warrants that shall have expired or been terminated without exercise by any holders thereof, the Conversion Rate shall be readjusted as if such rights, options and warrants had not been issued.

SECTION 11.09. ***Merger Events.***

If any of the following events occurs:

(a) any recapitalization, reclassification or change of Ordinary Shares (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination);

(b) consolidation, merger, or other combination involving the Parent; or

(c) sale or conveyance to another Person of all or substantially all of the assets of the Parent;

in each case as a result of which Ordinary Shares would be converted into, or exchanged for, or would constitute solely the right to receive, stock, other securities or other property or assets (including cash or any combination thereof) (any such event, a "*Merger Event*"), then, prior to or at the effective time of such Merger Event, the Company and Parent, and such successor, purchaser or transferee Person, as the case may be, shall execute and deliver to the Trustee a supplemental indenture permitted under Section 9.01 to provide that, subject to the Company's right to settle all or a portion of the Conversion Obligation with respect to the Notes in cash and the Company's right to make a Net Share Settlement Election as set forth under Section 11.03(e), the right to convert each $1,000 principal amount of Notes shall be changed into a right to convert such principal amount of Notes into the kind and amount of shares of stock, other securities or other property or assets (including cash or any combination thereof) that a holder of a number of Ordinary Shares equal to the Conversion Rate immediately before such Merger Event would have owned or been entitled to receive (the "*Reference Property*") upon such Merger Event; *provided, however*, that at and after the effective time of the Merger Event, (i) the amount otherwise payable in cash upon conversion of the Notes as set forth under Section 11.03 above shall continue to be payable in cash, (ii) the Company shall continue to have the right to determine the form of consideration to be paid or delivered, as the case may be, as set forth under Section 11.03, (iii) each Ordinary Share that would otherwise have been required to be delivered upon a conversion of the Notes as set forth under Section 11.03 shall instead be deliverable in the amount and type of Reference Property that a holder of one Ordinary Share would have been entitled to receive in such Merger Event (a "*unit of Reference Property*") and (iv) the Daily VWAP shall be calculated based on the value of one unit of Reference Property.

If the Merger Event causes the Ordinary Shares to be converted into, or exchanged for, or constitute solely the right to receive more than a single type of consideration (determined based in part upon any form of stockholder election), then (x) the Reference Property into which the Notes will be convertible or used to calculate the Daily VWAP, as the case may be, shall be deemed to be the weighted average of the types and amounts of consideration received by the holders of Ordinary Shares that affirmatively make such an election or, if no holders of Ordinary Shares affirmatively make such an election, the types and amounts of consideration actually received by the holders of Ordinary Shares and (y) the unit of Reference Property for purposes of the immediately preceding paragraph shall refer to the consideration referred to in clause (x) attributable to one Ordinary Share. The Company shall notify Holders, the Trustee and the Conversion Agent (if other than the Trustee) of such weighted average as soon as practicable after such determination is made.

Such supplemental indenture required by this Section 11.09 shall provide for anti-dilution and other adjustments that shall be as nearly equivalent as possible to the adjustments provided in this Article 11. If, in the case of any Merger Event, the Reference Property includes shares of stock or other securities and assets of a Person other than the successor or purchasing Person, as the case may be, in such reclassification, consolidation, merger, combination, sale or conveyance, then such supplemental indenture shall also be executed by such other Person and shall contain such additional provisions to protect the interests of the Holders as the Board of Directors of the Company shall reasonably consider necessary by reason of the foregoing, including to the extent required by the Board of Directors of the Company and practicable the provisions providing for the repurchase rights set forth in Sections 3.08 and 4.15 herein.

In the event the Company shall execute a supplemental indenture pursuant to this Section 11.09, the Company shall promptly file with the Trustee an Officers' Certificate briefly stating the reasons therefor, the kind or amount of cash, securities or property or asset that will comprise a unit of Reference Property after any such Merger Event, any adjustment to be made with respect thereto and that all conditions precedent have been complied with, and shall promptly deliver notice thereof to all Holders. The Company shall cause notice of the execution of such supplemental indenture to be delivered to each Holder, at its address appearing on the Register provided for in this Indenture, within 20 days after execution thereof. Failure to deliver such notice shall not affect the legality or validity of such supplemental indenture. Neither Company nor Parent shall become a party to any such Merger Event unless its terms are consistent with this Section 11.09.

The provisions of this Section 11.09 shall apply to successive Merger Events. Upon the consummation of any Merger Event, references to "Ordinary Shares" shall be deemed to refer to any Reference Property that constitutes capital stock after giving effect to such Merger Event.

SECTION 11.10. ***When Adjustment May Be Deferred.***

No adjustment in the Conversion Rate need be made unless the adjustment would require an increase or decrease of at least 1% of the Conversion Rate. Any adjustments that are less than 1% of the Conversion Rate will be carried forward and taken into account in determining any subsequent adjustment. Notwithstanding the foregoing, the Company shall make any carry forward adjustments not otherwise effected (i) annually on each anniversary of the date hereof, (ii) in connection with any subsequent adjustment to the Conversion Rate of at least 1% of the Conversion Rate (when such carried-forward adjustments are taken into account), (iii) (x) on the Conversion Date for any Notes (in the case of Physical Settlement) and (y) on each Trading Date of the Observation Period (in the case of Cash Settlement or Combination Settlement), (iv) upon required repurchases of the Notes pursuant to Sections 3.08 and 4.15, and (v) on the Scheduled Trading Day prior to the Maturity Date. All calculations and other determinations under this Article 11 shall be made to the nearest one-ten thousandth (1/10,000) of a share.

SECTION 11.11. ***When No Adjustment Required***.

(a) No adjustment need be made for a transaction referred to in Section 11.07 if Holders participate, without conversion, in the transaction or event that would otherwise give rise to an adjustment pursuant to such Section at the same time as holders of Ordinary Shares participate with respect to such transaction or event and on the same terms as holders of Ordinary Shares participate with respect to such transaction or event as if Holders, at such time, held a number of Ordinary Shares equal to the Conversion Rate then in effect, *multiplied by* the principal amount (expressed in thousands) of Notes held by such Holder, without having to convert their Notes.

(b) Except as provided in Section 11.07, no adjustment need be made for the issuance of Ordinary Shares or any securities convertible into or exchangeable for Ordinary Shares or carrying the right to purchase Ordinary Shares or any such security.

(c) No adjustment need be made for rights to purchase Ordinary Shares pursuant to a Company plan for reinvestment of dividends or interest.

(d) No adjustment need be made for a change in the par value or no par value of Ordinary Shares.

(e) To the extent the Notes become convertible pursuant to this Article 11 solely into cash, no adjustment need be made thereafter as to the cash. Interest will not accrue on the cash into which the Notes are convertible.

SECTION 11.12. ***Notice of Adjustment***.

Whenever the Conversion Rate is adjusted, the Company shall promptly send to Holders a written notice of the adjustment. The Company shall file with the Trustee and the Conversion Agent such notice and an Officers' Certificate from the Company briefly stating the facts requiring the adjustment and the manner of computing it. Such Officers' Certificate shall be conclusive evidence (absent manifest error) that the adjustment is correct. Neither the Trustee nor any Conversion Agent shall be under any duty or responsibility with respect to any such Officers' Certificate except to exhibit the same to any Holder desiring inspection thereof. Failure to deliver any such notice or certificate shall not affect the legality or validity of such adjustment.

SECTION 11.13. ***Notice of Certain Transactions.***

If (a) the Parent or any of its Subsidiaries takes any action that would require an adjustment in the Conversion Rate pursuant to Section 11.07 (unless no adjustment is to occur pursuant to Section 11.10 or Section 11.11), (b) the Parent takes any action that would require a supplemental indenture pursuant to Section 11.09, (c) there is a voluntary or involuntary liquidation, dissolution or winding up of the Parent or (d) the Parent makes any distribution described in Section 11.07(b), Section 11.07(c) or Section 11.07(d) that has a per share value equal to more than 15% of the Closing Sale Price of Ordinary Shares on the Trading Day preceding the declaration date for such issuance, dividend or distribution, then the Company shall send to Holders and file with the Trustee and the Conversion Agent a written notice stating the proposed record date for a issuance, dividend or distribution or the proposed effective date of a subdivision, combination, reclassification, consolidation, merger, combination, sale or conveyance. The Company shall file and send the notice at least 15 days before such date. Failure to file or send the notice or any defect in it shall not affect the validity of the transaction. For so long as the Ordinary Shares are listed for trading on the Tel Aviv Stock Exchange, notice of a Parent Company Event, including the record date and Ex-Date with respect thereto, shall be sent to Holders and filed with the Trustee by the Company in the same manner and within the same time frame as other notices required to be sent and filed pursuant to this Section 11.13.

SECTION 11.14. ***Right of Holders to Convert.***

Notwithstanding any other provision in this Indenture, the Holder of any Note shall have the right to convert its Note in accordance with this Article 11 and to bring an action for the enforcement of any such right to convert, and such rights shall not be impaired or affected without the consent of such Holder.

SECTION 11.15. ***Company Determination Final.***

The Company shall be responsible for making all calculations called for hereunder and under the Notes. The Company shall make all these calculations using commercially reasonable means and, absent manifest error, the Company's calculations will be final and binding on Holders. The Company shall provide a schedule of the Company's calculations to the Trustee, and the Trustee is entitled to rely upon the accuracy of the Company's calculations without independent verification.

SECTION 11.16. ***Trustee's Adjustment Disclaimer.***

The Trustee has no duty to determine when an adjustment under this Article 11 should be made, how it should be made or what it should be. The Trustee has no duty to determine whether a supplemental indenture under Section 11.11 need be entered into or whether any provisions of any supplemental indenture are correct. The Trustee shall not be accountable for and makes no representation as to the validity or value of any securities or assets issued upon conversion of Notes. The Trustee shall not be responsible for the Company's or Parent's failure to comply with this Article 11. Each Conversion Agent shall have the same protection under this Section 11.16 as the Trustee.

SECTION 11.17. ***Simultaneous Adjustments.***

For purposes of Section 11.07(a), 11.07(b) and 11.07(c), any dividend or distribution to which Section 11.07(c) is applicable that also includes Ordinary Shares, or rights, options or warrants to subscribe for or purchase Ordinary Shares (or both), shall be deemed instead to be (1) a dividend or distribution of the debt securities, assets or shares of Capital Stock other than such Ordinary Shares or rights (and any Conversion Rate adjustment required by Section 11.07(c) with respect to such dividend or distribution shall then be made) immediately followed by (2) a dividend or distribution of such Ordinary Shares or such rights (and any further Conversion Rate adjustment required by Section 11.07(a) and 11.07(b) with respect to such dividend or distribution shall then be made), except any Ordinary Shares included in such dividend or distribution shall not be deemed "outstanding at the Close of Business on the Business Day immediately preceding such Ex-Date" within the meaning of Section 11.07(a).

SECTION 11.18. ***Successive Adjustments.***

After an adjustment to the Conversion Rate under this Article 11, any subsequent event requiring an adjustment under this Article 11 shall cause an adjustment to the Conversion Rate as so adjusted.

SECTION 11.19. ***Rights Issued in Respect of Ordinary Shares Issued Upon Conversion.***

Each Ordinary Share issued upon conversion of Notes pursuant to this Article 11 shall be entitled to receive the appropriate number of rights ("*Rights*"), if any, and the certificates representing Ordinary Shares issued upon such conversion shall bear such legends, if any, in each case as may be provided by the terms of any rights plan (i.e., a poison pill) adopted by the Parent, as the same may be amended from time to time, is in effect (in each case, a " *Shareholders Rights Plan* "). Upon conversion of the Notes a Holder will receive, in addition to any Ordinary Shares received in connection with such conversion, the Rights under the Shareholders Rights Plan, unless prior to any conversion, the Rights have separated from Ordinary Shares, in which case the Conversion Rate will be adjusted at the time of separation as if the Parent distributed to all holders of Ordinary Shares, shares of Company Capital Stock, assets, debt securities or certain rights to purchase securities of the Company as described in Section 11.07(c), and further adjusted in the event of certain events affecting such Rights following any separation from the Ordinary Shares and subject to readjustment in the event of the expiration, termination or redemption of such Rights. Any distribution of Rights pursuant to the Shareholders Rights Plan that would allow a Holder to receive upon conversion, in addition to Ordinary Shares, the Rights described therein (unless such Rights have separated from Ordinary Shares) shall not constitute a distribution of Rights that would entitle the Holder to an adjustment to the Conversion Rate.

SECTION 11.20. ***Withholding Taxes for Adjustments in Conversion Rate.***

The Company may, at its option, set-off withholding taxes due with respect to Notes against delivery of Ordinary Shares upon conversion of the Notes. In the case of any such set-off against Ordinary Shares delivered upon conversion of the Notes, such Ordinary Shares shall be valued based on the Closing Sale Price of the Ordinary Shares on the Trading Day immediately following the Conversion Date.

ARTICLE 12

MISCELLANEOUS

SECTION 12.01. ***Trust Indenture Act Controls.***

If any provision hereof limits, qualifies or conflicts with the duties imposed by TIA § 318(c), the imposed duties shall control.

SECTION 12.02. ***Notices.***

Any notice or communication by the Company, any Guarantor or the Trustee to the others is duly given if in writing and delivered by hand delivery, registered first-class mail, next-day air courier or facsimile:

If to the Company or any Guarantor, to it care of:

Jazz Technologies, Inc.
4321 Jamboree Road
Newport Beach, California 92660
Attention: Chief Financial Officer
Facsimile: (949) 315-3811

If to the Parent:

Tower Semiconductor, Ltd.
Ramat Gavriel Industrial Park
P.O. Box 619, Migdal Haemek, Israel 23105
Attention: Chief Legal Officer
Facsimile: (972) 4-654-6510

If to the Trustee:

U.S. Bank National Association
EP-MN-WS3C
60 Livingston Avenue
St. Paul, Minnesota 55107-1419
Facsimile No.: (651) 466-7430
Attention: Corporate Trust Services

The Company, any Guarantor, Parent or the Trustee, by notice to the others, may designate additional or different addresses for subsequent notices or communications.

All notices and communications (other than those sent to Holders of Notes) shall be deemed to have been duly given: when delivered by hand, if personally delivered; five Business Days after being deposited in the mail, certified or registered, return receipt requested, postage prepaid, if mailed; one Business Day after being timely delivered to a next-day air courier; and when transmission is confirmed, if sent by facsimile.

Any notice or communication to a Holder of a Note shall be mailed by first class mail to its address shown on the register kept by the Registrar (or, if the Notes are held in book-entry form, send by electronic transmission). Any notice or communication shall also be so mailed or delivered to any Person described in TIA § 313(c), to the extent required by the TIA. Failure to so mail or deliver a notice or communication to a Holder of a Note or any defect in it shall not affect its sufficiency with respect to other Holders of Notes.

If a notice or communication is mailed or delivered in the manner provided above within the time prescribed, it is duly given, whether or not the addressee receives it.

If the Company, any Guarantor or Parent mails or delivers a notice or communication to Holders of Notes, it shall mail or deliver a copy to the Trustee and each Agent at the same time.

The Trustee agrees to accept and act upon facsimile and electronic mail transmission of written instructions and/or directions pursuant to this Indenture given by the Company, any Guarantor or Parent, *provided, however*, that: (i) the Company, any such Guarantor or Parent, as the case may be, shall, subsequent to such facsimile or electronic mail transmission of written instructions and/or directions, provide the originally executed instructions and/or directions to the Trustee in a timely manner and (ii) such originally executed instructions and/or directions shall be signed by an authorized Officer of the Company, any such Guarantor or Parent, as the case may be.

SECTION 12.03. ***Communication by Holders of Notes with Other Holders of Notes.***

Holders of the Notes may communicate pursuant to TIA § 312(b) with other Holders of Notes with respect to their rights under this Indenture or the Notes. The Company, any Guarantor, Parent, the Trustee, the Registrar and anyone else shall have the protection of TIA § 312(c).

SECTION 12.04. ***Certificate and Opinion as to Conditions Precedent.***

Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee:

(a) an Officers' Certificate in form and substance reasonably satisfactory to the Trustee stating that, in the opinion of the signers, all conditions precedent and covenants, if any, provided for in this Indenture relating to the proposed action have been satisfied; and

(b) an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee stating that, in the opinion of such counsel, all such conditions precedent and covenants have been satisfied.

SECTION 12.05. ***Statements Required in Certificate or Opinion.***

Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture (other than a certificate provided pursuant to TIA § 314(a)(4)), if applicable; shall include:

(a) a statement that the Person making such certificate or opinion has read such covenant or condition;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(c) a statement that, in the opinion of such Person, he or she has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been satisfied; and

(d) a statement as to whether or not, in the opinion of such Person, such condition or covenant has been satisfied.

SECTION 12.06. ***Rules by Trustee and Agents.***

The Trustee may make reasonable rules for action by or at a meeting of Holders of Notes. The Registrar or Paying Agent may make reasonable rules and set reasonable requirements for its functions.

SECTION 12.07. ***No Personal Liability of Directors, Owners, Employees, Incorporators and Stockholders.***

No director, owner, officer, employee, incorporator, manager or stockholder of the Company, the Guarantors, Parent or any Affiliates of the Company, Guarantors or Parent, as such, shall have any liability for any obligations of the Company, the Guarantors, Parent or any Affiliates of the Company, Guarantors or Parent under the Notes, the Guarantees or this Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of the Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes and the Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws and it is the view of the Commission that such a waiver is against public policy.

SECTION 12.08. ***Governing Law.***

THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS INDENTURE, THE NOTES AND THE GUARANTEES WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

SECTION 12.09. ***No Adverse Interpretation of Other Agreements.***

This Indenture may not be used to interpret another indenture, loan or debt agreement of the Company or any of its respective Subsidiaries. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

SECTION 12.10. ***Successors.***

All agreements of the Company, Parent and the Guarantors in this Indenture and the Notes and the Guarantees shall bind the successors of the Company, Parent and the Guarantors, respectively. All agreements of the Trustee in this Indenture shall bind its successor.

SECTION 12.11. ***Severability.***

In case any provision in this Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 12.12. ***Counterpart Originals.***

The parties may sign any number of copies hereof. Each signed copy shall be an original, but all of them together represent the same agreement. The exchange of copies of this Indenture and of signature pages by facsimile or other means of electronic transmission, including in PDF format, shall constitute effective execution and delivery of this Indenture as to the parties hereto and may be used in lieu of the original Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile or other means of electronic transmission, including in PDF format, shall be deemed to be their original signatures for all purposes.

SECTION 12.13. ***Table of Contents, Headings, Etc.***

The Table of Contents, Cross-Reference Table and headings of the Articles and Sections hereof have been inserted for convenience of reference only, are not to be considered a part hereof and shall in no way modify or restrict any of the terms or provisions hereof.

SECTION 12.14. ***Force Majeure.***

In no event shall the Trustee be responsible or liable for any failure or delay in the performance of its obligations hereunder arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services; it being understood that the Trustee shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

SECTION 12.15. ***Waiver of Jury Trial.***

EACH OF THE COMPANY, PARENT AND THE TRUSTEE HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE, THE NOTES OR THE TRANSACTIONS CONTEMPLATED HEREBY.

SECTION 12.16. ***U.S.A. Patriot Act.***

The parties hereto acknowledge that in accordance with Section 326 of the U.S.A. Patriot Act, the Trustee, like all financial institutions and in order to help fight the funding of terrorism and money laundering, is required to obtain, verify and record information that identifies each person or legal entity that establishes a relationship or opens an account with the Trustee. The parties to this Indenture agree that they will provide the Trustee with such information as it may request in order for the Trustee to satisfy the requirements of the U.S.A. Patriot Act.

SECTION 12.17. ***Consent to Jurisdiction; Appointment of Agent for Service of Process.***

Parent agrees that:

(a) Any suit, action or proceeding against Parent arising out of or relating to this Indenture and the Notes may be instituted in any state or U.S. Federal court in the Borough of Manhattan, The City of New York, New York, and any appellate court from any thereof, and Parent irrevocably submits to the non-exclusive jurisdiction of such courts in any such suit, action or proceeding. Parent irrevocably waives, to the fullest extent permitted by law, any objection to any suit, action or proceeding that may be brought in connection with this Indenture, the Notes and the Parent Registration Rights Agreement, including such actions, suits or proceedings relating to the securities laws of the United States of America or any state thereof, in such courts whether on the grounds of venue, residence or domicile or on the ground that any such suit, action or proceeding has been brought in an inconvenient forum. The final judgment in any such suit, action or proceeding brought in such court shall be conclusive and binding upon Parent and may be enforced in any court to the jurisdiction of which Parent is subject by a suit upon such judgment; *provided* that service of process is effected upon Parent in the manner provided by this Section 12.17.

(b) Parent has appointed the Company as its authorized agent (the "*Authorized Agent*"), upon whom process may be served in any suit, action or proceeding arising out of or relating to this Indenture or the transactions contemplated herein which may be instituted in any state or U.S. Federal court in the Borough of Manhattan, The City of New York, New York, and expressly accepts the non-exclusive jurisdiction of any such court in respect of any such suit, action or proceeding. The Company has accepted such appointment and has agreed to act as said agent for service of process. Service of process upon the Authorized Agent shall be deemed, in every respect, effective service of process upon Parent. Notwithstanding the foregoing, any action involving Parent arising out of or relating to this Indenture, the Notes and the Parent Registration Rights Agreement may be instituted in any court of competent jurisdiction in any other jurisdiction.

The provisions of this Section 12.17 shall survive any termination or cancellation of this Indenture.

[Signatures on following page]

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

JAZZ TECHNOLOGIES, INC., as the Company

By: _____
Name:
Title:

JAZZ SEMICONDUCTOR, INC., as Guarantor

By: _____
Name:
Title:

NEWPORT FAB, LLC, as Guarantor

By: Jazz Semiconductor, Inc.
Its: Sole member

By: _____
Name:
Title:

FOR PURPOSES OF ARTICLE 1, SECTION 4.03
AND ARTICLES 11 AND 12 ONLY:

TOWER SEMICONDUCTOR, LTD.

By: _____
Name:
Title:

[Signature Page to Indenture]

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Name:
Title:

[Signature Page to Indenture]

EXHIBIT A

(Face of Note)

[LEGEND FOR GLOBAL NOTES]

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.
THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE AND IS REGISTERED IN THE NAME OF THE DEPOSITARY OR A NOMINEE OF THE DEPOSITARY OR A SUCCESSOR DEPOSITARY. THIS NOTE IS NOT EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE, AND NO TRANSFER OF THIS NOTE (OTHER THAN A TRANSFER OF THIS NOTE AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY OR BY THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY) MAY BE REGISTERED EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

[PRIVATE PLACEMENT LEGEND]

THIS SECURITY AND THE ORDINARY SHARES, IF ANY, ISSUABLE UPON CONVERSION OF THIS SECURITY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY, NOR THE ORDINARY SHARES, IF ANY, ISSUABLE UPON CONVERSION OF THIS SECURITY, NOR ANY INTEREST OR PARTICIPATION HEREIN OR THEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY [INSERT FOR REGULATION S NOTES: PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") THAT IS 40 DAYS AFTER THE ORIGINAL ISSUE DATE HEREOF] ONLY (A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (D) PURSUANT TO OFFERS AND SALES TO A "NON-U.S. PERSON" AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF, AND IN COMPLIANCE WITH, REGULATION S UNDER THE SECURITIES ACT, (E) TO AN INSTITUTIONAL "ACCREDITED INVESTOR" WITHIN THE MEANING OF RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT THAT IS AN INSTITUTIONAL ACCREDITED INVESTOR ACQUIRING THE SECURITY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF SUCH AN INSTITUTIONAL ACCREDITED INVESTOR, IN EACH CASE IN A MINIMUM PRINCIPAL AMOUNT OF THE SECURITIES OF $250,000, FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO OR FOR OFFER OR SALE IN CONNECTION WITH ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, OR (F) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D), (E) OR (F) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. [INSERT FOR REGULATION S NOTES: THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.]

THE HOLDER OF THIS SECURITY WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

CUSIP No. [a]

Cert. No. $[Insert Amount Numerically]

8% Convertible Senior Note due 2018

Jazz Technologies, Inc., a corporation formed under the laws of the State of Delaware, promises to pay to _____, or its registered assigns, the principal sum of $[INSERT AMOUNT IN TEXT] Dollars [FOR GLOBAL NOTES (as such amount may be increased or decreased as reflected on the Schedule of Increases or Decreases in Global Note attached hereto)] on December 31, 2018.

Interest Payment Dates: July 15 and January 15, commencing July 15, 2014.

Record Dates: June 30 and December 31 (whether or not a Business Day)

Additional provisions are set forth on the other side of this Note.

[a] At such time as the Issuer notifies the Trustee to remove the Private Placement Legend pursuant to the terms of the Indenture, the CUSIP number for this Note shall be deemed to be CUSIP No. 47214G AF4

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed.

Dated:

JAZZ TECHNOLOGIES, INC.

By: _____
Name:
Title:

(Form of Trustee's Certificate of Authentication)

This is one of the Notes referred to in
the within-mentioned Indenture:

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Authorized Signatory

Dated:

[Form of Note]

(Back of Note)

Capitalized terms used herein have the meanings assigned to them in the Indenture (as defined below) unless otherwise indicated.

(1) *Interest*. Jazz Technologies, Inc., a Delaware corporation (the "*Company*"), promises to pay interest on the principal amount of this Note at the rate and in the manner specified below. Interest will accrue at 8% per annum and will be payable semi-annually in arrears in cash on each July 15 and January 15, commencing July 15, 2014, or if any such day is not a Business Day on the next succeeding Business Day (each, an "*Interest Payment Date*") to Holders of record of the Notes at the Close of Business on the immediately preceding June 30 and December 31, whether or not a Business Day. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest shall accrue from the most recent date to which interest has been paid or, if no interest has been paid, from [DATE OF ISSUANCE]. To the extent lawful, the Company shall pay interest on overdue principal at the rate of the then applicable interest rate on the Notes; it shall pay interest on overdue installments of interest (without regard to any applicable grace periods) at the same rate to the extent lawful. In addition, the rate of interest on this Note may be increased as set forth in Section 4.19 of the Indenture and Holders may be entitled to the benefits of certain provisions of the Company Registration Rights Agreement and Tower Registration Rights Agreement.

(2) *Method of Payment*. Subject to the terms and conditions of the Indenture, the Company shall pay interest on the Notes (except defaulted interest) to the Persons who are registered Holders of Notes at the Close of Business on the record date next preceding the Interest Payment Date, even if such Notes are canceled after such record date and on or before such Interest Payment Date. The Holder hereof must surrender this Note to a Paying Agent to collect principal payments. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. The Notes will be payable both as to principal and interest at the office or agency of the Company maintained for such purpose or, at the option of the Company, payment of interest may be made by check mailed to the Holders of Notes at their respective addresses set forth in the register of Holders of Notes. Unless otherwise designated by the Company, the Company's office or agency will be the office of the Trustee maintained for such purpose.

(3) *Paying Agent and Registrar*. Initially, the Trustee will act as Paying Agent and Registrar. The Company may change any Paying Agent, Registrar or co-registrar without prior notice to any Holder of a Note. The Company may act in any such capacity.

(4) *Indenture*. The Company issued the Notes under an Indenture, dated as of March 25, 2014 (as amended or supplemented from time to time, the "*Indenture*"), by and among the Company, Parent, the Guarantors from time to time party thereto and the Trustee. This is one of an issue of Notes of the Company issued, or to be issued, under the Indenture. The Company shall be entitled to issue additional Notes pursuant to Section 2.02 of the Indenture. All Notes issued under the Indenture shall be treated as a single class of Notes under the Indenture. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (15 U.S. Code §§ 77aaa-77bbbb). The Notes are subject to all such terms, and Holders of Notes are referred to the Indenture and such act for a statement of such terms. The terms of the Indenture shall govern any inconsistencies between the Indenture and the Notes. The Notes are senior unsecured obligations of the Company.

(5) *Repurchase at Option of Holder*. Upon the occurrence of a Change of Control, the Company shall make an offer to each Holder of Notes to repurchase all or any part (equal to $2,000 and integral multiples of $1,000 in excess thereof) of such Holder's Notes at a cash purchase price equal to 101% of the aggregate principal amount thereof, together with accrued and unpaid interest thereon to but excluding the date of repurchase (subject to the rights of holders of record of the Notes on the relevant record date to receive payments of interest on the related interest payment date). Holders of Notes that are subject to an offer to purchase will receive a Change of Control Offer from the Company prior to any related Change of Control Payment Date and may elect to have such Notes purchased by completing the form entitled "Option of Holder to Elect Purchase" appearing below.

When the cumulative amount of Excess Proceeds that have not been applied in accordance with Section 4.10 of the Indenture exceeds $2.0 million, the Company shall make an offer to all Holders of the Notes (an "*Excess Proceeds Offer*") to purchase the maximum principal amount of Notes that may be purchased out of such Excess Proceeds (or the *pro rata* amount of Excess Proceeds available to the Notes as contemplated by Section 3.08(a) of the Indenture) at an offer price in cash in an amount equal to 100% of the principal amount thereof, together with accrued and unpaid interest to but excluding the date fixed for the closing of such offer in accordance with the procedures set forth in the Indenture. To the extent the Company or a Restricted Subsidiary is required under the terms of Indebtedness of the Company or such Restricted Subsidiary (other than Subordinated Indebtedness), the Company shall also make a *pro rata* offer to the holders of such Indebtedness (including the Notes) with such proceeds. If the aggregate principal amount of Notes and other parity Indebtedness surrendered by holders thereof exceeds the amount of such Excess Proceeds, the Notes and other parity Indebtedness shall be purchased on a *pro rata* basis. To the extent that the principal amount of Notes tendered pursuant to an Excess Proceeds Offer is less than the amount of such Excess Proceeds available to purchase Notes, the Company may use any remaining Excess Proceeds for general corporate purposes in compliance with the provisions of the Indenture. Upon completion of an Excess Proceeds Offer, the amount of Excess Proceeds shall be reset at zero. Holders of Notes that are subject to an offer to purchase will receive an Excess Proceeds Offer from the Company prior to any related Purchase Date and may elect to have such Notes purchased by completing the form entitled "Option of Holder To Elect Purchase" appearing below.

(6) *Conversion at the Option of the Holder*. Upon and subject to compliance with the provisions of the Indenture, the Holder of this Note is entitled, at its option, at any time prior to the Close of Business on the Business Day immediately preceding the Maturity Date, or in case the Holder of this Note has exercised his right to require the Company to repurchase this Note or a portion hereof and has withdrawn such election by the Close of Business on the date two Business Days immediately preceding the Change of Control Payment Date, to convert this Note or any portion of the principal amount hereof that is an integral multiple of U.S.$1,000 (provided that the unconverted portion of such principal amount is U.S.$1,000 or any integral multiple of U.S.$1,000 in excess thereof) into the consideration specified in the Indenture, as adjusted from time to time as provided in the Indenture.

(7) *Denominations, Transfer, Exchange*. The Notes are in registered form without coupons in denominations of $2,000 and integral multiples of $1,000. The transfer of Notes may be registered and Notes may be exchanged as provided in the Indenture. The Registrar and the Trustee may require a Holder of a Note, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. (8)*Persons Deemed Owners*. Prior to due presentment to the Trustee for registration of the transfer of this Note, the Trustee, any Agent and the Company may deem and treat the Person in whose name this Note is registered as its absolute owner for the purpose of receiving payment of principal of, premium, if any, and interest on this Note and for all other purposes whatsoever, whether or not this Note is overdue, and neither the Trustee, any Agent nor the Company shall be affected by notice to the contrary. The registered Holder of a Note shall be treated as its owner for all purposes.

(9) *Amendments, Supplement and Waivers*. Subject to certain exceptions, the Indenture, the Notes and the Guarantees or any amended or supplemental indenture may be amended or supplemented with the written consent of the Holders of at least a majority of the aggregate principal amount of Notes then outstanding (including consents obtained in connection with a tender offer or exchange offer for Notes of such series), and any existing Default or compliance with any provision of the Indenture or the Notes may be waived with the consent of the Holders of a majority of the aggregate principal amount of Notes then outstanding (including consents obtained in connection with a tender offer or exchange offer for the Notes). Notwithstanding the foregoing, without the consent of each Holder affected, an amendment or waiver may not (with respect to any Notes held by a non-consenting Holder) (a) reduce the aggregate principal amount of Notes whose Holders must consent to an amendment, supplement or waiver; (b) reduce the principal of, or change the fixed maturity of, any Note or alter the provisions with respect to the redemption of the Notes (other than as provided in clause (h) below); (c) reduce the rate of, or change the time for payment of, interest on any Notes; (d) waive a Default or Event of Default in the payment of principal of or premium, if any, or interest on the Notes (other than such a Default or Event of Default resulting from acceleration of the Notes that has been rescinded in accordance with the provisions of Section 6.05 of the Indenture); (e) make any Note payable in money other than that stated in the Notes; (f) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of Holders of Notes to receive payments of principal of or interest on the Notes; (g) amend, change or modify in any material respect the obligation of the Company to make and consummate a Change of Control Offer or Excess Proceeds Offer in the event of a Change of Control or Asset Sale, respectively, after such Change of Control or Asset Sale, as applicable, has occurred; (h) except as expressly provided in Section 11 of the Indenture, decrease the Conversion Rate or modify the provisions of the Indenture relating to conversion of the Notes in a manner adverse to the Holders of the Notes; (i) release all or substantially all of the Guarantees of the Guarantors other than in accordance with Article 10 of the Indenture; or (j) make any change in the foregoing amendment and waiver provisions. Notwithstanding the foregoing, without the consent of any Holder of a Note, the Indenture, the Notes, the Guarantees, or any amended or supplemental indenture may be amended or supplemented: (a) to cure any ambiguity, defect or inconsistency; (b) to provide for uncertificated Notes or Guarantees in addition to or in place of certificated Notes or Guarantees (*provided* that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(B) of the Code); (c) to provide for the assumption of the obligations of the Company or any Guarantor to the Holders of the Notes in the case of a merger, consolidation or sale of all or substantially all of the Company's assets or such Guarantor's assets; (d) to make any change that would provide any additional rights or benefits to the Holders of the Notes or that does not adversely affect the rights under the Indenture of any Holder of the Notes; (e) to evidence and provide for the acceptance of an appointment of a successor Trustee; (f) to add Guarantees with respect to the Notes; (g) to comply with requirements of the Commission in order to effect or maintain the qualification of the Indenture under the TIA; (h) to increase the Conversion Rate; (i) to irrevocably elect a Settlement Method or a Specified Dollar Amount, or to eliminate the right to elect a Settlement Method; (j) to provide collateral with respect to the Notes and (k) to add covenants or events of default for the benefit of the Holders of the Notes.

(10) *Defaults and Remedies*. Each of the following constitutes an Event of Default:

(a) default for 30 days in the payment when due of interest or additional interest, if any, on the Notes;

(b) default in payment when due of principal of or premium, if any, on the Notes at maturity, upon repurchase, redemption or otherwise;

(c) failure by the Company to comply with its obligations to convert the Notes in accordance with the Indenture upon exercise of a Holder's conversion right, and such failure continues for three Business Days;

(d) failure to comply with the provisions described under Section 5.01 of the Indenture;

(e) failure to comply with any obligations under the provisions described under Section 3.08 or 4.15 of the Indenture (other than a failure to purchase Notes duly tendered to the Company for repurchase pursuant to a Change of Control Offer or an Excess Proceeds Offer);

(f) default under any other provision of the Indenture or the Notes, which default remains uncured for 60 days after notice from the Trustee or the Holders of at least 25% of the aggregate principal amount then outstanding of the Notes;

(g) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Company and any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Company and any of its Restricted Subsidiaries), which default is caused by a failure to pay the principal of such Indebtedness at the final stated maturity thereof within the grace period provided in the agreements or instruments governing such Indebtedness (a "*Payment Default*"), and the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default, aggregates $5.0 million or more;

(h) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Company and any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Company or any of its Restricted Subsidiaries), which default results in the acceleration of such Indebtedness prior to its express maturity not rescinded or cured within 30 days after such acceleration, and the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated and remains undischarged after such 30 day period, aggregates $5.0 million or more;

(i) failure by the Company and any of its Restricted Subsidiaries to pay final judgments (other than any judgment as to which a reputable insurance company has accepted full liability) aggregating $5.0 million or more, which judgments remain unsatisfied or undischarged for any period of 30 consecutive days during which a stay of enforcement of such judgments shall not be in effect;

(j) any Guarantee of a Significant Subsidiary of the Company shall be held in a judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect, or any Guarantor that qualifies as a Significant Subsidiary, or any person acting on behalf of any Guarantor that qualifies as a Significant Subsidiary, shall deny or disaffirm its obligations under its Guarantee;

(k) the Company or any Significant Subsidiary of the Company pursuant to or within the meaning of any Bankruptcy Law (i) commences a voluntary case; (ii) consents to the entry of an order for relief against it in an involuntary case; (iii) consents to the appointment of a custodian of it or for all or substantially all of its property; or (iv) makes a general assignment for the benefit of its creditors; and

(l) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that: (i) is for relief against the Company or any Significant Subsidiary of the Company in an involuntary case; (ii) appoints a custodian of the Company or any Significant Subsidiary of the Company or for all or substantially all of the property of the Company or any Significant Subsidiary of the Company; or (iii) orders the liquidation of the Company or any Significant Subsidiary of the Company, and the order or decree remains unstayed and in effect for 60 consecutive days.

If any Event of Default occurs and is continuing, the Trustee by notice to the Company, or the Holders of at least 25% of the aggregate principal amount then outstanding of the Notes by written notice to the Company and the Trustee, may declare all the Notes to be due and payable immediately. Notwithstanding the foregoing, in the case of an Event of Default specified in paragraph (k) or (l) of Section 6.01 of the Indenture with respect to the Company, all outstanding Notes shall become due and payable without further action or notice. Holders of the Notes may not enforce the Indenture or the Notes except as provided in the Indenture. The Trustee may withhold from Holders of the Notes notice of any continuing Default or Event of Default (except a Default or Event of Default relating to the payment of principal or interest) if it determines that withholding notice is in such Holders' interest.

Notwithstanding the foregoing, the sole remedy for an Event of Default relating to the failure by the Company or Parent to comply with its obligations under Section 4.03 of the Indenture and for any failure by the Company to comply with the requirements of TIA §314(a)(1), shall for the first 120 days after the occurrence and during the continuance of such an Event of Default consist exclusively of the right to receive special interest on the Notes at an annual rate equal to 0.50% of the principal amount of the Notes then outstanding (the "*Special Interest*"). The Special Interest will be in addition to any Additional Interest that may accrue and be payable under the Company Registration Rights Agreement or Tower Registration Rights Agreement and will be payable in the same manner as Additional Interest accruing under the Company Registration Rights Agreement and the Tower Registration Rights Agreement. The Special Interest will accrue on all outstanding Notes from an including the date on which an Event of Default relating to a failure to comply with Section 4.03 of the Indenture or the failure to comply with the requirements of TIA §314(a)(1) first occurs to but not including the 120th day thereafter (or such earlier date on which the Event of Default relating to such obligations shall have been cured or waived). After the 120th day (or earlier, if such Event of Default is cured or waived on or before such 120th day), such Special Interest will cease to accrue and, if such Event of Default has not been cured or waived prior to such 120th day, then the Trustee or the Holders of not less than 25% in principal amount of the outstanding Notes may declare the principal of and accrued and unpaid interest and Special Interest on all such Notes to be due and payable immediately.

The Holders of a majority in aggregate principal amount of the then outstanding Notes by notice to the Trustee may on behalf of all the Holders rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default (except nonpayment of principal, interest or premium that has become due solely because of the acceleration) have been cured or waived. The Holders of a majority in aggregate principal amount of then outstanding Notes, by written notice to the Trustee, may on behalf of the Holders of all of the Notes waive any existing Default or Event of Default and its consequences under the Indenture, except a continuing Default or Event of Default in the payment of interest or premium on, or principal of, the Notes.

The Company is required to deliver to the Trustee annually a statement regarding compliance with the Indenture.

(11) *Trustee Dealings with Company*. The Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Notes and, subject to Sections 7.10 and 7.11 of the Indenture, may otherwise deal with the Company or any Affiliate of the Company with the same rights it would have if it were not Trustee.

(12) *No Personal Liability of Directors, Owners, Employees, Incorporators and Stockholders*. No director, owner, officer, employee, incorporator, manager or stockholder of the Company, the Guarantors or any Affiliates of the Company or Guarantors, as such, shall have any liability for any obligations of the Company, the Guarantors or any Affiliates of the Company or Guarantors under the Notes, the Guarantees or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of the Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes and Guarantees.

(13) *Guarantees*. Payment of principal, interest (including interest on overdue principal and overdue interest, if lawful) and other amounts owed under the Indenture is unconditionally guaranteed, jointly and severally, by each of the Guarantors.

(14) *Authentication*. This Note shall not be valid until authenticated by the manual signature of the Trustee or an authenticating agent.

(15) *Abbreviations*. Customary abbreviations may be used in the name of a Holder of a Note or an assignee, such as TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian), and U/G/M/A (= Uniform Gifts to Minors Act).

(16) *CUSIP Numbers.* Pursuant to a recommendation promulgated by the Committee on Uniform Note Identification Procedures, the Company has caused CUSIP numbers to be printed on the Notes and has directed the Trustee to use CUSIP numbers in notices of redemption as a convenience to Holders of Notes. No representation is made as to the accuracy of such numbers either as printed on the Notes or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed herein.

The Company will furnish to any Holder of a Note upon written request and without charge a copy of the Indenture. Requests may be made to:

JAZZ TECHNOLOGIES, INC.
4321 Jamboree Road
Newport Beach, California 92660
Attention: Chief Financial Officer
Facsimile: (949) 315-3811

ASSIGNMENT FORM

To assign this Note, fill in the form below: (I) or (we) assign and transfer this Note to

_____

(Insert assignee's Soc. Sec. or tax I.D. no.)

_____

(Print or type assignee's name, address and Zip code)

and irrevocably appoint _____ agent to transfer this Note on the books of the Company. The agent may substitute another to act for him or her.

Date: _____

Your Signature: _____
(Sign exactly as your name appears on the face of this Note)

Signature Guarantee[a]:

[a] The signature must be guaranteed by an institution which is a member of one of the following recognized signature guaranty programs: (i) the Securities Transfer Agent Medallion Program (STAMP); (ii) the New York Stock Exchange Medallion Program (MSP); (iii) the Stock Exchange Medallion Program (SEMP); or (iv) such other guaranty program acceptable to the Trustee.

CONVERSION NOTICE

The undersigned Holder of this Note hereby irrevocably exercises the option to convert this Note, or any portion of the principal amount hereof (which is an integral multiple of U.S. $1,000) below designated, into Ordinary Shares in accordance with the terms of the Indenture referred to in this Note and directs that such shares, together with a check in payment for any fractional share and any Notes representing any unconverted principal amount hereof, be delivered to and be registered in the name of the undersigned unless a different name has been indicated below. If Ordinary Shares or Notes are to be registered in the name of a Person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto. Any amount required to be paid by the undersigned on account of interest accompanies this Note.

Dated: _____

_____
Signature

If shares or Notes are to be registered in the name of a Person other than the Holder, please print such Person's name and address

_____

_____
Address

_____
Social Security or other Taxpayer Identification Number, if any

_____
Signature Guaranteed

If only a portion of the Notes is to be converted, please indicate:

1. Principal amount to be converted:
U.S.$_____
(any integral multiple of U.S.$1,000)

2. Principal amount and denomination of Notes representing unconverted principal amount to be issued:

Amount: U.S.$_____

OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have all or any part of this Note purchased by the Company pursuant to Section 3.08 (Excess Proceeds Offer) or Section 4.15 (Change of Control) of the Indenture, check the appropriate box:

☐ Section 3.08 ☐ Section 4.15

If you want to have only part of the Note purchased by the Company pursuant to Section 3.08 or Section 4.15 of the Indenture, state the amount you elect to have purchased:

$

Date: _____

Your Signature: _____
(Sign exactly as your name appears on the face of this Note)

Signature Guarantee:

[ATTACHMENT FOR GLOBAL NOTES]

SCHEDULE OF EXCHANGES OF INTERESTS IN GLOBAL NOTE

The following exchanges of a part of this Global Note for an interest in another Global Note or for a Definitive Note, or exchanges of a part of another Global Note or Definitive Note for an interest in this Global Note, have been made:

Date of Exchange	Amount of decrease in Principal Amount of this Global Note	Amount of Increase Principal Amount of this Global Note	Principal Amount of this Global Note following such Decrease (or Increase)	Signature of authorized signatory of Trustee or Note Custodian

EXHIBIT B

FORM OF GUARANTEE

[Name of Guarantor] and its successors under the Indenture, jointly and severally with any other Guarantors, hereby irrevocably and unconditionally (i) guarantee the due and punctual payment of the principal of, premium, if any, and interest on the Notes when due, whether at maturity, by acceleration, redemption or otherwise, the due and punctual payment of interest on the overdue principal of and interest, if any, on the Notes, to the extent lawful, and the due and punctual performance of all other obligations of Jazz Technologies, Inc. to the Holders or the Trustee all in accordance with the terms set forth in Article 10 of the Indenture and (ii) in case of any extension of time of payment or renewal of any Notes or any of such other obligations, guarantee that the same will be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise. Capitalized terms used herein have the meanings assigned to them in the Indenture unless otherwise indicated.

This Guarantee shall be binding upon each Guarantor and its successors and assigns and shall inure to the benefit of the successors and assigns of the Trustee and the Holders and, in the event of any transfer or assignment of rights by any Holder or the Trustee, the rights and privileges herein conferred upon that party shall automatically extend to and be vested in such transferee or assignee, all subject to the terms and conditions hereof.

This Guarantee shall not be valid or obligatory for any purpose until the certificate of authentication on the Note upon which this Guarantee is noted shall have been executed by the Trustee under the Indenture by the manual signature of one of its authorized officers.

THE TERMS OF ARTICLE 10 OF THE INDENTURE ARE INCORPORATED HEREIN BY REFERENCE.

This Guarantee shall be governed by and construed in accordance with the laws of the State of New York.

[_____]
Name of Guarantor

By: _____
Name:
Title:

EXHIBIT C

FORM OF CERTIFICATE OF TRANSFER

Jazz Technologies, Inc.
4321 Jamboree Road
Newport Beach, California 92660
Attention: Chief Legal Officer
Facsimile: (949) 315-3811

U.S. Bank National Association
EP-MN-WS3C
60 Livingston Avenue
St. Paul, Minnesota 55107-1419
Facsimile No.: (651) 495-8097
Attention: Corporate Trust Services

Re: 8% Convertible Senior Notes due 2018

Reference is hereby made to the Indenture, dated as of _____, 2014 (the "*Indenture*"), among Jazz Technologies, Inc., as issuer (the "*Company*"), the Guarantors named therein, Tower Semiconductor, Ltd. and U.S. Bank National Association, as trustee. Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

_____ (the "*Transferor*") owns and proposes to transfer the Note[s] or interest in such Note[s] specified in Annex A hereto, in the principal amount of $____ in such Note[s] or interests (the "*Transfer*"), to _____ (the "*Transferee*"), as further specified in Annex A hereto. In connection with the Transfer, the Transferor hereby certifies that:

[CHECK ALL THAT APPLY]

1. ☐ **Check if Transferee will take delivery of a beneficial interest in the 144A Global Note or a Definitive Note pursuant to Rule 144A**. The Transfer is being effected pursuant to and in accordance with Rule 144A under the United States Securities Act of 1933, as amended (the "*Securities Act*"), and, accordingly, the Transferor hereby further certifies that the beneficial interest or Definitive Note is being transferred to a Person that the Transferor reasonably believed and believes is purchasing the beneficial interest or Definitive Note for its own account, or for one or more accounts with respect to which such Person exercises sole investment discretion, and such Person and each such account is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and such Transfer is in compliance with any applicable blue sky securities laws of any state of the United States. Upon consummation of the proposed Transfer in accordance with the terms of the Indenture, the transferred beneficial interest or Definitive Note will be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the 144A Global Note and/or the Definitive Note and in the Indenture and the Securities Act.

2. ☐ **Check if Transferee will take delivery of a beneficial interest in the Regulation S Global Note or a Definitive Note pursuant to Regulation S**. The Transfer is being effected pursuant to and in accordance with Rule 903 or Rule 904 under the Securities Act and, accordingly, the Transferor hereby further certifies that (i) the Transfer is not being made to a Person in the United States and (x) at the time the buy order was originated, the Transferee was outside the United States or such Transferor and any Person acting on its behalf reasonably believed and believes that the Transferee was outside the United States or (y) the transaction was executed in, on or through the facilities of a designated offshore securities market and neither such Transferor nor any Person acting on its behalf knows that the transaction was prearranged with a buyer in the United States, (ii) no directed selling efforts have been made in contravention of the requirements of Rule 903(b) or Rule 904(b) of Regulation S under the Securities Act, (iii) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act and (iv) if the proposed transfer is being made prior to the expiration of the Restricted Period, the transfer is not being made to a U.S. Person or for the account or benefit of a U.S. Person. Upon consummation of the proposed transfer in accordance with the terms of the Indenture, the transferred beneficial interest or Definitive Note will be subject to the restrictions on Transfer enumerated in the Private Placement Legend printed on the Regulation S Global Note and/or the Definitive Note and in the Indenture and the Securities Act.

3. ☐ **Check if Transferee will take delivery of a beneficial interest in the IAI Global Note or a Definitive Note and Transferee is an Institutional "Accredited Investor"**. (i) The Transfer is being effected to an institutional "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act, (ii) the Transferee is acquiring the beneficial interest or Definitive Note for its own account or for the account of such an institutional "accredited investor", (iii) the Transfer is for a beneficial interest or Definitive Note in a minimum amount of $250,000, (iv) the beneficial interest or Definitive Note is being acquired for investment purposes and not with a view to or for offer or sale in connection with any distribution in violation of the Securities Act and (v) the Transfer is in compliance with the Securities Act. Upon consummation of the proposed transfer in accordance with the terms of the Indenture, the transferred beneficial interest or Definitive Note will be subject to the restrictions on Transfer enumerated in the Private Placement Legend printed on the IAI Global Note and/or the Definitive Note and in the Indenture and the Securities Act.

4. ☐ **Check and complete if Transferee will take delivery of a beneficial interest in a Definitive Note pursuant to any provision of the Securities Act other than Rule 144A or Regulation S**. The Transfer is being effected in compliance with the transfer restrictions applicable to beneficial interests in Restricted Global Notes and Restricted Definitive Notes and pursuant to and in accordance with the Securities Act and any applicable blue sky securities laws of any state of the United States, and accordingly the Transferor hereby further certifies that (check one):

(a) ☐ such Transfer is being effected pursuant to and in accordance with Rule 144 under the Securities Act;

or

(b) ☐ or such Transfer is being effected to the Company or a subsidiary thereof;

or

(c) ☐ such Transfer is being effected pursuant to an effective registration statement under the Securities Act and in compliance with the prospectus delivery requirements of the Securities Act.

5. ☐ **Check if Transferee will take delivery of a beneficial interest in an Unrestricted Global Note or of an Unrestricted Definitive Note**.

(a) ☐ **Check if Transfer is pursuant to Rule 144**. (i) The Transfer is being effected pursuant to and in accordance with Rule 144 under the Securities Act and in compliance with the transfer restrictions contained in the Indenture and any applicable blue sky securities laws of any state of the United States and (ii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act. Upon consummation of the proposed Transfer in accordance with the terms of the Indenture, the transferred beneficial interest or Definitive Note will no longer be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the Restricted Global Notes, on Restricted Definitive Notes and in the Indenture.

(b) ☐ **Check if Transfer is pursuant to Regulation S.** (i) The Transfer is being effected pursuant to and in accordance with Rule 903 or Rule 904 under the Securities Act and in compliance with the transfer restrictions contained in the Indenture and any applicable blue sky securities laws of any state of the United States and (ii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act. Upon consummation of the proposed Transfer in accordance with the terms of the Indenture, the transferred beneficial interest or Definitive Note will no longer be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the Restricted Global Notes, on Restricted Definitive Notes and in the Indenture.

(c) ☐ **Check if Transfer is pursuant to other exemption.** (i) The Transfer is being effected pursuant to and in compliance with an exemption from the registration requirements of the Securities Act other than Rule 144, Rule 903 or Rule 904 and in compliance with the transfer restrictions contained in the Indenture and any applicable blue sky securities laws of any State of the United States and (ii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act. Upon consummation of the proposed Transfer in accordance with the terms of the Indenture, the transferred beneficial interest or Definitive Note will not be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the Restricted Global Notes or Restricted Definitive Notes and in the Indenture.

This certificate and the statements contained herein are made for your benefit and the benefit of the Company.

[Insert Name of Transferor]

By: _____

Name:
Title:

Dated:_____

ANNEX A TO CERTIFICATE OF TRANSFER

1. The Transferor owns and proposes to transfer the following:

[CHECK ONE OF (a) OR (b)]

(a) ☐ a beneficial interest in the:

(i) ☐ 144A Global Note (CUSIP 47214G AD9), or

(ii) ☐ Regulation S Global Note (CUSIP U04293 AB9), or

(b) ☐ a Restricted Definitive Note.

2. After the Transfer the Transferee will hold:

[CHECK ONE]

(a) ☐ a beneficial interest in the:

(i) ☐ 144A Global Note (CUSIP 47214G AD9), or

(ii) ☐ Regulation S Global Note (CUSIP U04293 AB9), or

(iii) ☐ Unrestricted Global Note (CUSIP 47214G AF4), or

(b) ☐ a Restricted Definitive Note; or

(c) ☐ an Unrestricted Definitive Note,

in accordance with the terms of the Indenture.

EXHIBIT D

FORM OF CERTIFICATE OF EXCHANGE

Jazz Technologies, Inc.
4321 Jamboree Road
Newport Beach, California 92660
Attention: Chief Legal Officer
Facsimile: (949) 315-3811

U.S. Bank National Association
EP-MN-WS3C
60 Livingston Avenue
St. Paul, Minnesota 55107-1419
Facsimile No.: (651) 495-8097
Attention: Corporate Trust Services

Re: 8% Convertible Senior Notes due 2018

(CUSIP)

Reference is hereby made to the Indenture, dated as of _____, 2014 (the "*Indenture*"), among Jazz Technologies, Inc., as issuer (the "*Company*"), the Guarantors named therein, Tower Semiconductor, Ltd. and U.S. Bank National Association, as trustee. Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

_____ (the "*Owner*") owns and proposes to exchange the Note[s] or interest in such Note[s] specified herein, in the principal amount of $_____ in such Note[s] or interests (the "*Exchange*"). In connection with the Exchange, the Owner hereby certifies that:

1. **Exchange of Restricted Definitive Notes or Beneficial Interests in a Restricted Global Note for Unrestricted Definitive Notes or Beneficial Interests in an Unrestricted Global Note**.

(a) ☐ **Check if Exchange is from beneficial interest in a Restricted Global Note to beneficial interest in an Unrestricted Global Note**. In connection with the Exchange of the Owner's beneficial interest in a Restricted Global Note for a beneficial interest in an Unrestricted Global Note in an equal principal amount, the Owner hereby certifies (i) the beneficial interest is being acquired for the Owner's own account without transfer, (ii) such Exchange has been effected in compliance with the transfer restrictions applicable to the Global Notes and pursuant to and in accordance with the United States Securities Act of 1933, as amended (the "*Securities Act*"), (iii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act and (iv) the beneficial interest in an Unrestricted Global Note is being acquired in compliance with any applicable blue sky securities laws of any state of the United States.

(b) ☐ **Check if Exchange is from beneficial interest in a Restricted Global Note to Unrestricted Definitive Note.** In connection with the Exchange of the Owner's beneficial interest in a Restricted Global Note for an Unrestricted Definitive Note, the Owner hereby certifies (i) the Definitive Note is being acquired for the Owner's own account without transfer, (ii) such Exchange has been effected in compliance with the transfer restrictions applicable to the Restricted Global Notes and pursuant to and in accordance with the Securities Act, (iii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act and (iv) the Definitive Note is being acquired in compliance with any applicable blue sky securities laws of any state of the United States.

(c) ☐ **Check if Exchange is from Restricted Definitive Note to beneficial interest in an Unrestricted Global Note**. In connection with the Owner's Exchange of a Restricted Definitive Note for a beneficial interest in an Unrestricted Global Note, the Owner hereby certifies (i) the beneficial interest is being acquired for the Owner's own account without transfer, (ii) such Exchange has been effected in compliance with the transfer restrictions applicable to Restricted Definitive Notes and pursuant to and in accordance with the Securities Act, (iii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act and (iv) the beneficial interest is being acquired in compliance with any applicable blue sky securities laws of any state of the United States.

(d) ☐ **Check if Exchange is from Restricted Definitive Note to Unrestricted Definitive Note**. In connection with the Owner's Exchange of a Restricted Definitive Note for an Unrestricted Definitive Note, the Owner hereby certifies (i) the Unrestricted Definitive Note is being acquired for the Owner's own account without transfer, (ii) such Exchange has been effected in compliance with the transfer restrictions applicable to Restricted Definitive Notes and pursuant to and in accordance with the Securities Act, (iii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act and (iv) the Unrestricted Definitive Note is being acquired in compliance with any applicable blue sky securities laws of any state of the United States.

2. **Exchange of Restricted Definitive Notes or Beneficial Interests in Restricted Global Notes for Restricted Definitive Notes or Beneficial Interests in Restricted Global Notes**.

(a) ☐ **Check if Exchange is from beneficial interest in a Restricted Global Note to Restricted Definitive Note**. In connection with the Exchange of the Owner's beneficial interest in a Restricted Global Note for a Restricted Definitive Note with an equal principal amount, the Owner hereby certifies that the Restricted Definitive Note is being acquired for the Owner's own account without transfer. Upon consummation of the proposed Exchange in accordance with the terms of the Indenture, the Restricted Definitive Note issued will continue to be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the Restricted Definitive Note and in the Indenture and the Securities Act.

(b) ☐ **Check if Exchange is from Restricted Definitive Note to beneficial interest in a Restricted Global Note**. In connection with the Exchange of the Owner's Restricted Definitive Note for a beneficial interest in the [CHECK ONE] _ 144A Global Note, _ Regulation S Global Note, _ IAI Global Note with an equal principal amount, the Owner hereby certifies (i) the beneficial interest is being acquired for the Owner's own account without transfer and (ii) such Exchange has been effected in compliance with the transfer restrictions applicable to the Restricted Global Notes and pursuant to and in accordance with the Securities Act, and in compliance with any applicable blue sky securities laws of any state of the United States. Upon consummation of the proposed Exchange in accordance with the terms of the Indenture, the beneficial interest issued will be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the relevant Restricted Global Note and in the Indenture and the Securities Act.

This certificate and the statements contained herein are made for your benefit and the benefit of the Company.

[Insert Name of Transferor]

By: _____

Name:
Title:

Dated:_____

EXHIBIT E

FORM OF SUPPLEMENTAL INDENTURE

[TO BE DELIVERED BY SUBSEQUENT GUARANTORS]

SUPPLEMENTAL INDENTURE (this "*Supplemental Indenture*"), dated as of _____, 200__, among _____ (the "*Guaranteeing Subsidiary*"), a subsidiary of Jazz Technologies, Inc. (or its permitted successor), a Delaware corporation (the "*Company*"), the Company and U.S. Bank National Association, as trustee under the Indenture referred to below (the "*Trustee*").

WHEREAS, the Company has heretofore executed and delivered to the Trustee an indenture (the "*Indenture*"), dated as of ____, 2014, providing for the issuance of 8% Convertible Senior Notes due 2018 (the "*Notes*");

WHEREAS, the Indenture provides that under certain circumstances the Guaranteeing Subsidiary shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiary shall unconditionally guarantee all of the Company's obligations under the Notes and the Indenture on the terms and conditions set forth herein (the "*Subsidiary Guarantee*"); and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Guaranteeing Subsidiary and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. *Capitalized Terms*. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. *Agreement To Guarantee*. The Guaranteeing Subsidiary hereby agrees to provide an unconditional Guarantee on the terms and subject to the conditions set forth in the notation of Guarantee, which shall be endorsed by an Officer of such Guarantor in accordance with Section 10.02 of the Indenture, and in the Indenture including but not limited to Article 10 thereof.

3. *New York Law To Govern*. THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS SUPPLEMENTAL INDENTURE WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

4. *Counterparts*. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

5. *Effect of Headings*. The Section headings herein are for convenience only and shall not affect the construction hereof.

6. *The Trustee*. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Guaranteeing Subsidiary and the Company.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed and attested, all as of the date first above written.

Dated: _____, 20___

[GUARANTEEING SUBSIDIARY]

By: _____
Name:
Title:

JAZZ TECHNOLOGIES, INC.

By: _____
Name:
Title:

[EXISTING GUARANTORS]

By: _____
Name:
Title:

TOWER SEMICONDUCTOR, INC.

By: _____
Name:
Title:

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Name:
Title:

Exhibit 4.63

EXECUTION VERSION

PORTIONS OF THIS AGREEMENT WERE OMITTED AND HAVE BEEN FILED SEPARATELY WITH THE SECRETARY OF THE COMISSION PURSUANT TO AN APPLICATION FOR CONFIDENTIAL TREATMENT UNDER RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934; [***] DENOTES OMISSIONS

JOINT VENTURE FORMATION AGREEMENT

PANASONIC CORPORATION
TOWER SEMICONDUCTOR LTD.

DECEMBER 20, 2013

JOINT VENTURE FORMATION AGREEMENT

This Joint Venture Formation Agreement (this "Agreement") is made and entered into as of December 20, 2013 by and between:

(1) Panasonic Corporation, a Japanese corporation having its place of business at 1 Kotariyakemachi, Nagaokakyo City, Kyoto, 617-8520, Japan ("Panasonic"); and

(2) Tower Semiconductor Ltd., an Israeli corporation having its corporate headquarters at Ramat Gavriel Industrial Park, 1 Shaul Amor Avenue, P.O. Box 619, Migdal Haemek 23105, Israel ("Tower") (Tower and Panasonic are collectively referred to as the "Parties" and each is individually referred to as "Party").

WHEREAS, the Parties wish to jointly operate certain fabrication facilities in the Hokuriku area, Japan, which are currently operated by Panasonic (the "Joint Venture").

WHEREAS, in accordance with this Agreement, Panasonic intends to transfer the assets (the "Transferred Business") on or prior to the Closing Date (as defined below) to a company, which shall be established prior to the Closing Date (the "Company"), by an agreement, the working draft of which as of the date hereof is attached hereto as Exhibit A (the "Business Transfer Agreement," and the business transfer (*jigyō-jōto*) of the Transferred Business from Panasonic to the Company, the "Business Transfer"); and

WHEREAS, in order to form the Joint Venture on the terms and subject to the conditions contained herein, Panasonic intends to contribute to Tower a certain number of shares of the Company, representing 51% of all issued and outstanding shares of the Company as of the Closing Date (the "Contribution Shares"), in exchange for certain number of Tower Ordinary Shares (as defined below) to be issued by Tower to Panasonic pursuant to this Agreement.

NOW, THEREFORE, the Parties, intending to be legally bound, hereby agree as follows:

ARTICLE I

CERTAIN DEFINITIONS

Unless otherwise defined herein, the following terms when used in this Agreement shall have the meanings set forth below:

"Affiliate" means, with respect to any specified Person, any Person that, directly or indirectly, controls, is controlled by or is under common control with, such specified Person, through one or more intermediaries. For purposes of this definition, "control" means the possession, directly or indirectly, of a majority of the outstanding or voting shares of the relevant entity.

"Agreement" shall have the meaning ascribed thereto in the preamble of this Agreement.

"Ancillary Agreements" shall have the meaning ascribed thereto in Section 7.10.

"Assets" shall have the meaning ascribed thereto by the Business Transfer Agreement.

"Balance Sheet Date" shall have the meaning ascribed thereto in Schedule 4.1(f).

"Basket" shall have the meaning ascribed thereto in Section 8.3(b).

"Business Transfer" shall have the meaning ascribed thereto in the recitals to this Agreement.

"Business Transfer Agreement" shall have the meaning ascribed thereto in the recitals to this Agreement.

"Calculation Period" shall have the meaning ascribed thereto in Section 2.3(b).

"Carveout Financial Statements" means carveout financial statements for the Transferred Business as of and for the year ending December 31, 2012, December 31, 2013 and as of and for the quarter ending March 31, 2014, prepared in English and in accordance with U.S. GAAP, and, if required by law or regulation, audited or reviewed, as applicable, by accounting auditors.

"Closing" shall have the meaning ascribed thereto in Section 6.1.

"Closing Date" means April 1, 2014 or a date as the Parties may otherwise agree to in writing.

"Company" shall have the meaning ascribed thereto in the recitals to this Agreement.

"Company Material Adverse Effect" means any circumstance, development, occurrence, fact or matter, either individually or in the aggregate with any other circumstance, development, occurrence, fact or matter, that (i) has or would reasonably be expected to have a material adverse effect on the Transferred Business, or (ii) prevents or materially impedes, or would be likely to prevent or materially impede, the ability of Panasonic or the Company to perform its obligations under, or to consummate the transactions contemplated by, this Agreement, or (iii) prevents or materially impedes, or would be likely to prevent or materially impede, the ability of the Company to operate or conduct the Transferred Business in the manner in which it is currently operated or conducted by Panasonic; provided, however, that in no event shall any of the following be taken into account in determining whether there has been or will be a Company Material Adverse Effect: (A) any circumstance, development, occurrence, fact or matter ("Effect") that is the result of general market or political factors or economic factors affecting the economy as a whole (other than fluctuations in the value of any currency), (B) any Effect that is the result of factors generally affecting the industry or specific markets in which the Transferred Business operates, (C) any Effect that is the result of an outbreak or escalation of hostilities involving Israel or Japan, the declaration by Israel or Japan of a national emergency or war, or the occurrence of any acts of terrorism, (D) any Effect arising out of or resulting from actions contemplated by the Parties in connection with this Agreement or that is attributable to the announcement or performance of this Agreement or the transactions contemplated by this Agreement or (E) any Effect arising from any change in any applicable Law.

"Contamination" shall mean any hazardous material which is present in the soil, groundwater, surface water, air or building materials of a property in a concentration that exceeds the concentration allowed by applicable Environmental Law.

"Contribution Shares" shall have the meaning ascribed thereto in the recitals to this Agreement.

"Deadline" shall have the meaning ascribed thereto in Section 9.1(b).

"Encumbrance" means any lien, encumbrance, mortgage, pledge or any other form of security interest (*tanpo-ken*) or any attachment (*sashiosae*) or provisional attachment (*kari-sashiosae*), or lease (*taishaku*) to or possession (*sen-yū*) by a third party or the Parties.

"Environmental Law" means all Laws relating to the environment or occupational health and safety.

"Exchange Act" shall have the meaning ascribed thereto in Schedule 4.1(f).

"Exchange Rate" means the average of the representative rates of exchange for Japanese Yen/New Israeli Shekels, as published by the Bank of Israel, expressed as a number of Japanese Yen per one New Israeli Shekels on each of the trading days during the Calculation Period.

"Financial Statements" mean the proforma balance sheet of the Transferred Business as of March 31, 2014, in English, a copy of which is attached hereto as Exhibit B hereto.

"Governmental Approval" means any (a) permit, filing, license, certificate, concession, approval, consent, ratification, permission, clearance, order, confirmation, exemption, waiver, franchise, certification, designation, rating, registration, variance, qualification, accreditation or authorization issued, granted, given or otherwise made available or required by any Governmental Authority or any applicable Law; or (b) right granted, given or otherwise made under any contract with any Governmental Authority.

"Governmental Authority" means any domestic, foreign or supranational government, governmental authority, court, tribunal, agency or other regulatory, administrative or judicial agency, commission or organization (including self-regulatory organizations), tribunal or arbitral body, central bank, stock exchange, and any subdivision, branch or department of any of the foregoing.

"Governmental Order" means any order, judgment, injunction, decree, writ, stipulation, determination or award, in each case, entered by or with any Governmental Authority.

"Indemnified Party" shall have the meaning ascribed thereto in Section 8.4(a).

"Indemnifying Party" shall have the meaning ascribed thereto in Section 8.4(a).

"Intellectual Property" means all (i) trade names, (ii) copyrights, (iii) patents, and (iv) other proprietary rights relating to any of the foregoing, whether registered or unregistered.

"ISA" shall have the meaning ascribed thereto in Schedule 4.1(f).

"Israeli Securities Law" shall have the meaning ascribed thereto in Schedule 4.1(f).

"Law" means all (i) constitutions, treaties, statutes, laws (including common law), codes, rules, regulations, ordinances or orders of any Governmental Authority, (ii) orders, decisions, injunctions, judgments, awards and decrees of or agreements with any Governmental Authority and (iii) rules and policies of any self-regulatory body.

"Long Term Corporate Bond" shall have the meaning ascribed thereto under the Business Transfer Agreement.

"Losses" mean direct losses and costs, and does not include any loss of production, loss of profit, loss of revenue, loss of contract, loss of goodwill, loss of claim or any indirect or consequential losses.

"Material Contracts" shall have the meaning ascribed thereto in Schedule 3.1(h).

"Material Permits" shall have the meaning ascribed thereto in Schedule 3.1(r).

"NDA" shall have the meaning ascribed thereto in Section 10.10.

"New Israeli Shekels" or "NIS" means the lawful currency of Israel.

"New Tower Shares" shall have the meaning ascribed thereto in Section 2.3(a).

"Japanese GAAP" means generally accepted accounting principles in Japan.

"Japanese Yen" or the symbol "¥" means the lawful currency of Japan.

"Joint Venture" shall have the meaning ascribed thereto in the recitals to this Agreement.

"Panasonic" shall have the meaning ascribed thereto in the preamble of this Agreement.

"Panasonic Disclosure Letter" means the letter dated on the date of this Agreement from Panasonic to Tower disclosing (a) information constituting exceptions to Panasonic's Warranties, and (b) details of other matters referred to in this Agreement.

"Panasonic IP License Agreement" shall have the meaning ascribed thereto in Section 7.10(ii).

"Panasonic Lease Agreement" shall have the meaning ascribed thereto in Section 7.10(viii).

"Panasonic Pre-Closing Actions" shall have the meaning ascribed thereto in Section 2.1.

"Panasonic Warranty Breach" shall have the meaning ascribed thereto in Section 8.1.

"Panasonic's Knowledge" shall mean, in respect of the Panasonic's Warranties which are qualified by Panasonic's Knowledge, the best of the knowledge, information and belief of Mr. Keiji Fujimoto, Mr. Kazuhiro Koyama, Mr. Kunio Tanaka, Mr. Toru Nishiwaki and Mr. Katsumi Nishimoto, after having conducted reasonable enquiry as to the accuracy of such Panasonic's Warranties. Without limiting the foregoing, Panasonic shall be deemed to have "Knowledge" of a particular fact or other matter if any member of its board of directors or any officer or director of Panasonic has knowledge of such fact or other matter.

"Panasonic's Warranties" shall have the meaning ascribed thereto in Section 3.2.

"Party" and "Parties" shall have the meanings ascribed thereto in the preamble of this Agreement.

"Person" means any individual, firm, corporation, joint venture, enterprise, partnership, trust, unincorporated association, limited liability company, government (or agency or political subdivision thereof) or other entity of any kind, whether or not having a separate legal personality.

"Registration Rights Agreement" shall have the meaning ascribed thereto in Section 2.3(c).

"Registration Statement" shall have the meaning ascribed thereto in Section 2.3(c).

"SEC" means the United States Securities Exchange Committee.

"Securities Act" shall have the meaning ascribed thereto in Schedule 3.1(w).

"Share Contribution" shall have the meaning ascribed thereto in Section 2.3(a).

"Shareholders Agreement" shall have the meaning ascribed thereto in Section 6.2 (c).

"Short Term Corporate Bond" shall have the meaning ascribed thereto under the Business Transfer Agreement.

"SIAC Rules" shall have the meaning ascribed thereto in Section 10.5(b).

"Tax" means all taxes, charges, fees, duties, levies, social security contributions or other assessments imposed by any Governmental Authority or applicable Law, including any interest, penalties or additions to tax related thereto imposed by any Governmental Authority or applicable Law.

"Tax Return" means any return, report, declaration, form, claim for refund or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"Tower" shall have the meaning ascribed thereto in the preamble of this Agreement.

"Tower Disclosure Letter" means the letter from Tower to Panasonic disclosing (a) information constituting exceptions to Tower's Warranties, and (b) details of other matters referred to in this Agreement.

"Tower Interim Financials" shall have the meaning ascribed thereto in Schedule 4.1(f).

"Tower Israel Reports" shall have the meaning ascribed thereto in Schedule 4.1(f).

"Tower Material Adverse Effect" means any circumstance, development, occurrence, fact or matter, either individually or in the aggregate with any other circumstance, development, occurrence, fact or matter, that (i) has or would reasonably be expected to have a material adverse effect on the business, financial condition, or results of operation of Tower or (ii) prevents or materially impedes, or would be likely to prevent or materially impede, the ability of Tower to perform its obligations under, or to consummate the transactions contemplated by, this Agreement; provided, however, that in no event shall any of the following be taken into account in determining whether there has been or will be a Tower Material Adverse Effect: (A) any circumstance, development, occurrence, fact or matter ("Effect") that is the result of general market or political factors or economic factors affecting the economy as a whole (other than fluctuations in the value of any currency), (B) any Effect that is the result of factors generally affecting the industry or specific markets in which Tower operates, (C) any Effect that is the result of an outbreak or escalation of hostilities involving Israel or Japan, the declaration by Israel or Japan of a national emergency or war, or the occurrence of any acts of terrorism, (D) any Effect arising out of or resulting from actions contemplated by the Parties in connection with this Agreement or that is attributable to the announcement or performance of this Agreement or the transactions contemplated by this Agreement or (E) any Effect arising from any change in any applicable Law.

"Tower Ordinary Shares" shall mean Tower's ordinary shares, par value NIS 15.00.

"Tower Pre-Closing Actions" shall have the meaning ascribed thereto in Section 2.2.

"Tower Reports" shall have the meaning ascribed thereto in Schedule 4.1(f).

"Tower SEC Documents" shall have the meaning ascribed thereto in Schedule 4.1(f).

"Tower Warranty Breach" shall have the meaning ascribed thereto in Section 8.2.

"Tower's Required Approvals" mean the approvals listed in Schedule A hereto.

"Tower's Warranties" shall have the meaning ascribed thereto in Section 4.2.

"Transferred Business" shall have the meaning ascribed thereto in the recitals to this Agreement.

"Transferred Employees" shall mean the employees of Panasonic and SANYO Electric Co., Ltd., Panasonic Industrial Devices Optical Semiconductor Co., Ltd. and Panasonic Industrial Devices Discrete Semiconductor Co., Ltd. up to one thousand nine hundred and fifty (1,950) who are engaged in the Company Business (as defined in the Shareholders Agreement) as of the date of this Agreement, and contemplated to be employed by the Company after the completion of the transactions contemplated hereby, and a list of whom, which is reasonably acceptable to Tower shall be delivered to Tower prior to Closing.

"Transferred Lease Agreements" means the lease agreements listed in Schedule B hereto.

"U.S. GAAP" means generally accepted accounting principles in the United States of America.

"2013 Tower Annual Report" shall have the meaning ascribed thereto in Schedule 4.1(d).

Unless the context of this Agreement otherwise requires, (i) words of any gender include each gender; (ii) words using the singular or plural number also include the plural or singular number; (iii) the terms "hereof," "herein," "hereby" and derivative or similar words refer to this entire Agreement and not merely to the specific article, section, paragraph or clause where such terms may appear, unless the context clearly indicates otherwise; (iv) the terms "Article," "Section," "Exhibit" or "Schedule" refer to the specified Article or Section of, or Exhibit or Schedule to, this Agreement; (v) the term "including" shall mean "including, but not limited to"; (vi) the term "or" shall not be exclusive; (vii) references to statutes, laws, regulations or provisions are to be construed as including all statutory or regulatory provisions consolidating, amending, replacing, succeeding or supplementing such statute, regulation or provision; (viii) headings are for ease of reference only and shall not affect the interpretation of this Agreement and (ix) references to a Person are also to its permitted successors and assignees.

ARTICLE II

PRE-CLOSING ACTIONS; SHARE CONTRIBUTION

2.1 Panasonic Pre-Closing Actions.

Following execution of this Agreement and prior to the Closing, Panasonic shall implement, and/or cause the Company to implement, the following actions (the "Panasonic Pre-Closing Actions"):

(a) Following the execution of this Agreement but no later than a month before the Closing Date, Panasonic shall duly establish the Company and Tower shall review and approve (such approval shall not be unreasonably withheld or refused and shall be made by March 1, 2014) all formation documents;

(b) Following the establishment of the Company but no later than the Closing Date, Panasonic shall enter into the Business Transfer Agreement with the Company;

(c) Following the establishment of the Company but no later than the Closing Date, Panasonic shall cause the Company to issue the Long Term Corporate Bond and the Short Term Corporate Bond to Panasonic; and

(d) Panasonic shall transfer the Transferred Business to the Company on or prior to the Closing Date in accordance with the Business Transfer Agreement and the Business Transfer shall be completed on or prior to the Closing Date.

2.2 Tower Pre-Closing Actions.

Following execution of this Agreement and prior to the Closing, Tower shall implement the following actions (the "Tower Pre-Closing Actions"):

(a) Tower shall provide written instructions to its stock transfer agent to issue the New Tower Shares such that the stock transfer agent will be able to issue a physical stock certificate of the New Tower Shares in Panasonic's name to Panasonic at the Closing pursuant to Section 6.2(a) and deliver them to Panasonic's representative at such time.

2.3 Share Contribution.

(a) Upon the terms and subject to the conditions of this Agreement, on the Closing Date, Panasonic shall contribute the Contribution Shares to Tower and Tower shall issue such number of Tower Ordinary Shares as calculated in accordance with Section 2.3(b) (the "New Tower Shares") to Panasonic (the "Share Contribution").

(b) The number of New Tower Shares to be issued to Panasonic on the Closing Date shall be the integer obtained by dividing (i) 765 million Japanese Yen (\765,000,000) by (ii) (A) the average (rounded to nearest 1/100) of the closing trading prices of Tower Ordinary Shares on the Tel Aviv Stock Exchange for the trailing fifteen (15) trading days ending on and including the second trading day prior to the Closing Date (the "Calculation Period") times (B) the Exchange Rate, rounded to the nearest whole number.

(c) On or prior to the Closing Date, Tower and Panasonic shall enter into a registration rights agreement in form and substance reasonably satisfactory to the Parties (the "Registration Rights Agreement"), which registration rights agreement shall include the following terms: 1) an obligation by Tower to file a resale registration statement on Form F-3 (the "Registration Statement") with the SEC and the Tel Aviv Stock Exchange, if required, no later than 45 days after the Closing Date to register for resale all New Tower Shares on NASDAQ and the Tel Aviv Stock Exchange, 2) an obligation by Tower to use reasonable best efforts to cause the Registration Statement to be declared effective as soon as possible after filing, but in no event later than 120 days after the Closing Date, 3) an obligation by Tower to use reasonable best efforts to maintain the effectiveness of the Registration Statement, subject to grace periods reasonably acceptable to Panasonic, 4) Panasonic will be granted one demand registration right, which right will enable Panasonic to require Tower to conduct one underwritten offering of the New Tower Shares on behalf of Panasonic, all on terms reasonably acceptable to Panasonic, and 5) Panasonic will be granted piggy back registration rights reasonably acceptable to Panasonic. Tower's obligation to file the Registration Statements within 45 days is subject to Panasonic providing the Carveout Financial Statements and any other necessary reports and account auditors' reports as may be required to satisfy the SEC requirements to such filings. Panasonic will fully and reasonably cooperate with Tower to address any reasonable request from the SEC following the filing of the Registration Statement; for avoidance of doubt, Tower shall file the Registration Statement with the SEC and, if required, the Tel Aviv Stock Exchange, as soon as possible after Panasonic provides the Carveout Financial Statement to Tower.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF PANASONIC

3.1 Panasonic represents and warrants to Tower that the statements set forth in Schedule 3.1 are true and correct as of the date of this Agreement (or if any specific date is referred to in any representation or warranty, as of such specific date).

3.2 Panasonic's representations and warranties in Section 3.1 (the "Panasonic's Warranties") are subject to the following matters:

(a) any matter that is expressly contained or described as an exception to Panasonic's Warranties in the Panasonic Disclosure Letter and only to the extent that such matter is readily apparent from the disclosure set forth in the Panasonic Disclosure Letter; and

(b) all matters clearly disclosed, provided or noted (to the extent so disclosed, provided or noted) in the Financial Statements.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF TOWER

4.1 Tower represents and warrants to Panasonic that the statements set forth in Schedule 4.1 are true and correct as of the date of this Agreement (or if any specific date is referred to in any representation or warranty, as of such specific date).

4.2 Tower's representations and warranties in Section 4.1 (the "Tower's Warranties") are subject to the following matters:

(a) any matter that is expressly contained or described as an exception to Tower's Warranties in the Tower Disclosure Letter and only to the extent that such matter is readily apparent from the disclosure set forth in the Tower Disclosure Letter; and

(b) all matters clearly disclosed, provided or noted (to the extent so disclosed, provided or noted) in Tower's public filings with the SEC.

ARTICLE V

CONDITIONS PRECEDENT

5.1 Conditions Precedent.

(a) Conditions to Panasonic's Obligations.

Panasonic's obligation to consummate the Closing is conditional upon (1) receipt by Panasonic of a certificate executed by an officer of Tower confirming that each of the conditions specified in clauses (i) to (iii) below is satisfied in all respects, or (2) a written waiver by Panasonic, of the following conditions:

(i) Tower's Warranties set forth in Section 4.1 shall be true and correct on the date hereof and shall be true and correct in all material respects as of the Closing Date (provided that those warranties that address matters only as of a particular date shall have been true and correct only as of such date);

(ii) Tower shall not have breached, in any material respect, any covenant or other obligation contained in this Agreement that is required to be performed by Tower at or prior to the Closing; and

(iii) All of the Tower Pre-Closing Actions have been duly completed in accordance with this Agreement.

(b) Conditions to Tower's Obligations.

Tower's obligation to consummate the Closing is conditional upon (1) receipt by Tower of a certificate executed by an officer of Panasonic to the effect that each of the conditions specified in clauses (i) to (iv) below is satisfied in all respects, or (2) a written waiver by Tower, of the following conditions:

(i) Panasonic's Warranties set forth in Section 3.1 shall be true and correct on the date hereof and shall be true and correct in all material respects as of the Closing Date (provided that those warranties that address matters only as of a particular date shall have been true and correct only as of such date);

(ii) Panasonic shall not have breached, in any material respect, any covenant or other obligation contained in this Agreement that is required to be performed by Panasonic at or prior to the Closing;

(iii) All of the Panasonic Pre-Closing Actions have been duly completed in accordance with this Agreement;

(iv) There shall not have occurred or be continuing a Company Material Adverse Effect; and

(v) With regard to the Transferred Lease Agreements, Panasonic shall have obtained from the lessors consent of the Company continuing the use of the leased properties under the Transferred Lease Agreements after the Business Transfer.

(c) Conditions to Panasonic's and Tower's Obligations.

The Parties' obligation to consummate the Closing is conditional upon the satisfaction, or written waivers by both Parties, of the following conditions:

(i) All of Tower's Required Approvals shall remain in full force and effect and any applicable mandatory waiting periods shall have expired; and

(ii) There shall not be any Governmental Order, statute, rule or regulation enjoining or prohibiting the consummation of the transactions contemplated by this Agreement (including the Panasonic Pre-Closing Actions and the Tower Pre-Closing Actions) as of the Closing Date.

ARTICLE VI

CLOSING

6.1 The closing of the Share Contribution (the "Closing") shall take place at the office of Nishimura & Asahi, Ark Mori Building, 1-12-32 Akasaka, Minato-klu, Tokyo, Japan at 5:00 p.m. (Tokyo time) or such other place and time as agreed by the Parties on the Closing Date, subject to the satisfaction or waiver of all conditions set forth in Article V hereof (other than those conditions that, by their terms, are not capable of being satisfied or waived until the Closing Date, but subject to the satisfaction or waiver of such conditions at the Closing Date). All proceedings required to be taken and all documents required to be executed and delivered by all Parties on the Closing Date in accordance with this Article VI will be deemed to have been taken and executed simultaneously and no such proceedings will be deemed to have been taken nor such documents executed or delivered until all have been taken, executed and delivered.

6.2 At the Closing:

(a) Tower shall deliver to Panasonic (i) a share certificate representing all of the New Tower Shares duly endorsed in ownership in favor of Panasonic, (ii) shall perform any and all actions reasonably requested by Panasonic in connection with having Panasonic listed as the owner of the New Tower Shares; and (iii) an opinion of Tower's legal counsel that the New Tower Shares are duly and validly issued.

(b) Panasonic shall transfer the Contribution Shares to Tower, and shall perform any and all actions reasonably requested by Tower in connection with having the name of Tower listed as the registered owner of the Contribution Shares in the Company's stock ledger;

(c) the Parties shall and shall cause the Company to enter into a shareholders' agreement, the working draft of which as of the date hereof is attached hereto as Exhibit 6.2(c) (the "Shareholders Agreement");

(d) the Parties shall cause the Company to hold its general meeting of shareholders and approve (i) the amendment of the Company's articles of incorporation as separately agreed by the Parties and (ii) the appointment of the persons recommended by Panasonic and Tower, as applicable, in accordance with the Shareholders Agreement as directors and statutory auditors of the Company;

(e) Panasonic shall deliver to Tower a certificate dated as of the Closing Date and signed by duly authorized officer of Panasonic, certifying as to the matters set forth in Section 5.1 (b);

(f) Tower shall deliver to Panasonic a certificate dated as of the Closing Date and signed by duly authorized officer of Tower, certifying as to the matters set forth in Section 5.1(a); and

(g) the Parties shall enter into the Registration Rights Agreement.

For the avoidance of doubt, neither Party is or will be required to provide any guarantees for the Company or for the Company's liabilities and obligations to any third parties.

ARTICLE VII

COVENANTS

7.1 Conduct of Transferred Business.

Except as (A) contemplated by this Agreement, (B) required by applicable Law, or (C) otherwise agreed to in writing by Tower (whose consent shall not be unreasonably conditioned, withheld, delayed or denied), from the date of this Agreement to the Closing Date, Panasonic (a) shall carry out the Transferred Business in the ordinary course consistent with past practice and in substantially the same manner in which such Transferred Business was being conducted as of the date of this Agreement, (b) shall use its best efforts to ensure that (A) its business relationship with all material existing trade suppliers of the Transferred Business (including materials, parts, software, hardware, lease agreements, outsourcing, consultants) is maintained such that such suppliers shall continue to provide supplies and services to the Company following the Closing under at least the same or substantially similar terms and manner, and (B) the Company will have the benefit of all of the material contracts which are not transferred to the Company in accordance with the Business Transferred Agreement but will be necessary for the Company to perform the Transferred Business on the same or substantially similar terms and conditions and (c) without detracting from the aforementioned, shall cause the Company and the Transferred Business not to:

(i) amend its articles of incorporation or other organizational documents;

(ii) issue or authorize issuance any new shares or other securities convertible or exchangeable for or rights to acquire any shares of the Company;

(iii) declare or pay any dividend or distribution with respect to any shares of the Company;

(iv) implement any repurchase of any shares of the Company;

(v) liquidate, dissolve, or wind-up the Company;

(vi) change any material accounting principle, method or practice of the Company, except as may be required by a concurrent change in Japanese GAAP or applicable Law;

(vii) be party to (A) any merger, acquisition, consolidation, stock-for-stock exchange, recapitalization or similar transaction involving the Company or (B) any purchase of all or any substantial portion of the assets of the Company;

(viii) increase the compensation or fringe benefits of, or modify the employment terms and benefits of, any Transferred Employee, other than immaterial changes that occur following the date hereof in the ordinary course of business;

(ix) establish or adopt any new employee benefit (including health) or pension plans or employment agreements, other than new hire employment agreements on standard forms;

(x) hire any new officer;

(xi) sell, lease, license, exchange, transfer, place an Encumbrance on, or dispose of any Asset (as defined in the Business Transfer Agreement) or any nontransferred asset or leased assets located in the Company;

(xii) terminate (except pursuant to its terms) or modify or amend any Contract (as defined in the Business Transfer Agreement);

(xiii) cancel or compromise any material debt or claim or waive or release any material rights of the Transferred Business;

(xiv) authorize or enter into an agreement to take any of the actions described above;

(xv) terminate, modify, or not renew existing insurance coverage; or

(xvi) maintain inventories, stock items and work in process at conditions which are not in the ordinary course of business.

From the date of this Agreement to the Closing Date, Panasonic will immediately notify Tower of the occurrence of any Company Material Adverse Effect.

7.2 Conduct of Tower's Business.

Except as (A) contemplated by this Agreement, (B) required by applicable Law, (C) already planned by Tower and set forth in Schedule 7.2, or (D) otherwise agreed to in writing by Panasonic (whose consent shall not be unreasonably conditioned, withheld, delayed or denied), during the Calculation Period (with respect to (xii), during the term from the date of this Agreement to the day when all New Tower Shares will be sold by Panasonic), Tower shall carry out its business in the ordinary course consistent with past practice and in substantially the same manner in which such business was being conducted as of the date of this Agreement, and without detracting from the aforementioned shall not to:

(i) amend its articles of incorporation or other organizational documents;

(ii) declare or pay any dividend or distribution with respect to any of its shares

(iii) implement any repurchase of any of its shares;

(iv) liquidate, dissolve, or wind-up;

(v) change any material accounting principle, method or practice, except as may be required by a concurrent change in U.S. GAAP or applicable Law;

(vi) be party to (A) any merger, acquisition, consolidation, stock-for-stock exchange, recapitalization or similar transaction or (B) any purchase of all or any substantial portion of its assets;

(vii) material increases to the compensation or fringe benefits of, or modify the employment terms and benefits of, any of its employees, other than immaterial changes that occur during the Calculation Period in the ordinary course of business;

(viii) establish or adopt any new material employee benefit (including health) or pension plans or employment agreements, other than new hire employment agreements on standard forms or in the ordinary course of business such as renewal of plans;

(ix) hire any new officer;

(x) sell, lease, license, place an Encumbrance on, or dispose of any of its material assets;

(xi) cancel or compromise any material debt or claim or waive or release any material rights;

(xii) act to voluntarily delist the Tower Ordinary Shares from NASDAQ and/or the Tel Aviv Stock Exchange; or

(xiii) authorize or enter into an agreement to take any of the actions described above.

7.3 Transferred Employees.

Prior to the Closing Date, Panasonic shall obtain, and submit a copy to Tower of, written agreements from the Transferred Employees to become employees of the Company by September 2014 and accept their new positions as employees of the Company. With respect to the Transferred Employees currently not engaged with the Hokuriku fabs, as soon as practical and prior to the Closing Date, Panasonic shall provide Tower with details with respect to such employees' role in the Company Business (as defined in the Shareholders Agreement) and the reason for their transfer to the Company.

7.4 Governmental Filings and Notifications.

In connection with the transactions contemplated hereby, the Parties shall, at the earliest practicable date, make all filings with, and notifications to, any Governmental Authorities as may be required under any applicable Law including antitrust or competition laws.

7.5 Further Assurances.

On and after the Closing Date, upon the reasonable request of a Party, the other Party shall prepare, execute and deliver such other and further agreements, instruments, certificates, and other documents, and take, do and perform such other and further actions, as may be reasonably necessary or appropriate in order to effectuate the purposes and intent of this Agreement and to consummate the transactions contemplated hereby.

7.6 Access to Information.

(a) During the period commencing with the execution and delivery of this Agreement until the earlier to occur of the termination of this Agreement pursuant to its terms and the Closing, Panasonic shall afford Tower and its respective officers, authorized employees, accountants, counsel and other authorized representatives reasonable access at reasonable time during normal business hours and in a manner so as not to interfere with the normal business operation of the Transferred Business, to the Transferred Business as Tower may reasonably request, and make available to Tower: (i) copies of the organizational documents of the Company, including, if applicable, all amendments thereto; (ii) the stock records of the Company; and (iii) copies of the minutes of the meetings at which actions were taken or any actions taken by written consent without a meeting of the stockholders of the Company, the board of directors of the Company and all committees of the board of directors of the Company (if any), to the extent, in the case of the documents described in clauses (i) through (iii), such documents are required to be prepared and maintained under applicable Law. Panasonic shall afford access to an appraiser of the fabs to inspect the transferred Assets and Panasonic will provide all necessary documents and evidence pertaining to the Assets.

(b) During the period commencing with the execution and delivery of this Agreement until the earlier to occur of the termination of this Agreement pursuant to its terms and the Closing, Tower shall afford Panasonic and its respective officers, authorized employees, accountants, counsel and other authorized representatives reasonable access at reasonable time during normal business hours and in a manner so as not to interfere with the normal business operation of Tower, to Tower as Panasonic may reasonably request.

7.7 Employee Liabilities.

Any liability accrued before the Closing Date concerning the Transferred Employees, whether funded or not, including provisions for bonuses, change of control payments, special retirement allowances, reserve for retirement allowances, severance compensation, reorganization payment and any other payments that are incurred prior to the Closing Date or triggered by the Business Transfer and agreed by the Parties, even if actually paid after the date of the Business Transfer, shall be borne by Panasonic.

7.8 Taxes.

Panasonic shall pay all applicable stamp and real estate registration Taxes that may be imposed, assessed or payable by reason of the Business Transfer and for all recording, filing and registration fees that may be imposed, assessed or payable by reason of the operation or as a result of this Agreement (except for the Taxes related to the issuance and delivery of the New Tower Shares and any incidental procedures thereto) and the Ancillary Agreements to which Panasonic is a party, and the transactions contemplated hereby including the sales, transfers, leases, rentals, licenses, and assignments contemplated hereby and thereunder.

7.9 ***

7.10 Ancillary Agreements.

From the date hereof to the Closing Date, the Parties shall hold good faith discussions regarding the terms and conditions of the following agreements (the "Ancillary Agreements"):

(i) The transition service agreement between Panasonic and the Company;

(ii) The IP license agreement between Panasonic and the Company (the "Panasonic IP License Agreement");

(iii) The IP license agreement between Panasonic and Tower to grant Tower the right to use certain Panasonic IP and technologies for third party foundry business;

(iv) The subcontract agreements between Panasonic and the Company;

(v) The manufacturing agreement between Panasonic and the Company;

(vi) The secondment agreement between Panasonic and the Company;

(vii) The memorandum concerning transfer of employees between Panasonic and the Company;

(viii) The lease agreement between Panasonic and the Company ("Panasonic Lease Agreement");

(ix) The IP license agreement between Tower and the Company;

(x) The transition service agreement between Tower and the Company; and

(xi) The outsourcing agreement between Tower and the Company.

ARTICLE VIII

INDEMNIFICATION

8.1 Indemnification by Panasonic.

Subject to the limitations set forth in Section 8.3 or other provisions hereof, Panasonic shall indemnify Tower from and against any and all Losses to the extent arising out of or resulting from (i) any inaccuracy of any Panasonic's Warranty (the "Panasonic Warranty Breach") or (ii) any breach of Panasonic's obligations under this Agreement.

8.2 Indemnification by Tower.

Subject to the limitations set forth in Section 8.3 or other provisions hereof, Tower shall indemnify Panasonic from and against any and all Losses to the extent arising out of or resulting from (i) any inaccuracy of any Tower's Warranty (the "Tower Warranty Breach") or (ii) any breach of Tower's other obligations under this Agreement.

8.3 Limitation of Liability.

(a) Time Limitation for Certain Claims.

Panasonic shall not be liable under this Agreement in respect of any claim with respect to a Panasonic Warranty Breach unless a notice of the claim is given by Tower specifying the matters set forth in Section 8.4 within two (2) years following the Closing Date; provided, however, that Panasonic shall continue to be liable for claims relating to a Panasonic Warranty Breach of the warranties specified in Sections (m) Tax, (o) Environmental Matters, and (w) Investment Representations of Schedule 3.1 until the end of the applicable statute of limitation relating to such breach, and that Panasonic shall continue to be liable indefinitely with respect to a Panasonic Warranty Breach of the warranties specified in Section (e) Ownership of Contribution Shares and Transferred Business, (f) Capitalization of the Company of Schedule 3.1.

Tower shall not be liable under this Agreement in respect of any claim with respect to a Tower Warranty Breach unless a notice of the claim is given by Panasonic specifying the matters set forth in Section 8.4 within two (2) years following the Closing Date; provided, however, that Tower shall continue to be liable indefinitely with respect to a Tower Warranty Breach of the warranties specified in Sections (a) Organization and Corporate Power, (b) Authorization of Transaction, (d) Capitalization, (e) New Tower Shares of Schedule 4.1.

(b) Basket.

No indemnification shall be payable by Panasonic for any Panasonic Warranty Breach unless and until the amount of all Losses due to any Panasonic Warranty Breach against Tower exceeds 10 million Japanese Yen (¥10,000,000) (the "Basket"); whereupon, subject to Section 8.3(c), indemnification by Panasonic shall be payable for all such Losses (including the Basket amount).

No indemnification shall be payable by Tower for any Tower Warranty Breach unless and until the amount of all Losses due to any Tower Warranty Breach exceeds the Basket; whereupon, subject to Section 8.3(c), indemnification by Tower shall be payable for all such Losses (including the Basket amount).

(c) Maximum Liability.

The aggregate amount of the liability of a Party in respect of all claims under this Agreement other than claims resulting from an intentional breach of this Agreement shall not exceed 1 billion Japanese Yen (¥1,000,000,000). The Parties acknowledge and understand that the maximum liability amount was agreed based on the current draft of the Business Transfer Agreement attached hereto and may be conformed to reflect the form of the final version of the Business Transfer Agreement through good-faith discussion between the Parties, as the case may be.

8.4 Claims.

(a) Notification of Potential Claims.

If either Party (the "Indemnified Party") becomes aware of any matter or circumstance that may give rise to a claim against the other Party (the "Indemnifying Party") under this Agreement, then the Indemnified Party shall as soon as reasonably practicable provide notice in writing to the Indemnifying Party, setting out the legal and factual basis of the claim including the information available to and known by the Indemnified Party, as is reasonably necessary to enable the Indemnifying Party to assess the merits of the claim, to act to preserve evidence and to make such provision as it may consider necessary or useful. Failure to provide such notice will not restrict the Indemnified Party from making the relevant claims under this Agreement, unless such failure adversely impacted the Indemnifying Party's ability to defend itself from such claim.

(b) Notification of Claims under this Agreement.

Notices of claims under this Agreement shall be given promptly by the Indemnified Party to the Indemnifying Party within the time limits specified in Section 8.3(a), specifying the legal and factual basis of the claim as provided in Section 8.4(a), and, if practicable, an estimate of the amount of Losses which are, or are to be, the subject of the claim (including any Losses which are contingent on the occurrence of any future event).

ARTICLE IX

TERMINATION

9.1 This Agreement may be terminated at any time prior to the consummation of the Closing under the following circumstances:

(a) by mutual written consent of Panasonic and Tower;

(b) prior to the consummation of the Closing, by written notice from Panasonic to Tower if (i) there is any material breach of any representation, warranty, covenant or agreement of Tower set forth in this Agreement, except that, if such breach is curable by Tower, then, for a period of thirty (30) days after receipt by Tower of the notice from Panasonic of such breach, such termination shall not be effective, and such termination shall become effective only if the breach is not cured within the thirty (30) day period, (ii) the Closing has not occurred on or before June 30, 2014, (the "Deadline") (other than as a result of a material breach of this Agreement by Panasonic), or (iii) the consummation of any of the transactions contemplated hereby (including the Panasonic Pre-Closing Actions and the Tower Pre-Closing Actions) is permanently enjoined, prohibited or otherwise restrained by the terms of a final, non-appealable Governmental Order; or

(c) prior to the consummation of the Closing, by written notice from Tower to Panasonic if (i) there is any material breach of any representation, warranty, covenant or agreement of Panasonic set forth in this Agreement, except that, if such breach is curable by Panasonic, then, for a period of thirty (30) days after receipt by Panasonic of the notice from Tower of such breach, such termination shall not be effective, and such termination shall become effective only if the breach is not cured within the thirty (30) day period, (ii) the Closing has not occurred on or before the Deadline (other than as a result of a material breach of this Agreement by Tower) or (iii) the consummation of any of the transactions contemplated hereby (including the Panasonic Pre-Closing Actions and the Tower Pre-Closing Actions) is permanently enjoined, prohibited or otherwise restrained by the terms of a final, non-appealable Governmental Order.

Neither Panasonic nor Tower shall terminate this Agreement by any manner other than as set forth in this Agreement. Neither Panasonic nor Tower shall terminate this Agreement after the consummation of the Closing.

9.2 In the event of the termination of this Agreement pursuant to Section 9.1, this Agreement shall, subject to the last sentence of this Section 9.2, forthwith become void and have no effect, without any liability on the part of any Party or its respective Affiliates, officers, directors or stockholders, other than any claim arising from a breach of any obligation of this Agreement where such breach occurred prior to such termination. Notwithstanding the foregoing, the provisions of Articles I and VIII, this Section 9.2 and Article X shall survive any termination of this Agreement.

ARTICLE X

MISCELLANEOUS PROVISIONS

10.1 Expenses.

Each party shall bear its own expenses with respect to this Agreement and the transactions contemplated hereby, including the preparation, negotiation and execution of this Agreement.

10.2 Amendment.

This Agreement may be amended, modified or supplemented only by a writing signed by the Parties.

10.3 Notices.

Any notice, request, instruction or other document to be given hereunder by a Party shall be in writing and in English, and shall be deemed to have been given, (i) when received if given in person, (ii) on the date of transmission if sent by telex, telecopy, or e-mail or other wire transmission (provided that a written confirmation of receipt is obtained) or (iii) seven days after it is mailed by certified or registered first class air mail postage prepaid:

(a) If to Panasonic, addressed as follows:

Panasonic Corporation
1 Kotariyakemachi, Nagaokakyo City, Kyoto, 617-8520, Japan
Attention: Akihiro Yamamoto
General Manager
Business Development
Semiconductor Business Division
Automotive & Industrial Systems Company
Email: yamamoto.aki@jp.panasonic.com

with a copy (which shall not constitute notice) to:
Nishimura & Asahi
Ark Mori Building
1-12-32 Akasaka
Minato-ku, Tokyo 107-6029, Japan
Attention: Yuji Shiga, Esq.
Email: y_shiga@jurists.co.jp

(b) If to Tower, addressed as follows:

Tower Semiconductor Ltd.
Ramat Gavriel Industrial Park, 1 Shaul Amor Avenue, P.O. Box 619, Migdal Haemek 23105, Israel
Email: natiso@towersemi.com
Attention: Nati Somekh
Chief Legal Officer

with a copy (which shall not constitute notice) to:
Yigal Arnon & Co.
Law Firm
1 Azrieli Center,
Tel Aviv 67021, Israel
Attention: David H. Schapiro, Esq.
Eliran Furman, Esq.
Email: davids@arnon.co.il, eliranf@arnon.co.il

or to other individuals or addresses as a Party may designate for itself by delivering a notice as provided herein.

10.4 Waivers.

No waiver by a Party of any condition or of any breach of any term, covenant, representation or warranty contained in this Agreement shall be effective unless in writing, and no waiver in any one or more instances shall be deemed to be a further or continuing waiver of any such condition or breach in other instances or a waiver of any other condition or breach of any other term, covenant, representation or warranty. All remedies, either under this Agreement, by Law or otherwise afforded, will be cumulative and not alternative.

10.5 Applicable Law; Dispute Resolution.

(a) This Agreement shall be governed by and construed in accordance with the laws of Japan without giving effect to any choice or conflict of law provision or rules.

(b) Any dispute, action or proceeding arising out of or in connection with this Agreement, including any question regarding its existence, validity, binding effect, breach, amendment or termination, which cannot be resolved amicably between the Parties shall be settled by arbitration in Singapore under the rules of the Singapore International Arbitration Centre ("SIAC Rules") by a single arbitrator to be appointed by the Parties or, failing agreement within fourteen (14) days after either Party has given to the other Party a written request to concur in the appointment of an arbitrator, a single arbitrator to be appointed on the request of either Party by the President of the Court of Arbitration of the Singapore International Arbitration Centre and such submission shall be a submission to arbitration in accordance with the SIAC Rules as then in force by which the Parties in dispute agree to be so bound. The arbitration shall be conducted wholly in the English language.

10.6 Binding Nature; Assignment.

This Agreement shall be binding upon and inure to the benefit of the Parties, but neither this Agreement nor any of the rights, interest or obligations hereunder shall be assigned by any of the Parties (by operation of law or otherwise) without the prior written consent of the other Party.

10.7 No Third Party Beneficiaries.

This Agreement is solely for the benefit of the Parties and no provision of this Agreement shall be deemed to confer upon third parties any remedy, claim, liability, reimbursement, claim of action or any other right in excess of those existing without reference to this Agreement. Nothing contained herein shall be deemed to give rise to any personal obligation of any director, officer, stockholder, partner, member, manager, principal or any employee of any Party by reason of any breach or violation of any of the provisions hereof or otherwise, and no Party shall have any right against, or be entitled to sue or seek any recovery from, any such Persons.

10.8 Entire Understanding.

This Agreement sets forth the entire agreement and understanding of the Parties in respect to the transactions contemplated hereby and supersedes all prior agreements, arrangements and understandings relating to the subject matter hereof (including the letter of intent entered into by the Parties on September 25, 2013 and the memorandum of understanding entered into by the Parties on October 29, 2013).

10.9 Language.

This Agreement is entered into in the English language. In the event of any dispute concerning the construction or meaning of this Agreement, the text of the Agreement as written in the English language shall prevail over any translation of this Agreement that may have been made.

10.10 Confidentiality.

The parties agree that (i) the terms and conditions of this Agreement shall be governed by the terms of the MUTUAL NON-DISCLOSURE AGREEMENT which became effective as of June 6, 2013, between TowerJazz Japan, Ltd. and Panasonic (the "NDA"), and (ii) the provisions of the NDA shall apply mutatis mutandis to the Parties. For the avoidance of doubt, except as required by applicable Law, any disclosures by either Party about the existence of this Agreement, its terms and conditions, or any transactions contemplated hereby are subject to the disclosing Party obtaining the prior written approval of the other Party. Notwithstanding the foregoing, the Parties may disclose the other Party's Confidential Information (defined in the NDA) to financial entities, and financial and legal advisors, who have a need to know such information to accomplish the transactions contemplated hereby and who (i) are bound by confidentiality terms substantially similar to those in the NDA or (ii) are otherwise under a binding professional obligation of confidentiality.

10.11 Counterparts.

This Agreement may be executed simultaneously in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

[**REMAINDER OF PAGE LEFT INTENTIONALLY BLANK**]

IN WITNESS WHEREOF, this Agreement has been duly executed.

SIGNED by
Keiji Fujimoto
TITLE: Director
on behalf of Panasonic Corporation
DATE: December 20, 2013

SIGNED by
Russell Ellwanger
TITLE: CEO
on behalf of Tower Semiconductor Ltd.
DATE: December 20, 2013

SIGNED by
Dr. Itzhak Edrei
TITLE: President
on behalf of Tower Semiconductor Ltd.
DATE: December 20, 2013

Exhibit 4.64

PORTIONS OF THIS AGREEMENT WERE OMITTED AND HAVE BEEN FILED SEPARATELY WITH THE SECRETARY OF THE COMISSION PURSUANT TO AN APPLICATION FOR CONFIDENTIAL TREATMENT UNDER RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934; [***] DENOTES OMISSIONS.

EXECUTION VERSION

SHAREHOLDERS AGREEMENT

PANASONIC CORPORATION

TOWER SEMICONDUCTOR LTD.

TOWERJAZZ PANASONIC SEMICONDUCTOR CO., LTD

APRIL 1, 2014
JAPAN

SHAREHOLDERS AGREEMENT

This Shareholders Agreement (this "Agreement") is made and entered into as of April 1, 2014, 1:00 am Japan time by and between:

(A) Panasonic Corporation, a Japanese corporation having its place of business at 1 Kotariyakemachi, Nagaokakyo City, Kyoto, 617-8520, Japan ("Panasonic");

(B) Tower Semiconductor Ltd., an Israeli corporation having its principal place of business at Ramat Gavriel Industrial Park, 1 Shaul Amor Avenue, P.O. Box 619, Migdal Haemek 23105, Israel ("Tower", Tower and Panasonic are collectively referred to as the "Shareholders" and each is individually referred to as a "Shareholder"); and

(C) TowerJazz Panasonic Semiconductor Co., Ltd., a Japanese corporation having its principal place of business at 800 Higashiyama, Uozu City, Toyama 937-8585, Japan (the "Company"; the Shareholders and Company will be referred to individually as a "Party" and collectively as the "Parties").

R E C I T A L S

WHEREAS, Panasonic conducts development, manufacture and sale of semiconductor products;

WHEREAS, Tower conducts wafer fabrication and manufacturing operations worldwide;

WHEREAS, the Shareholders desire to jointly operate the Company to manufacture integrated circuits for Panasonic captive business as well as third party foundry business;

WHEREAS, Tower and Panasonic entered into the joint venture formation agreement dated December 20, 2013 (the "JV Formation Agreement") to memorialize their agreement on the terms and conditions set forth therein; and

WHEREAS, the Parties desire to enter into this Agreement to set forth the terms of their agreement with respect to the capitalization, management, control, shareholding and certain other matters relating to the Company as set forth herein.

NOW, THEREFORE, the Parties, intending to be legally bound, hereby agree as follows:

ARTICLE I
CERTAIN DEFINITIONS

Unless otherwise defined herein, the following terms when used in this Agreement shall have the meanings set forth below:

"Accounting Auditor" means the Company's accounting auditor (*kaikei-kansa-nin*).

"Affiliate" means any Person that is controlled by, controls, or is under common control with a Shareholder, for so long as such control continues. For purposes of this definition, "control" means the possession, directly or indirectly, of a majority of the outstanding or voting shares of the relevant entity. For purposes of this Agreement only, the Company shall not be deemed an Affiliate of any Shareholder.

"Agreement" shall have the meaning ascribed thereto in the preamble of this Agreement.

"Annual Financial Statements" shall have the meaning ascribed thereto in Section 5.1(c).

"Arai A" means the logistics facilities, located at 4-5-1 Kurihara, Myokyo, Niigata Prefecture, Japan.

"Arai B" means the assembly and test facilities for analog products, located at 4-5-1 Kurihara, Myokyo, Niigata Prefecture, Japan.

"Arai C" means the wafer process facilities for on-chip-filter and the assembly and test facilities for medical CCD and other products, located at 4-5-1 Kurihara, Myokyo, Niigata Prefecture, Japan.

"Arai D" means the assembly and test facilities for inlet products, located at 4-5-1 Kurihara, Myokyo, Niigata Prefecture, Japan.

"Arai E" means the wafer process facilities for 8 inch Si and Cu RDL Process facilities, located at 4-5-1 Kurihara, Myokyo, Niigata Prefecture, Japan.

"Articles of Incorporation" means the Company's articles of incorporation (*teikan*).

"Authority" means any governmental, regulatory, or administrative body, agency, subdivision, or authority, any court of judicial authority, any public, private, or industry regulatory authority, whether national, local or otherwise, or any Person lawfully empowered by any of the foregoing to enforce or seek compliance with any Law. Authority shall also include any relevant stock exchange or stock quotation service.

"Board" means the Company's board of directors (*torishimari-yaku-kai*).

"Board of Director Rules" means the rules of the Board (*torishimari-yaku-kai-kisoku*).

"Business for Panasonic" shall have the meaning ascribed thereto in Section 2.1.

"Business Report" means business report (*jigyō hōkoku*) as set forth in Article 435, Paragraph 2 of the Companies Act and Article 118 of the Enforcement Order of the Companies Act.

"Business Transfer Agreement" means the agreement to be entered into between Panasonic and the Company on or prior to the Closing Date to transfer the Transferred Business (as defined in the JV Formation Agreement) from Panasonic to the Company.

"Capital Notice" shall have the meaning ascribed thereto in Section 3.3(b).

"Capital Response Notice" shall have the meaning ascribed thereto in Section 3.3(b).

"CEO" means the chief executive officer of the Company who will serve as a representative director (*daihyo-torishimari-yaku*) of the Company recommended by Tower hereunder from among the Tower Nominee and nominated by the Board and whose duties and responsibilities shall include (i) operating and managing the day-to-day business and affairs of the Company in a manner consistent with the Company Business Plan, the Articles of Incorporation, applicable Law and other provisions of this Agreement, and (ii) implementing the Company Business Plan as approved by the Board or attached to this Agreement, as the case may be.

"CFO" means the chief financial officer of the Company recommended by Tower hereunder from among the Tower Nominee and nominated by the Board and shall report to the CEO, and whose duties and responsibilities shall include, under the supervision of the CEO, (i) closely collaborating with the CEO and the COO (President) with respect to operating and managing the financial affairs of the Company and (ii) such other matters as the CEO shall reasonably request. The CFO shall share all the information relating to the financial affairs under its management with the CEO and the COO (President) in a timely manner.

"Change Ratio" shall have the meaning ascribed thereto in Section 6.1(a).

"Closing Date" shall mean April 1, 2014, 1:00am Japan time or such other date and time as agreed in writing by Tower and Panasonic for the closing of the transactions contemplated by the JV Formation Agreement.

"Closure Cost" means any cost mainly required for termination of employment in relation to certain facility that will be closed or resulting from closure thereof in accordance with this Agreement. For the avoidance of doubt, the Closure Cost shall not include any loss of production, loss of profit, loss of revenue, loss of contract, loss of goodwill, loss of claim or any consequential losses.

"Companies Act" means the Companies Act of Japan (*kaisha-ho*) (Act No. 86 of 2005).

"Company" shall have the meaning ascribed thereto in the preamble of this Agreement.

"Company Business" shall have the meaning ascribed thereto in Section 2.1.

"Company Business Plan" shall have the meaning ascribed thereto in Section 4.1(b).

"Confidential Information" shall have the meaning ascribed thereto in Section 13.10(a).

"COO (President)" means the chief operating officer of the Company who is recommended by Panasonic hereunder from among the Panasonic Nominee and nominated by the Board and shall report to the CEO, and whose duties and responsibilities shall include, under the supervision of the CEO, (i) closely collaborating with the CEO with respect to managing the Company on a day-to-day basis, (ii) managing and supervising the operation of facilities and the technology affairs of the Company (including the Business for Panasonic) in a manner consistent with the Company Business Plan, the Articles of Incorporation, applicable Law and other provisions of this Agreement, (iii) operating and innovating the Company's general business and manufacturing, and (iv) such other matters as the CEO shall reasonably request.

"Corporate Bonds" means the JPY 5,800,000,000 Unsecured Bonds First Series (Private Placement for a Small Number of Investors with Special Agreement on Limited Equal Priority among Bonds and Restrictions on Division) due on March 31, 2016, and the JPY 3,000,000,000 Unsecured Bonds Second Series (Private Placement for a Small Number of Investors with Special Agreement on Limited Equal Priority among Bonds and Restrictions on Division) due on March 29, 2019 issued by the Company.

"CTO" means the chief technology officer of the Company who is recommended by Panasonic hereunder from among the Panasonic Nominee and nominated by the Board and shall report to the CEO and whose duties/ and responsibilities shall include, under the supervision of the CEO, (i) closely collaborating with the CEO and the COO (President) with respect to operating, supervising and managing the technology affairs of the Company (e.g., process and manufacturing technology constituting core competence of semiconductor products), (ii) developing advanced technologies for products and business renovation and (iii) such other matters as the CEO shall reasonably request. The CTO shall share all the information relating to the technology affairs under its management with the CEO and the COO (President) in a timely manner.

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"Designated Transferee" shall have the meaning ascribed thereto in Section 8.2(b).

"Director for the Panasonic Account" means an officer of the Company who is recommended by Panasonic and nominated by the Board hereunder from among the Panasonic Nominee and shall report to the CEO and whose duties and responsibilities shall include (i) collaborating with the CEO and the COO (President) with respect to managing the Business for Panasonic on a day-to-day basis and (ii) such other matters as the CEO shall reasonably request.

"Division Head" shall have the meaning ascribed thereto in Section 7.1.

"Encumbrances" means any and all liens, charges, security interests, mortgages, pledges, options, preemptive rights, rights of first refusal or first offer, drag along or tag along rights, proxies, levies, voting trusts or agreements, or other adverse claims or restrictions on title or Transfer of any nature whatsoever.

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"Equity Security" means any Share or other equity interests of the Company, however described or whether voting or non-voting and any stock acquisition rights or other securities convertible into or exchangeable for, and options, warrants or other rights to acquire, any equity interests in the Company.

"Exiting Shareholder" shall have the meaning ascribed thereto in Section 8.2(a).

"Failure to Complete a Purchase Offer" shall have the meaning ascribed thereto in Section 8.2(c).

"First Refusal Right" shall have the meaning ascribed thereto in Section 8.2(b).

"Fiscal Quarter" means a period of three months commencing on January 1, April 1, July 1, or October 1 of each year.

"Fiscal Year" means (i) the period beginning the date of establishment of the Company and ending on December 31 immediately following such date, and (ii) each subsequent period of twelve calendar months beginning on January 1 of each year and ending on December 31 of the same year.

"Foundry Business" shall have the meaning ascribed thereto in Section 2.1.

"Foundry Business Development General Manager" means an officer of the Company recommended by Tower hereunder from among the Tower Nominee and nominated by the Board and shall report to the CEO, and whose duties and responsibilities shall include (i) collaborating with the CEO and the COO (President) with respect to managing the Foundry Business on a day-to-day basis, (ii) coordinating with Tower's global sales network as described in Section 6.11(a); and (iii) such other matters as the CEO shall reasonably request.

"Foundry Lines" shall have the meaning ascribed thereto in Section 2.1.

"Foundry Line Employees" shall have the meaning ascribed thereto in Section 6.4(b).

"Indemnified Person" shall have the meaning ascribed thereto in Section 12.1.

"Indemnifying Party" shall have the meaning ascribed thereto in Section 12.1.

"Initial Business Plan" shall have the meaning ascribed thereto in Section 4.1(a).

"Japanese GAAP" means generally accepted accounting principles in Japan.

"JPY" means Japanese Yen, the lawful currency of Japan.

"JV Formation Agreement" shall have the meaning ascribed thereto in the recitals to this Agreement.

"Law" means any (i) applicable law, statute, regulation, directive, treaty, code, ordinance, decree, judgment, rule (internal or otherwise), or license, and (ii) any rule, regulation or policy statement of any stock exchange or automated quotation system over which the securities of the relevant Shareholder trade or are quoted.

"Nishiwaki Plant" means Tower's manufacturing facility located in Nishiwaki, Japan.

"Non-Exiting Shareholder" shall have the meaning ascribed thereto in Section 8.2(a).

"Seconded Nishiwaki Employees" shall have the meaning ascribed thereto in Section 6.6.

"Panasonic" shall have the meaning ascribed thereto in the preamble of this Agreement.

"Panasonic Call Notice" shall have the meaning ascribed thereto in Section 10.3(a).

"Panasonic Call Right" shall have the meaning ascribed thereto in Section 10.3.

"Panasonic Clients" shall have the meaning ascribed thereto in Section 6.7.

"Panasonic Contribution Amount" means JPY 3 billion which was contributed by Panasonic to the Company in accordance with the Business Transfer Agreement.

"Panasonic Default Event" means the occurrence of any of the following:

(a) Panasonic (i) seeks to have itself adjudicated insolvent under any reorganization, liquidation, dissolution, or similar law relating to bankruptcy, insolvency, or other relief for debtors of Panasonic, (ii) seeks the appointment of any trustee, receiver, or other similar official for Panasonic or for all or any substantial part of its property or assets, or (iii) makes any general assignment for the benefit of its creditors, admits in writing its inability to pay its debts generally as they become due, or declares or effects a moratorium on its debt or takes any action in furtherance of any proscribed action;

(b) Panasonic is dissolved or liquidated;

(c) Panasonic is in material breach of any of its representations and warranties made under this Agreement; or

(d) Panasonic commits a material breach of this Agreement and, if such material breach is curable, fails to cure such material breach within thirty (30) days.

"Panasonic Designee" means any one Person designated by Panasonic in writing upon the exercise of the Panasonic Call Right or Tower Put Right, in either case, in order to purchase the Shares held by Tower pursuant to and in accordance with Article X.

"Panasonic IP License Agreement" means the IP License agreement dated April 1, 2014 between Panasonic and the Company.

"Panasonic Manufacturing Agreement" means the manufacturing agreement dated April 1, 2014 between Panasonic and the Company regarding the production and supply of the Panasonic Products (Captive Business).

"Panasonic Nominee" shall have the meaning ascribed thereto in Section 4.5(a).

"Panasonic Outsourcing Agreement" means the outsourcing agreement dated April 1, 2014 between Panasonic and the Company regarding the production and supply of the Panasonic Products (Outsourcing).

"Panasonic Outsourcing Lines" shall have the meaning ascribed thereto in Section 2.1.

"Panasonic Outsourcing Line Employees" shall have the meaning ascribed thereto in Section 6.3(b).

"Panasonic Products" shall collectively refer to the Panasonic Products (Captive Business) and Panasonic Products (Outsourcing).

"Panasonic Products (Captive Business)" means the Company's products manufactured at Arai E, Uozu E, Tonami B, C and D in accordance with Panasonic's manufacturing orders.

"Panasonic Products (Outsourcing)" means the Company's products manufactured in the Panasonic Outsourcing Lines for Panasonic.

"Panasonic Put Notice" shall have the meaning ascribed thereto in Section 10.4(a).

"Panasonic Put Right" shall have the meaning ascribed thereto in Section 10.4.

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"Panasonic Third Party Foundry Customer" means each third party customer listed in Schedule 6.7 hereto which orders semiconductor device wafer products directly from the Company.

"Party" and "Parties" shall have the meaning ascribed thereto in the preamble of this Agreement.

"Person" means an individual, a corporation, a limited liability company, a partnership, an association, a trust, or any other entity or organization, including any Authority.

"Planned Purchase Date" shall have the meaning ascribed thereto in Section 8.2(b).

"Price Table" shall have the meaning ascribed thereto in Section 6.1(a).

"Product Category" shall mean the groups of products for each of the categories set forth in the Price Table.

"Proposed Transferee" shall have the meaning ascribed thereto in Section 8.2(a).

"Purchase Offer" shall have the meaning ascribed thereto in Section 8.2(b).

"Quarterly Financial Statements" shall have the meaning ascribed thereto in Section 5.1(d).

"RDL Site" means the redistributing layer of Arai E.

"Response Period" shall have the meaning ascribed thereto in Section 8.2(b).

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"Share" means shares in the capital of the Company.

"Shareholder" and "Shareholders" shall have the meaning ascribed thereto in the preamble of this Agreement.

"Shareholder Reserved Protective Matter" shall have the meaning ascribed thereto in Section 4.4.

"SIAC Rules" shall have the meaning ascribed thereto in Section 13.5(b).

"Statutory Auditor" means the statutory auditor (*kansa-yaku*) of the Company.

"Subsequent Business Plan" shall have the meaning ascribed thereto in Section 4.1(b).

"Subsidiary" means (i) any entity which would be considered to be a subsidiary in Article 8, Paragraph 3 of the Regulation Concerning Terminology, Forms and Method of Preparation of Financial Statements, etc. (Ministry of Finance Ordinance No. 59 of 1963) and (ii) any entity which would be considered to be an affiliate in Article 8, Paragraph 5 of the same Regulation.

"Tonami A" means office space, defect inspection room and empty space, located at 271 Higashi-kaihotsu, Tonami, Toyama Prefecture, Japan.

"Tonami B" means wafer process facilities for 8 inch Si, located at 271 Higashi-kaihotsu, Tonami, Toyama Prefecture, Japan.

"Tonami C" means wafer process facilities for 8 inch Si, located at 271 Higashi-kaihotsu, Tonami, Toyama Prefecture, Japan.

"Tonami D" means wafer process facilities for 8 inch Si, located at 271 Higashi-kaihotsu, Tonami, Toyama Prefecture, Japan.

"Tonami E" means stockrooms and empty space, located at 271 Higashi-kaihotsu, Tonami, To yama Prefecture, Japan.

"Tower" shall have the meaning ascribed thereto in the preamble of this Agreement.

"Tower Ancillary Agreement" shall collectively refer to (i) Tower IP License Agreement and (ii) Tower Service Agreement.

"Tower Call Notice" shall have the meaning ascribed thereto in Section 10.1(a).

"Tower Call Right" shall have the meaning ascribed thereto in Section 10.1.

"Tower Default Event" means the occurrence of any of the following:

(a) Tower (i) seeks to have itself adjudicated insolvent under any reorganization, liquidation, dissolution, or similar law relating to bankruptcy, insolvency, or other relief for debtors of Tower, (ii) seeks the appointment of any trustee, receiver, or other similar official for Tower or for all or any substantial part of its property or assets, which for avoidance of doubt shall not include the Nishiwaki Plant or TowerJazz Japan Ltd., or (iii) makes any general assignment for the benefit of its creditors, admits in writing its inability to pay its debts generally as they become due, or declares or effects a moratorium on its debt or takes any action in furtherance of any proscribed action;

(b) Tower is dissolved or liquidated;

(c) Tower is in material breach of any of its representations and warranties made under this Agreement; or

(d) Tower or the Company commits a material breach of this Agreement and, if such material breach is curable, fails to cure such material breach within thirty (30) days.

"Tower Designee" means any one Person designated by Tower in writing (excluding TowerJazz Japan) upon the exercise of the Tower Call Right or Panasonic Put Right, in either case, in order to purchase the Shares held by Panasonic pursuant to and in accordance with Article X.

"Tower Nominee" shall have the meaning ascribed thereto in Section 4.5(a).

"Tower Put Notice" shall have the meaning ascribed thereto in Section 10.2(a).

"Tower Put Right" shall have the meaning ascribed thereto in Section 10.2.

"Tower IP License Agreement" means the IP license agreement dated April 1, 2014 between Tower and the Company.

"Tower Service Agreement" means the sales, finance and other services agreement dated April 1, 2014 between Tower and the Company.

"Tower Third Party Foundry Customer" means any third party customer which has directly ordered semiconductor device wafer products from the Company.

"TowerJazz Japan" means TowerJazz Japan, Ltd., a Japanese corporation having its place of business at 302-2, Oikenoue, Aza, Hirano-cho, Nishiwaki-shi, Hyogo and any of its successors or assigns.

"Transfer" means (a) any transfer or other disposition of Shares or voting interests or any interest therein, including by operation of law, by court order, by judicial process, or by foreclosure, levy, or attachment, (b) any sale, assignment, gift, donation, or other disposition of Shares or any interest therein, pursuant to an agreement, arrangement, instrument, or understanding by which legal title to or beneficial ownership of Shares or any interest therein passes from one Person to another Person or the same Person in a different legal capacity, whether or not for value, (c) the granting of any Encumbrance in or extending or attaching to Shares or interest therein, or (d) other disposition or attempted disposition of any Shares or interest therein whatsoever, whether voluntary, or involuntary.

"Transfer Conditions" shall have the meaning ascribed thereto in Section 8.2(a).

"Transfer Date" shall have the meaning ascribed thereto in Section 8.2(a).

"Transfer Notice" shall have the meaning ascribed thereto in Section 8.2(a).

"Transfer Restriction Period" shall have the meaning ascribed thereto in Section 8.1(a).

"Transferred Shares" shall have the meaning ascribed thereto in Section 8.2(a).

"Uozu A" means the test facilities, located at 800 Higashiyama, Uozu, Toyama Prefecture, Japan.

"Uozu B" means the facilities for 6 inch Epi for GaAs&GaN, located at 800 Higashiyama, Uozu, Toyama Prefecture, Japan.

"Uozu C" means the wafer process facilities for 6 inch Si, located at 800 Higashiyama, Uozu, Toyama Prefecture, Japan.

"Uozu D" means the wafer process facilities for 6 inch GaAs&GaN, located at 800 Higashiyama, Uozu, Toyama Prefecture, Japan.

"Uozu E" means the wafer process facilities for 12 inch Si, located at 800 Higashiyama, Uozu, Toyama Prefecture, Japan.

"U.S. GAAP" means generally accepted accounting principles in the United States of America.

Unless the context of this Agreement otherwise requires, (i) words of any gender include each gender; (ii) words using the singular or plural number also include the plural or singular number; (iii) the terms "hereof," "herein," "hereby" and derivative or similar words refer to this entire Agreement and not merely to the specific article, section, paragraph or clause where such terms may appear; (iv) the terms "Article," "Section," "Exhibit" or "Schedule" refer to the specified Article or Section of, or Exhibit or Schedule to, this Agreement; (v) the term "including" shall mean "including, but not limited to"; (vi) the term "or" shall not be exclusive; (vii) references to statutes, laws, regulations or provisions are to be construed as including all statutory or regulatory provisions consolidating, amending, replacing, succeeding or supplementing such statute, regulation or provision; (viii) headings are for ease of reference only and shall not affect the interpretation of this Agreement and (ix) references to a Person are also to its permitted successors and assignees.

ARTICLE II
PURPOSE

2.1 Company Business and Use of Facilities. The Company shall operate the business of manufacturing the Panasonic Products (Captive Business) and the Panasonic Products (Outsourcing) (collectively, the "Business for Panasonic") and gaining third party foundry business (the "Foundry Business", and together with the Business for Panasonic, the "Company Business"). The Company shall use the wafer process lines and testing lines of Uozu A to D, testing lines of Tonami C, assembly lines, testing lines and on-chip-filter lines of Arai A to D, and the RDL Site (collectively, the "Panasonic Outsourcing Lines") primarily for the production of the Panasonic Products (Outsourcing), and, if the Panasonic Outsourcing Lines still have any additional production capacity, the Company may use the Panasonic Outsourcing Lines for the other Company Business. The Company shall use the wafer process lines of Uozu E, Tonami C and D and Arai E (the "Foundry Lines") for the Company Business (other than manufacturing the Panasonic Products (Outsourcing).

2.2 Company Name. The Company's corporate name shall be "TowerJazz Panasonic Semiconductor Co., Ltd" in English and "**パナソニック・タワージャズセミコンダクター**株式会社" in Japanese.

ARTICLE III
CAPITAL, ETC.

3.1 Capital Amount. The capital amount (*shihonkin no gaku*) of the Company as of the Closing Date shall be JPY 750,000,000.

3.2 Initial Shareholding. As of the Closing Date, Panasonic shall hold 14,700 Shares, which shall represent forty nine percent (49%) of the issued and outstanding Shares as of the Closing Date, and Tower shall hold 15,300 Shares, which shall represent fifty one percent (51%) of the issued and outstanding Shares as of the Closing Date.

3.3 Funding.

(a) The Company shall procure the funds necessary for the operation of the Company Business on its own. Other than as explicitly set forth in this Agreement or in the JV Formation Agreement, no Shareholder shall owe the Company any duty to make any additional contribution or to otherwise support procurement of the necessary funds, or make any guarantee of obligation regarding funds that the Company raises.

(b) If the Company determines that the Company should issue any Equity Securities, it shall deliver a written notice (the "Capital Notice") to each Shareholder offering, on the same terms, the right to subscribe for such number of Equity Securities as equals their respective shareholding ratio (prior to such issuance) of the total number of Equity Securities being offered. The Capital Notice shall contain reasonable detail of such issuance and expressly state that it constitutes a Capital Notice under this Section 3.3(b). Each Shareholder shall deliver, within thirty (30) days of receipt of the Capital Notice, a written notice (the "Capital Response Notice") to the Company confirming whether or not it (or a designated Affiliate) wishes to exercise its right to subscribe for the Equity Securities offered to it under the Capital Notice. If a Shareholder does not deliver a Capital Response Notice to the Company within such thirty (30) day-period, it shall be deemed to have (i) consented to such issuance, and (ii) waived its right to subscribe for the Equity Securities offered to it under the Capital Notice.

3.4 Dividends. Unless and until all accrued interest and principal of the Corporate Bonds are paid in full, the Company shall not declare or pay any dividend or distribution with respect to any Shares. Subject to the completion of the payment of all accrued interest and principal of the Corporate Bonds and subject to compliance with its other financial indebtedness terms and conditions, the Company shall, on an annual basis, make dividend payments to the Shareholders from the distributable amount stipulated under the Companies Act up to fifty percent (50%) of its net profit in the Fiscal Year.

ARTICLE IV
MANAGEMENT AND GOVERNANCE

4.1 Business Plan.

(a) The Shareholders agree that the initial business plan for the Company from Fiscal Year 2014 through the first quarter of 2019 that includes (i) the Company's revenue targets for the foundry business for third parties, (ii) the Company's revenue targets for the business relating to the Panasonic Products, (iii) the Company's cost structure, (iv) the Company's investment strategies and (v) the Company's human resource plan (the "Initial Business Plan") shall be as set forth in Exhibit 4.1(a) hereto.

(b) By the end of Fiscal Year 2016, the Board shall revise the Company's business plan for Fiscal Year 2019 and the same shall apply for the subsequent Fiscal Years (the "Subsequent Business Plan", together with the Initial Business Plan, the "Company Business Plan").

(c) In addition to (a) and (b) above, each Fiscal Quarter the Board shall review the degree to which the Company Business Plan targets have been attained.

4.2 Articles of Incorporation and Board of Directors Rules.

(a) The Shareholders agree that, as of the Closing Date, the Company's corporate name, main office address, method of public notice, authorized number of Shares, types of Shares, Fiscal Year, accounts and all other matters stipulated in the Articles of Incorporation shall be as set forth in Exhibit 4.2(a) hereto. The Shareholders agree that within one year from the Closing Date, the Articles of Incorporation shall be amended to replace the chair of the board with a Tower Nominee.

(b) The Shareholders agree that, as of the Closing Date, the Board of Directors Rules shall be as set forth in Exhibit 4.2(b) hereto.

4.3 Shareholder Actions. Unless otherwise specified herein, the Company shall convene and conduct the meetings of shareholders in accordance with the Companies Act, all other applicable Laws and the provisions of the Articles of Incorporation.

4.4 Shareholder Reserved Protective Matters. Subject to Section 8.4, any action or activity of the Company set forth in Schedule 4.4 hereto (each a "Shareholder Reserved Protective Matter") shall require the prior written consent of the Shareholders (either directly for matters requiring a shareholder vote or through a Shareholder's nominees serving on the Board for matters requiring the Board's approval), and the Board shall not authorize the Company to engage in any Shareholder Reserved Protective Matter without obtaining the relevant prior written consent.

4.5 Board of Directors.

(a) The Board shall consist of eleven (11) directors. Panasonic shall have the right to nominate five (5) persons (the "Panasonic Nominees"), and Tower shall have the right to nominate six (6) persons (the "Tower Nominees"), to serve as directors on the Board. Panasonic's and Tower's initial nominees to serve as directors on the Board are set forth in Schedule 4.5(a) hereto. Each Shareholder shall submit to the other Shareholder a list of all subsequent nominees to serve as directors on the Board at least thirty (30) days prior to the shareholders' meeting where such nominees may be elected to serve as directors on the Board. In the event of a change in the equity ownership of the Company such that the ratio of shareholdings of Panasonic in the Company is reduced, the Parties will cooperate in amending the Articles of Incorporation and in taking any other actions required so that Panasonic's ability to nominate directors will be reduced in a proportionate manner.

(b) Each Shareholder shall cause its designated directors to conduct the Company Business in a manner consistent with the terms of this Agreement, the Articles of Incorporation, and applicable Laws. The number of directors may only be changed by amendment of the relevant provisions contained in the Articles of Incorporation.

(c) If as a result of the death, disability, retirement, resignation, removal (with or without cause) or other departure of a director, a vacancy on the Board shall exist or arise, then the Shareholder entitled to designate the director whose departure resulted in such vacancy shall designate another individual to serve as a director; provided, however, that the term of office of such successor director shall be limited to the remaining term of the predecessor. In the case of a vacancy on the Board, the Shareholder who appointed the director in question shall nominate a replacement director within ten (10) days of the vacancy.

(d) Unless otherwise set forth herein, meetings of the Board shall convene and be conducted in accordance with the Companies Act, any other applicable Laws, the Articles of Incorporation, and the Board of Directors Rules.

4.6 Statutory Auditors.

(a) The Company at all times shall have two (2) Statutory Auditors of whom one (1) shall be designated by Panasonic and one (1) shall be designated by Tower. The Statutory Auditor as of the Closing Date nominated by Tower shall be Tsuyoshi Kikuchi and the Statutory Auditor as of the Closing Date nominated by Panasonic shall be Hideo Nakano. Each Shareholder shall submit to the other Shareholder its nominee to serve as Statutory Auditor at least thirty (30) days prior to each shareholders' meeting where the Statutory Auditors will be elected.

(b) If as a result of death, disability, retirement, resignation, removal (with or without cause), or other departure, any vacancy of the Statutory Auditor shall exist or arise, the Shareholders will designate another individual to serve as a statutory auditor.

4.7 Accounting Auditor.

(a) The Accounting Auditor as of the Closing Date shall be Deloitte Touche Tohmatsu LLC.

(b) If Deloitte Touche Tohmatsu LLC is unable to serve in such capacity, the Shareholders shall select an internationally recognized accounting firm (or the Japanese affiliate thereof) as the Accounting Auditor.

(c) The Shareholders agree to vote their Shares in favor of the appointment of the Accounting Auditor in accordance with this Section 4.7.

(d) The Shareholders agree that Deloitte Touche in Israel will provide the finance support services regarding preparation of financial statements in accordance with US GAAP.

4.8 Certain Senior Managers.

(a) Tower Nominees. Tower shall have the right to recommend to the Board to nominate (from among the Tower Nominees from time to time) the CEO, the CFO and the Foundry Business Development General Manager.

(b) Panasonic Nominees. Panasonic shall have the right to recommend to the Board to nominate (from among the Panasonic Nominees from time to time) the COO (President), the CTO and the Director for the Panasonic Account.

ARTICLE V
ACCOUNTING AND REPORTING REQUIREMENTS

5.1 Financial Statements.

(a) Accounting Standards. All financial statements, books and records, and periodic statements to be established, maintained, prepared or delivered under this Section 5.1 shall be (i) established, maintained and prepared in accordance with Japanese GAAP in Japanese and (ii) maintained and prepared in accordance with U.S. GAAP in English. All Annual Financial Statements shall be audited by the Accounting Auditor (and accompanied by an audit report of the Accounting Auditor addressed to the Board) and all Quarterly Financial Statements shall be reviewed by the Accounting Auditor.

(b) Books and Records. The Company shall (i) make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) use the accrual basis to maintain its books and records, and (iii) devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that:

(A) transactions are executed and access to assets is given only in accordance with management's authorization;

(B) transactions are recorded as necessary to permit preparation of periodic financial statements and to maintain accountability for assets;

(C) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; and

(D) transactions of the Company are recorded in such form and manner as will permit preparation of all required tax returns by the Company and the Shareholders in accordance with this Agreement and as required by applicable Laws.

(c) Annual Statements. As soon as practicable following the end of each Fiscal Year, but in any event within fifty (50) days after the end of each Fiscal Year, the Company shall prepare and deliver to each Shareholder (x) (i) audited financial statements for the Company as of the last day of and for such Fiscal Year, including a balance sheet, profit and loss statement, cash flow statements, and a statement of shareholders' equity as of and for such Fiscal Year and related notes to the financial statements, (ii) Business Report for such Fiscal Year and (iii) such other information that a Shareholder may reasonably request to fulfill its financial reporting requirements for such Fiscal Year (collectively, the "Annual Financial Statements") and (y) a comparison between the actual results achieved and the projections in the Company Business Plan with an explanation for the material variations.

(d) Quarterly Statements. As soon as practicable following the end of each Fiscal Quarter, but in any event within forty (40) days after the end of each Fiscal Quarter, the Company shall prepare and deliver to each Shareholder (x) (i) unaudited financial statements for the Company as of the last day of and for such Fiscal Quarter, including a balance sheet, profit and loss statement, cash flow statements and a statement of shareholders' equity as of and for such Fiscal Quarter and related notes to the financial statements and (ii) such other information that a Shareholder may reasonably request to fulfill its financial reporting requirements for such Fiscal Quarter (collectively, "Quarterly Financial Statements"), and (y) a comparison between the actual results achieved and the projections in the Company Business Plan with an explanation for the material variations.

(e) Monthly Statements. Within fifteen (15) days after each monthly financial closing date, the Company shall prepare and deliver to each Shareholder internal financial statements for the Company as of the monthly financial closing date of and for such month, including a balance sheet, profit and loss statement, as of and for such month.

5.2 Inspection Rights. The Company shall allow each Shareholder and their respective representatives during normal business hours the right to (a) inspect the books and records of the Company, (b) make copies from such books and records, and (c) have reasonable full access to all of the property and assets of the Company; provided, however, that any costs incurred by the Company with respect to the above shall be borne solely by the Shareholder making such request. Each Shareholder shall cause its respective designated directors to comply with this Section 5.2 in a reasonable manner that does not impede the Company Business.

ARTICLE V
CERTAIN AGREEMENTS REGARDING
THE OPERATION OF THE COMPANY BUSINESS

6.1 Panasonic Covenants.

(a) Loading Targets. Panasonic shall use its reasonable best efforts to achieve the following loading targets in each Fiscal Year from Fiscal Year 2014 to first quarter of 2019:

(i) Fiscal Year 2014: ***
(ii) Fiscal Year 2015***
(iii) Fiscal Year 2016: ***
(iv) Fiscal Year 2017: ***
(v) Fiscal Year 2018: ***
(vi) Fiscal Quarter 1, 2019: ***

The price per wafer per product ordered (excluding prime wafer cost) (the "Price Table") shall be as set forth on Schedule 6.1(a), as may be amended, which shall be reviewed and negotiated between Panasonic and the Company every Fiscal Year, taking into account the fair market price, relating to the Panasonic Products (Captive Business). Panasonic and the Company shall commence such review and negotiation on the Price Table for the next Fiscal Year in October and the new agreed price for wafer per product (excluding prime wafer cost) for the next and following years shall replace the existing price per wafer per product (excluding prime wafer cost).

In addition to the above, Panasonic and the Company may discuss any possible amendment for the Price Table in case which either party reasonably deems necessary such as significant market changes. Panasonic and the Company shall prepare and agree on an additional price table when Panasonic and the Company introduce a new product line.

The Minimum Loading shall mean the minimum number of Panasonic Products (Captive Business) per Product Category per fab to be ordered by Panasonic per month under the Panasonic Manufacturing Agreement as set forth in the Price Table. Panasonic understands that the number of Panasonic Products (Captive Business) per Product Category per fab to be ordered by Panasonic per month will not be under the Minimum Loading and Panasonic shall make its best efforts to make such number of order above the Minimum Loading.

(b) No-Restriction on the Panasonic's Business. Regardless of the completion of the Business Transfer (as defined in the JV Formation Agreement), Panasonic shall not owe any non-compete obligation under Article 21 of the Companies Act. Panasonic agrees that with respect to Panasonic's captive business, Panasonic shall make its reasonable best efforts to manufacture all products at the Company's facility unless otherwise reasonably required by Panasonic's customers. In the event that the required technology is not available at the Company's facility, the Company and Panasonic shall evaluate the return on investment (ROI) of the proposed business opportunity, including the required investment and timeline for development of said technology. The Company and Panasonic shall discuss in good faith and in the event that the ROI is negative or the Company and Panasonic agree for any other reason, Panasonic may decide to manufacture said products at another facility.

(c) Panasonic shall make its reasonable best efforts to introduce as many Panasonic Third Party Foundry Customers as possible to the Company, by utilizing its existing relationships with its own customers, and in consideration for revenue collected from the Panasonic Third Party Foundry Customers from the sale of semiconductor device wafer products, the Company shall pay a sales commission to Panasonic in accordance with Schedule 6.1(c) hereto, for five (5) years from the Closing Date. Before the fifth anniversary of the Closing Date, the Parties shall discuss whether to extend the payment of commissions and the commission rates to be paid going forward.

The Commission Calculation Date shall mean each (i) March 31st, (ii) June 30th, (iii) September 30th, and (iv) December 31st. Within fourteen (14) days from each Commission Calculation Date, the Company shall calculate the commission due and shall ask Panasonic to submit an invoice with respect to the said amount owed, the Company shall pay to Panasonic within forty-five (45) days from the date of receipt of the invoice from Panasonic in Japanese Yen, by telegraphic or wire transfer to Panasonic's bank account which shall be separately designated by Panasonic, the aggregate commission due to Panasonic pursuant to this Section 6.1(c) for the three (3) month period prior to and including such Commission Calculation Date.

Within fifteen (15) days of each Commission Calculation Date, the Company shall provide to Panasonic a written report in a form acceptable to Panasonic of the Panasonic Third Party Foundry Customers that engaged with the Company in accordance with this Section 6.1(c) during the period in which such commissions were incurred by the Company. Such reports shall be prepared and submitted to Panasonic even if no commission has accrued during the three (3) month period prior to and including such Commission Calculation Date. The Company shall maintain complete and accurate records regarding such reports; and Panasonic or its authorized representatives may, upon prior notice to the Company, examine such records at any time, subject to coordination with the Company and execution of a standard confidentiality undertaking. Such examination shall be conducted at Panasonic's expense, unless errors of reporting or accounting of greater than 5% shall be found to Panasonic's disadvantage, in which case the Company shall, within fifteen (15) days of such examination, pay to Panasonic (x) the amount due to Panasonic, and (y) the reasonable cost of such examination (including the fees and expenses of Panasonic's authorized representatives).

(d) ***

(e) It is hereby agreed that the Company shall not bear any liabilities with respect to the government subsidies granted to Panasonic for certain capital investment with respect the Transferred Business made prior to the Closing Date, and the Company shall not be obligated to repay any such subsidies and in the event any such repayment is required, Panasonic shall make such repayment.

6.2 Tower Covenants. Tower shall make reasonable best efforts to introduce as many Tower Third Party Foundry Customers as possible to the Company, by utilizing its existing relationships with its own customers, and in consideration for revenue collected from such customers from the sale of semiconductor device wafer products, the Company shall pay a sales commission to Tower in accordance with Schedule 6.2 hereto, for five (5) years from the Closing Date. Before the fifth anniversary of the Closing Date, the Parties shall discuss whether to extend the payment of commissions and the commission rates to be paid going forward. Tower shall make reasonable best efforts to achieve the target revenue amounts from such third party customers from Fiscal Year 2014 to first quarter of 2019 as shall be set forth in the Initial Business Plan.

Within fourteen (14) days from each Commission Calculation Date, the Company shall calculate the commission due and shall ask Tower to submit an invoice with respect to the said amount owed, the Company shall pay to Tower within forty-five (45) days from the date of receipt of the invoice from Tower in Japanese Yen, by telegraphic or wire transfer to Tower's bank account which shall be separately designated by Tower, the aggregate commission due to Tower pursuant to this Section 6.2 for the three (3) month period prior to and including such Commission Calculation Date.

Within fifteen (15) days of each Commission Calculation Date, the Company shall provide to Tower a written report in a form acceptable to Tower of the Tower Third Party Foundry Customers that engaged with the Company in accordance with this Section 6.2 during the period in which such commissions were incurred by the Company. Such reports shall be prepared and submitted to Tower even if no commission has accrued during the three (3) month period prior to and including such Commission Calculation Date. The Company shall maintain complete and accurate records regarding such reports; and Tower or its authorized representatives may, upon prior notice to the Company, examine such records at any time, subject to coordination with the Company and execution of a standard confidentiality undertaking. Such examination shall be conducted at Tower's expense, unless errors of reporting or accounting of greater than 5% shall be found to Tower's disadvantage, in which case the Company shall, within fifteen (15) days of such examination, pay to Tower (x) the amount due to Tower, and (y) the reasonable cost of such examination (including the fees and expenses of Tower's authorized representatives).

6.3 Panasonic Outsourcing Lines.

(a) Panasonic Outsourcing business. The Parties understand and confirm that the terms and conditions of the outsourcing transactions between Panasonic and the Company regarding the Panasonic Products (Outsourcing) are as set forth in Panasonic Outsourcing Agreement. The Parties agree that the consideration for the Panasonic Outsourcing business will be set forth in Schedule 6.3(a) and may be negotiated with the Company in March 2015 and March 2016. In case no agreement is reached at any point, the existing Schedule 6.3(a) will prevail.

(b) Retention of Employment. The Company shall use its best efforts to maintain employment of employees engaged in Panasonic Outsourcing Lines (the "Panasonic Outsourcing Line Employees") by redeployment or any other method in the event of the reduction of production volumes of Panasonic Products (Outsourcing). The Company shall provide Panasonic with prior notification regarding layoffs.

6.4 Foundry Lines.

(a) Panasonic Manufacturing Agreement. The Parties understand and confirm that the terms and conditions of the manufacturing transactions between Panasonic and the Company regarding the Panasonic Products (Captive Business) are as set forth in the Panasonic Manufacturing Agreement.

(b) Retention of Employment. The Company shall use its best efforts to maintain employment of employees engaged in Foundry Lines (the "Foundry Line Employees") by redeployment or any other method in the event of the reduction of production volumes of the products manufactured in Foundry Lines including Panasonic Products (Captive Business). The Company shall provide Panasonic with prior notification regarding layoffs.

6.5 ***

6.6 Transfer of certain business of Nishiwaki Plant. If Tower proposes to the Company that TowerJazz Japan transfer any part or all of its assets (including contracts with its customers) and/or employees from the Nishiwaki Plant to the Company after the Closing Date, Tower and Panasonic shall discuss in good faith the terms and conditions of such transfer and such transfer shall be approved in accordance with the approval process herein. Said approval process shall not apply with respect to the transfer of *** employees from the Nishiwaki Plant be seconded gradually to the Company from June 1, 2014 and upon the Company's reasonable consent, will be employed by the Company effective from October 1, 2014 (the "Seconded Nishiwaki Employees"), and no further discussion of Panasonic and Tower or approval of Panasonic will be required.

6.7 Conflict Transactions. Any agreement or business engagement between the Company, on one hand, and Panasonic or Tower or any of their Affiliates, on the other hand, (including the transaction with any third party through those Persons except for Panasonic's clients listed in Schedule 6.7 (the "Panasonic Clients")) shall require the approval of the majority of the CEO, the COO (President), the Director for the Panasonic Account and the Foundry Business Development General Manager. Regarding customers that are not existing customers of Tower or Panasonic, and approach the Company directly for the manufacture of products, Tower and Panasonic shall be prohibited from, directly or indirectly, engaging in such manufacture of products with said customers with respect to the manufacture of any products using the technologies that are qualified at the Company.

6.8 Difficulties in Company Business.

(a) If (A) the Company becomes insolvent, (B) the Company significantly fails to achieve the Company Business Plan or (C) the Company has any other difficulties in continuing any of the Company Business, Panasonic and Tower shall discuss in good faith for the resolution of such difficulties, including (i) the sale of all the Shares held by a Shareholder to the other Shareholder (including the price of the Shares and the burden of expenses relating thereto), (ii) dissolution and liquidation of the Company and (iii) divestiture of the Company Business.

(b) ***

6.9 Use of Panasonic Contribution Amount. The Company shall use the Panasonic Contribution Amount only for the Foundry Lines in accordance with the Company Business Plan.

6.10 ***

6.11 Sales Management and Finance Services.

(a) The Company will obtain sales support, including growing its local Japanese as well as global worldwide customer base, from Tower's global sales and marketing team and customer support team and TowerJazz's new Japan sales office, (except for specific customers which Panasonic shall directly engage with), and, in consideration thereof, the Company shall pay the service fees to Tower in accordance with the Tower Service Agreement. The Foundry Business Development General Manager will coordinate with Tower's global sales and marketing team for effective introduction of the Company to Tower's global customer base.

(b) Panasonic will have its own sales unit within Panasonic to cover the Panasonic Clients. If Tower wishes to contact the Panasonic Clients after the Closing Date, Tower, through the Foundry Business Development General Manager, shall first contact the Director for the Panasonic Account and then Panasonic. In order to avoid doubt, no such prior contact with Panasonic will be required with respect to the Panasonic Clients listed in Schedule 6.11(b).

(c) The Company will obtain finance support services regarding US GAAP, SOX, Treasury, Tax, and quarterly closing and in consideration thereof, the Company shall pay the service fees to Tower or its Affiliate in accordance with the Tower Service Agreement.

ARTICLE VII
DEADLOCK

7.1 Event of Deadlock. In the event that the approval of each Shareholder is required under Section 4.4 or under the Companies Act, and the requisite approval of such matter is not obtained on or before the expiry of a period of twenty (20) days after approval for such matter is sought, Panasonic and Tower shall discuss the matter proposed, in an effort to agree amicably on a course of action, through their respective heads of the division which has the authority and responsibility over the Shareholder matters of the Company (the "Division Heads"). If the Division Heads do not reach agreement on a course of action with respect to the matter proposed within a period of sixty (60) days after referral to them, there will be deemed to be a "Deadlock."

7.2 Resolution of Deadlock. Upon the occurrence of a Deadlock, Panasonic and Tower shall discuss in good faith and promptly decide the resolution of the Deadlock, including (i) the sale of all the Shares held by a Shareholder to the other Shareholder (including the price of the Shares and the burden of expenses), (ii) dissolution and liquidation of the Company and (iii) divestiture of the Company Business. If, in spite of their good faith discussions, Panasonic and Tower fail to agree on the resolution of the Deadlock, the Parties will submit the issue to the determination of an arbitrator appointed pursuant to Section 13.5(b).

ARTICLE VIII
SHARE TRANSFER

8.1 Transfer Restrictions; Transfer Consent Procedures.

(a) For a period of five years from the Closing Date (the "Transfer Restriction Period"), a Shareholder may not, without the prior written consent of the other Shareholder, Transfer any of its Shares to any third party. After the passage of the Transfer Restriction Period, a Shareholder may not, without the prior written consent of the other Shareholder, Transfer any of its Shares held by it to any of the business competitors listed in Schedule 8.1(a).

(b) Notwithstanding anything contained in this Agreement, but subject to Section 8.1(c), the restrictions on Transfer of Shares under this Article VIII shall not be applicable in the case of a Transfer by any Shareholder to any of its Affiliates or a Transfer by way of realization of a pledge over the Shares and the transferor Shareholder shall notify the other Shareholder in writing of such Transfer within ten (10) days of such Transfer; provided, however, that Tower shall not Transfer any Shares to TowerJazz Japan.

(c) If a Shareholder Transfers all or part of its Shares to a third party (including its Affiliates) pursuant to this Agreement, such transferor Shareholder shall cause the transferee to agree to be bound by and comply with the terms and conditions of this Agreement as if it were a party to this Agreement prior to such transfer. In addition, if a Shareholder Transfers only part of its Shares to a third party (including its Affiliates) pursuant to this Agreement, such transferor Shareholder shall fully guarantee the performance by the transferee of the obligations under this Agreement.

(d) If all or part of the Shares are to be Transferred to any third party pursuant to this Section 8.1, each Shareholder shall cause its respective nominee on the Board to vote at the relevant Board meeting in favor of such Transfer.

8.2 Right of First Refusal.

(a) Except as provided in Section 8.1(b), after the passage of the Transfer Restriction Period, if a Shareholder wishes to Transfer all or part of its Shares (the "Transferred Shares") to a third party (the "Proposed Transferee"), such Shareholder shall notify the other Shareholder (the "Non-Exiting Shareholder") at least thirty(30) days prior to the planned date of Transfer of the Shares to the Proposed Transferee (the "Transfer Date") with a written notice (the "Transfer Notice") setting forth (i) the type and number of Transferred Shares, (ii) an identity of the Proposed Transferee, (iii) the Transfer price per Share and any other material terms and conditions of the Transfer (the "Transfer Conditions") and (iv) the Transfer Date (the Shareholder issuing a Transfer Notice will be referred to as the "Exiting Shareholder").

(b) If an Exiting Shareholder has issued a Transfer Notice pursuant to Section 8.2(a), the Non-Exiting Shareholder may, by giving written notice to the Exiting Shareholder, choose to purchase the Transferred Shares by itself, or nominate an Affiliate to purchase the Transferred Shares (the "Designated Transferee"), upon the terms and conditions substantially identical to the Transfer Conditions (the "First Refusal Right") within thirty (30) days after receipt of the Transfer Notice (the "Response Period"). If, within the Response Period, the Non-Exiting Shareholder gives a written notice (the "Purchase Offer") to the Exiting Shareholder, setting forth (i) its intention to exercise the First Refusal Right, (ii) the identity of the Designated Transferee, and (iii) the planned date for purchase of the Transferred Shares which must be within thirty (30) days from the date of receipt of the Transfer Notice (the "Planned Purchase Date"), the Exiting Shareholder must Transfer all of the Transferred Shares to the Non-Exiting Shareholder or the Designated Transferee, as the case may be, upon the terms and conditions substantially identical to the Transfer Conditions on the Planned Purchase Date or another day agreed to by the Shareholders.

(c) If (i) the Non-Exiting Shareholder has not made a Purchase Offer to the Exiting Shareholder within the Response Period or (ii) the Exiting Shareholder or the Designated Transferee, as the case may be, has not paid the full Transfer price for the Transferred Shares to the Exiting Shareholder as agreed between the Shareholders (excluding a case where such non-payment is attributable to the Exiting Shareholder), (either referred to as a "Failure to Complete a Purchase Offer"), the Exiting Shareholder is entitled to Transfer the Transferred Shares to the Proposed Transferee upon the terms and conditions no less favorable to the Exiting Shareholder than the Transfer Conditions within one-hundred and eighty (180) days following the Failure to Complete a Purchase Offer, after which time any Transfer shall once again be subject to a First Refusal Right as set forth above .

8.3 Effect of Prohibited Transfer. Any Transfer of Shares in violation of the provisions of this Agreement shall be void *ab initio* and shall transfer no right, title or interest in or to such Shares.

8.4 Change in Shareholding Ratio. No later than the fifth anniversary of the date of this Agreement, Panasonic and Tower shall hold good faith discussions regarding Tower's potential purchase of all or part of the Shares then held by Panasonic. For the avoidance of doubt, Tower shall not be obliged to purchase, and Panasonic shall not be obliged to sell, any Shares unless and until the Panasonic and Tower reach a written agreement on the terms and conditions of the sale of the Shares from Panasonic to Tower. If the shareholding ratio of Panasonic in the Company no longer constitute one third (1/3) or more of the issued and outstanding Shares, then the Shareholders shall (a) change the Company's corporate name to remove the word "Panasonic" and (b) notwithstanding anything contained herein to the contrary, will cooperate in amending the Articles of Incorporation and in taking any other actions required so that the written consent of Panasonic will no longer be required with respect to the Shareholder Reserved Protective Matters.

ARTICLE IX
REPRESENTATIONS AND WARRANTIES

Each Shareholder represents and warrants to the other Shareholder as follows:

9.1 Organization. It is duly organized and validly existing under the laws of its jurisdiction of incorporation, and has all authority and capacity necessary to execute this Agreement and perform all its duties hereunder.

9.2 Authorization. The execution of this Agreement and the performance of all its duties hereunder are conduct within the range of its corporate purpose, and it has lawfully completed all procedures required under Laws applicable to itself or its internal rules.

9.3 Validity. The execution of this Agreement and the performance of all its duties hereunder do not contravene or violate any Laws applicable to it, nor do they contravene or breach any duties under any agreement to which it is a party.

9.4 Binding Effect. This Agreement will constitute its lawful, valid and binding obligation, enforceable against it in accordance with the terms and conditions herein, except as the same may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium, or similar laws relating to creditors' rights generally and general principles of laws such as prohibition of abuse of rights and principles of trust.

9.5 Litigation. In regards to the execution of this Agreement or the performance of all duties hereunder, no lawsuit, arbitration, conciliation, mediation or other judicial, administrative or private dispute resolution proceedings that might have an adverse impact thereon is pending or proceeding and no facts exist from which it can be reasonably surmised that in the future any such dispute resolution proceeding may be initiated.

9.6 Consent. No consent, authorization, registration, or approval of, or other action by, any Person, including Authority, is required in connection with its execution, delivery, and performance of this Agreement, or if any such consent, authorization, registration, or approval of, or other action is required, it has satisfied such requirements as of the date of this Agreement.

ARTICLE X
CALL AND PUT RIGHT

10.1 Tower Call Right. In addition to Tower's other rights and benefits under this Agreement (including the indemnification provisions under Article XII), following the commencement of any Panasonic Default Event, Tower may require that Panasonic sell to either Tower or a Tower Designee all or part of the Shares owned by Panasonic (the "Tower Call Right") at *** of the Fair Value per Share pursuant to the following procedures:

(a) To exercise the Tower Call Right, a Tower Party must provide an irrevocable written notice of its exercise of the Tower Call Right (the "Tower Call Notice") to Panasonic no later than ninety (90) days following the commencement of a Panasonic Default Event. The Tower Call Notice shall contain (i) a reasonable description of the event upon which Tower has relied in order to exercise the Tower Call Right, (ii) the number of Shares Tower requires Panasonic to sell and (iii) the identifying information of any Tower Designee, if applicable.

(b) Upon the exercise of the Tower Call Right, Panasonic shall be obligated to sell the number of Shares designated by the Tower Call Notice to Tower (or a Tower Designee) in accordance with the provisions of this Article X.

10.2 Tower Put Right. In addition to Tower's other rights and benefits under this Agreement (including the indemnification provisions under Article XII), following the commencement of any Panasonic Default Event, Tower may require that Panasonic or a Panasonic Designee purchase from Tower all or part of the Shares owned by Tower (the "Tower Put Right") at *** of the Fair Value per Share pursuant to the following procedures:

(a) To exercise the Tower Put Right, Tower must provide an irrevocable written notice of its exercise of the Tower Put Right (the "Tower Put Notice") to Panasonic no later than ninety (90) days following the commencement of a Panasonic Default Event. The Tower Put Notice shall contain (i) a reasonable description of the event upon which Tower have relied in order to exercise the Tower Put Right and (ii) the number of Shares Tower require Panasonic or a Panasonic Designee to purchase.

(b) Upon exercise of the Tower Put Right, Panasonic (or a Panasonic Designee) shall be obligated to purchase the number of Shares designated by the Tower Put Notice in accordance with the provisions of this Article X.

10.3 Panasonic Call Right. In addition to Panasonic's other rights and benefits under this Agreement (including the indemnification provisions under Article XII), following the commencement of any Tower Default Event, Panasonic may require that Tower sell to Panasonic or a Panasonic Designee all or part of the Shares owned by Tower (the "Panasonic Call Right") at *** of the Fair Value per Share pursuant to the following procedures:

(a) To exercise the Panasonic Call Right, Panasonic must provide an irrevocable written notice of its exercise of the Panasonic Call Right (the "Panasonic Call Notice") to Tower no later than ninety (90) days following the commencement of a Tower Default Event. The Panasonic Call Notice shall contain (i) a reasonable description of the event upon which Panasonic has relied in order to exercise the Panasonic Call Right, (ii) the number of Shares Panasonic requires Tower to sell and (iii) the identifying information of any Panasonic Designee, if applicable.

(b) Upon the exercise of the Panasonic Call Right, Tower shall be obligated to sell the number of Shares designated by the Panasonic Call Notice to Panasonic (or a Panasonic Designee) in accordance with the provisions of this Article X.

10.4 Panasonic Put Right. In addition to Panasonic's other rights and benefits under this Agreement (including the indemnification provisions under Article XII), following the commencement of any Tower Default Event, Panasonic may require that Tower or a Tower Designee purchase from Panasonic all or part of the Shares owned by Panasonic (the "Panasonic Put Right") at *** of the Fair Value per Share pursuant to the following procedures:

(a) To exercise the Panasonic Put Right, Panasonic must provide an irrevocable written notice of its exercise of the Panasonic Put Right (the "Panasonic Put Notice") to a Tower Party no later than ninety (90) days following the commencement of a Tower Default Event. The Panasonic Put Notice shall contain (i) a reasonable description of the event upon which Panasonic has relied in order to exercise the Panasonic Put Right and (ii) the number of Shares Panasonic requires Tower or a Tower Designee to purchase.

(b) Upon exercise of the Panasonic Put Right, Tower (or a Tower Designee) shall be obligated to purchase the number of Shares designated by the Panasonic Put Notice in accordance with the provisions of this Article X.

10.5 Fair Value. Fair Value shall be determined as follows:

(a) The Shareholders shall negotiate in good faith for ten (10) days to reach an agreement on Fair Value. If the Shareholders fail to reach agreement on Fair Value for any reason within such ten (10)-day period, then immediately thereafter the Shareholders shall jointly select an independent reputable appraiser to determine Fair Value. If the Shareholders cannot agree on a mutually acceptable appraiser within ten (10) days, then PriceWaterhouse Coopers (or a designee it selects at its discretion) shall be appointed to conduct the appraisal.

(b) The appraiser selected in accordance with Section 10.5(a) shall determine the Fair Value, as appropriate and on the following assumptions and bases:

(i) valuing the Shares to be sold as on an arm's length sale between a willing seller and a willing buyer;

(ii) if the Company is then carrying on business as a going concern, on the assumption that it will continue to do so;

(iii) that the Shares to be sold are capable of being transferred without restriction; and

(iv) valuing the Shares to be sold as a rateable proportion of the total value of all the Shares of the Company without any premium or discount being attributable to the equity interests to be sold.

(c) The Shareholders shall use their best efforts to cause the appraiser to complete its appraisal within sixty (60) days after its appointment.

(d) Tower and Panasonic shall pay one-half of the fees, costs, and expenses of all appraisers used in connection with this Section 10.5, and the Fair Value determination made by the appraiser shall be binding on all Parties without the right to appeal.

10.6 Option Closing. Any sale and purchase of the Shares pursuant to this Article X shall be consummated as soon as reasonably practicable after the Tower Call Notice, the Tower Put Notice, the Panasonic Call Notice or the Panasonic Put Notice, as applicable. The Shareholders shall cooperate in good faith with respect to all actions necessary and appropriate to effect such sale and purchase, including (i) executing all reasonably requested documentation, (ii) causing their respective nominees on the Board to vote in favor of any required approval to effect the sale and purchase of the Shares pursuant to this Article X at the relevant Board meetings, and (iii) acquiring all required approvals and consents from, and the making of all required applications, notifications or filings to or with, all Authorities.

ARTICLE XI
EFFECT AND TERMINATION OF THIS AGREEMENT

11.1 Effect of this Agreement. This Agreement shall take effect on the date hereof, subject to the Closing, and shall remain in effect unless this Agreement is terminated in accordance with Section 11.2(a).

11.2 Termination.

(a) This Agreement shall immediately terminate (except for the matters set forth in Section 11.2(b)) without further action by any of the Parties as of the date (i) a Shareholder no longer owns any Shares, except as set forth in Section 8.1(c), (ii) unanimously agreed in writing by the Parties, or (iii) the Company is dissolved and liquidated.

(b) If this Agreement is terminated in accordance with its terms, then this Agreement shall become null and void and of no further force and effect. The termination of this Agreement shall not release any Party from any liability or obligation which has already accrued as of or before the effective date of termination. Article I, this Section 11.2(b), and Articles XII and XIII shall survive any termination of this Agreement, and any such termination of this Agreement shall only be effective prospectively and shall not affect the validity of the transactions conducted under this Agreement before such termination.

ARTICLE XII
INDEMNIFICATION

12.1 Indemnification. Each Shareholder (an "Indemnifying Party"), shall indemnify and hold harmless the other Shareholder, the Company, and its respective directors, officers, employees and agents (each an "Indemnified Person") from and against all losses suffered or incurred by any Indemnified Person based upon, arising out of or in connection with, any breach of any representation or warranty of the Indemnifying Party or any failure or refusal of the Indemnifying Party to observe or perform any of its obligations under this Agreement.

ARTICLE XIII
MISCELLANEOUS PROVISIONS

13.1 Expenses. Each party shall bear its own expenses with respect to this Agreement and the transactions contemplated hereby, including the preparation, negotiation and execution of this Agreement.

13.2 Amendment. This Agreement may be amended, modified or supplemented only by a writing signed by the Parties.

13.3 Notices. Any notice, request, instruction or other document to be given hereunder by a Party shall be in writing and in English, and shall be deemed to have been given, (i) when received if given in person, (ii) on the date of transmission if sent by telex, telecopy, e-mail or other wire transmission (provided that a written confirmation of receipt is obtained) or (iii) seven (7) days after it is mailed by certified or registered first class air mail postage prepaid:

(a) If to Panasonic, addressed as follows:

Panasonic Corporation
1 Kotariyakemachi, Nagaokakyo City, Kyoto, 617-8520, Japan
Attention: Akihiro Yamamoto
General Manager
Business Development
Semiconductor Business Division
Automotive & Industrial Systems Company
Email: yamamoto.aki@jp.panasonic.com

with a copy (which shall not constitute notice) to:
Nishimura & Asahi
Ark Mori Building
1-12-32 Akasaka
Minato-ku, Tokyo 107-6029, Japan
Attention: Yuji Shiga, Esq.
Email: y_shiga@jurists.co.jp

(b) If to any Tower Party, addressed as follows:

Tower Semiconductor Ltd.
Ramat Gavriel Industrial Park, 20 Shaul Amor Avenue, P.O. Box 619, Migdal Haemek 23105, Israel
Attention: Nati Somekh
Senior VP and Chief Legal Officer
Email: natiso@towersemi.com

with a copy (which shall not constitute notice) to:
Yigal Arnon & Co.
Law Firm
1 Azrieli Center,
Tel Aviv 67021, Israel
Attention: David Schapiro, Adv.
Email: davids@arnon.co.il

(c) If to the Company, addressed as follows:

TowerJazz Panasonic Semiconductor Co., Ltd
800 Higashiyama, Uozu City, Toyama, 937-8585, Japan
Attention: Guy Eristoff, CEO
Email: eristoff.guy@kk.jp.panasonic.com

or to other individuals or addresses as a Party may designate for itself by delivering a notice as provided herein.

13.4 Waivers. No waiver by a Party of any condition or of any breach of any term, covenant, representation or warranty contained in this Agreement shall be effective unless in writing, and no waiver in any one or more instances shall be deemed to be a further or continuing waiver of any such condition or breach in other instances or a waiver of any other condition or breach of any other term, covenant, representation or warranty. All remedies, either under this Agreement, by law or otherwise afforded, will be cumulative and not alternative.

13.5 Applicable Law; Dispute Resolution.

(a) This Agreement shall be governed by and construed in accordance with the laws of Japan.

(b) Any dispute, action or proceeding arising out of or in connection with this Agreement, including any question regarding its existence, validity, binding effect, breach, amendment or termination, which cannot be resolved amicably between the Parties shall be settled by arbitration in Singapore under the rules of the Singapore International Arbitration Centre ("SIAC Rules") by a single arbitrator to be appointed by the Shareholders or, failing agreement within fourteen (14) days after any Shareholder has given to the other Shareholder a written request to concur in the appointment of an arbitrator, a single arbitrator to be appointed on the request of any Shareholder by the President of the Court of Arbitration of the Singapore International Arbitration Centre and such submission shall be a submission to arbitration in accordance with the SIAC Rules as then in force by which the Parties in dispute agree to be so bound. The arbitration shall be conducted wholly in the English language.

13.6 Binding Nature; Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties. Except as set forth in Section 8.1(c), neither this Agreement nor any of the rights, interest or obligations hereunder shall be assigned by any of the Parties (by operation of law or otherwise) without the prior written consent of the other Parties. Notwithstanding the aforementioned, without the need for the consent of the Company or Panasonic, Tower may assign its rights to receive payments under this Agreement, to its Israeli lender banks and the Company will promptly acknowledge any notice of assignment delivered by Tower in favor of its lender banks in accordance with the aforementioned.

13.7 No Third Party Beneficiaries. This Agreement is solely for the benefit of the Parties and no provision of this Agreement shall be deemed to confer upon third parties any remedy, claim, liability, reimbursement, claim of action or any other right in excess of those existing without reference to this Agreement. Nothing contained herein shall be deemed to give rise to any personal obligation of any director, officer, stockholder, partner, member, manager, principal or any employee of any Party by reason of any breach or violation of any of the provisions hereof or otherwise, and no Party shall have any right against, or be entitled to sue or seek any recovery from, any such Persons.

13.8 Entire Agreement. This Agreement sets forth the entire agreement and understanding of the Parties in respect to the subject matter hereof and supersedes all prior agreements, arrangements and understandings relating to the subject matter hereof.

13.9 Language. This Agreement is entered into in the English language. In the event of any dispute concerning the construction or meaning of this Agreement, the text of the Agreement as written in the English language shall prevail over any translation of this Agreement that may have been made.

13.10 Confidentiality.

(a) The Parties shall keep the following information strictly confidential: (i) the course of events and the negotiation process leading to the formation of this Agreement, (ii) the particulars of this Agreement, (iii) information disclosed by the other Parties in relation to this Agreement (regardless of whether disclosed in writing, orally, by means of an object or by means of an electronic medium), and (iv) non-public information relating to the Company (the information described in (i) through (iv) will be referred to as "Confidential Information"). The Parties may not disclose or divulge Confidential Information to third parties and shall use Confidential Information only for the purposes of exercising their rights, performing their duties hereunder or operating the Company Business. The Parties may not use Confidential Information for any other purpose. Information falling under (iii) or (iv) above to which any of the following apply will not be included in Confidential Information:

(i) Information that at time of disclosure or receipt was already publicly known or generally available;

(ii) Information that, following disclosure or receipt, became publicly known or generally available by means that are not attributable to the Party that received or obtained such information;

(iii) Information disclosed by a third party not owing a duty of confidentiality to the disclosing Party; and

(iv) Information a Party developed or obtained independently without using Confidential Information.

(b) Section 13.10(a) shall not apply in the following cases if disclosure or announcement is made to the extent of such necessity, request or consent:

(i) In a case where, for the aforementioned purpose, it is necessary to make disclosure to its directors, officers and employees, its Affiliates, their advisors or their financial sponsors; provided, however, that a breach of the confidentiality duty by any such director, officer, employee or advisor shall, for the purposes of this Section 13.10, be deemed a breach of the Party that disclosed Confidential Information to such director, officer, employee, Affiliates, their advisor or financial sponsor.

(ii) In a case where, for the purpose set forth in Section 13.10(a), it is necessary to make disclosure to an attorney, certified public accountant, tax accountant or other professional bearing a statutory duty of confidentiality equal to or greater than the duty pursuant to this Section 13.10.

(iii) In a case where disclosure or announcement is required under laws and regulations, the rules of a stock exchange or the order of a court; provided, however, that if such a request has been received, the Party that received such request shall immediately notify the other Parties to that effect and make disclosure of the minimum content to the minimum extent necessary under applicable laws or rules.

(iv) In a case where the Party that disclosed the Confidential Information has given advanced written consent to the disclosure, including with respect to the timing, content and method.

(c) The duties stipulated in this Section 13.10 will survive for five (5) years after termination of this Agreement.

13.11 Counterparts. This Agreement may be executed simultaneously in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

[*Remainder of Page Intentionally Blank*]

IN WITNESS WHEREOF, the Parties have prepared this Agreement in quadruplicate, and following execution by signature, each shall retain one counterpart

April 1, 2014

PANASONIC:

_____

TOWER:

_____

COMPANY:

_____

Exhibit 4.65

PORTIONS OF THIS AGREEMENT WERE OMITTED AND HAVE BEEN FILED SEPARATELY WITH THE SECRETARY OF THE COMISSION PURSUANT TO AN APPLICATION FOR CONFIDENTIAL TREATMENT UNDER RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934; [***] DENOTES OMISSIONS.

BUSINESS TRANSFER AGREEMENT

PANASONIC CORPORATION

TOWERJAZZ PANASONIC SEMICONDUCTOR CO., LTD.

TOWER SEMICONDUCTOR LTD.
(as third party beneficiary)

APRIL 1, 2014
JAPAN

BUSINESS TRANSFER AGREEMENT

This business transfer agreement (this "**Agreement**") is made and entered into as of April 1, 2014, 1:00 am Japan time, by and between:

(1) Panasonic Corporation, a Japanese corporation having its place of business at 1 Kotariyakemachi, Nagaokakyo City, Kyoto, 617-8520, Japan (the "**Seller**"); and

(2) TowerJazz Panasonic Semiconductor Co., Ltd., a Japanese corporation having its place of business at 800 Higashiyama, Uozu City, Toyama 937-8585, Japan (the "**Purchaser**," together with the Seller, the "**Parties**" and each a "**Party**").

1. INTERPRETATION

In this Agreement, unless the subject or context otherwise requires:

1.1 The following words and expressions shall have the following meanings:

"**Actual Assets Amount**" shall have the meaning ascribed thereto in Article 4.1 of this Agreement.

"**Agreement**" shall have the meaning ascribed thereto in the preamble of this Agreement.

"**Arai Site**" means the factory site owned by the Seller and is located at Kurihara 4-5-1, Myoko-shi, Niigata.

"**Assets**" means the assets of the Seller specified in Schedule 1.1(a).

"**Business Transfer**" means the transfer (*jigyo-joto*) of the Transferred Business contemplated by this Agreement.

"**Closing Date**" means April 1, 2014, 1:00am Japan time/March 31, 2014, 7:00pm Israel time, or a date otherwise agreed in writing by the Parties.

"**Contracts**" means the contracts of the Seller specified in Schedule 1.1(b).

"**Corporate Bond**" means the corporate bond issued by the Purchaser of which terms and conditions are as set forth in Schedule 1.1(e).

"**Employees**" mean the Seller's employees, totaling approximately 1950 employees, engaging in the Transferred Business contemplated to be operated by the Purchaser as set forth in the Joint Venture Formation Agreement, and listed in the Schedule 1.1.(c), which schedule will list: (1) the employees who will work in the Transferred Business and (2) employees who will be working in the Seller's facilities pursuant to the Outsourcing Agreement to be signed between the Parties hereto, including the names of the employees, department, professional title per division and per fab.

"**Estimated Assets Amount**" is *** (which is an estimated value amount (book value in JPY under JAPAN-GAAP which the Seller complies with) of the Assets (other than cash) as of March 31, 2014) as detailed in Schedule 1.1(a).

"**Excluded Items**" means the contracts, debts and assets of the Seller specified in Schedule 1.1(d).

"**Governmental Order**" means any order, judgment, injunction, decree, writ, stipulation, determination or award, in each case, entered by or with any Governmental Authority.

"**Hokuriku Sites**" means the Arai Site, the Tonami Site and the Uozu Site.

"**Liabilities**" shall have the meaning ascribed thereto in Article 2.2(a).

"**JPY**" means the lawful currency of Japan.

"**Joint Venture Formation Agreement**" means the joint venture formation agreement dated December 20, 2013 entered into by and between the Seller and Tower Semiconductor Ltd., an Israeli corporation having its principal place of business at Ramat Gavriel Industrial Park, 1 Shaul Amor Avenue, P.O. Box 619, Migdal Haemek 23105, Israel.

"**Newly Executed Contracts**" means the contracts to be executed between the Purchaser and third parties with respect to certain agreements which the Seller determined would not be transferred to Purchaser as Contracts, and which are listed in Schedule 1.1(f).

"**Party**" and "**Parties**" shall have the meanings ascribed thereto in the preamble of this Agreement.

"**Purchase Price**" means JPY 8.8 billion, representing the value of the Transferred Business as of the Closing Date.

"**RDL Site**" means re-distributing layer of Arai E, which is the wafer process facilities for 8 inch Si and Cu RDL Process facilities, located at 4-5-1 Kurihara, Myokyo, Niigata Prefecture, Japan.

"**Secondment Agreement**" means a secondment agreement dated as of the Closing Date between the Parties.

"**Seller**" shall have the meaning ascribed thereto in the preamble of this Agreement.

"**Seller's Notification**" shall have the meaning ascribed thereto in Article 4.1 of this Agreement.

"**Shareholders Agreement**" shall mean a shareholder agreement dated as of the Closing Date among the Seller, the Purchaser and Tower.

"**Tonami Site**" means the factory site owned by the Seller and is located at Higashi-Kaihotsu 271, Tonami-shi, Toyama.

"**Tower**" means Tower Semiconductor Ltd., an Israeli corporation having its place of business at Ramat Gavriel Industrial Park, 1 Shaul Amor Avenue, Migdal Haemek 23105, Israel.

"**Transferred Business**" means the business of fabrication conducted by the Seller at some buildings of the Hokuriku Sites as of the Closing Date and specified in Schedule 1.1 (g), including without limitation applicable Contracts and Assets.

"**Uozu Site**" means the factory site owned by the Seller and is located at Higashiyama 800, Uozu-shi, Toyama.

1.2 Any reference to a statutory provision shall include such provision and any regulations made in pursuance thereof as from time to time modified or re-enacted whether before or after the date of this Agreement so far as such modification or re-enactment applies or is capable of applying to any transactions entered into prior to completion and (so far as liability thereunder may exist or can arise) shall also include any past statutory provisions or regulations (as from time to time modified or re-enacted) that such provisions or regulations have directly or indirectly replaced;

1.3 References to "**Clauses**" and the "**Schedule**" are to clauses of and the Schedule to this Agreement and references to this "**Agreement**" shall mean this Agreement and the Schedule;

1.4 The headings in this Agreement are for convenience only and shall not affect the interpretation hereof; and

1.5 Unless the context otherwise requires, references to the singular number shall include references to the plural number and vice versa, references to natural persons shall include bodies corporate, and the use of any gender shall include all genders.

2. AGREEMENT TO TRANSFER THE TRANSFERRED BUSINESS

2.1 Scope of the Transferred Business

Upon the terms and subject to the conditions of this Agreement, the Seller shall sell and the Purchaser shall purchase the Transferred Business as a going concern.

For the avoidance of doubt, the Excluded Items listed in Schedule 1.1(d) are not included in the Transferred Business.

2.2. Acknowledgement of Liabilities.

(a) Upon the terms and subject to the conditions of this Agreement, the Purchaser shall, effective at the time of the Closing, assume all liabilities, obligations, contingencies, claims, disputes or damages (the "**Liabilities**"), performed after the Closing Date that arise from or relate to the Transferred Business; provided, however, that the Purchaser shall not assume or be liable for (i) any such Liabilities of the Seller incurred or accrued prior to the Closing Date or thereafter arising from or relating to the Excluded Items, which shall be borne exclusively by the Seller, (ii) any such Liabilities incurred or accrued by the Transferred Business, in each case prior to the Closing Date, whether known or unknown to the Parties as of the Closing Date, or triggered by the Business Transfer, even if actually paid after the Closing Date, shall be borne by the Seller; (iii) any such Liabilities of the Seller incurred or accrued arising from or relating to (1) the Specified Seconded Employees who are seconded under the Secondment Agremeent B entered into by and between the Parties; and (2) the seconded employees after the Closing Date, who are seconded under the Secondment Agreement C entered into by and between the Parties, all of which shall be borne exclusively by the Seller; and (iv) (a) any termination Liabilities incurred or accrued prior to the Closing Date or (b) any other termination Liabilities agreed to be borne by the Seller in Shareholders Agreement or any of Ancillary Agreements (Liabilities which arise from or relate to the Transferred Business after the Closing Date, excluding the abovementioned liabilities, are hereinafter called the "**Assumed Liabilities**").

(b) The Purchaser shall not assume or be liable for any Liabilities of the Seller other than the Assumed Liabilities.

3. CLOSING OF BUSINESS TRANSFER

3.1 On or prior to the Closing Date, the Purchaser shall pay the Purchase Price to the Seller by issuing and delivering the Corporate Bond to the Seller, and applicable consumption tax (*shohi-zei*) by cash. The Corporate Bond shall be issued as soon as possible following the Closing Date and no later than one week thereafter.

3.2 Upon payment of applicable consumption tax (*shohi-zei*) by cash, in consideration of the payment of the Purchase Price by the Purchaser, the Seller shall transfer the Transferred Business to the Purchaser on the Closing Date.

3.3 On the Closing Date or promptly thereafter (in case where the business of the Purchaser will not be negatively affected even if the Purchaser does not enter into such Newly Executed Contracts on the Closing Date), the Purchaser shall enter into the Newly Executed Contracts.

4. POST-CLOSING ADJUSTMENT

4.1 Calculation of the Actual Assets Amount

(a) By no later than April 10, 2014, the Seller shall provide the final value amount (book value in JPY under JAPAN-GAAP which the Seller complies with) and final quantities of the Assets and reasonable supporting documents (other than cash) as of March 31, 2014 (for WIP, raw materials and spare parts, as of 8:30 AM (Japan Time); (the "Actual Assets Amount"), and shall notify the amount with the reasonable supporting documents to the Purchaser in writing thereof. The Purchaser shall cooperate in order to enable the Seller to finalize its calculation.

(b) If the Purchaser agrees on the amount notified by the Seller (the "Notified Assets Amount"), or does not notify any proposal to modify the Notified Assets Amount to the Seller within 10 business days from the receipt of the notification from the Seller (the "Seller's Notification"), the Notified Assets Amount shall be the Actual Assets Amount.

(c) If the Purchaser has a proposal to modify the Notified Assets Amount, the Purchaser shall notify the proposal to the Seller in writing within 10 business days from the receipt of the Seller's Notification, and shall have good faith discussions to determine the amount with the Seller. If the Parties do not agree on the amount within 30 calendar days from the receipt of the Seller's Notification, a reputable accounting firm determined by the Parties shall review the Notified Assets Amount and determine the Actual Assets Amount. The costs and expenses to be paid to the accounting firm shall be equally borne by the Parties.

4.2 If the amount obtained by deducting the Estimated Assets Amount from the Actual Assets Amount is a positive figure, the Purchaser shall pay to the Seller an amount equal to such difference as an increase in consideration for the Transferred Business, within 30 calendar days from the date on which the Actual Assets Amount is determined in accordance with Section 4.1 (b) or (c).

4.3 If the amount obtained by deducting the Estimated Assets Amount from the Actual Assets Amount is a negative figure, the Seller shall pay to the Purchaser an amount equal to such difference as a reduction from the consideration for the Transferred Business, within 30 calendar days from the date on which the Actual Assets Amount is determined in accordance with Section 4.1 (b) or (c).

5. CONDITIONS PRECEDENT

The obligations of the Seller and the Purchaser to consummate the sale and purchase of the Transferred Business are conditional upon satisfaction of the following conditions as of the Closing Date:

5.1 The Joint Venture Formation Agreement having been entered into between the Seller and Tower and remaining in full force and effect and there is no cause (including any threats thereof) for termination, cancellation or nullification thereof;

5.2 There being no Governmental Order, statute, rule or regulation enjoining or prohibiting the consummation of the Business Transfer or the transactions contemplated by the Joint Venture Formation Agreement.

6. COVENANTS

6.1 The Parties shall cooperate and coordinate with each other with respect to the satisfaction of the conditions set forth in Article 4.

6.2 The Seller shall second Employees to the Purchaser from the Closing Date to September 30, 2014 in accordance with the Secondment Agreement, and the Purchaser shall employ the Employees on October 1, 2014 or a date otherwise agreed between the Parties.

6.3 The Seller hereby undertakes to (i) use its best efforts to continue to outsource the Services (as defined in the Outsourcing Agreement) to the Purchaser and not to determine to close any of Panasonic Outsourcing Line (as defined in the Shareholders Agreement) for so long as the Seller is a shareholder of the Purchaser and/or needs to procure the Panasonic Products (Outsourcing) (as defined in the Shareholders Agreement), and (ii) hold good faith discussions with the Purchaser before it determines to close any Panasonic Outsourcing Line and treatment of any possible employment termination of Panasonic Outsourcing Line Employees (as defined in the Shareholders Agreement).

6.4 In addition to Section 7.1, for the first five (5) years from the Closing Date, the Seller shall make its best effort so that the Purchaser can have the benefit of all of the Material Contracts (as defined in the Joint Venture Formation Agreement), including Intellectual Property (as defined in the Joint Venture Formation Agreement) and any rights thereto, and any software licenses for tools, intellectual property licenses and others, which are required, as of the Closing Date, to perform the Transferred Business (as defined in the Joint Venture Formation Agreement). In the event that, despite such best effort by the Seller, the Purchaser fails to have such benefit due to a reason attributable to the Seller, the Seller shall compensate the Purchaser for any losses arising out of such Purchaser's failure. In the event that there is any dispute regarding the cause of the failure between the Parties, the Parties shall have good faith discussions.

6.5 The Purchaser shall use its best efforts to maintain employment of employees engaged in Panasonic Outsourcing Lines (the "Panasonic Outsourcing Line Employees") by redeployment or any other method in the event of the reduction of production volumes of Panasonic Products (Outsourcing). The Purchaser shall provide the Seller with prior notification regarding layoffs. If, in spite of the Purchaser's and the Seller's best efforts, the Purchaser decides to reduce the number of the Panasonic Outsourcing Line Employees, the Seller hereby undertakes to hold good faith discussions in advance with the Purchaser about the treatment of such Panasonic Outsourcing Line Employees. If any Panasonic Outsourcing Line Employees are unilaterally terminated by the Purchaser pursuant to a decision to reduce the number of Panasonic Outsourcing Line Employees, and any such terminated Panasonic Outsourcing Line Employees bring a claim against the Purchaser based on such unilateral termination, the Seller hereby undertakes to hold good faith discussions in advance with the Purchaser about the treatment of such terminated Panasonic Outsourcing Line Employees. Further, if any such Panasonic Outsourcing Line Employee is reinstated as an employee of the Purchaser, the Seller hereby undertakes to hold good faith discussions in advance with the Purchaser about the treatment of such Panasonic Outsourcing Line Employee.

7. REPRESENTATIONS AND WARRANTIES

7.1 In accordance with the Joint Venture Formation Agreement, the Seller represents and warrants the following statements are true and correct as of the Closing Date:

(a) The Seller will assign to the Purchaser or procure for the Purchaser to have the benefit of all the Material Contracts (as defined in the Joint Venture Formation Agreement) and all of the contracts which are required to perform the Transferred Business to the Purchaser with the same or substantially similar terms and conditions as of the Closing Date in accordance with this Agreement and applicable Laws, and ensure that any Liability incurred before the Closing Date will not be transferred to the Purchaser.

(b) All material Intellectual Property (as defined in the Joint Venture Formation Agreement) and material rights to Intellectual Property necessary to conduct the Transferred Business as currently conducted, are (A) owned by the Seller and will be licensed to the Purchaser as of the Closing in accordance with the Panasonic IP License Agreement (as defined in the Joint Venture Formation Agreement) (with respect to the trade name "Panasonic," the use thereof shall be limited to the corporate name of the Purchaser), (B) licensed to the Seller and the Seller shall (a) assign or sub-license or otherwise enable the Purchaser to use those such rights licensed to the Seller that do not require third party consent, (b) use its best efforts to either assign, sub-license or otherwise enable the Purchaser to use those such rights that require third party consent to the Purchaser with respect to the Intellectual Properties listed in the Panasonic Disclosure Letter (as defined in the Joint Venture Formation Agreement), and (c) use all its best efforts for the Purchaser to be able to conduct the Transferred Business as currently conducted without using such Intellectual Property or rights; or (C) otherwise in the possession or control of the Seller to the extent necessary to conduct the Transferred Business as currently conducted and as will be conducted following the Closing.

(c) The Seller has, and at the Closing, the Purchaser will have, full title and ownership of, or has a valid and enforceable license to, all of the Assets and such Assets enable the Seller, and after formation, the Purchaser to carry on the Transferred Business without any conflict with or infringement of the material rights of any third party and free and clear of any Encumbrances other than security interests attached for the Long Term Corporate Bond or the Short Term Corporate Bond.

7.2 The Seller's representations and warranties in Section 7.1 (the "Seller's Warranties") are subject to all matters clearly disclosed, provided or noted (to the extent so disclosed, provided or noted) in the Financial Statements (as defined in the Joint Venture Formation Agreement).

8. INDEMNIFICATION

8.1 Subject to the limitations set forth in Section 8.2, hereof, the Seller shall indemnify the Purchaser from and against any and all losses to the extent arising out of or resulting from (i) any inaccuracy of any the Seller's Warranty (the "Seller Warranty Breach") or (ii) any breach of the Seller's obligations under this Agreement.

8.2 Limitation of Liability.

(a) Time Limitation for Certain Claims.

The Seller shall not be liable under this Agreement in respect of any claim with respect to the Seller Warranty Breach unless a notice of the claim is given by the Purchaser specifying the matters set forth in Section 8.3 within two (2) years following the Closing Date.

(b) Basket.

No indemnification shall be payable by Seller for any the Seller Warranty Breach unless and until the amount of all losses due to any the Seller Warranty Breach against the Purchaser exceeds 10 million Japanese Yen (¥10,000,000) (the "Basket"); whereupon, subject to Section 8.2(c), indemnification by the Seller shall be payable for all such Losses (including the Basket amount).

(c) Maximum Liability.

The aggregate amount of the liability of the Seller in respect of all claims under this Agreement with respect to the Seller Warranty Breach other than claims resulting from an intentional breach of this Agreement shall not exceed 1 billion Japanese Yen (¥1,000,000,000).

8.3 Claims

(a) Notification of Potential Claims.

If the Purchaser becomes aware of any matter or circumstance that may give rise to a claim against the Seller under this Agreement, then the Purchaser shall as soon as reasonably practicable provide notice in writing to the Seller, setting out the legal and factual basis of the claim including the information available to and known by the Purchaser, as is reasonably necessary to enable the Seller to assess the merits of the claim, to act to preserve evidence and to make such provision as it may consider necessary or useful. Failure to provide such notice will not restrict the Purchaser from making the relevant claims under this Agreement, unless such failure adversely impacted the Seller's ability to defend itself from such claim.

(b) Notification of Claims under this Agreement.

Notices of claims under this Agreement shall be given promptly by the Purchaser to the Seller within the time limits specified in Section 8.2(a), specifying the legal and factual basis of the claim as provided in Section 8.3(a), and, if practicable, an estimate of the amount of Losses which are, or are to be, the subject of the claim (including any losses which are contingent on the occurrence of any future event).

8.4 Avoidance of Duplicate Indemnification

For the avoidance of doubt, the losses indemnified by the Seller hereunder shall be deducted from the amount of indemnification liabilities owed by the Seller under the Joint Venture Formation Agreement, to the extent that these liabilities would constitute double counting.

9. TERMINATION

9.1 If the transfer of the Transferred Business to the Purchaser is not duly completed by May 15, 2014, either Party may terminate this Agreement by providing written notice to the other Party without incurring any liability to such other Party.

9.2 The Parties may terminate this Agreement by their mutual written consent.

9.3 The following clauses shall survive the termination of this Agreement: Articles 1, 9.3, and 10.1 through 10.4.

10. MISCELLANEOUS PROVISIONS

10.1 Expenses

Except as specifically provided otherwise in the transaction documents, each Party shall bear its own expenses with respect to the transactions contemplated hereby.

10.2 Amendment

This Agreement may be amended, modified or supplemented only in writing signed by the Parties, subject to the receipt of the written consent of Tower, as a third party beneficiary, to the proposed amendment. Such written consent of Tower may not be unreasonably withheld.

10.3 Governing Law; Jurisdiction

(a) This Agreement shall be governed by and construed in accordance with the laws of Japan.

(b) Any dispute, action or proceeding arising out of or in connection with this Agreement, including any question regarding its existence, validity, binding effect, breach, amendment or termination shall be subject to the non-exclusive jurisdiction of the Tokyo District Court.

10.4 Good-Faith Discussions

For any matter not provided for in this agreement or that is disputed by the Parties, the Parties shall hold good faith discussions and resolve such matter amicably.

IN WITNESS WHEREOF, this Agreement has been duly executed.

SIGNED by [ ]
on behalf of Panasonic Corporation

SIGNED by [Name]
on behalf of [*Name of Purchaser*]

SIGNED by [ ]
on behalf of Tower Semiconductor Ltd.

(as third party beneficiary)

Exhibit 4.66

PORTIONS OF THIS AGREEMENT WERE OMITTED AND HAVE BEEN FILED SEPARATELY WITH THE SECRETARY OF THE COMISSION PURSUANT TO AN APPLICATION FOR CONFIDENTIAL TREATMENT UNDER RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934; [***] DENOTES OMISSIONS.

MANUFACTURING AGREEMENT

This MANUFACTURING AGREEMENT (this "Agreement") is entered into as of April 1, 2014 (the "Effective Date") between PANASONIC CORPORATION, a Japanese corporation having its place of business at 1 Kotariyakemachi, Nagaokakyo City, Kyoto, 617-8520, Japan ("Panasonic") and TOWERJAZZ PANASONIC SEMICONDUCTOR CO., LTD., having its principal place of business at 800 Higashiyama, Uozu City, Toyama 937-8585, Japan (the "Company"). Panasonic and the Company are referred to herein collectively as the "Parties" and individually as a "Party."

RECITALS

WHEREAS, Tower Semiconductor Ltd., an Israeli corporation having its corporate headquarters at Ramat Gavriel Industrial Park, 1 Shaul Amor Avenue, P.O. Box 619, Migdal Haemek 23105, Israel ("Tower") and Panasonic have entered into the Joint Venture Formation Agreement, dated as of December 20, 2013 (as amended, modified or supplemented from time to time in accordance with its terms, the "JV Agreement"), pursuant to which, on the Closing Date, Panasonic shall contribute the Contribution Shares to Tower and Tower shall issue the New Tower Shares to Panasonic, upon the terms and subject to the conditions set forth in the JV Agreement; and

WHEREAS, the JV Agreement provides for the execution and delivery of this Agreement pursuant to which the Company will manufacture and supply to Panasonic certain products, subject to the terms and conditions set forth herein.

NOW THEREFORE, the Parties, intending to be legally bound, hereby agree as follows:

ARTICLE I. DEFINITIONS

SECTION 1.1 Definitions. For purposes of this Agreement, (a) unless otherwise defined herein all capitalized terms used herein shall have the same meanings as set forth in the JV Agreement and (b) the following capitalized terms shall have the meanings set forth below:

"Agreement" has the meaning set forth in the Preamble of this Agreement.

"Binding Period" has the meaning set forth in Section 2.4 of this Agreement.

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks in Tokyo, Japan are closed.

"Change of Control" means the acquisition, by any means, by one or more third parties, of control of a Person. "Control" means the possession, of a majority of the outstanding or voting shares of the relevant entity.

"Company" has the meaning set forth in the Preamble of this Agreement.

"Confidential Information" has the meaning set forth in Section 10.1 of this Agreement.

"Defect" has the meaning set forth in Section 4.1 of this Agreement.

"Demand Forecast" has the meaning set forth in Section 2.4 of this Agreement.

"Die Yield Rate" means the quotient calculated by the following formula as an average for the last twelve (12) months:

$$\text{Die Yield Rate (\%)} = \frac{\text{number of non-defective chips per wafer}}{\text{total number of gross chips per wafer}} \times 100$$

"Effective Date" has the meaning set forth in the Preamble to this Agreement.

"Forecast Date" has the meaning set forth in Section 2.4 of this Agreement.

"Initial Term" has the meaning set forth in Section 9.1 of this Agreement.

"JV Agreement" has the meaning set forth in the Recitals of this Agreement.

"Lead Time Schedule" has the meaning set forth in Section 3.2 of this Agreement.

"Lead Time Period" means a lead time period to be mutually agreed on a category to category of Products basis between the Parties.

"Leased Equipment" has the meaning set forth in Section 6.1 of this Agreement.

"Location" has the meaning set forth in Section 3.3 of this Agreement.

"Minimum Die Yield Rate" means the minimum Die Yield Rate to be mutually agreed on a per Products basis between the Parties.

"Manufacturing" has the meaning set forth in Section 2.1 of this Agreement.

"New Intellectual Property Rights" mean any and all intellectual property rights and interests, which include but not limited to rights and interests under Articles 27 and 28 of the Copyrights Act, inventions, improvements, designs, original works of authorship, formulas, processes, compositions of matter, computer software programs, databases, mask works, trade secrets and information asset, created, developed, arising, acquired or obtained in the course of or in connection with performing the Manufacturing.

"Order Confirmation" has the meaning set forth in Section 2.2 of this Agreement.

"Panasonic" has the meaning set forth in the Preamble of this Agreement.

"Panasonic IP License Agreement" means certain intellectual property license agreement entered into by and between Panasonic and the Company as of the Effective Date.

"Parties" and "Party" have the meaning set forth in the Preamble of this Agreement.

"PCM Inspection" means an inspection of Products by process control module.

"PCM Standard" means standard for PCM Inspection to be reasonably designated on a Products basis as mutually agreed by the Parties.

"Price Table" means a list of prices per wafer, per category of product, per Transferred Facility (Uozu, Tonami or Arai), ordered hereunder for each category of Products and per each Transferred Facility attached hereto as Exhibit A, as may be amended in accordance with the terms of this Agreement.

"Prime Wafer Price" ***.

"Probing Inspection" means a probing inspection of all chips of Products.

"Probing Standard" means standard for Probing Inspection to be mutually agreed by the Parties.

"Products" means Semiconductor Device Wafers that the Company will manufacture and supply to Panasonic pursuant to this Agreement.

"Purchase Order" has the meaning set forth in Section 2.2 of this Agreement.

"Purchase Prices" has the meaning set forth in Section 5.1 of this Agreement.

"Renewal Term" means a one-year period starting after either of the Initial Term or the previous Renewal Term, as applicable, and ending one year thereafter.

"Representative" means, with respect to any Party, any director, officer, employee, advisor, agent, successor or assign of such Party and of such Party's Affiliates.

"Semiconductor Device Die" means a unitary electronic device including semiconductive material as an operable part thereof and comprising one or more active and/or passive circuit elements for performing electrical or electronic functions, which device may include multiple electrodes and/or means for contacting or interconnecting such elements.

"Semiconductor Device Wafer" means multiple Semiconductor Device Dies formed on or in a single wafer of semiconductive material.

"Specifications" has the meaning set forth in Section 2.3 of this Agreement.

"Standard Die Yield Rate" means the standard Die Yield Rate to be mutually agreed on a Products basis between the Parties.

"Subcontractor" means any person or corporation, approved in advance by Panasonic in writing, to which the Company subcontracts all or any part of Manufacturing in accordance with Section 8.7, and subcontractors already used by Panasonic for Manufacturing prior to the Effective Date which shall not require any written approval.

"Target Yield" means the actual yield during the previous twelve (12) months, per product, per Transferred Facility (Uozu, Tonami or Arai) as set in Exhibit B.

"Term" means the Initial Term and all Renewal Terms, unless terminated earlier in accordance with the terms of this Agreement.

"Tower" has the meaning set forth in the Recitals of this Agreement.

"Transferred Facilities" means facilities to be transferred from Panasonic to the Company based on the Business Transfer Agreement between the Parties dated as of April 1, 2014.

"Warranty Period" means three years regarding Products that passed automotive qualification, and one year regarding other Products.

ARTICLE II. MANUFACTURING

SECTION 2.1 Manufacturing. The Company shall manufacture and supply to Panasonic the Products (the "Manufacturing") on the terms and conditions set forth in this Agreement.

SECTION 2.2 Purchase Orders. During the Term, Panasonic may send purchase orders for Manufacturing ("Purchase Orders") in writing by e-mail or any other electromagnetic method to be separately agreed between the Parties in accordance with the Lead Time Schedule, and such other terms as agreed to between the Parties and in line with the Demand Forecast and this Agreement. The Company shall send a response (the "Order Confirmation") to any such Purchase Order in writing by e-mail or any other electromagnetic method to be separately agreed between the Parties within two (2) Business Days from receipt thereof. The Order Confirmation shall be sent by the Company if the Purchase Order is within the binding portion of the Demand Forecast. If the Company fails to provide an Order Confirmation to Panasonic which Order Confirmation is within the Demand Forecast as set forth in Section 2.4 below within two (2) Business Days from receipt of an Purchase Order, the Purchase Order shall be deemed to have been accepted by the Company. Each Purchase Order shall specify the quantity, product number, unit price per Price Table (which may be revised by the Demand Forecast in accordance with Section 2.4),requested delivery date and other logistic details for the Products manufactured hereunder.

SECTION 2.3 Specifications. The Company shall manufacture the Products and perform Manufacturing in accordance with the Purchase Orders, PCM Standard and Probing Standard, all according to the procedures to be mutually agreed between the Parties and set forth herein in Exhibit C (the "Specifications").

SECTION 2.4 Demand Forecast (Delivery Basis). During the Term, on the first Business Day of each month (each, a "Forecast Date"), Panasonic shall provide to the Company a six (6)-month rolling forecast for Products to be manufactured hereunder per fab per category on delivery basis during the six (6) months period (which are the calendar month including the Forecast Date and five (5) months thereafter) to the extent included in the Term (the "Preliminary Demand Forecast"). The volumes set forth in such Preliminary Demand Forecast will define the applicable Purchase Price for the first month of such Preliminary Demand Forecast. On the seventh Business Day of every month, Panasonic shall provide the Company with an actual Demand Forecast (the "Demand Forecast") which may revise the volumes ordered in the first month, and which shall contain volumes that shall not be lower than the volumes in the Preliminary Demand Forecast. The volumes in the Demand Forecast shall define the revised applicable Purchase Price for the first month of such Demand Forecast and, if approved by the Company, shall be binding on the parties hereto. If the Company fails to reject such Demand Forecast within *** Business Days from receipt of the Demand Forecast, the Demand Forecast shall be deemed to have been approved by the Company. The Company may deliver to Panasonic more Products than the number that was ordered in the relevant Purchase Order within the following formula: Purchase Order x (1 - Target Yield).

The quantity stated in a Demand Forecast for delivery in the Lead Time Period during the Term is fully (100%) binding on Parties, and Panasonic shall provide to the Company Purchase Orders corresponding to such Demand Forecast in the Lead Time Period pursuant to Section 2.2 above, and the Company shall accept such Purchase Orders pursuant to Section 2.2 above and duly manufacture the Products in accordance with the Purchase Order . *** of the quantity requested for the period following the Lead Time Period in such Demand Forecast shall be binding on Parties, and Panasonic shall be obliged to place the Purchase Orders corresponding to at least *** of the quantity mentioned in such Demand Forecast in the period following relevant Lead Time Period and the Company shall be obligated to accept the Purchase Orders corresponding to at least *** of the quantity of the Demand Forecast. Every time a Demand Forecast is issued by Panasonic, the Company may propose modifications to the quantity and/or the manufacturing schedule contained in such Demand Forecast in writing by e-mail or any other electromagnetic method to be separately agreed between the Parties within five (5) Business Days from receipt thereof and both Parties shall have a faithful discussion with each other so as to rearrange the quantity and/or the delivery schedule contained in the Demand Forecast if it is reasonably acceptable to Panasonic.

Notwithstanding the foregoing, upon Panasonic's reasonable request, the Company shall extend the original delivery schedule in accordance with the following terms: (i) the total amount extended shall not to exceed *** percent of the originally planned shipment volume; (ii) no extension for any shipments in the current calendar quarter, except for approved technical issues, ROM bank wafers and epi bank wafers, which may be extended outside of the current calendar quarter; and (iii) the original delivery schedule may be extended for no more than three (3) months upon prior written consent of the Company. Upon the first anniversary of the Closing Date, the parties shall have good faith discussions with respect to the above.

ARTICLE III. CONDUCTING MANUFACTURING

SECTION 3.1 Conducting Manufacturing. The Company shall conduct Manufacturing in conformity with the PCM Standard, Probing Standard and the Company's applicable process specifications and manufacturing procedures, solely as measured by conformance with the Company's electrical test specifications as will be mutually agreed between the Parties.

SECTION 3.2 Lead Time Schedule. Prior to the implementation of Manufacturing, the Parties shall agree upon and sign a lead time schedule of each Product (the "Lead Time Schedule") following good faith discussions between the Parties. The Company shall perform Manufacturing in compliance with the Lead Time Schedule.

SECTION 3.3 Location. The Company shall manufacture the Products in connection with Manufacturing at a plant of the Company, or at the Tower Licensed Facilities (as defined in the IP License Agreement signed by the Parties at Closing), to which Panasonic has given advance approval in writing (the "Location").

SECTION 3.4 Masks and Probe Cards. At no charge to the Company, Panasonic will provide masks and probe cards to the Company for use in Manufacturing to the extent that Panasonic reasonably deems necessary. The Company will notify Panasonic if additional masks and/or probe cards are needed based on Panasonic's forecasts, and if agreed between the Parties beforehand in writing, the Company will purchase the masks and/or probe cards to the extent reasonably necessary for Manufacturing and charge Panasonic accordingly. For the avoidance of doubt, in case of providing masks and/or probe cards to the Company under this Section 3.4, Panasonic shall retain its ownership of all such masks and/or probe cards . The Company shall keep masks and probe cards in good condition, and shall be responsible for losses (except reasonable tear and wear) arising out of the breach of its obligation.

SECTION 3.5 Discontinuance of Manufacturing. When the Company intends to discontinue the manufacture and/or assembly of any Product, the Company shall provide prior notice to Panasonic at least:

(a) for Products for *** months' prior notice; and

(b) for other Products – *** months' prior notice.

During the term of (a) or (b) above, the Parties shall discuss in good faith on what measures may be taken to minimize the adverse effect of discontinuance or transfer the manufacture and/or assembly of that Product.

SECTION 3.6 No Change with regard to the Manufacturing. The Company will implement a Process Change Notification (PCN procedure), as agreed by the parties hereto, that defines 3 categories of changes: Level 1 (minor change, internal only, for example change of gas flows in a recipe), Level 2 (requires notification to Panasonic but not subject to approval, for example change of photoresist supplier) and Level 3 (requires prior approval). The Company shall not make major changes that impact form, fit or function (defined as level 3 change) of the product without Panasonic's prior written notice. The Company and Panasonic shall agree to the PCN procedure.

SECTION 3.7 During the first five (5) years from the Closing Date, Panasonic may require investment in additional capital expenditures for the manufacture of the Panasonic Products (Captive Business). Panasonic confirms that any capital expenditures necessary for such activities shall be borne by Panasonic as agreed with the Company in writing.

ARTICLE IV. DELIVERY AND INSPECTION

SECTION 4.1 Inspection of the Products. Prior to the delivery of the Products from the Company to Panasonic, the Company shall conduct a commercially reasonable inspection of the Products at its own expense, using its professional, expert or skilled technique or experience, in accordance with a mutually pre-agreed procedure and notify Panasonic of the result thereof. If such inspection identifies any defect that does not meet the Specifications, shortage or other circumstance in which the Products do not meet the Specifications or violate the terms of the applicable Purchase Order or this Agreement (collectively, a "Defect"), the Company shall, at its own expense, promptly correct such Defect or provide a replacement product so that such Products shall be delivered to Panasonic with all parameters within the Specifications in an agreed timely manner. Assembly and final test after assembly shall be Panasonic's responsibility, the Company shall not have any obligations to conduct such test.

SECTION 4.2 Delivery. After the inspection set forth in Section 4.1, the Company shall deliver the Products Ex Works in the Location. At the time of delivery, the Company shall provide parameter data relating to the applicable Products which shall be provided on the Company's web portal unless otherwise agreed between the Parties.

SECTION 4.3 Ownership Transfer. Title and ownership of the Products will pass to Panasonic or its designated agent in the Location upon the end of all of the Manufacturing processes (without any assembly and test) as indicated by the signal Panasonic receives from the Company's materials tracking system ("MTS").

SECTION 4.4 Risk of Loss. The Company shall bear the risk of loss for the Products and any damages related thereto arising prior to the end of the manufacturing processes as indicated by the signal Panasonic receives from the MTS and Panasonic shall bear such risk of loss upon delivery and thereafter.

ARTICLE V. PAYMENT

SECTION 5.1 Purchase Price. Panasonic shall pay to the Company the purchase price for Products delivered in accordance with the Price Table plus the Prime Wafer Price (the "Purchase Price").

SECTION 5.2 Price Table. Prime wafer cost shall be added to the Price Table. The Purchase Price shall be reviewed and negotiated between Panasonic and the Company every year, taking into account the fair market price, relating to the Products. Panasonic and the Company shall commence such review and negotiation on the Purchase Price for the next year in October and the new agreed Purchase Price for the next and following years shall replace the existing Purchase Price.

In addition to the above, Panasonic and the Company may discuss any possible amendment for the Purchase Price in case which either party reasonably deems necessary such as significant market change. Panasonic and the Company shall prepare and agree on an additional price table when Panasonic and the Company introduce a new product line.

The Minimum Loading shall mean the minimum number of Products per Product Category per fab to be ordered by Panasonic per month under this Agreement as set forth in the Price Table. Panasonic understands that the number of Products per Product Category per fab to be ordered by Panasonic per month will not be under the Minimum Loading and Panasonic shall make its best effort to make such number of order above the Minimum Loading.

SECTION 5.3 Transferred WIP Chargeback Mechanism.

A Transferred WIP book value amount at Closing will be charged by the Company to Panasonic using the following mechanism:

Panasonic will provide the Company with detailed reports of the WIP per product / quantity/ standard cost/ actual cost/ completion rate. All Transferred WIP should be in good condition and with proper POs submitted by Panasonic to the Company to purchase it.
Delivery price is determined by the following formulas:

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SECTION 5.4 Payment Condition. The Company shall provide to Panasonic invoices on a monthly basis for the Products delivered with the applicable Purchase Price and other charges pursuant to this Agreement. Panasonic shall pay the invoices to the Company fifteen (15) days from the date of receipt of the invoice by Panasonic. Such invoices shall be paid in yen. In the event that Panasonic fails to pay the amounts, in whole or in part, within the payment date mentioned above, the Company shall have the right, without prejudice to any other rights and remedies hereunder, to claim an interest at the rate of 15% per annum on the overdue sum from the due date of the payment until the date on which its obligation to pay the sum is discharged.

SECTION 5.5 Method of Payment. Panasonic shall pay the Company the above payments in accordance with Section 5.4, by remittance to the bank account designated by the Company in the applicable invoice provided by the Company to Panasonic pursuant to Section 5.4.

ARTICLE VI. LEASED EQUIPMENT

SECTION 6.1 Leased Equipment. Panasonic may lease to the Company probe cards and masks that Panasonic considers to be necessary for the performance of Manufacturing (the "Leased Equipment") upon mutual discussion between Panasonic and the Company. The amount of lease expenses for the Leased Equipment shall be mutually agreed between the Parties.

SECTION 6.2 Management of Leased Equipment. At all times, the Company shall label conspicuously and appropriately the Leased Equipment as the property of Panasonic. The Company shall not remove or alter any label or marking on the Leased Equipment. The Company shall not change, alter or modify the Leased Equipment without the prior written consent of Panasonic or use the Leased Equipment for any purpose other than as required or authorized by this Agreement. The Company shall not sell, transfer, assign, lease, copy, hold in lien, pledge, grant any type of security, otherwise dispose of the Leased Equipment, ***provided, however***, that the Company may, subject to the prior written consent of Panasonic, sub-lease the Leased Equipment to one or more Subcontractors solely for the purposes of performing Manufacturing that are subcontracted to such Subcontractor pursuant to Section 8.7, subject to the condition that the Company has in place with such Subcontractor a written agreement regarding the applicable Leased Equipment on the same terms and conditions as contained herein.

SECTION 6.3 Investigation of Leased Equipment. Panasonic may request that the Company (a) provide to Panasonic a report on the condition of the Leased Equipment and (b) reasonably permit Panasonic's Representatives to enter the Location to investigate the condition of the Leased Equipment subject to reasonable notice and coordination with the Company, and in a way that will not interfere with the Company's business activities.

SECTION 6.4 Return of Leased Equipment. Upon Panasonic's request, the Company shall, without delay and in accordance with Panasonic's instructions, return any or all of the Leased Equipment to Panasonic in a condition suitable for the continued ordinary use thereof by Panasonic subject to ordinary deterioration resulting from its ordinary use under this Agreement.

ARTICLE VII. INTELLECTUAL PROPERTY RIGHTS

SECTION 7.1 The Company shall conduct the Manufacturing without infringing, to its knowledge, any right including the Intellectual Property Right (defined in the Panasonic IP License Agreement) of any third party, and shall indemnify Panasonic from any losses resulting from the Company's infringement of such rights, except such infringement comes from the Intellectual Property licensed by Panasonic under the Panasonic IP License Agreement.

SECTION 7.2 The Parties agree that all of their right, title and interest in, to and under any New Intellectual Property, including any such right, title and interest as may arise or be created, acquired or obtained in the course of or in connection with the Manufacturing shall solely and exclusively belong to the Company unless otherwise agreed in writing between the Parties, provided that (a) the Company hereby grants to Panasonic and its subsidiaries, a non-exclusive, perpetual, worldwide, royalty-free (without the right to sublicense, except to Panasonic's Affiliates), fully paid-up right and license to use any such New Intellectual Property Right in the operation of its business or the business of its Affiliates; and (b) the Company promptly notifies Panasonic in writing of such New Intellectual Property, including written descriptions and copies thereof. Notwithstanding the development of any New Intellectual Property Right, the Company shall continue to pay the royalties as provided in Section 3.1 and Section 3.2 of Panasonic IP License Agreement.

SECTION 7.3 The Parties agree that the provisions of the Panasonic IP License Agreement will govern infringement of Panasonic IPR and/or the Panasonic Proprietary IPR by a third party.

ARTICLE VIII. WARRANTIES

SECTION 8.1 Die Yield Rate. For the purpose of interpretation of the Die Yield Rate under this Section 8.1, the Die Yield Rate shall be based upon the number of non-defective chips and defective chips of the Products by the Probing Inspection which shall be conducted at the last process after the Manufacturing is completed, method of which shall be separately instructed by Panasonic and agreed by the Company. Each wafer for which Probing Inspection has been finished shall be treated as follows subject to the Die Yield Rate mentioned below, to the extent that such procedure exists at Panasonic prior to the Effective Date:

(i) If a Die Yield Rate is above a Minimum Die Yield Rate per product: Panasonic shall accept all such wafer.

(ii) Maverick Procedure as set forth in Exhibit D will be implemented.

(iii) If a Die Yield Rate is below the Minimum Die Yield Rate: Panasonic may refuse to accept or return all such lots of the Products and the Company shall not be released from its obligations to deliver the relevant ordered Products. The Company shall conduct analysis of such failure, using its professional, expert or skilled technique or experience, including root cause analysis at its own expense with support of Panasonic. In the event that the cause of such failure is eventually determined to be attributable to Panasonic, Panasonic shall make a payment equivalent to the Purchase Price of the relevant Products.

SECTION 8.2 Result of Measurement Which Deviates the Standard. Notwithstanding the provisions set forth in Section 8.1, in the event that the result of the measurement is outside Probing Standard or the PCM Standard, the Company may tentatively withhold to precede the Manufacturing of such Products and investigate the cause of such defects, using its professional, expert or skilled technique or experience, and shall do that if reasonably instructed by Panasonic. If the Company eventually finds out and reports to Panasonic that there is no substantial problem in the Manufacturing, the Company may proceed with the Manufacturing of the Products pursuant to this Agreement.

SECTION 8.3 Review of the Die Yield Rate and the Standards. The Minimum Die Yield Rate, the Standard Die Yield Rate, the Probing Standard and the PCM Standard shall be reviewed occasionally after mutual consultation between the Parties so as to increase production efficiency of the Products by setting a specific target which shall be determined after mutual consultation between the Parties.

SECTION 8.4 Quality Assurance.

(a) The Company hereby warrants to Panasonic that for the Warranty Period from date of delivery to Panasonic, the Products shall be free from defects in material and workmanship (where the defect in workmanship is reasonably expected to result in failure of the Product), and shall be processed in conformity with the Specifications. The Warranty shall be subject to supplied Products being stored in a controlled environment.

(b) The warranty set forth in Section 8.4(a) (the "Warranty"), extends to Panasonic only and Panasonic may not transfer this warranty to any third party, and the Company will have no obligation to accept warranty claims or returns from Panasonic's customers or any other users of Panasonic's Products. The Warranty does not apply to: (i) any Products that have been subject to abnormal physical, thermal or electrical stress, abuse, misuse, neglect, negligence, or accident; (ii) design defects not caused by the Company; (iii) any parts which constitute a part of the Product and which were not manufactured and/or supplied to or by the Company, (iv) improper handling during or after shipment; (v) improper installation, operation or use, (vi) use in unauthorized or improper conditions, (vii) unauthorized repair or alteration; or (viii) improper dicing, packaging or testing procedures. THE WARRANTY IS THE SOLE AND EXCLUSIVE WARRANTY BY OR ON BEHALF OF THE COMPANY, AND IS PROVIDED IN LIEU OF, AND THE COMPANY EXPRESSLY DISCLAIMS, ANY AND ALL OTHER WARRANTIES, WHETHER EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR APPLICATION, OR NON-INFRINGEMENT, AND ANY WARRANTY THAT MAY ARISE BY REASON OF USAGE OF TRADE, CUSTOM, OR COURSE OF DEALING, AND PANASONIC HEREBY EXPRESSLY WAIVES ANY AND ALL SUCH WARRANTIES.

(c) Warranty Claims Procedure. If Panasonic believes that a Product does not conform to the Warranty, Panasonic will promptly notify the Company in writing and specify in detail the alleged non-conformance(s). If the Company requests, Panasonic will return the Product (or a reasonable number of sample defective Products along with relevant tests and analyses performed by Panasonic relating to Products), to the Company's designated location, or allow the Company to inspect the Products at Panasonic's facilities, as the Company shall determine. Panasonic shall bear all risk of loss, damage, and destruction to the Products until they are received by the Company. Panasonic will request and obtain a written return material authorization ("RMA") from the Company prior to returning any allegedly non-conforming Products.

(d) Remedies. In the event that there is any Defect in any Product which is confirmed by the Company to be related to a manufacturing process not meeting Specifications within the Warranty Period from the completion of delivery of such Products pursuant to Section 4.2, the Company shall replace such products at no cost to Panasonic.

SECTION 8.5 Compliance with the Law.

(a) The Company's performance hereunder, and the performance of any Subcontractor, employee of the Company or any other Representative of the Company or any Subcontractor shall not breach or violate any applicable Law; provided that the aforementioned applies only to the extent that the Company has actual control over such employees, Subcontractors or Representatives. The Company solely has the rights to instruct, supervise, direct, order, manage and control its employees while conducting the Manufacturing, including but not limited to allocation of each employee.

(b) The Company shall defend, indemnify, and hold harmless Panasonic from any liability, loss, cost, damage or penalty that may be imposed on Panasonic, by reason of any alleged material breach of Section 8.5(a) by the Company, any Subcontractor, employee, or any other Representative of the Company or any Subcontractor.

(c) Panasonic warrants that performance hereof by Panasonic or its employees or any Representative of Panasonic shall not breach or violate any applicable Law and Panasonic and its employees and any Representative of Panasonic shall not instruct, direct, order, request, supervise, coach, manage, control the Company's employees in a manner that violates the Worker Dispatching Act or other Japanese employment laws.

SECTION 8.6 Report. At any time during the term of this Agreement, upon Panasonic's reasonable request the Company shall submit to Panasonic a report regarding the status of Manufacturing.

SECTION 8.7 Subcontract. The Company shall not, without obtaining the prior written consent of Panasonic, subcontract in whole or in part Manufacturing. If the Company wishes to subcontract in whole or in part Manufacturing, the Company shall obtain the prior written consent of Panasonic. In no event shall any such subcontract relieve the Company of any liabilities hereunder and the Company shall remain liable for any breach hereof and for any breach by such Subcontractor of the terms and conditions of such written instrument.

SECTION 8.8 Export Control. For the purpose of performing any obligation hereunder, the Company shall obtain any licenses and/or permits from the competent Governmental Authority, at its own expense, if and to the extent required by applicable Law, including, but not limited to, the Foreign Exchange and Foreign Trade Act. If requested by Panasonic , the Company shall provide to Panasonic without delay, any document in relation to the Products in order to comply with any applicable Law, including, but not limited to, the Foreign Exchange and Foreign Trade Act.

SECTION 8.9 Audit and Inspection. Panasonic, its customers, and third parties reasonably designated by Panasonic's customers shall be entitled to audit and inspect the facilities and processes of Manufacturing at any Location at reasonable business hours with reasonable prior consent from the Company, which consent shall not be unreasonably withheld by the Company.

ARTICLE IX. TERM AND TERMINATION

SECTION 9.1 Term. The term of this Agreement shall commence on the Effective Date and end five (5) years after the Effective Date (the "Initial Term"); provided, however, that if neither Party provides a written request for amendment, expiration or termination of this Agreement to the other Party at least three (3) months prior to the expiration of the Initial Term or the then-current Renewal Term, as applicable, this Agreement will continue for an additional Renewal Term.

SECTION 9.2 Termination by Panasonic. Panasonic may immediately terminate this Agreement upon written notice to the Company if:

(a) except in the case of the Company's breach of Article XII as set forth in (f) below, the Company materially breaches any of its obligations under this Agreement and does not cure such breach within thirty (30) days after the receipt of a notice from Panasonic;

(b) Tower, its subsidiary or the Company materially breaches any of its obligations under the JV Agreement, the Shareholder's Agreement between Panasonic and Tower, IP License Agreement and the Outsourcing Agreement, dated as of April 1, 2014 and does not cure such breach within thirty (30) days after the receipt of a notice from Panasonic;

(c) there is a petition for the commencement of bankruptcy proceedings, commencement of civil rehabilitation proceedings, commencement of corporate reorganization proceedings, commencement of liquidation proceedings or the commencement of other proceedings similar thereto in each case with respect to the Company;

(d) the bank transactions of the Company are suspended or the Company becomes or is declared insolvent, makes any filing (whether voluntary or involuntary) or petition for insolvency or relief from creditors, makes an assignment for the benefit of creditors or consents to the assignment of a receiver, trustee, liquidator or other official with similar powers over a substantial part of its property;

(e) the Company dissolves or approves a resolution to dissolve; or

(f) the Company breaches Article 12.1 or experiences a Change of Control without the prior written consent of Panasonic.

SECTION 9.3 Termination by the Company. The Company may immediately terminate this Agreement upon written notice to Panasonic if:

(a) except in the case of Panasonic's breach of Article XII as set forth in (c) below, Panasonic breaches any of its obligations under this Agreement and does not cure such breach within thirty (30) days after the receipt of a notice from the Company;

(b) Panasonic materially breaches any of its obligations under the JV Agreement, the Shareholder's Agreement between Panasonic and Tower dated as of April 1, 2014 or any of the Ancillary Agreements and does not cure such breach within thirty (30) days after the receipt of a notice from the Company;

(c) the Company breaches Article XII or experiences a Change of Control without the prior written consent of Panasonic.

SECTION 9.4 Survival. Article I, Article VII,Section 8.4, Section 8.5(b), this Section 9.4, Article X, Article XI, and Article XIII shall survive the termination or expiration of this Agreement. Notwithstanding the expiration or termination of this Agreement, the terms and conditions of this Agreement shall remain in full force and effect with respect to any Purchase Order during the term thereof.

ARTICLE X. CONFIDENTIALITY

SECTION 10.1 Confidential Information. Information disclosed by either Party to the other Party in connection with this Agreement ("Confidential Information") is valuable, confidential and proprietary in nature. Both Parties shall not, shall ensure that its Representatives shall not, and shall cause Tower and its Representatives to not (a) divulge or disclose to any Person in any manner, directly or indirectly, any Confidential Information or (b) use Confidential Information for any purpose other than as provided in this Agreement, in each case provided, however, that Confidential Information shall not include any information:

(a) that is publicly available (unless such information has become publicly available through any act or omission of the receiving Party, Tower or their employees, agents or directors);

(b) Already in the lawful possession of the Company receiving Party or its Affiliates at the time of disclosure (other than by reason of or in connection with this Agreement or any other agreement between the Parties); or

(c) that has been lawfully disclosed to the receiving Party or its Affiliatesby a third party without any obligation of confidentiality on the receiving Party, its Affiliates or its Representatives.

SECTION 10.2 Permitted Disclosure.

(a) Notwithstanding Section 10.1, the receiving Party may disclose Confidential Information to its Representatives and its Affiliates who have been approved by the other Party in writing and have a need to know the information in connection with performing services at the Company's facility or at the Tower Licensed Facilities pursuant to this Agreement, provided, however, that (i) the receiving Party shall make its Representatives and the Affiliates owe the same obligations with this Article, (ii) the receiving Party shall make them provide to the other Party the executed non-disclosure letter reasonably satisfactory to the other Party, and (iii) the receiving Party shall defend, indemnify, and hold harmless the other Party from any liability, loss, cost, damage or penalty that may be imposed on such other Party by reason of any breach by the receiving Party's Representatives and Affiliates.

(b) Notwithstanding Section 10.1, if the receiving Party is obliged to disclose Confidential Information to any Governmental Authority under applicable laws, the receiving Party may disclose such Confidential Information to such Governmental Authority upon prior written notice to the other Party.

(c) Notwithstanding Section 10.1, the Company may disclose Confidential Information to any Subcontractor solely to the extent necessary for such Subcontractor to perform Manufacturing subcontracted by the Company to such Subcontractor pursuant to Section 8.7.

(d) Notwithstanding the aforementioned, Tower shall be permitted to disclose Confidential Information without the other Parties' prior written consent to the extent disclosure is required in its reasonable opinion under applicable securities laws, and in such event Tower shall give the Parties prior notice thereof.

ARTICLE XI. LIMITATION OF LIABILITY

THE CUMULATIVE LIABILITY OF EITHER PARTY FOR ALL CLAIMS ARISING UNDER OR RELATED TO THIS AGREEMENT, EXCEPT FOR WILLFUL MISCONDUCT WITH MALICIOUS INTENT AND EXCEPT FOR CLAIMS WITH RESPECT TO NONPAYMENT PER THE PRICING TABLES ATTACHED HERETO, SHALL NOT IN THE AGGREGATE EXCEED $10 MILLION.

NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, IN NO EVENT WILL EITHER PARTY BE LIABLE TO THE OTHER PARTY FOR ANY SPECIAL, CONSEQUENTIAL, INCIDENTAL OR OTHER INDIRECT DAMAGES OR ANY PUNITIVE OR EXEMPLARY DAMAGES (INDIVIDUALLY AND COLLECTIVELY, "INDIRECT DAMAGES") ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT, WHETHER SUCH DAMAGES ARE BASED ON BREACH OF CONTRACT, TORT (INCLUDING NEGLIGENCE) OR OTHER THEORY OF LIABILITY, AND EVEN IF A PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

ARTICLE XII. ASSIGNMENT AND FORCE MAJEURE

SECTION 12.1 Assignment No Party may assign or otherwise transfer this Agreement (including by operation of law) or any of its rights, interests or obligations hereunder to any third party other than the Party's wholly-owned subsidiary (the "Subsidiary") without the prior written consent of the other Party; provided that such consent shall not be unreasonably delayed or withheld. In case of assignment or transfer of this Agreement to the Subsidiary, the transferring Party (a parent company of the Subsidiary) (the "Transferring Party") shall cause such Subsidiary to comply with the terms and conditions hereof. No direct or indirect costs as result of the transfer will be borne by the Parties other than the Transferring Party.

SECTION 12.2 Force Majeure Events. The Company will be excused from any failure or delay in performing any obligation hereunder to the extent such failure is caused by a "Force Majeure Event" (as defined below). A "Force Majeure Event" will operate to excuse a failure to perform an obligation hereunder only for the period of time during which the Force Majeure Event renders performance impossible or infeasible. As used herein, "Force Majeure Event" means the occurrence of an event or circumstance beyond the reasonable control of the Company, including, without limitation, (i) explosions, fires, flood, earthquakes, catastrophic weather conditions, or other elements of nature, natural disasters or acts of God; (ii) acts of war (declared or undeclared), acts of terrorism, insurrection, riots, civil unrest, rebellion or sabotage; (iii) failures or fluctuations of electrical power or telecommunications services, or transportation interruptions ; and (iv) the enactment or repeal of laws and regulations, an order or disposition by public authorities.

ARTICLE XIII. MISCELLANEOUS

SECTION 13.1 Notices. Any notice, request, instruction or other document to be given hereunder by a Party shall be in writing in English and Japanese, and shall be deemed to have been given, (i) when received if given in person, (ii) on the date of transmission if sent by telex, telecopy, or e-mail or other wire transmission (provided that a written confirmation of receipt is obtained) or (iii) seven days after it is mailed by certified or registered first class mail postage prepaid:

(a) if to Panasonic, addressed as follows:

Panasonic Corporation
1 Kotariyakemachi
Nagaokakyo City, Kyoto, 617-8520, Japan
Attention: Akihiro Yamamoto
General Manager
Business Development
Semiconductor Business Division
Automotive & Industrial Systems Company
Email: yamamoto.aki@jp.panasonic.com

(b) if to the Company,

TowerJazz Panasonic Semiconductor Co., Ltd
800 Higashiyama, Uozu City, Toyama, 937-8585, Japan
Attention: Guy Eristoff
CEO
Email: eristoff.guy@kk.jp.panasonic.com

or to other individuals or addresses as a Party may designate for itself by delivering a notice as provided herein.

SECTION 13.2 Waivers. No waiver by a Party of any condition or of any breach of any term, covenant, representation or warranty contained in this Agreement shall be effective unless in writing, and no waiver in any one or more instances shall be deemed to be a further or continuing waiver of any such condition or breach in other instances or a waiver of any other condition or breach of any other term, covenant, representation or warranty. All remedies, either under this agreement, by Law or otherwise afforded, will be cumulative and not alternative.

SECTION 13.3 Applicable Law; Dispute Resolution. This Agreement shall be governed by and construed in accordance with the laws of Japan without giving effect to any choice or conflict of law provision or rules. For any disputes occurring in connection with this Agreement, the Tokyo District Court shall be the court of agreed exclusive first instance jurisdiction.

SECTION 13.4 No Third Party Beneficiaries. This Agreement is solely for the benefit of the Parties and no provision of this Agreement shall be deemed to confer upon third parties any remedy, claim, liability, reimbursement, claim of action or any other right in excess of those existing without reference to this Agreement. Nothing contained herein shall be deemed to give rise to any personal obligation of any director, officer, stockholder, partner, member, manager, principal or any employee of any Party by reason of any breach or violation of any of the provisions hereof or otherwise, and no Party shall have any right against, or be entitled to sue or seek any recovery from, any such Persons.

SECTION 13.5 Entire Agreement. This Agreement (including the Exhibits hereto) sets forth the entire agreement and understanding of the Parties in respect to the transactions contemplated hereby and supersedes all prior agreements, arrangements and understandings relating to the subject matter hereof.

SECTION 13.6 Language. This Agreement is entered into in the English language. In the event of any dispute concerning the construction or meaning of this Agreement, the text of the Agreement as written in the English language shall prevail over any translation of this Agreement that may have been made.

SECTION 13.7 Severability. If any provision, including any phrase, sentence, clause, section or subsection, of this Agreement is determined by a court of competent jurisdiction, to be invalid, inoperative or unenforceable for any reason, such circumstances shall not have the effect of rendering such provision in question invalid, inoperative or unenforceable in any other case or circumstance, or of rendering any other provision herein invalid, inoperative or unenforceable to any extent whatsoever. Upon any such determination, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible.

SECTION 13.8 Counterparts. This Agreement may be executed simultaneously in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

SECTION 13.9 Conflicts. Except as provided herein, in the event of any conflict between the terms of this Agreement and the terms of any Purchase Order, the terms of this Agreement shall prevail.

[Signatures On The Following Page]

IN WITNESS WHEREOF, the Parties have duly executed this Agreement as of the date first above written.

PANASONIC CORPORATION

By: _____
Name:
Title:

TOWERJAZZ PANASONIC SEMICONDUCTOR CO., LTD.

By: _____
Name:
Title:

Exhibit 8.1

Subsidiaries

The following is a list of our significant subsidiaries, including the name, country of incorporation or residence, the proportion of our ownership interest in each and, if different, the proportion of voting power held by us.

Subsidiary	Jurisdiction	Ownership
Jazz Technologies, Inc.	Delaware	100%
Jazz Semiconductor, Inc.	Delaware	100%
Newport Fab LLC	Delaware	100%
TowerJazz Japan Ltd.	Japan	100%
TowerJazz Panasonic Semiconductor Co., Ltd.,	Japan	51%

Exhibit 12.1

Certification

I, Russell C. Ellwanger, certify that:

1. I have reviewed this annual report on Form 20-F of Tower Semiconductor Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

May 14, 2014

/s/ Russell C. Ellwanger
Russell C. Ellwanger
Chief Executive Officer
Tower Semiconductor Ltd.

Exhibit 12.2

CERTIFICATION

I, Oren Shirazi, certify that:

1. I have reviewed this annual report on Form 20-F of Tower Semiconductor Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

May 14, 2014

/S/ Oren Shirazi
Oren Shirazi
Senior VP & Chief Financial Officer
Tower Semiconductor Ltd.

Exhibit 13.1

Certification Pursuant To
18 US C Section 1350,
As Adopted Pursuant To
Section 906 Of The Sarbanes-Oxley Act Of 2002

In connection with the Annual Report of Tower Semiconductor Ltd. (the "Registrant") on Form 20-F for the year ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Russell C. Ellwanger, Chief Executive Officer of the Registrant, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. the Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Russell C. Ellwanger
Russell C. Ellwanger
Chief Executive Officer

May 14, 2014

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 13.2

Certification Pursuant To
18 US C Section 1350,
As Adopted Pursuant To
Section 906 Of The Sarbanes-Oxley Act Of 2002

In connection with the Annual Report of Tower Semiconductor Ltd. (the "Registrant") on Form 20-F for the year ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Oren Shirazi, Chief Financial Officer of the Registrant, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. the Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Oren Shirazi
Oren Shirazi
Senior VP & Chief Financial Officer

May 14, 2014

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 15.1

We consent to the incorporation by reference in Registration Statements Nos. 333-85090, 333-108896, 333-110486, 333-131315, 333-140174, 333-141640, 333-148747, 333-163196, 333-169389, 333-169491, 333-171912, 333-178166 and 333-181805 on Form F-3, and Nos. 33-80947, 333-06482, 333-11720, 333-83204, 333-107943, 333-117565, 333-138837, 333-147071, 333-153710, 333-166428, 333-174276, and 333-178167 on Form S-8, of our reports dated February 27, 2014, relating to the consolidated financial statements of Tower Semiconductor Ltd. (the "Company") and the effectiveness of the Company's internal control over financial, appearing in the Company's Annual Report on Form 20-F for the year ended December 31, 2013.

/s/ Brightman Almagor Zohar &Co

Brightman Almagor Zohar &Co.
Certified Public Accountants
A member of Deloitte Touche Tohmatsu

Tel Aviv, Israel
May 14, 2014