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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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<C> <S>
/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED:
DECEMBER 31, 2000

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
</TABLE>

FOR THE TRANSITION PERIOD FROM ______TO______

COMMISSION FILE NUMBER: 000-22671

QUICKLOGIC CORPORATION

(Exact name of registrant as specified in its charter)

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DELAWARE	77-0188504
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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1277 ORLEANS DRIVE
SUNNYVALE, CA 94089
(address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (408) 990-4000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: Common Stock, $0.001
par value

(Title of Class)

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 /X/ No / /

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. /X/

The aggregate market value of voting stock held by non-affiliates of the registrant as of February 28, 2001 was $131,594,983.00 based upon the last sales price reported for such date on The Nasdaq National Market. For purposes of this disclosure, shares of Common Stock held by persons who hold more than 5% of the

outstanding shares of Common Stock and shares held by officers and directors of the registrant, have been excluded in that such persons may be deemed to be affiliates. This determination is not necessarily conclusive.

At February 28, 2001 Registrant had outstanding 20,245,382 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant has incorporated by reference into Part III of this Form 10-K portions of its Proxy Statement for Registrant's Annual Meeting of Stockholders to be held on or about April 24, 2001.

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EXPLANATORY NOTE

STATEMENTS IN THIS BUSINESS SECTION, AND ELSEWHERE IN THIS ANNUAL REPORT ON FORM 10-K, WHICH EXPRESS THAT THE COMPANY "BELIEVES", "ANTICIPATES" OR "PLANS TO....", AS WELL AS OTHER STATEMENTS WHICH ARE NOT HISTORICAL FACT, ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. ACTUAL EVENTS OR RESULTS MAY DIFFER MATERIALLY AS A RESULT OF THE RISKS AND UNCERTAINTIES DESCRIBED HEREIN AND ELSEWHERE INCLUDING, IN PARTICULAR, THOSE FACTORS DESCRIBED UNDER "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" AND "FACTORS AFFECTING FUTURE RESULTS."

PART I

ITEM 1. BUSINESS

OVERVIEW

QuickLogic Corporation develops, markets and supports advanced Field Programmable Gate Array, or FPGA, and Embedded Standard Product, or ESP, semiconductors and the software tools that enable design engineers to use our products. We introduced ESPs, a new class of semiconductor devices, in 1998, to address the design community's rapidly increasing demand for a solution that bridges the gap between existing Application Specific Integrated Circuit, or ASIC, options and the long-sought goal of System-on-a-Chip. Specifically, our ESP devices provide engineers with the ease-of-use, guaranteed functionality and high-performance of standard products, combined with the flexibility of programmable logic. Our ESP and FPGA products target complex, high-performance systems in rapidly changing markets where system manufacturers seek to minimize time-to-market and maximize product differentiation and functionality. Examples of markets we sell to include telecommunications and data communications; video/audio, graphics and imaging; instrumentation and test; high-performance computing; and military systems.

PRODUCT TECHNOLOGY

The key components of our ESP and FPGA product families are our ViaLink programmable metal technology, our user-programmable platform and the associated software tools used for product design. Our ViaLink technology allows us to create smaller devices than competitors' comparable products, thereby minimizing silicon area and cost. In addition, our ViaLink technology has lower electrical resistance and capacitance than other programmable technologies and, consequently, supports higher signal speed. Our user-programmable platform facilitates full utilization of a device's logic cells and Input/Output pins. These logic cells have been optimized to efficiently implement a wide range of logic functions at high speed, thereby enabling greater usable device density and design flexibility. Our architecture uses our ViaLink technology to maximize interconnects at every routing wire intersection. The abundance of interconnect resources allows more paths between logic cells. As a consequence, system designers are able to use QuickLogic devices with smaller gate counts than competing FPGAs to implement their designs. These smaller gate-count devices require less silicon area and as a result are able to be offered at a lower price. Finally, our software enables our customers to efficiently implement their designs using our products.

INDUSTRY BACKGROUND

Competitive pressures are forcing manufacturers of electronic systems to

rapidly bring to market products with improved functionality, higher performance and greater reliability, all at lower cost. Providers of systems requiring high-speed data transmission and processing such as communications equipment, digital image products, test and instrumentation and storage subsystems face intense time-to-market pressures. These market forces have driven the evolution of logic semiconductors, which

are used in complex electronic systems to coordinate the functions of other semiconductors, such as microprocessors or memory. There are three types of advanced logic semiconductors:

- Application Specific Integrated Circuits, or ASICs, are special purpose devices designed for a particular manufacturer's electronic system. These devices are customized during wafer manufacturing;

- Application Specific Standard Products, or ASSPs, are fixed-function devices designed to comply with industry standards that can be used by a variety of electronic systems manufacturers. Their functions are fixed prior to wafer fabrication; and

- Programmable Logic Devices, or PLDs, are general-purpose devices which can be used by a variety of electronic systems manufacturers, and are customized after purchase for a specific application. Field Programmable Gate Arrays, or FPGAs, are types of PLDs used for complex functions.

Systems manufacturers have relied heavily on ASICs to implement the advanced logic required for their products. ASICs provide high performance due to customized circuit design. However, because ASICs are design-specific devices, they require long development and manufacturing cycles, delaying product introductions. In addition, because of the expense associated with the design of ASICs, they are cost effective only if they can be manufactured in high volumes. Finally, once ASICs are manufactured, their functionality cannot be changed to respond to evolving market demands.

ASSPs have become widely utilized as industry standards have developed to address increasing system complexity and the need for communication between systems and system components. These standards include:

- Peripheral Component Interconnect, or PCI, a standard developed to provide a high performance, reliable and cost-effective method of connecting high-speed devices within a system;

- Synchronous Optical Network, or SONET, a fiber-optic transmission standard for high-speed digital traffic, employed mainly by telephone companies and other network service providers;

- Ethernet, a widely-used local area network, or LAN, transport standard which controls the interconnection between servers and computers; and

- Fibre Channel Interconnect Protocol, an industry networking standard for storage area networks, or SANs, which controls the interconnection between servers and storage devices.

Compared to ASICs, ASSPs offer the systems designer shorter development time, lower risk and reduced development cost. However, ASSPs generally cannot be used by systems manufacturers to differentiate their products. To address markets where industry standards do not exist or are changing and time-to-market is important, FPGAs are often used. FPGAs provide systems manufacturers with the flexibility to customize and thereby differentiate their systems, unlike ASSPs. FPGAs also enable systems manufacturers to change the logic functionality of their systems after product introduction without the expense and time of redesigning an ASIC. However, most FPGAs are more expensive than ASSPs and even ASICs of equivalent functionality because they require more silicon area. In addition, most FPGAs offer lower performance than nonprogrammable solutions, such as ASSPs and ASICs.

INDUSTRY FUTURE: SYSTEM-ON-A-CHIP

Over the past few years, semiconductor manufacturers have migrated to smaller process geometries. These smaller process geometries enable more logic elements to be incorporated in a single chip using less silicon area. More recently, advances have been made in the integration of logic and memory on a

single chip, which had been difficult previously due to incompatible process technologies.

The industry "holy grail" is to have the three basic components of all electronic circuit boards; logic, memory and a microprocessor, on the same chip. Advantages of the single-chip approach to systems manufacturers include:

- simplified system development;

- reduced time-to-market;

- elimination of delays associated with the transfer of data between chips;

- smaller physical size;

- lower power dissipation;

- greater reliability; and

- lower cost.

However, as levels of logic integration have increased, devices have become more specific to a particular application. This fact limits their use and potential market size.

QUICKLOGIC'S ESP SOLUTION

QuickLogic has leveraged its unique ViaLink technology and user-programmable platform to address the limitations inherent in current system-on-a-chip approaches. The result is embedded standard products, or ESPs, that deliver the advantages offered by both FPGAs and ASSPs. In its simplest form, an ESP contains four basic parts: a programmable logic array, an embedded standard function, an optional programmable read-only memory to configure the embedded function, and an interface that allows communication between the standard function and programmable logic array. Our ESP products combine the system-level functionality of ASSPs with the flexibility of FPGAs. We believe ESPs offer the following specific advantages:

- Increased Performance. In a typical design, data must travel between an ASSP and an FPGA across a printed circuit board. The limited number of connections available and the distance between the devices can degrade the system's overall performance. Our ESP solution allows all data to be processed on a single chip;

- Decreased Cost. Because our ESP is a single chip solution, it requires less silicon area, and therefore is less expensive to produce. Additionally, this single chip approach lowers the component, assembly and test cost for the system manufacturer;

- Increased Reliability. ESP designs are more reliable because single chip solutions contain fewer components and circuit board connections that are subject to failure; and

- Shorter Development Time. With a multiple chip design, systems designers must solve complex routing and timing issues between devices. A single chip ESP solution eliminates the timing issues between devices and simplifies software simulation, leading to shorter development time.

We have introduced five ESP product lines since 1998. These include the QuickSD, QuickFC and QuickPCI families--products aimed at the high-speed interconnect section of the fast-growing communications market. In addition we have introduced QuickDSP and QuickRAM, for high-performance Digital Signal Processing, or DSP, applications and applications that require embedded memory. All of these families are designed for performance-driven applications.

QUICKLOGIC'S FPGA SOLUTION

QuickLogic's FPGAs offer higher performance at lower overall systems cost than competing FPGA solutions, in addition to offering the advantages typically associated with FPGAs. Specifically, our

products provide greater design flexibility than standard FPGAs and enable designers of complex systems to achieve rapid time-to-market with highly differentiated products. Our products are based on our ViaLink technology and user-programmable platform, and our associated QuickWorks and QuickTools design software.

During 2000, we introduced a new FPGA family called Eclipse--devices that offer a host of new system-level features that are ideal for the telecommunications, networking, computer and test applications that require a combination of high-performance, high density and embedded random access memory, or RAM. In addition, we continue to sell our three families of pASIC FPGAs.

THE QUICKLOGIC STRATEGY

Our objective is to be the indispensable provider of high-speed, flexible, cost-effective ESPs. We feel we can achieve this objective by offering systems manufacturers the ability to accelerate design cycles to satisfy demanding time-to-market requirements. To achieve our objective, we have adopted the following strategies:

EXTEND TECHNOLOGY LEADERSHIP

Our ViaLink technology, user-programmable platform and proprietary software design tools enable us to offer flexible, high-performance ESP products. We intend to continue to invest in the development of these technologies and to utilize such developments in future innovations of our ESP products. We also intend to focus our resources on building critical systems-level expertise to introduce new ESP products and enhance existing ESP product families. We target applications that are:

- high performance and high complexity;

- broadly used and growing quickly; and

- difficult or impossible to implement in traditional FPGAs.

Specifically, we will continue to focus our design and marketing efforts on systems manufacturers who sell complex systems within our target applications. These include:

- data communications and telecommunications;

- video/audio and graphics and imaging;

- instrumentation and test;

- high-performance computing; and

- military.

PROVIDE COMPLETE SYSTEM SOLUTIONS

Our focus on a more targeted set of applications areas will allow us to provide a complete solution to systems manufacturers. This includes not only the device and software, but software drivers, reference designs, test boards and complementary intellectual property, or IP, functions. We focus ESP development efforts on three strategic applications areas:

- embedded high performance digital signal processing, or DSP;

- embedded high-performance interconnect; and

- embedded high-performance processing.

STRATEGIC ALLIANCES

During 2000, we engaged in key strategic partnerships with MIPS Technologies, Finisar, UTMC, Conexant Systems, and Tower Semiconductor. In addition, we continue to sell through a network of industry sales representatives and distributors. These alliances will be an essential element of our ESP strategy and strength going forward. By leveraging the expertise of our partners in IP development, wafer fabrication and sales, we can devote our

effort to the development of targeted, complete ESP products.

CREATE INNOVATIVE, INDUSTRY-LEADING CUSTOMER SERVICES

We continue to develop and implement innovative ways to serve and communicate with our customers. For example, our WebASIC service allows customers to use our development software to design a circuit, transmit design information over the Internet and receive a QuickLogic ESP or FPGA device programmed with their design (within one business day in North America and Europe or within two business days in Asia). In addition, our ProChannel web-based system allows our customers to obtain promotional material, receive quotations, place orders for our products and view their order status over the Internet. This system complements the Electronic Data Interchange systems that we have used for the past several years with our largest customers.

CUSTOMERS AND MARKETS

The following chart provides a representative list by industry of our current customers and the markets in which they do business:

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INDUSTRY	CUSTOMER	APPLICATION
Data Communications and Telecommunications	Alcatel	Fiber optic transmission equipment
	IBM	Data encryption, network servers
	NEC	PBX electronics, wireless base stations
Video/Audio, Graphics and Imaging	Digidesign	PC-based audio editing
	Honeywell	Aircraft navigation and flight controls
	Mitsubishi	Large screen displays
	NEC	Solid state video cameras
	Sony	Industrial video cameras
Instrumentation and Test	ABB	Industrial power management systems
	LTX	Semiconductor test equipment
	National Instruments	PC-based instrumentation boards
	Teradyne	Semiconductor test equipment
	Ando	Semiconductor test equipment
High-Performance Computing	Compaq Computer	Alpha processor motherboards
	IBM	RAID controller, ThinkPad display controls
	Mitsubishi	Mobile PC pen-input display controllers
Military Systems	B.F. Goodrich	Launch vehicle for Delta Four rockets
	DY-4	VME-based computer systems
	Hamilton Standard	Flight computers
	Hughes Aircraft	Helicopter motor controls and radar
	McDonnell Douglas	C-17 flight controllers
	Raytheon	Tornado missile

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SALES AND TECHNICAL SUPPORT

We sell our products through a network of sales managers, independent sales representatives and electronics distributors in North America, Europe and Asia. In addition to our corporate headquarters in Sunnyvale, we have regional sales operations in Los Angeles, Dallas, Boston, Raleigh, London, Munich, Shin-Yokohama, Shanghai and Hong Kong. Our direct sales personnel and independent sales representatives generally focus on major strategic accounts. Our distributors generally focus on small and medium-sized customers, as well as demand creation and fulfillment to the larger accounts.

Currently in the United States, our three distributors include Avnet Electronics, Future Electronics and Impact Technologies. A network of

distributors throughout Europe and Asia supports the

company's international business. These firms are responsible for creating customer demand, providing customer support and other value-added services, as well as filling customers orders. From time-to-time, we add or delete certain distributors and sales representatives, as appropriate in comparison to the level of business the company generates.

We provide systems manufacturers with comprehensive technical support, which we believe is critical to remaining competitive in the markets we serve. Our factory-based and distributor applications support organizations provide pre-sales and on-site technical support to customers. In 1998, we established a design center to develop new embedded functions for ESPs, and to provide in-depth, system-level technical support to our customers.

COMPETITION

The semiconductor industry is intensely competitive and is characterized by constant technological change, rapid rates of product obsolescence and price erosion. Our existing competitors include suppliers of conventional standard products, such as PLX Technology and Applied Micro Circuits Corporation, or AMCC; suppliers of complex programmable logic devices, or CPLDs, including Lattice Semiconductor and Altera; and suppliers of FPGAs, particularly Xilinx and Actel. Xilinx and Altera dominate the PLD market, which together control over 60% of the market, according to inSearch Research, a semiconductor market research firm. Xilinx dominates the FPGA segment of the market while Altera dominates the CPLD segment of the market. We also face competition from companies that offer standard gate arrays, which can be obtained at a lower cost for high volumes and may have gate densities and performance equal or superior to our products. As we introduce additional ESPs, we will also face competition from standard product manufacturers who are already servicing or who may decide to enter the markets addressed by these new ESP devices. In addition, we expect significant competition in the future from major domestic and international semiconductor suppliers. We also may face competition from suppliers of products based on new or emerging technologies.

We believe that important competitive factors in our market are length of development cycle, price, performance, installed base of development systems, adaptability of products to specific applications, ease of use and functionality of development system software, reliability, technical service and support, wafer fabrication capacity and sources of raw materials, and protection of products by effective utilization of intellectual property laws.

RESEARCH AND DEVELOPMENT

Our future success will depend to a large extent on our ability to rapidly develop and introduce new products and enhancements to our existing products that meet emerging industry standards and satisfy changing customer requirements. We have made and expect to continue to make substantial investments in research and development and to participate in the development of new and existing industry standards.

As of February 28, 2001, the research and development staff consisted of 48 employees. Our research and development efforts are focused on standard function development and integration, device architecture, development tools and foundry process development. Our standard function development and integration personnel create circuit designs for inclusion in our ESP products. They also evaluate circuit designs by third parties for inclusion in our ESP products and integrate those circuit designs with our FPGA technology. Our device architecture personnel develop new and improved architectures for our FPGA and ESP products to better serve the needs of our customers. Our software engineering group develops place and route tools, which fit the design into specific logic cell elements within a device and determine the necessary interconnections. They also develop delay modeling tools, which estimate the timing of all the circuit paths for accurate simulation. The software group incorporates third-party software tools into the QuickWorks design software suite, and develops the design libraries

needed for the QuickWorks and QuickTools products to integrate with third-party design environments. Our process engineering group maintains our proprietary wafer manufacturing processes, oversees product manufacturing and process

development with our third-party foundries, and is involved in ongoing process improvements to increase yields and optimize device characteristics.

Our research and development expense for 1998, 1999 and 2000 were $6.3 million, $7.4 million and $9.3 million, respectively. We anticipate that we will continue to commit substantial resources to research and development in the future.

MANUFACTURING

We have established close relationships with third-party manufacturers for our wafer fabrication, package assembly, test and programming requirements in an effort to ensure stability in the supply of our products and minimize the risk of localized capacity constraints.

We currently outsource all of our wafer manufacturing to Cypress Semiconductor Corporation at its Round Rock, Texas facility and to Taiwan Semiconductor Manufacturing Company at its Taiwan facilities. Cypress manufactures our pASIC1 and pASIC2 product families using a three-layer metal, 0.65 micron CMOS process on six-inch wafers. TSMC manufactures our pASIC3, QuickRAM and QuickPCI product families using a four-layer metal, 0.35 micron CMOS process. TSMC also manufactures our Eclipse and other ESP products using a five-layer metal, 0.25 micron process on eight-inch wafers. Our Cypress agreement provides a guaranteed capacity availability. We purchase products from TSMC on a purchase order basis. Under this arrangement, we and TSMC have mutually agreed that we are not required to purchase a predetermined amount of product, and TSMC is not required to guarantee capacity availability. See "Factors Affecting Future Results--None of our products is currently manufactured by more than one manufacturer..."

On December 12, 2000 we entered into a Share Purchase Agreement (the "Agreement") with Tower Semiconductor Ltd. under which we will make a $25 million strategic investment in Tower as part of Tower's plan to build a new wafer fabrication facility. The new fabrication facility will produce 200-mm wafers in geometries of 0.18 micron and below, using advanced CMOS technology from Toshiba. In return for our investment, we will receive equity and committed production capacity in the advanced fabrication facility that Tower is building. Under the terms of the Agreement, our investment will be made in several stages over an approximately 22-month period, against satisfactory completion of key milestones for the construction, equipping and commencement of production at the new wafer fabrication facility. Tower will develop manufacturing capability for our proprietary ViaLink technology, and supply us with a guaranteed portion of the new fabrication facility's available wafer capacity at competitive pricing, with first production expected in 2002. Per the terms of the Agreement, we paid Tower $6.7 million on January 22, 2001.

We outsource our product packaging, test and programming to Amkor and ChipPAC at their South Korea facilities and to Advanced Semiconductor Engineering at its Taiwan facility, among others.

EMPLOYEES

As of February 28, 2001, we had a total of 178 employees worldwide, with 47 people in operations, 48 people in research and development, 21 people in sales, 24 people in marketing, 34 people in administration and four people in management information systems. We believe that our future success will depend in part on our continued ability to attract, hire and retain qualified personnel. None of our employees is represented by a labor union, and we believe our employee relations are good.

INTELLECTUAL PROPERTY

Our future success and competitive position depend upon our ability to obtain and maintain the proprietary technology used in our principal products. We hold 80 U.S. patents and have 9 pending applications for additional U.S. patents containing claims covering various aspects of programmable integrated circuits, programmable interconnect structures and programmable metal devices. In addition, we have three patent applications pending in Japan. Our issued patents expire between 2009 and 2019. We have also registered six of our trademarks in the U.S. with applications to register an additional two trademarks now pending.

Because it is critical to our success that we are able to prevent competitors from copying our innovations, we intend to continue to seek patent protection for our products. The process of seeking patent protection can be long and expensive, and we cannot be certain that any currently pending or future applications will actually result in issued patents, or that, even if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to us. Furthermore, others may develop technologies that are similar or superior to our technology or design around the patents we own.

We also rely on trade secret protection for our technology, in part through confidentiality agreements with our employees, consultants and third parties. However, employees may breach these agreements, and we may not have adequate remedies for any breach. In any case, others may come to know about or determine our trade secrets through a variety of methods. In addition, the laws of certain territories in which we develop, manufacture or sell our products may not protect our intellectual property rights to the same extent as do the laws of the United States.

In March 1997, we entered into a patent cross-license agreement with Cypress, whereby we granted Cypress a nonexclusive license to our patents and intellectual property rights in exchange for Cypress' nonexclusive license to their programmable logic technology patents. In August 1998, we also entered into a patent cross-license agreement with Actel pursuant to which we have each granted the other a nonexclusive license to certain of our respective programmable logic device technology patents. We anticipate that we will continue to enter into licensing arrangements in the future; however, it is possible that desirable licenses will not be available to us on commercially reasonable terms. If we lose existing licenses to key technology, or are unable to enter into new licenses which we deem important, it could materially harm our business.

During 2000, we entered into technology license agreements with several third parties. In April 2000, we signed a license agreement with MIPS Technologies, Inc. This agreement enables the development of an embedded, MIPS-based(TM) processor with high-performance programmable logic and on-chip dual-port SRAM, laying the foundation for a whole new class of system-level ESP product families. In May 2000, we announced an agreement with Finisar Corporation to use their gigabit-rate technology. Designed for use in conjunction with industry-standard SERDES transmitter-receiver chips, this product supports standard Fibre Channel performance rates of up to 2.5 Gb/s throughput. In October 2000, we signed a license agreement with Conexant Systems, Inc. to use their SkyRail 3.1 Gb/s scalable transceivers. This technology allows us to provide device data throughput of up to 37.5 Gb/s in high-speed serial bus architectures.

In October 2000, we licensed our technology to Aeroflex UTMC, a wholly owned subsidiary of Aeroflex Incorporated. Aeroflex UTMC will benefit from the use of our ViaLink metal-to-metal interconnect technology in supplying their products to the commercial and military satellite markets.

From time to time, we receive letters alleging patent infringement or inviting us to take a license to other parties' patents. We evaluate these letters on a case-by-case basis. In September 1999, we received an offer to license a patent related to field programmable gate array architecture. We have not

yet determined whether this license would be necessary or useful and obtainable at a reasonable price. Offers such as these may lead to litigation if we reject the opportunity to obtain the license.

In March 2000, Unisys Corporation filed a patent infringement lawsuit against us alleging that we infringed three of their patents. We believe that we have strong defenses and that the resolution of this lawsuit will not have a material effect on our financial condition or results of operations. No assurance can be given, however, that these matters will be resolved without the Company becoming obligated to make payments or to pay other costs to the opposing party, with the potential for an adverse effect on the Company's financial position or its results of operations.

EXECUTIVE OFFICERS AND DIRECTORS

The following table sets forth certain information concerning our current executive officers and directors as of February 28, 2001:

NAME	AGE	POSITION
E. Thomas Hart	59	President, Chief Executive Officer and Director
John M. Birkner	57	Vice President, Chief Technical Officer
Michael R. Brown	51	Vice President, Worldwide Sales
Andrew K. Chan	50	Vice President, Research and Development
Hua-Thye Chua	65	Vice President, Process Technology and Director
Peter G. Feist	46	Vice President, Worldwide Marketing
Reynold W Simpson	52	Senior Vice President, Chief Operating Officer
Arthur O. Whipple	53	Vice President, Finance, Chief Financial Officer and Secretary
Ronald D. Zimmerman	52	Vice President, Administration
Irwin Federman	65	Chairman of the Board of Directors
Donald P. Beadle	65	Director
Robert J. Boehlke	59	Director
Michael J. Callahan	65	Director

E. THOMAS HART has served as our President, Chief Executive Officer and a member of our board of directors since June 1994. Prior to joining QuickLogic, Mr. Hart was Vice President and General Manager of the Advanced Networks Division at National Semiconductor, a semiconductor manufacturing company, where he worked from September 1992 to June 1994. Prior to joining National Semiconductor, Mr. Hart was a private consultant from February 1986 to September 1992 with Hart Weston International, a technology based management consulting firm. Mr. Hart holds a B.S.E.E. from the University of Washington.

JOHN M. BIRKNER, a co-founder of QuickLogic, has served with us since April 1988, serving as Vice President, Chief Technical Officer since 1993. From September 1975 to June 1986, Mr. Birkner was a fellow at Monolithic Memories, a semiconductor manufacturing company. Mr. Birkner holds a B.S.E.E. from the University of California, Berkeley and an M.S.E.E. from the University of Akron.

MICHAEL R. BROWN has served as our Vice President, Worldwide Sales since January 1999. From 1984 until January 1999, he was employed by Hitachi America, a semiconductor manufacturing company, in a variety of sales management positions, most recently as the Vice President of Sales for the Americas. Mr. Brown holds a B.A. in Kinesiology/Psychology from California State University, Northridge and attended the U.S. Navy Aviation Electronics School. Mr. Brown holds a certificate in Advanced Management from Stanford University.

ANDREW K. CHAN, a co-founder of QuickLogic, has served with us since April 1988, most recently as Vice President, Research and Development. Prior to joining QuickLogic, Mr. Chan was a design engineering manager at Monolithic Memories. Mr. Chan holds a B.S.E.E. in Electrical Engineering from Washington State University and an M.S.E.C. in Electrical Sciences from the University of New York, Stonybrook.

HUA-THYE CHUA, a co-founder of QuickLogic, has served as a member of our board of directors since QuickLogic's inception in April 1988. Since December 1996, Mr. Chua has served as our Vice President, Process Technology. He served as our Vice President of Technology Development from April 1989 to December 1996. During the prior 25 years, Mr. Chua worked at semiconductor manufacturing companies, including Fairchild Semiconductor, Intel and Monolithic Memories. Mr. Chua holds a B.S.E.E. from Ohio University and an M.S.E.E. from the University of California, Berkeley.

PETER G. FEIST has served with us since June 2000, most recently as our Vice President, Worldwide Marketing. From January 1997 to April 2000, Mr. Feist was with GateField, a semiconductor manufacturing company, where he was most recently Senior Vice President, Marketing. From January 1995 to September 1996, he served as Regional Manager, Europe for Hyundai Corporation, Digital Media Division. From April 1985 to December 1994, he worked for LSI Logic, a

semiconductor manufacturing company, most recently as Director Strategic Marketing. He holds a Diplom Ingenieur (M.S.E.E.-equivalent) from the University of Dortmund.

REYNOLD W. SIMPSON has served with us since August 1997, most recently as Senior Vice President and Chief Operating Officer. From February 1996 to July 1997, Mr. Simpson was Vice President of Manufacturing at GateField, a semiconductor manufacturing company. Prior to joining GateField, Mr. Simpson was Operations Manager at LSI Logic, a semiconductor manufacturing company, from March 1990 to February 1996 and Quality Director from February 1989 to March 1990. Mr. Simpson holds a Mechanical Engineering Certificate from the Coatbridge Polytechnic Institute in Scotland, a degree in Technical Horology (Mechanical Engineering) from the Barmulloch Polytechnic Institute in Scotland and studied for a degree in Electronic Engineering at the Kingsway Polytechnic Institute in Scotland.

ARTHUR O. WHIPPLE has served as our Vice President, Finance, Chief Financial Officer and Secretary since April 1998. From April 1994 to April 1998, Mr. Whipple was employed by ILC Technology, a manufacturer of high performance lighting products, as its Vice President of Engineering and by its subsidiary, Precision Lamp, a manufacturer of high-performance lighting products, as its Vice President of Finance and Operations. From February 1990 to April 1994, Mr. Whipple served as the President of Aqua Design, a privately-held provider of water treatment services and equipment. Mr. Whipple holds a B.S.E.E. from the University of Washington and an M.B.A. from Santa Clara University.

RONALD D. ZIMMERMAN has served as our Vice President, Administration since October 1996. From August 1988 to October 1996, Mr. Zimmerman was Human Resources Director of the Analog Products Group at National Semiconductor, as well as group human resources director of the corporate technology and quality/reliability organizations and the human resources director of corporate administration. Mr. Zimmerman holds a B.A. in Sociology and Psychology and an M.A. in Psychology from San Jose State University.

IRWIN FEDERMAN has served as chairman of our board of directors since September 1989. Mr. Federman has been a general partner of U.S. Venture Partners, a venture capital company, since 1990. From 1988 to 1990, he was a Managing Director of Dillon Read & Co., an investment banking firm, and a general partner in its venture capital affiliate, Concord Partners. Mr. Federman serves on the boards of directors of the following public companies: SanDisk, a semiconductor company; Komag,

a thin film media manufacturer; Centillium Communications, a communications semiconductor company; Netro, a wireless systems company and Check Point Software Technologies, a network security software company. Mr. Federman holds a B.S. in Economics from Brooklyn College and has been awarded an honorary Doctorate of Engineering Science from Santa Clara University.

DONALD P. BEADLE has served as a member of our board of directors since July 1997. Since June 1994, Mr. Beadle has been President of Beadle Associates, a consulting firm. From May 1997 to July 1997, Mr. Beadle was a consultant at Interwave Communications, a developer of microcell systems, where he served as Acting Vice President of Sales and Sales Operations. From October 1994 to December 1996, he was a consultant for Asian business development at National Semiconductor. At National Semiconductor, he was Managing Director, Southeast Asia from 1993 until June 1994, Vice President of Worldwide Marketing and Sales, International Business Group from 1987 until 1993, and Managing Director, Europe from 1982 to 1986. Mr. Beadle was employed by National Semiconductor in executive sales and marketing positions for 34 years until June 1994, at which time he was Executive Vice President, Worldwide Sales and Marketing. Mr. Beadle serves on the board of directors of one public company, Komag, a thin film media manufacturer. He received his technical education at the University of Connecticut and the Bridgeport Institute of Engineering.

ROBERT J. BOEHLKE has served as a member of our board of directors since December 2000. Mr. Boehlke was most recently Executive Vice President and Chief Financial Officer of KLA-Tencor, a position he held until his retirement in June 2000. He joined KLA Instruments in 1983 and served as the general manager of various operating groups through 1990 when he became Chief Financial Officer. He was a partner at the investment banking firm of Kidder, Peabody & Company from 1971 until 1983. Mr. Boehlke serves on the boards of LTX, a test equipment manufacturer, and Entegris, a manufacturer of materials management products for

the semiconductor industry. He holds a bachelor's degree in engineering from the U.S. Military Academy at West Point and an M.B.A. from Harvard University.

MICHAEL J. CALLAHAN has served as a member of our board of directors since July 1997. From March 1990 through his retirement in September 2000, Mr. Callahan served as Chairman of the Board, President and Chief Executive Officer of Waferscale Integration, a producer of peripheral integrated circuits. From 1987 to March 1990, Mr. Callahan was President of Monolithic Memories, now a subsidiary of Advanced Micro Devices, a semiconductor manufacturing company. He was Senior Vice President of Programmable Products at Advanced Micro Devices. From 1978 to 1987, Mr. Callahan held a number of positions at Monolithic Memories including Vice President of Operations and Chief Operating Officer. Prior to joining Monolithic Memories, he worked at Motorola Semiconductor, a semiconductor manufacturing company, for 16 years where he was Director of Research and Development as well as Director of Linear Operations. Mr. Callahan holds a B.S.E.E. from the Massachusetts Institute of Technology.

EXECUTIVE OFFICERS

Our executive officers are elected by, and serve at the discretion of, our board of directors. There are no family relationships among our directors and officers.

BOARD OF DIRECTORS

We currently have authorized six directors. Our directors consist of Messrs. Beadle, Boehlke, Callahan, Chua, Federman and Hart. All directors hold office until the next annual meeting of stockholders or until their successors are duly qualified and elected. Our certificate of incorporation provides that our board of directors will be divided into three classes, each with staggered three-year terms. As a result, only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms.

Messrs. Beadle and Callahan have been designated as Class I directors, whose term expires at the 2003 annual meeting of stockholders; Messrs. Chua and Federman have been designated as Class II directors, whose term expires at the 2001 annual meeting of stockholders; and Mr. Hart and Mr. Boehlke have been designated as Class III directors, whose terms expire at the 2002 annual meeting of stockholders. Mr. Federman will not stand for reelection at the 2001 annual meeting of stockholders.

BOARD COMMITTEES

Our board of directors has an audit committee and a compensation committee.

AUDIT COMMITTEE. The audit committee was formed in June 1995 and currently consists of Messrs. Beadle, Callahan and Federman. The audit committee reviews the results and scope of the annual audit and other services provided by our independent accountants, reviews and evaluates our internal control functions and monitors financial transactions between us and our employees, officers and directors.

COMPENSATION COMMITTEE. The compensation committee was formed in June 1995 and currently consists of Messrs. Beadle, Callahan and Federman. The compensation committee administers the 1989 stock option plan, 1999 stock plan and 1999 employee stock purchase plan, and reviews the compensation and benefits for our executive officers.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Prior to establishing the compensation committee, the board of directors as a whole performed the functions delegated to the compensation committee. No member of the compensation committee or executive officer of QuickLogic has a relationship that would constitute an interlocking relationship with executive officers or directors of another entity.

ITEM 2. PROPERTIES

Our principal administrative, sales, marketing, research and development and final testing facility is located in a building of approximately 42,624 square feet in Sunnyvale, California. This facility is leased through 2003 with an

option to renew through 2006. In addition, we lease sales offices near London and in Hong Kong and engineering offices in Hillsborough, Oregon and La Palma, California. The London office is leased through September 2004, and the Hong Kong office is leased through September 2001. The Hillsborough office is leased through December 2001 and the La Palma office is leased through January 2004. We believe that our existing facilities are adequate for our current needs.

ITEM 3. LEGAL PROCEEDINGS

On March 29, 2000, Unisys Corporation filed a patent infringement lawsuit against the Company alleging that the Company infringed three of Unisys' patents. The Company does not believe that the resolution of this lawsuit will have a material adverse impact on the Company's financial condition or results of operations. No assurance can be given, however, that these matters will be resolved without the Company becoming obligated to make payments or to pay other costs to the opposing party, with the potential for an adverse effect on the Company's financial position or its results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our Common Stock has been traded on The Nasdaq Stock Market's National Market under the symbol "QUIK" since October 15, 1999, the date of our initial public offering. The following table sets forth for the periods indicated the high and low closing prices for the Common Stock, as reported on The Nasdaq Stock Market's National Market:

<TABLE>
<CAPTION>

<S>	HIGH <C>	LOW <C>
FISCAL YEAR ENDING DECEMBER 31, 1999		
Fourth Quarter (from October 15, 1999)....................	$19.563	$12.938
FISCAL YEAR ENDING DECEMBER 31, 2000		
First Quarter (through March 31, 2000)....................	$39.500	$13.750
Second Quarter (through June 30, 2000)....................	$32.938	$20.250
Third Quarter (through September 29, 2000)................	$27.781	$14.063
Fourth Quarter (through December 29, 2000)................	$17.625	$ 5.000

</TABLE>

The last reported sale price of our Common Stock on The Nasdaq Stock Market's National Market was $6.50 per share on February 28, 2001. As of February 28, 2001, there were 20,245,382 shares of Common Stock outstanding that were held of record by approximately 346 stockholders.

We commenced our initial public offering on October 15, 1999 pursuant to a Registration Statement on Form S-1 (File No. 333-28833) which was declared effective by the Securities and Exchange Commission on October 14, 1999. The Company sold an aggregate of 3,770,635 shares of Common Stock in our initial public offering at an initial price to the public of $10.00 per share. In addition, a selling stockholder sold 3,896,415 shares of Common Stock in our initial public offering at an initial price to the public of $10.00 per share. Our initial public offering has terminated and all shares have been sold. The managing underwriters of our initial public offering were Robertson Stephens, Bear, Stearns & Co. Inc. and SoundView Technology Group. Aggregate proceeds from our initial public offering were $76,670,500, which includes $10,000,500 in aggregate proceeds due to the exercise of the underwriters' option to purchase shares to cover over-allotments.

We paid underwriters' discounts and commissions of $2,639,444.50 and no additional offering expenses in connection with our initial public offering. The total expenses we paid in our initial public offering were $1,190,000, and the net proceeds to us of our initial public offering were $33.9 million.

The Company completed a follow-on public offering of its common stock on April 12, 2000. The underwriters' over-allotment option was exercised and QuickLogic sold a total of 1,629,269 common shares at $23.50 per share. Proceeds, net of underwriting discounts and commissions and related offering expenses, of $35.5 million were received.

From October 14, 1999, the effective date of the Registration Statement, to December 31, 2000, the ending date of the reporting period, the approximate amount of net offering proceeds used were $20.0 million for general business operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

DIVIDEND POLICY

We have never declared or paid any dividends on our capital stock. We currently expect to retain future earnings, if any, for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, (IN THOUSANDS, EXCEPT PER SHARE DATA)				
	1996	1997	1998	1999	2000
STATEMENT OF OPERATIONS DATA:					
Revenue	$23,758	$ 28,460	$30,007	$39,785	$53,342
Cost of revenue	11,158	16,855	14,303	17,103	21,068
Gross profit	12,600	11,605	15,704	22,682	32,274
Operating expenses:					
Research and development	4,642	6,235	6,294	7,355	9,300
Selling, general and administrative	7,730	10,981	9,368	12,618	17,137
Contract termination and legal(1)	4,125	28,309	--	--	--
Net operating income (loss)	(3,897)	(33,920)	42	2,709	5,837
Interest expense	(60)	(162)	(161)	(97)	(49)
Interest income and other, net	360	434	364	549	3,842
Net income (loss)	$(3,597)	$(33,648)	$ 245	3,161	9,630
Net income (loss) per share:					
Basic	$ (4.66)	$ (10.41)	$ 0.06	$ 0.42	$ 0.49
Diluted	$ (4.66)	$ (10.41)	$ 0.02	$ 0.19	$ 0.45
Weighted average shares:					
Basic	772	3,232	4,231	7,615	19,486
Diluted	772	3,232	14,645	16,400	21,614

</TABLE>

<TABLE>
<CAPTION>

	DECEMBER 31, (IN THOUSANDS)				
	1996	1997	1998	1999	2000
BALANCE SHEET DATA:					
Cash	$10,336	$ 7,331	$ 7,595	$34,558	$ 70,210
Working capital (deficit)	10,650	2,395	(3,319)	32,568	75,539
Total assets	22,577	19,951	16,168	50,482	100,307
Long-term obligations(2)	602	7,724	591	128	1,121
Total stockholders' equity (deficit)	11,799	(1,756)	(975)	37,005	85,734

</TABLE>

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(1) Contract termination and legal expenses include a charge of $23.0 million in the year ended December 31, 1997 for termination of an agreement with Cypress Semiconductor Corporation, and charges of $4.1 million and $5.3 million in the years ended December 31, 1996 and 1997, respectively, for the legal and settlement costs associated with the Actel Corporation litigation. See note 12 of notes to consolidated financial statements.

(2) Long term obligations at December 31, 1997 include obligations under the Actel litigation settlement. At December 31, 1998, this obligation is classified as a current liability. We paid all of our remaining obligations under the settlement on November 3, 1999. See note 12 of notes to consolidated financial statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXPLANATORY NOTE

STATEMENTS IN THIS SECTION, AND ELSEWHERE IN THIS ANNUAL REPORT ON FORM 10-K, WHICH EXPRESS THAT THE COMPANY "BELIEVES", "ANTICIPATES" OR "PLANS TO...", AS WELL AS OTHER STATEMENTS WHICH ARE NOT HISTORICAL FACT, ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. ACTUAL EVENTS OR RESULTS MAY DIFFER MATERIALLY AS A RESULT OF THE RISKS AND UNCERTAINTIES DESCRIBED HEREIN AND ELSEWHERE INCLUDING, IN PARTICULAR, THOSE FACTORS DESCRIBED UNDER "FACTORS AFFECTING FUTURE RESULTS."

OVERVIEW

We design and sell field programmable gate arrays, embedded standard products associated software and programming hardware. From our inception in April 1988 through the third quarter of 1991, we were primarily engaged in product development. In 1991, we introduced our first line of field programmable gate array products, or FPGAs, based upon our ViaLink technology. FPGAs have accounted for substantially all of our product revenue to date. We currently have four FPGA product families: pASIC 1, introduced in 1991; pASIC 2, introduced in 1996; and pASIC 3, introduced in 1997. We introduced our Eclipse family of FPGAs in 2000. The newer product families generally contain greater logic capacity, but do not necessarily replace sales of older generation products.

In September 1998, we introduced QuickRAM, our first line of embedded standard products, or ESPs. Our ESPs are based on our FPGA technology. In April 1999, we introduced QuickPCI, our second line of ESPs. Revenue for our QuickRAM and QuickPCI products together accounted for approximately 12% of our total revenue in 2000. During 2000, we introduced the QuickFC, QuickDSP, QuickSD and QuickMIPS families of ESPs. We also license our QuickWorks and QuickTools design software and sell our programming hardware, which together have typically accounted for less than 5% of total revenue.

We sell our products through two channels. We sell the majority of our products through distributors who have contractual rights to earn a negotiated margin on the sale of our products. We refer to these distributors as point-of-sale distributors. We defer recognition of revenue for sales of unprogrammed products to these point-of-sale distributors until after they have sold these products to systems manufacturers. We recognize revenue on programmed products at the time of shipment. More than half of our products sold by point-of-sale distributors are programmed by us and are not returnable by these point-of-sale distributors. We also sell our products directly to systems manufacturers and recognize revenue at the time of shipment. The percentage of sales derived through each of these channels in 1999 was 80% and 20%, respectively, and 69% and 31% in 2000, respectively.

Four distributors accounted for 24%, 11%, 10% and 6% of sales, respectively, in 1999 and five distributors accounted for approximately 20%, 8%, 7%, 6% and 6% of sales, respectively, in 2000. Two customers each accounted for 6% of sales in 2000. No other distributor or direct customer accounted for more than 5% of sales in 1999 or 2000. We expect that a limited number of distributors will continue to account for a significant portion of our total sales.

Our international sales were 47%, 48% and 38% of our total sales for 1998, 1999 and 2000, respectively. We expect that revenue derived from sales to international customers will continue to represent a significant and growing

portion of our total revenue. All of our sales are denominated in U.S. dollars.

Average selling prices for our products typically decline rapidly during the first six to 12 months after their introduction, then decline less rapidly as the products mature. We attempt to maintain gross margins even as average selling prices decline through the introduction of new products with higher

margins and through manufacturing efficiencies and cost reductions. However, the markets in which we operate are highly competitive, and there can be no assurance that we will be able to successfully maintain gross margins. Any significant decline in our gross margins will materially harm our business.

We outsource the wafer manufacturing, assembly and test of all of our products. We rely upon TSMC and Cypress to manufacture our products, and we rely primarily upon Amkor and ChipPAC to assemble and test our products. Under our arrangements with these manufacturers, we are obligated to provide forecasts and enter into binding obligations for anticipated purchases. This limits our ability to react to fluctuations in demand for our products, which could lead to excesses or shortages of wafers for a particular product.

RESULTS OF OPERATIONS

The following table sets forth the percentage of revenue for certain items in our statements of operations for the periods indicated:

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1998	1999	2000
<S>	<C>	<C>	<C>
Revenue	100.0%	100.0%	100.0%
Cost of revenue	47.7%	43.0%	39.5%
Gross profit	52.3%	57.0%	60.5%
Operating Expenses:			
Research and development	21.0%	18.5%	17.4%
Selling, general and administrative	31.2%	31.7%	32.2%
Net operating income	0.1%	6.8%	10.9%
Interest expense	(0.5)%	(0.2)%	(0.1)%
Interest income and other, net	1.2%	1.4%	7.3%
Net income	0.8%	8.0%	18.1%

</TABLE>

YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000

REVENUE. Our revenue for 1998, 1999 and 2000 was $30.0 million, $39.8 million and $53.3 million, respectively, representing growth of 32.6% from 1998 to 1999 and 34.1% from 1999 to 2000. The majority of the 1999 increase in revenue, as compared with 1998, was due to growth in sales of our pASIC 3 products, the third generation of our FPGAs. Our pASIC 3 revenue increased in 1999 by approximately $4.4 million. In 1999, our pASIC 1 and pASIC 2 revenues together increased by approximately $3.0 million and revenue from our QuickRAM products, introduced in September 1998, increased by approximately $2.4 million. The majority of the 2000 increase in revenue, as compared with 1999, was due to continued growth in sales of our pASIC 3 products. Our pASIC 3 revenue increased in 2000 by approximately $6.5 million. In 2000, our pASIC 1 and pASIC 2 revenues together increased by approximately $3.0 million and revenue from our ESP products increased by approximately $4.0 million. In aggregate, unit sales increased in both 1999 and 2000. The 2000 increase was the result of higher unit sales and slightly higher average selling prices.

GROSS PROFIT. Gross profit was $15.7 million, $22.7 million and $32.3 million in 1998, 1999 and 2000, respectively, which was 52.3%, 57.0% and 60.5% of revenue for those periods. The increase in 1999, as compared with 1998, was primarily due to the continued growth in sales and the introduction of higher-margin QuickRAM products. The 1999 increase was partially offset by a slight decrease in the average selling price of the older pASIC 1 and pASIC 2

product families. The increase in 2000, as compared with 1999, was primarily due to the continued growth in sales and the introduction of higher-

margin ESP products. The 2000 increase was partially offset by a slight decrease in the average selling price of the older pASIC 1 and pASIC 2 product families.

RESEARCH AND DEVELOPMENT EXPENSE. Research and development expense was $6.3 million, $7.4 million and $9.3 million in 1998, 1999 and 2000 respectively, which was 21.0%, 18.5% and 17.4% of revenue for those periods. The increase in research and development spending in 1999 and 2000 were primarily due to an increase in the number of employees involved in research and development as we accelerated the introduction of new products, particularly our ESPs. We believe that continued investments in process technology and product development are essential for us to remain competitive in the markets we serve. Specifically in regard to our ESPs, we expect to continue to increase research and development spending.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE. Selling, general and administrative expense was $9.4 million, $12.6 million and $17.1 million in 1998, 1999 and 2000, respectively, which was 31.2%, 31.7% and 32.2% of revenue for those periods. The increases in 1999 and 2000 were primarily due to hiring of additional sales and marketing personnel and increased sales commissions. We anticipate that selling, general and administrative expense will continue to increase in absolute dollars as we invest in our business and seek to find new customers for our products.

DEFERRED COMPENSATION. With respect to the grant of stock options to employees, we recorded aggregate deferred compensation of $204,000 and $908,000 in 1998 and 1999, respectively. There was no deferred compensation recorded in 2000. The amount of deferred compensation is presented as a reduction of stockholders' equity and amortized ratably over the vesting period of the applicable options, generally four years. We amortized $426,000, $512,000, and $589,000 in 1998, 1999 and 2000, respectively. The amortization of deferred compensation is recorded as research and development and selling, general and administrative expenses, depending on the related employees' activities.

INTEREST AND OTHER INCOME, NET. Interest and other income, net of expense, was $203,000, $452,000 and $3,793,000 in 1998, 1999 and 2000, respectively. Interest and other income decreased in 1998 as interest income on increased cash balances was offset by interest expense incurred as a result of new equipment financing arrangements. The increase in 1999 and 2000 interest income was due mainly to our investment of proceeds from the October 1999 initial public offering and April 2000 follow-on offering.

PROVISION FOR INCOME TAXES

No provision for income taxes was recorded for the years ended December 31, 1998, 1999 and 2000, as we were able to utilize a portion of our state and federal net operating loss carryforwards and other tax attributes. At December 31, 2000, we had net operating loss carryforwards for federal and state tax purposes of approximately $37 million and $7 million, respectively. These carryforwards, if not utilized to offset future taxable income and income taxes payable, will continue to expire through 2018.

LIQUIDITY AND CAPITAL RESOURCES

We have been profitable since the third quarter of 1998. On October 15, 1999, we completed an initial public offering of our common stock in which we sold a total of 3,770,635 shares at $10.00 per share for total proceeds of $33.9 million, net of underwriting discounts, commissions and issuance costs. On April 12, 2000, we completed a follow-on public offering in which we sold 1,629,629 shares at $23.50 per share for total net proceeds of $35.5 million, net of underwriting discounts, commissions and issuance costs. At December 31, 2000, we had $70.2 million in cash and cash equivalents, an increase of $35.7 million from cash and cash equivalents held at December 31, 1999. This increase was due primarily to money received as part of our follow-on public offering. As of December 31, 2000, we had an accumulated deficit of $48.4 million.

We have an equipment financing line with a commercial bank. At December 31, 2000, we had obligations of $142,000 outstanding under this equipment line with

no remaining available balance. The outstanding obligations under the equipment line are due over the next one to three years. The interest rate on these borrowings is at the bank's prime interest rate plus 0.25%.

Net cash provided by (used for) operating activities was $2.3 million, $(3.2) million and $4.2 million in 1998, 1999 and 2000, respectively. Inventory reductions were the primary source of cash in 1998. In 1999, we paid our remaining obligations to Actel per the August 1998 settlement agreement. Net income and an increase in accounts payable were the primary sources of cash in 1999. Net income and an increase in depreciation were the primary sources of cash in 2000. These increases were partially offset by increases in inventories and prepaid expenses. Our operating cash flow activities are affected by changes in our accounts receivable and related allowances. At December 31, 1998, 1999 and 2000 we had allowances for doubtful accounts totaling $245,000, $194,000 and $294,000, respectively. We have not had any material collection issues to date.

Net cash used for investing activities was $679,000, $3.3 million and $6.6 million in 1998, 1999 and 2000, respectively. All of this cash was used for the acquisition of property and equipment. We intend to purchase approximately $7.0 million of additional capital assets and make an investment of approximately $14.0 million in Tower Semiconductor during 2001.

Net cash provided by (used for) financing activities was $(1.4) million, $33.4 million and $38.0 million in 1998, 1999 and 2000, respectively. In 1999 and 2000 the primary source of cash was our initial public offering and our follow-on offering. Cash was used to repay bank debt of $1.5 million, $1.2 million and $470,000 in 1998, 1999 and 2000, respectively.

We require substantial working capital to fund our business, particularly to finance inventories and accounts receivable. Our future capital requirements will depend on many factors, including the rate of sales growth, market acceptance of our existing and new products, the amount and timing of research and development expenditures, the timing of the introduction of new products and expansion of sales and marketing efforts. There can be no assurance that additional equity or debt financing, if required, will be available on satisfactory terms. We believe the net proceeds of our offerings combined with existing capital resources and cash generated from operations will be sufficient to meet our needs for the next 12 months, although we could seek to raise additional capital during that period. After the next 12 months, our capital and operating requirements will depend on many factors, including the levels at which we maintain inventory and accounts receivable, costs of securing access to adequate manufacturing capacity and increases in our operating expenses.

INFLATION

The impact of inflation on our business has not been material for the fiscal years ended December 31, 1998, 1999 and 2000.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In March 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25." This interpretation has provisions that are effective on staggered dates, some of which began after December 15, 1998 and others that became effective July 1, 2000. The adoption of this interpretation did not have a material impact on the financial statements.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition

in financial statements. We have adopted SAB 101 effective the first quarter of fiscal year 2000. The adoption of SAB 101 did not have a material impact on the Company's financial statements.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 established a model for accounting for derivatives and hedging activities and supersedes and amends a number of existing accounting standards. SFAS No. 133 requires that all derivatives be recognized in the balance sheet at their fair market value, and the corresponding derivative gains or losses be either reported in the statement

of operations or as a deferred item depending on the type of hedge relationship that exists with respect to such derivative. We have adopted SFAS No. 133, as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of Effective Date of FASB Statement No. 133," effective January 1, 2001. We do not currently, nor do we plan to, enter into forward exchange contracts to hedge exposures denominated in foreign currencies or any other derivative financial instruments for trading or speculative purposes.

FACTORS AFFECTING FUTURE RESULTS

OUR FUTURE OPERATING RESULTS ARE LIKELY TO FLUCTUATE AND THEREFORE MAY FAIL TO MEET EXPECTATIONS WHICH COULD CAUSE OUR STOCK PRICE TO DECLINE

Our operating results have varied widely in the past and are likely to do so in the future. In addition, our operating results may not follow any past trends. Our future operating results will depend on many factors and may fail to meet our expectations for a number of reasons, including those set forth in these risk factors. Any failure to meet expectations could cause our stock price to significantly fluctuate or decline.

Factors that could cause our operating results to fluctuate that relate to our internal operations include:

- the need for continual, rapid new product introductions;

- changes in our product mix; and

- our inability to adjust our fixed costs in the face of any declines in sales.

Factors that could cause our operating results to fluctuate that depend upon our suppliers and customers include:

- the timing of significant product orders, order cancellations and reschedulings;

- the availability of production capacity and fluctuations in the manufacturing yields at the facilities that manufacture our devices; and

- the cost of raw materials and manufacturing services from our suppliers.

Factors that could cause our operating results to fluctuate that are industry risks include:

- intense competitive pricing pressures;

- introductions of or enhancements to our competitors' products; and

- the cyclical nature of the semiconductor industry.

Our day-to-day business decisions are made with these factors in mind. Although certain of these factors are out of our immediate control, unless we can anticipate, and be prepared with contingency plans that respond to these factors, we will be unsuccessful in carrying out our business plan.

WE CANNOT ASSURE YOU THAT WE WILL REMAIN PROFITABLE BECAUSE WE HAVE A HISTORY OF LOSSES AND HAVE ONLY RECENTLY BECOME PROFITABLE

We incurred significant losses from our inception in 1988 through 1997. Our accumulated deficit as of December 31, 2000 was $48.4 million. We had net income of $9.6 million in 2000. We cannot assure you that we will be profitable in any future periods and you should not rely on the historical growth of our revenue and our recent profitability as any indication of our future operating results or prospects.

IF WE FAIL TO SUCCESSFULLY DEVELOP, INTRODUCE AND SELL NEW PRODUCTS, WE MAY BE UNABLE TO COMPETE EFFECTIVELY IN THE FUTURE

We operate in a highly competitive, quickly changing environment marked by rapid obsolescence of existing products. Our future success depends on our ability to develop, introduce and successfully market new products, including embedded standard products, or ESPs. We introduced our ESPs in September 1998.

To date, we have been selling our ESPs in limited quantities, and revenue from our ESPs has been very small. If any of the following occur, our business will be materially harmed:

- we fail to complete and introduce new product designs in a timely manner;

- we are unable to have these new products manufactured according to design specifications;

- our customers do not successfully introduce new systems or products incorporating our products;

- our sales force and independent distributors do not create adequate demand for our products; or

- market demand for our new products, such as ESPs, does not develop as anticipated.

WE HAVE ONLY RECENTLY INTRODUCED OUR EMBEDDED STANDARD PRODUCTS; THEREFORE, WE CANNOT ACCURATELY PREDICT THEIR FUTURE LEVEL OF ACCEPTANCE BY OUR CUSTOMERS, AND WE MAY NOT BE ABLE TO GENERATE ANTICIPATED REVENUE FROM THESE PRODUCTS

We have only recently started selling embedded standard products. In 2000, ESPs accounted for approximately 12% of our revenue. We do not know the extent to which systems manufacturers will purchase or utilize our ESPs. Since we anticipate that ESPs will become an increasingly larger component of our business, their failure to gain acceptance with our customers would materially harm our business. We cannot assure you that our ESPs will be commercially successful or that these products will result in significant additional revenues or improved operating margins in future periods.

IF THE MARKET IN WHICH WE SELL OUR EMBEDDED STANDARD PRODUCTS DOES NOT GROW AS WE ANTICIPATE, IT WILL MATERIALLY AND ADVERSELY AFFECT OUR ANTICIPATED REVENUE

The market for embedded standard products is relatively new and still emerging. If this market does not grow at the rate we anticipate, our business will be materially harmed. One of the reasons that this market might not grow as we anticipate is that many systems manufacturers are not yet fully aware of the benefits provided by embedded standard products, in general, or the benefits of our ESPs, specifically. Additionally, systems manufacturers may use existing technologies other than embedded standard products or yet to be introduced technologies to satisfy their needs. Although we have devoted and intend to continue to devote significant resources promoting market awareness of the benefits of embedded standard products, our efforts may be unsuccessful or insufficient.

WE EXPEND SUBSTANTIAL RESOURCES IN DEVELOPING AND SELLING OUR PRODUCTS, AND WE MAY BE UNABLE TO GENERATE SIGNIFICANT REVENUE AS A RESULT OF THESE EFFORTS

To establish market acceptance of our products, we must dedicate significant resources to research and development, production and sales and marketing. We experience a long delay between the time

when we expend these resources and the time when we begin to generate revenue, if any, from these expenditures. Typically, this delay is one year or more. We record as expenses the costs related to the development of new semiconductor products and software as these expenses are incurred. As a result, our profitability from quarter to quarter and from year to year may be materially and adversely affected by the number and timing of our new product introductions in any period and the level of acceptance gained by these products.

OUR CUSTOMERS MAY CANCEL OR CHANGE THEIR PRODUCT PLANS AFTER WE HAVE EXPENDED SUBSTANTIAL TIME AND RESOURCES IN THE DESIGN OF THEIR PRODUCTS

If one of our potential customers cancels, reduces or delays product orders from us or chooses not to release equipment that incorporates our products after we have spent substantial time and resources in designing a product, our business could be materially harmed. Our customers often evaluate our products for six to twelve months or more before designing them into their systems, and

they may not commence volume shipments for up to an additional six to twelve months, if at all. During this lengthy sales cycle, our potential customers may also cancel or change their product plans. Even when customers incorporate one or more of our products into their systems, they may ultimately discontinue the shipment of their systems that incorporate our products. Customers whose products achieve high volume production may choose to replace our products with lower cost customized semiconductors.

WE WILL BE UNABLE TO COMPETE EFFECTIVELY IF WE FAIL TO ANTICIPATE PRODUCT OPPORTUNITIES BASED UPON EMERGING TECHNOLOGIES AND STANDARDS AND FAIL TO DEVELOP PRODUCTS THAT INCORPORATE THESE TECHNOLOGIES AND STANDARDS

We may spend significant time and money on research and development to design and develop products around an emerging technology or industry standard. To date, we have introduced only one product family, QuickPCI, that is designed to support a specific industry standard. If an emerging technology or industry standard that we have identified fails to achieve broad market acceptance in our target markets, we may be unable to generate significant revenue from our research and development efforts. Moreover, even if we are able to develop products using adopted standards, our products may not be accepted in our target markets. As a result, our business would be materially harmed.

We have limited experience in designing and developing products that support industry standards. If systems manufacturers move away from the use of industry standards that we support with our products and adopt alternative standards, we may be unable to design and develop new products that conform to these new standards. The expertise required is unique to each industry standard, and we would have to either hire individuals with the required expertise or acquire such expertise through a licensing arrangement or by other means. The demand for individuals with the necessary expertise to develop a product relating to a particular industry standard is generally high, and we may not be able to hire such individuals. The cost to acquire such expertise through licensing or other means may be high and such arrangements may not be possible in a timely manner, if at all.

WE MAY ENCOUNTER PERIODS OF INDUSTRY-WIDE SEMICONDUCTOR OVERSUPPLY, RESULTING IN PRICING PRESSURE AND UNDERUTILIZATION OF MANUFACTURING CAPACITY, AS WELL AS UNDERSUPPLY, RESULTING IN A RISK THAT WE COULD BE UNABLE TO FULFILL OUR CUSTOMERS' REQUIREMENTS

The semiconductor industry has historically been characterized by wide fluctuations in the demand for, and supply of, its products. These fluctuations have resulted in circumstances when supply and demand for the industry's products have been widely out of balance. Our operating results may be materially harmed by industry-wide semiconductor oversupply, which could result in severe pricing pressure and underutilization of our manufacturing capacity. In a market with undersupply, we would have to compete with larger foundry customers for limited manufacturing capacity. In such an environment, we may be unable to have our products manufactured in a timely manner or in quantities

necessary to meet our requirements. Since we outsource all of our manufacturing, we are particularly vulnerable to such supply shortages. As a result, we may be unable to fulfill orders and may lose customers. Any future industry-wide oversupply or undersupply of semiconductors would materially harm our business.

NONE OF OUR PRODUCTS IS CURRENTLY MANUFACTURED BY MORE THAN ONE MANUFACTURER, WHICH EXPOSES US TO THE RISK OF HAVING TO IDENTIFY AND QUALIFY ONE OR MORE SUBSTITUTE SUPPLIERS

We depend upon independent third parties to manufacture, assemble and test our semiconductor products. None of our products is currently manufactured by more than one manufacturer. We have contractual arrangements with two of our foundry manufacturers of semiconductors, Tower Semiconductor Ltd. and Cypress Semiconductor Corporation, to provide us with specified manufacturing capacity. The Tower facility is not yet operational. We entered into a manufacturing agreement with TSMC in 1997. That agreement provided us access to guaranteed capacity but required us to commit to purchase a specific number of wafers each year. In July 2000, TSMC notified us that the agreement had expired, and although we do not agree with TSMC, we are currently negotiating a new contract with TSMC. Since July 2000, TSMC has not committed guaranteed capacity to us and we have not been required to purchase specific numbers of wafers. We have purchased product from TSMC on a purchase order basis since that date. Our

assembly and test work is also done on a purchase order basis. If we are unable to secure adequate manufacturing capacity from Tower, TSMC, Cypress or other suppliers to meet our supply requirements, our business will be materially harmed. Processes used to manufacture our products are complex, customized to our specifications and can only be performed by a limited number of manufacturing facilities. If our current manufacturing suppliers are unable or unwilling to provide us with adequate manufacturing capacity, we would have to identify and qualify one or more substitute suppliers for a substantial majority of our products. Our manufacturers may experience unanticipated events, like the September 1999 Taiwan earthquake, that could inhibit their abilities to provide us with adequate manufacturing capacity on a timely basis, or at all. Introducing new products or transferring existing products to a new third party manufacturer would require significant development time to adapt our designs to their manufacturing processes and could cause product shipment delays. In addition, the costs associated with manufacturing our products may increase if we are required to use a new third party manufacturer. If we fail to satisfy our manufacturing requirements, our business would be materially harmed.

IF WE FAIL TO ADEQUATELY FORECAST DEMAND FOR OUR PRODUCTS, WE MAY INCUR PRODUCT SHORTAGES OR EXCESS PRODUCT INVENTORY.

Our agreements with third-party manufacturers require us to provide forecasts of our anticipated manufacturing orders, and place binding manufacturing orders in advance of receiving purchase orders from our customers. This may result in product shortages or excess product inventory because we are not permitted to increase or decrease our rolling forecasts under such agreements. Obtaining additional supply in the face of product shortages may be costly or not possible, especially in the short term. Our failure to adequately forecast demand for our products would materially harm our business.

FLUCTUATIONS IN OUR PRODUCT YIELDS, ESPECIALLY OUR NEW PRODUCTS, MAY INCREASE THE COSTS OF OUR MANUFACTURING PROCESS.

Difficulties in the complex semiconductor manufacturing process can render a substantial percentage of semiconductor wafers nonfunctional. We have, in the past, experienced manufacturing runs that have contained substantially reduced or no functioning devices. Varying degrees of these yield reductions occur frequently in our manufacturing process. These yield reductions, which can occur without warning, may result in substantially higher manufacturing costs and inventory shortages to us. We may experience yield problems in the future which may materially harm our business. In addition,

yield problems may take a significant period of time to analyze and correct. Our reliance on third party suppliers may extend the period of time required to analyze and correct these problems. As a result, if we are unable to respond rapidly to market demand, our business would suffer.

Yield reductions frequently occur in connection with the manufacture of newly introduced products. Newly introduced products, such as our QuickPCI family of ESPs, are often more complex and more difficult to produce, increasing the risk of manufacturing-related defects. While we test our products, these products may still contain errors or defects that we find only after we have commenced commercial production. Our customers may not place new orders for our products if the products have reliability problems, which would materially harm our business.

WE MAY BE UNABLE TO GROW OUR BUSINESS IF THE MARKETS IN WHICH OUR CUSTOMERS SELL THEIR PRODUCTS DO NOT GROW

Our success depends in large part on the continued growth of various markets that use our products. Any decline in the demand for our products in the following markets could materially harm our business:

- telecommunications and data communications;

- video/audio, graphics and imaging;

- instrumentation and test;

- high-performance computing; or

- military systems.

Slower growth in any of the other markets in which our products are sold may also materially harm our business. Many of these markets are characterized by rapid technological change and intense competition. As a result, systems sold by our customers that use our products may face severe price competition, become obsolete over a short time period, or fail to gain market acceptance. Any of these occurrences would materially harm our business.

IN ORDER TO REMAIN PROFITABLE, WE WILL NEED TO OFFSET THE GENERAL PATTERN OF DECLINES AND FLUCTUATIONS IN THE PRICES OF OUR PRODUCTS

The average selling prices of our products historically have declined during the products' lives by, on average, approximately 7% per year, and we expect this trend to continue. If we are unable to achieve cost reductions, increase unit demand or introduce new higher-margin products in a timely manner to offset these price declines, our business would be materially harmed.

In addition, the selling prices for our products fluctuate significantly with real and perceived changes in the balance of supply and demand for our products and comparable products. The growth in the worldwide supply of field programmable gate arrays in recent periods has added to the decrease in the average selling prices for our products. In addition, we expect our competitors to invest in new manufacturing process technologies and achieve significant manufacturing yield improvements in the future. These developments could increase the worldwide supply of field programmable gate arrays and alternate products and create additional downward pressure on pricing. If the worldwide supply of field programmable gate arrays grows faster than the demand for such products in the future, the price for which we can sell such products may decline, which would materially harm our business.

WE DEPEND UPON THIRD PARTY DISTRIBUTORS TO MARKET AND SELL OUR PRODUCTS, AND THEY MAY DISCONTINUE SALE OF OUR PRODUCTS, FAIL TO GIVE OUR PRODUCTS PRIORITY OR BE UNABLE TO SUCCESSFULLY MARKET, SELL AND SUPPORT OUR PRODUCTS

We employ independent, third-party distributors to market and sell a significant portion of our products. During 2000, approximately 69% of our sales were made through our distributors. Two distributors together accounted for approximately 24% of our sales. No other distributor accounted for more than 10% of our sales. Although we have contracts with our distributors, any of them may terminate their relationship with us on short notice. The loss of one or more of our principal distributors, or our inability to attract new distributors, would materially harm our business. We may lose distributors in the future and we may be unable to recruit additional or replacement distributors. As a result, our future performance will depend in part on our ability to retain our existing distributors and attract new distributors that will be able to market, sell and support our products effectively.

Many of our distributors, including our principal distributors, market and sell products for other companies, and many of these products may compete directly or indirectly with our products. We generally are not one of the principal suppliers of products to our distributors. If our distributors give higher priority or greater attention to the products of other companies, including products that compete with our products, our business would be materially harmed.

WE MAY BE UNABLE TO ACCURATELY PREDICT QUARTERLY RESULTS IF DISTRIBUTORS ARE INACCURATE OR UNTIMELY IN PROVIDING US WITH THEIR RESALE REPORTS, WHICH COULD ADVERSELY AFFECT THE TRADING PRICE OF OUR STOCK

Since we generally recognize revenue from sales to our distributors only when these distributors make sales to customers, we are highly dependent on the accuracy and timeliness of their resale reports. Inaccurate resale reports contribute to our difficulty in predicting and reporting our quarterly revenue and results of operations, particularly in the last month of the quarter. If we fail to accurately predict our revenue and results of operations on a quarterly basis, our stock price could materially fluctuate. Distributors occasionally increase their inventories of our products in anticipation of growth in the demand for our products. If this growth does not occur, distributors will decrease their orders for our products in subsequent periods, and our business would be materially harmed.

CUSTOMERS MAY CANCEL OR DEFER SIGNIFICANT PURCHASE ORDERS OR OUR

DISTRIBUTORS MAY RETURN OUR PRODUCTS, WHICH WOULD CAUSE OUR INVENTORY LEVELS TO INCREASE AND OUR REVENUES TO DECLINE

We sell our products on a purchase order basis through our distributors and direct sales channels, and our distributors or customers may cancel purchase orders at any time with little or no penalty. In addition, our distributor agreements generally permit our distributors to return unprogrammed products to us. Contractually, our distributors are permitted to return up to 10%, by value, of the products they purchase from us every six months. In early 1998, for example, a distributor cancelled a significant purchase order as a result of a customer switching from a product we supply to a competitor's product. The distributor also returned a significant amount of inventory of the product to us, which took approximately 18 months for us to resell. If our customers cancel or defer significant purchase orders or our distributors return our products, our inventories would increase, which would materially harm our business.

MANY SYSTEMS MANUFACTURERS MAY BE UNWILLING TO SWITCH TO OUR PRODUCTS BECAUSE OF THEIR FAMILIARITY WITH THE PRODUCTS OFFERED BY OUR DIRECT COMPETITORS SUCH AS XILINX AND ALTERA, WHICH DOMINATE THE PROGRAMMABLE LOGIC MARKET

The semiconductor industry is intensely competitive and characterized by:

- erosion of selling prices over product lives;

- rapid technological change;

- short product life cycles; and

- strong domestic and foreign competition.

If we are not able to compete successfully in this, environment, our business will be materially harmed. A primary cause of this highly competitive environment is the strengths of our competitors. Our industry consists of major domestic and international semiconductor companies, many of which have substantially greater financial, technical, marketing, distribution and other resources than we do. Our current direct competitors include suppliers of complex programmable logic devices and field programmable gate arrays, such as Xilinx, Altera, Actel, Lattice Semiconductor and Lucent. Xilinx and Altera together have a majority share of the programmable logic market. Many systems manufacturers may be unwilling or unable to switch to our products due to their familiarity with competitors' products or other inhibiting factors.

We also face competition from companies that offer application specific integrated circuits, which may be obtained at lower costs for higher volumes and typically have greater logic capacity, additional features and higher performance than those of our products. We may also face competition from suppliers of products based on new or emerging technologies, including ESPs. Our inability to successfully compete in any of the following areas could materially harm our business:

- the development of new products and manufacturing technologies;

- the quality and price of products and devices;

- the diversity of product lines; or

- the cost effectiveness of design, development, manufacturing and marketing efforts.

WE MAY BE UNABLE TO SUCCESSFULLY MANAGE OUR GROWTH IF WE FAIL TO COMPETE EFFECTIVELY WITH OTHERS TO ATTRACT AND RETAIN KEY PERSONNEL

We believe our future success will depend upon our ability to successfully manage our growth, including attracting and retaining engineers and other highly skilled personnel. Our employees are at-will and not subject to employment contracts. Hiring qualified sales and technical personnel will be difficult due to the limited number of qualified professionals. Competition for these types of employees is intense. We have in the past experienced difficulty in recruiting and retaining qualified sales and technical personnel. For example, in the past 18 months, one of our executive officers resigned to pursue other opportunities. Failure to attract and retain personnel, particularly sales and technical

personnel, would materially harm our business.

WE MAY BE UNABLE TO ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY RIGHTS, AND MAY FACE SIGNIFICANT EXPENSES AS A RESULT OF FUTURE LITIGATION

Protection of intellectual property rights is crucial to our business, since that is how we keep others from copying the innovations which are central to our existing and future products. From time to time, we receive letters alleging patent infringement or inviting us to take a license to other parties' patents. We evaluate these letters on a case-by-case basis. In September 1999, we received an offer to license a patent related to field programmable gate array architecture. We have not yet determined whether this license would be necessary or useful, or whether a license would be obtainable at a reasonable price. Offers such as these may lead to litigation if we reject the opportunity to obtain the license. We have in the past and may again become involved in litigation relating to alleged infringement by us of others' patents or other intellectual property rights. This kind of litigation is expensive to all parties and consumes large amounts of management's time and attention. For example, we incurred substantial costs associated with the litigation and settlement of our dispute with Actel Corporation, which

materially harmed our business. In addition, if the September 1999 letter or other similar matters result in litigation that we lose, a court could order us to pay substantial damages and/or royalties, and prohibit us from making, using, selling or importing essential technologies. For these and other reasons, this kind of litigation would materially harm our business. Also, although we may seek to obtain a license under a third party's intellectual property rights in order to bring an end to certain claims or actions asserted against us, we may not be able to obtain such a license on reasonable terms or at all.

We have entered into technology license agreements with third parties which give those parties the right to use patents and other technology developed by us, and which give us the right to use patents and other technology developed by them. We anticipate that we will continue to enter into these kinds of licensing arrangements in the future; however, it is possible that desirable licenses will not be available to us on commercially reasonable terms. If we lose existing licenses to key technology, or are unable to enter into new licenses which we deem important, it could materially harm our business, and materially and adversely affect our business.

Because it is critical to our success that we are able to prevent competitors from copying our innovations, we intend to continue to seek patent and trade secret protection for our products. The process of seeking patent protection can be long and expensive, and we cannot be certain that any currently pending or future applications will actually result in issued patents, or that, even if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to us. Furthermore, others may develop technologies that are similar or superior to our technology or design around the patents we own. We also rely on trade secret protection for our technology, in part through confidentiality agreements with our employees, consultants and third parties. However, employees may breach these agreements, and we may not have adequate remedies for any breach. In any case, others may come to know about or determine our trade secrets through a variety of methods. In addition, the laws of certain territories in which we develop, manufacture or sell our products may not protect our intellectual property rights to the same extent as do the laws of the United States.

PROBLEMS ASSOCIATED WITH INTERNATIONAL BUSINESS OPERATIONS COULD AFFECT OUR ABILITY TO MANUFACTURE AND SELL OUR PRODUCTS

Most of our products are manufactured outside of the United States at manufacturing facilities operated by our suppliers in Taiwan, South Korea and the Philippines. As a result, our manufacturing operations are subject to risks of political instability, including the risk of conflict between Taiwan and the People's Republic of China and conflict between North Korea and South Korea. Moreover, the majority of available manufacturing capacity for our products is located in Taiwan and South Korea.

Sales to customers located outside the United States accounted for 47%, 48% and 35% of our total sales in 1998, 1999 and 2000, respectively. We anticipate that sales to customers located outside the United States will continue to represent a significant portion of our total sales in future periods and the

trend of foreign customers accounting for an increasing portion of our total sales may continue. In addition, most of our domestic customers sell their products outside of North America, thereby indirectly exposing us to risks associated with foreign commerce. Asian economic instability could also materially and adversely affect our business, particularly to the extent that this instability impacts the sales of products manufactured by our customers. Accordingly, our operations and revenues are subject to a number of risks associated with foreign commerce, including the following:

- managing foreign distributors;

- staffing and managing foreign branch offices;

- political and economic instability;

- foreign currency exchange fluctuations;

- changes in tax laws, tariffs and freight rates;

- timing and availability of export licenses;

- inadequate protection of intellectual property rights in some countries; and

- obtaining governmental approvals for certain products.

In the past we have denominated sales of our products in foreign countries exclusively in U.S. dollars. As a result, any increase in the value of the U.S. dollar relative to the local currency of a foreign country will increase the price of our products in that country so that our products become relatively more expensive to customers in the local currency of that foreign country. As a result, sales of our products in that foreign country may decline. To the extent any such risks materialize, our business would be materially harmed.

OUR PRINCIPAL STOCKHOLDERS HAVE SIGNIFICANT VOTING POWER AND MAY VOTE FOR ACTIONS THAT MAY NOT BE IN THE BEST INTERESTS OF OUR STOCKHOLDERS

Our officers, directors and principal stockholders together control approximately 55.67% of our outstanding common stock. As a result, these stockholders, if they act together, will be able to significantly influence the management and affairs of QuickLogic and all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control and might affect the market price of our common stock. This concentration of ownership may not be in the best interest of our other stockholders.

OUR CERTIFICATE OF INCORPORATION AND BYLAWS AND DELAWARE LAW CONTAIN PROVISIONS THAT COULD DISCOURAGE A TAKEOVER

Our basic corporate documents and Delaware law contain provisions that might enable our management to resist a takeover. These provisions might discourage, delay or prevent a change in the control of QuickLogic or a change in our management. Our certificate of incorporation provides that we will have a classified board of directors, with each class of directors subject to re-election every three years. This classified board when implemented will have the effect of making it more difficult for third parties to insert their representatives on our board of directors and gain control of QuickLogic. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors and take other corporate actions. The existence of these provisions could limit the price that investors might be willing to pay in the future for shares of the common stock.

Our certificate of incorporation also provides that our board of directors may, without further action by the stockholders, issue shares of preferred stock in one or more series and fix the rights, preferences, privileges and restrictions thereof. The issuance of preferred stock could adversely affect the voting power of holders of common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation. In addition, the issuance of preferred stock could have the effect of delaying, deferring or preventing a change in control of QuickLogic. We have no present plan to issue any shares of preferred stock.

A SALE OF A SUBSTANTIAL NUMBER OF SHARES OF OUR COMMON STOCK MAY CAUSE THE PRICE OF OUR COMMON STOCK TO DECLINE

If our stockholders sell substantial amounts of our common stock, including shares issued upon the exercise of outstanding options, the market price of our common stock could fall. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

OUR COMMON STOCK HAS ONLY BEEN PUBLICLY TRADED FOR A SHORT TIME, AND WE EXPECT THE PRICE OF OUR COMMON STOCK WILL FLUCTUATE SUBSTANTIALLY

Prior to our initial public offering on October 15, 1999, there was no public market for shares of our common stock. The market price for our common stock may be affected by a number of factors, including:

- the announcement of new products or product enhancements by us or our competitors;

- quarterly variations in our or our competitors' results of operations;

- changes in earnings estimates or recommendations by securities analysts; developments in our industry; and

- general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

In addition, stock prices for many companies in the technology and emerging growth sectors have experienced wide fluctuations that have often been unrelated to the operating performance of such companies. Such factors and fluctuations may materially and adversely affect the market price of our common stock.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

We do not use derivative financial instruments in our investment portfolio. Our investment portfolio is generally comprised of commercial paper. We place investments in instruments that meet high credit quality standards. These securities are subject to interest rate risk, and could decline in value if interest rates fluctuate. Due to the short duration and conservative nature of our investment portfolio, we do not expect any material loss with respect to our investment portfolio. A 10% move in interest rates as of December 31, 2000 would have an immaterial effect on our pretax earnings and the carrying value of its investments over the next fiscal year.

FOREIGN CURRENCY EXCHANGE RATE RISK

All of the Company's sales, cost of manufacturing and marketing are transacted in U.S. dollars. Accordingly, our results of operations are not subject to foreign exchange rate fluctuations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
QuickLogic Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of QuickLogic Corporation and its subsidiary at December 31, 1999 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the consolidated financial statement schedules listed in the index appearing under item 14(a)2 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
San Jose, California
January 23, 2001,
except as to Note 13, which
is as of March 1, 2001.

QUICKLOGIC CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PAR VALUE AMOUNT)

<TABLE>
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	YEARS ENDED DECEMBER 31,	
	1999	2000
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents..................................	$34,558	$ 70,210
Accounts receivable, net of allowances for doubtful accounts of $194 and $294..............................	5,543	6,578
Inventory..	4,349	10,327
Other current assets....................................	1,467	1,876
Total current assets..................................	45,917	88,991
Property and equipment, net................................	4,510	8,976
Other assets..	55	2,340
	$50,482	$100,307
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Trade payables..	$ 5,202	$ 5,821
Accrued liabilities.......................................	2,405	2,934
Deferred income on shipments to distributors...............	5,026	4,386
Current portion of long-term obligations...................	716	311

Total current liabilities	13,349	13,452
Long-term obligations	128	1,121
	-------	--------
	13,477	14,573
Commitments and contingencies (Notes 11 and 12)		
Stockholders' equity		
Common stock, $0.001 par value; 100,000 shares authorized, 18,102 and 20,209 shares issued and outstanding, respectively	18	20
Additional paid-in capital	96,599	134,970
Stockholder note receivable	(121)	0
Deferred compensation	(1,480)	(875)
Accumulated deficit	(58,011)	(48,381)
	-------	--------
Total stockholders' equity	37,005	85,734
	-------	--------
	$50,482	$100,307
	=======	========

</TABLE>

The accompanying notes form an integral part of these Consolidated Financial Statements

QUICKLOGIC CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
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	YEARS ENDED DECEMBER 31,		
	1998	1999	2000
<S>	<C>	<C>	<C>
Revenue	$30,007	$39,785	$53,342
Cost of revenue	14,303	17,103	21,068
	-------	-------	-------
Gross profit	15,704	22,682	32,274
Operating expenses:			
Research and development	6,294	7,355	9,300
Selling, general and administrative	9,368	12,618	17,137
	-------	-------	-------
Income from operations	42	2,709	5,837
Interest expense	(161)	(97)	(49)
Interest income and other, net	364	549	3,842
	-------	-------	-------
Net income	$ 245	$ 3,161	$ 9,630
	=======	=======	=======
Net income per share:			
Basic	$ 0.06	$ 0.42	$ 0.49
Diluted	$ 0.02	$ 0.19	$ 0.45
Weighted average shares:			
Basic	4,231	7,615	19,486
Diluted	14,645	16,400	21,614

</TABLE>

The accompanying notes form an integral part of these Consolidated Financial Statements

QUICKLOGIC CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(IN THOUSANDS)

<TABLE>
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CONVERTIBLE PREFERRED STOCK		COMMON STOCK AT PAR VALUE		COMMON STOCK TO BE ISSUED		ADDITIONAL PAID-IN	STOCKHOLDER NOTE
SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL	RECEIVABLE

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 1997..........	9,912	10	1,159	1	3,038	18,409	43,435	(121)
Common stock issued under stock option plan, net of repurchases..................	--	--	82	--	--	--	110	--
Common stock issued in exchange for contract termination......	--	--	3,038	3	(3,038)	(18,409)	18,406	--
Deferred compensation, net of terminations.................	--	--	--	--	--	--	(563)	--
Amortization of deferred compensation.................	--	--	--	--	--	--	--	--
Net income.....................	--	--	--	--	--	--	--	--
Balance at December 31, 1998......	9,912	10	4,279	4	--	--	61,388	(121)
Common stock issued under stock option plan, net of repurchases..................	--	--	140	--	--	--	431	--
Deferred compensation, net of terminations.................	--	--	--	--	--	--	908	--
Amortization of deferred compensation.................	--	--	--	--	--	--	--	--
Conversion from preferred stock to common stock..............	(9,912)	(10)	9,912	10	--	--	--	--
Issuance of shares in connection with initial public offering, net of expenses of $1,190.....	--	--	3,771	4	--	--	33,872	--
Net income.....................	--	--	--	--	--	--	--	--
Balance at December 31, 1999......	--	$ --	18,102	$18	--	$ --	$ 96,599	$(121)
Common stock issued under stock option plan, net of repurchases..................	--	--	478	--	--	--	2,846	--
Amortization of deferred compensation, net of terminations.................	--	--	--	--	--	--	(16)	--
Issuance of shares in connection with public offering, net of expenses of $741.............	--	--	1,629	2	--	--	35,541	--
Note receivable from stockholder..................	--	--	--	--	--	--	--	121
Net income.....................	--	--	--	--	--	--	--	--
Balance at December 31, 2000......	--	$ --	20,209	$20	--	$ --	$134,970	$ --

<CAPTION>

	DEFERRED COMPENSATION	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
<S>	<C>	<C>	<C>
Balance at December 1997..........	(2,073)	(61,417)	(1,756)
Common stock issued under stock option plan, net of repurchases..................	--	--	110
Common stock issued in exchange for contract termination......	--	--	--
Deferred compensation, net of terminations.................	563	--	--
Amortization of deferred compensation.................	426	--	426
Net income.....................	--	245	245
Balance at December 31, 1998......	(1,084)	(61,172)	(975)
Common stock issued under stock option plan, net of repurchases..................	--	--	431
Deferred compensation, net of terminations.................	(908)	--	--
Amortization of deferred compensation.................	512	--	512

Conversion from preferred stock to common stock..............	--	--	--
Issuance of shares in connection with initial public offering, net of expenses of $1,190.....	--	--	33,876
Net income.....................	--	3,161	3,161
	-------	--------	-------
Balance at December 31, 1999......	$(1,480)	$(58,011)	$37,005
Common stock issued under stock option plan, net of repurchases..................	--	--	2,846
Amortization of deferred compensation, net of terminations.................	605	--	589
Issuance of shares in connection with public offering, net of expenses of $741.............	--	--	35,543
Note receivable from stockholder..................	--	--	121
Net income.....................	--	9,630	9,630
	-------	--------	-------
Balance at December 31, 2000......	$ (875)	$(48,381)	85,734
	=======	========	=======

</TABLE>

QUICKLOGIC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income...	$ 245	$ 3,161	$ 9,630
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Depreciation and other non-cash charges................	1,322	1,636	2,350
Amortization of deferred compensation..................	426	512	589
Gain on disposal of assets.............................	(5)	--	(116)
Changes in assets and liabilities:			
Accounts receivable..................................	861	(3,512)	(1,035)
Inventory..	2,992	(1,472)	(5,978)
Other assets...	(444)	(749)	(2,386)
Accounts payable.....................................	(597)	2,998	619
Accrued liabilities and other obligations............	(2,477)	(5,731)	639
	-------	-------	-------
Net cash provided by (used for) operating activities...	2,323	(3,157)	4,312
	-------	-------	-------
Cash flows from investing activities:			
Capital expenditures for property and equipment, net of dispositions..	(679)	(3,254)	(6,700)
	-------	-------	-------
Cash flows from financing activities:			
Payment of long-term obligations.........................	(1,490)	(1,183)	(470)
Proceeds from issuance of common stock, net..............	110	34,307	38,389
Note receivable from stockholder.........................	--	--	121
Proceeds from bank borrowings............................	--	250	--
	-------	-------	-------
Net cash provided by (used for) financing activities...	(1,380)	33,374	38,040
	-------	-------	-------
Net increase in cash......................................	264	26,963	35,652
Cash at beginning of period................................	7,331	7,595	34,558
	-------	-------	-------
Cash at end of period.....................................	$ 7,595	$34,558	$70,210
	=======	=======	=======
Supplemental Disclosures of cash flow information:			

Interest paid..	$ 160	$ 89	$ 49
Income taxes paid..	$ 2	$ 2	$ 1

</TABLE>

The accompanying notes form an integral part of these Consolidated Financial Statements

NOTE 1--THE COMPANY AND BASIS OF PRESENTATION

QuickLogic Corporation ("QuickLogic" or "the Company"), founded in 1988, operates in a single industry segment where it designs, develops, markets and supports advanced field programmable gate array semiconductors ("FPGAs"), embedded standard products ("ESPs") and associated software tools.

Our fiscal year ends on the Sunday closest to December 31. For presentation purposes, the financial statements and notes have been presented as ending on the last day of the nearest calendar month.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of QuickLogic Corporation and its wholly-owned subsidiary, QuickLogic International, Inc. and QuickLogic GmbH. All significant intercompany accounts and transactions are eliminated in consolidation.

USES OF ESTIMATES

The preparation of these financial statements in conformity with generally accepted accounting principles requires management 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 period. Actual results could vary from those estimates, particularly in relation to sales returns and allowances, and product obsolescence.

NOTE 2--SIGNIFICANT ACCOUNTING POLICIES

CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

All highly-liquid investments purchased with a remaining maturity of three months or less are considered cash equivalents.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of financial instruments are determined by using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret and analyze the available data and to develop estimates. Accordingly, estimates could differ significantly from the amounts we would realize in a current market exchange. The estimated fair value of all financial instruments at December 31, 1998, 1999 and 2000, approximate the amounts presented in the balance sheets, due primarily to the short-term nature of these instruments.

FOREIGN CURRENCY TRANSACTIONS

We exclusively use the U.S. dollar as our functional currency. Foreign currency transaction gains and losses are included in income as they occur. The effect of foreign currency exchange rate fluctuations has not been significant to date. We do not use derivative financial instruments.

INVENTORY

Inventory is stated at the lower of cost or market, cost being determined under the first-in, first-out method.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the asset's estimated useful life of two to seven years. Amortization of leasehold improvements is computed on a straight-line basis over the shorter of the facility lease term or the estimated useful lives of the improvements.

LONG-LIVED ASSETS

We review the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. No such impairment losses have been identified.

REVENUE RECOGNITION

Our FPGAs and ESPs may be programmed by the Company, the distributor or the end customer. We sell to certain distributors under agreements which, in the case of unprogrammed parts, allow certain rights of return and price adjustments on unsold inventory. Amounts billed to such distributors for shipments are included as accounts receivable, inventory is relieved, and the related revenue and cost of revenue are deferred and the resultant gross profit is recorded as a current liability, deferred income on shipments to distributors, until the inventory is resold by the distributor. Reserves for estimated returns and distributor price adjustments are provided against accounts receivable. Revenue for programmed parts, which do not have similar return rights, as well as for all non-distributor customers is recognized upon shipment. Software revenue is recognized when persuasive evidence of an agreement exists, delivery of the software has occurred, no significant Company obligations with regard to implementation or integration exist, the fee is fixed or determinable and collectibility is probable. Software revenues typically amount to less than 5% of total revenues.

STOCK-BASED COMPENSATION

We have elected to measure stock-based compensation costs using the intrinsic value method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees" and to comply with the pro forma disclosure requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation."

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. Cash and cash equivalents are maintained with high quality institutions. Our accounts receivable are derived primarily from sales to customers located in North America, Europe, Japan and Korea. We perform ongoing credit evaluations of our customers and generally do not require collateral. Bad debt write-offs to date have been immaterial.

At December 31, 2000, three customers, two of which were distributors of our products, account for 14%, 13% and 12% of accounts receivable. At December 31, 1999, accounts receivable from the same three customers represented 2%, 16% and 3% respectively, of accounts receivable.

SOFTWARE DEVELOPMENT COSTS

Software development costs incurred prior to the establishment of technological feasibility are included in research and development and are expensed as incurred. Development costs incurred subsequent to the establishment of technological feasibility through the period of general market availability are capitalized, if material. To date, all software development costs have been expensed as incurred due to the insignificant development costs incurred during

the short time period between the establishment of technological feasibility and general availability.

OTHER COMPREHENSIVE INCOME (LOSS)

Effective January 1, 1998, we adopted the provisions of Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting comprehensive income (loss) and its components in financial statements. Comprehensive income (loss) as defined, includes all changes in equity (net assets) during a period from nonowner sources. No items were included in other comprehensive income (loss) during 1998, 1999 and 2000.

NEW ACCOUNTING PRONOUNCEMENTS

In March 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25." This interpretation has provisions that are effective on staggered dates, some of which began after December 15, 1998 and others that became effective July 1, 2000. The adoption of this interpretation did not have a material impact on the financial statements.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. We have adopted SAB 101 effective the first quarter of fiscal year 2000. The adoption of SAB 101 did not have a material impact on the Company's financial statements.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 established a model for accounting for derivatives and hedging activities and supersedes and amends a number of existing accounting standards. SFAS No. 133 requires that all derivatives be recognized in the balance sheet at their fair market value, and the corresponding derivative gains or losses be either reported in the statement of operations or as a deferred item depending on the type of hedge relationship that exists with respect to such derivative. We have adopted SFAS No. 133, as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of Effective Date of FASB Statement No. 133," effective January 1, 2001. We do not currently, nor do we plan to, enter into forward exchange contracts to hedge exposures denominated in foreign currencies or any other derivative financial instruments for trading or speculative purposes.

NOTE 3--NET INCOME PER SHARE

Basic earnings per share (EPS) is computed by dividing net income available to common stockholders (numerator) by the weighted average number of common shares outstanding (denominator) during the period. Diluted EPS is computed using the weighted average number of

NOTE 3--NET INCOME PER SHARE (CONTINUED)

common shares and dilutive potential common shares outstanding during the period. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options. A reconciliation of the numerators and denominators of the basic and diluted per share computations is as follows (in thousands, except per share amounts):

<TABLE>
<CAPTION>

	DECEMBER 31,		
	1998	1999	2000
<S>	<C>	<C>	<C>
Numerator:			
Net income..	$ 245	$3,161	$9,630
Denominator:			

Common stock	3,490	7,618	19,487
Common stock to be issued	759	--	--
Less: Unvested common stock option exercises	(18)	(3)	(1)
Weighted average shares outstanding for basic	4,231	7,615	19,486
Convertible preferred stock	9,912	7,434	--
Stock options and warrants	484	1,348	2,127
Unvested common stock option exercises	18	3	1
Weighted average shares outstanding for diluted	14,645	16,400	21,614
Net income per share			
Basic	$ 0.06	$ 0.42	$ 0.49
Diluted	$ 0.02	$ 0.19	$ 0.45

</TABLE>

For fiscal years 1998, 1999 and 2000, all potential common shares have been included in the calculation of diluted EPS.

NOTE 4--BALANCE SHEET COMPONENTS

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1999	2000
	(IN THOUSANDS)	
<S>	<C>	<C>
Inventory:		
Raw materials	$ 183	$ 353
Work-in-process	3,642	8,911
Finished goods	524	1,063
	$4,349	$10,327
Property and equipment:		
Equipment	$6,271	$10,200
Software	1,795	3,861
Furniture and fixtures	757	774
Leasehold improvements	563	575
	9,386	15,410
Accumulated depreciation	(4,876)	(6,434)
	$4,510	$ 8,976
Accrued liabilities:		
Accrued employee compensation	$1,356	$ 1,663
Other liabilities	1,049	1,271
	$2,405	$ 2,934

</TABLE>

NOTE 5--LONG-TERM OBLIGATIONS

<TABLE>
<CAPTION>

DECEMBER 31,	
1999	2000
(IN THOUSANDS)	

<S>	<C>	<C>
Installment notes payable to bank..........................	$561	$ 142
Deferred compensation......................................	--	308
Prepaid royalty..	--	750
Other..	283	232
	----	------
	844	1,432
Current portion of long-term obligations...................	(716)	(311)
	----	------
Long-term obligations......................................	$128	$1,121
	====	======

</TABLE>

NOTES PAYABLE TO BANK

At December 31, 1999 and 2000, we had outstanding bank installment notes totaling $561,000 and $142,000, respectively. The notes bear interest at prime plus 0.25% (8.75% as of December 31, 2000), and are secured by the specific equipment financed. Principal payments are due in equal monthly

NOTE 5--LONG-TERM OBLIGATIONS (CONTINUED)

installments over the term of the notes which mature in 2001 and 2002. In the quarter ended June 30, 1999, we entered into an extension to borrow up to $250,000 using bank installment notes which are secured by the specific equipment financed. At December 31, 2000, we had borrowed $250,000 under this facility. These notes mature in 2002. At December 31, 2000, we were in compliance with its covenants.

PREPAID ROYALTY

In October 2000, we entered into a technology license agreement with Aeroflex UTMC. Under the terms of the technology agreement, we received $750,000 of prepaid royalty from Aeroflex UTMC which will be recognized as revenue as products with the licensed technology are sold by Aeroflex UTMC.

DEFERRED COMPENSATION PLAN

The Company has a non-qualified deferred compensation plan, known as a rabbi trust, whereby certain key executives may defer a portion of their compensation to be included in the trust, the assets of which are available to satisfy the claims of general creditors in the event of bankruptcy of the Company. The participants are allowed to diversify the assets, and the deferred compensation obligation is adjusted to reflect gains or losses on the assets in the trust. The assets are classified as trading assets and are reported as other assets and as long term obligations on the balance sheet. These trading assets (classified with other assets) and related obligations (classified with long term obligations) aggregated $308,000 at December 31, 2000.

NOTE 6--INCOME TAXES

No provision for federal or state income taxes has been recorded for the years ended December 31, 1998, 1999 and 2000, as the Company had the ability to utilize federal and state net operating loss carryforwards.

A rate reconciliation between income tax provisions at the US federal statutory rate and the effective rate reflected in the Consolidated Statement of Operations is as follows:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
<S>	<C>	<C>	<C>
Provision at statutory rate................................	(34)%	34	34
Utilization of operating loss and credit carryforwards......	--	(34)	(34)
Future benefit of deferred tax assets not recognized........	34	--	--

	---	---	---
	--%	--%	--%
	===	===	===

</TABLE>

The Company did not have any significant foreign tax liability during the periods presented.

NOTE 6--INCOME TAXES (CONTINUED)

Deferred tax balances are comprised of the following:

<TABLE>
<CAPTION>

<S>	DECEMBER 31, 1998 <C>	1999 <C>	2000 <C>
Deferred tax assets:			
Net operating loss carryforward	$15,728	$15,396	$13,131
Accruals and reserves	5,970	4,725	1,659
Credit carryforward	2,351	3,245	4,299
Capitalized research and development	633	559	959
	24,682	23,925	20,048
Valuation allowances	(24,682)	(23,925)	(20,048)
Deferred tax asset	$ --	$ --	$ --

</TABLE>

Management believes that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding the realizability of the deferred tax assets such that a full valuation allowance has been recorded. These factors include the Company's history of losses, that the market in which the Company competes is intensely competitive and characterized by rapidly changing technology, the lack of carryback capacity to realize deferred tax assets, and uncertainty regarding market acceptance of the Company's products. The Company will continue to assess the realizability of the deferred tax assets in future periods.

At December 31, 2000, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately $37 million and $7 million, respectively. These carryforwards, if not utilized to offset future taxable income and income taxes payable, will expire in the years 2001 through 2018.

Under the Tax Reform Act of 1986, the amount of and the benefit from net operating losses that can be carried forward may be impaired in certain circumstances. Events which may cause changes in the Company's tax carryovers include, but are not limited to, a cumulative ownership change of more than 50% over the three year period. Since inception, the Company believes cumulative changes in ownership have invoked the loss carryforward deduction limitation under IRC Section 382. However, the Company believes that such limitations will not have a material effect on the future utilization of the losses.

NOTE 7--STOCKHOLDERS' EQUITY

CONVERTIBLE PREFERRED STOCK

At December 31, 1998, the Company had 9,912,000 shares of Series A, B, C, D, E and F preferred stock outstanding. The holders of the outstanding Series A, B, C, D, E and F preferred stock were entitled to certain dividend and liquidation preference rights. No dividends were declared or paid related to preferred stock. Each share of preferred stock was convertible at the option of the holder, or upon the Company's completion of a qualifying public offering of common stock. Upon completion of the Company's initial public offering on October 15, 1999, each share of Series A, B, C, D, E and F preferred stock was converted into one share of the Company's common stock.

NOTE 7--STOCKHOLDERS' EQUITY (CONTINUED)
COMMON STOCK

The Company was originally incorporated in California in April 1988. In October 1999 the Company reincorporated in Delaware and, in conjunction with that reincorporation, effected a 1-for-6 stock split (the "Reverse Stock Split") of its stock. All references to the number of shares of common stock and per share amounts have been retroactively restated in the accompanying financial statements to reflect the effect of the Reverse Stock Split. The Board of Directors also approved a recapitalization that authorized 100 million shares of common stock and ten million shares of undesignated preferred stock.

The Company completed an initial public offering of its common stock on October 15, 1999. The underwriters' over-allotment option was exercised and QuickLogic sold a total of 3,770,635 common shares at $10.00. Proceeds, net of underwriting discounts and commissions and related offering expenses, of $33.9 million were received.

The Company completed a public offering of its common stock on April 12, 2000. The underwriters' over-allotment option was exercised and QuickLogic sold a total of 1,629,269 common shares at $23.50 per share. Proceeds, net of underwriting discounts and commissions and related offering expenses, of $35.5 million were received.

EMPLOYEE STOCK OPTION PLANS

1989 STOCK OPTION PLAN

In July 1996, the 1989 Stock Plan (the "1989 Plan") was amended to allow options to be exercised prior to vesting. Unvested shares are deposited to an escrow agent and the Company has a right to repurchase unvested shares at the original issuance price if the employee is terminated prior to the lapsing of the Company's repurchase right.. In April 1999, an additional 1,333,000 shares were authorized for issuance. The 1989 Plan provides for the issuance of incentive and nonqualified options for the purchase of up to 4,617,000 shares of Common Stock. Options may be granted to employees, directors and consultants to the Company. The fair value of the Company's common stock was determined by the Board of Directors considering operating results, current legal developments, product life cycle, general market conditions, independent valuations and other relevant factors. Options granted under the 1989 Plan may have a term of up to 10 years. Options typically vest at a rate of 25% of the total grant per year over a four-year period. However, the Company may, at its discretion implement a different vesting schedule with respect to any new stock option grant. In September 1999, the Company adopted the 1999 Stock Option Plan and all subsequent stock option grants are made under this later plan.

1999 STOCK OPTION PLAN

The 1999 Stock Plan (the "1999 Plan") was adopted by the Board of Directors in August 1999 and was approved by the stockholders in September 1999. The total number of shares of common stock reserved for issuance under this plan was 5,000,000 shares of common stock. In addition, commencing January 2000, an annual increase will be added to the 1999 stock plan equal to the lesser of 5,000,000 shares or 5% of the outstanding shares on such date. Options granted under the 1999 Plan may have a term of up to 10 years. Options typically vest at a rate of 25% of total grants per year over a four-year

NOTE 7--STOCKHOLDERS' EQUITY (CONTINUED)
period. However, the Company may, at its discretion, implement a different vesting schedule with respect to any new stock option grant.

The following table summarizes all of our stock option activity under the 1989 Plan and the 1999 Plan and related weighted average exercise price for the years ended December 31, 1998, 1999 and 2000:

<TABLE>
<CAPTION>

	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
	(IN THOUSANDS)	
Balance at December 31, 1997	2,006	$ 2.49
Granted	1,151	4.50
Canceled	(703)	3.26
Exercised	(89)	1.30
Balance at December 31, 1998	2,365	3.26
Granted	1,624	8.60
Canceled	(482)	5.10
Exercised	(142)	3.06
Balance at December 31, 1999	3,365	5.64
Granted	2,258	15.89
Canceled	(308)	11.46
Exercised	(199)	3.08
Balance at December 31, 2000	5,116	$ 9.87

</TABLE>

As of December 31, 2000, 4,224,802 shares were available for grant, 208 unvested shares had been exercised and remain subject to our buyback rights and options to purchase 3,122,000 shares were vested. At December 31, 1999 and 1998, options to purchase 2,834,000 and 1,601,000 shares, respectively, were vested.

Related weighted average exercise price and contractual life information at December 31, 2000 are as follows:

<TABLE>
<CAPTION>

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING AS OF DECEMBER 31, 2000	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE AS OF VESTED AND	WEIGHTED AVERAGE EXERCISE PRICE DECEMBER 31, 2000
	(IN THOUSANDS)	(IN YEARS)		(IN THOUSANDS)	
$0.60-$4.50	1,703	6.2	$ 3.20	1,335	$ 2.86
4.86-7.00	1,100	8.9	6.33	256	6.04
9.94-13.62	1,113	9.3	11.69	155	13.62
15.94-34.56	1,200	9.3	20.89	--	18.00
	5,116	8.2		1,746	

</TABLE>

NOTE 7--STOCKHOLDERS' EQUITY (CONTINUED)

The weighted average estimated grant date fair values, as defined by SFAS 123, for options granted during 1998, 1999 and 2000 was $1.02, $3.80 and $9.79 per option, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The Black-Scholes model, as well as other currently accepted option valuation models, was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from our stock option awards.

The following weighted average assumptions are included in the estimated grant date fair value calculations for stock option grants in 1998, 1999 and

2000:

<TABLE>
<CAPTION>

	DECEMBER 31, 1998	DECEMBER 31, 1999	DECEMBER 31, 2000
<S>	<C>	<C>	<C>
Expected life (years)......................................	5.3	5.3	5.3
Risk-free interest rate....................................	4.99%	4.99%	6.00%
Volatility...	--	65 %	65 %
Dividend yield...	--	--	--

</TABLE>

EMPLOYEE STOCK PURCHASE PLAN

The 1999 Employee Stock Purchase Plan ("ESPP") was adopted by the Board of Directors in August 1999 and was approved by the stockholders in September 1999. The total number of shares of common stock reserved for issuance under this plan is 2,000,000 plus annual increases equal to the lesser of 1,500,000 shares or 4% of the outstanding shares on such date. The ESPP contains consecutive, overlapping, twenty-four month offering periods. Each offering period includes four six-month purchase periods. The ESPP permits participants to purchase shares through payroll deductions of up to 20% of an employee's total compensation (maximum of 20,000 shares) at 85% of the lower of the fair market value of the common stock at the beginning or end of a purchase period. As of December 31, 2000, 2,524,113 shares were available for issuance.

The following weighted average assumptions are included in the estimated grant date fair value calculations for rights to purchase stock under ESPP:

<TABLE>
<CAPTION>

	DECEMBER 31, 1999	DECEMBER 31, 2000
<S>	<C>	<C>
Expected life..	6 months	6 months
Risk-free interest rate....................................	5.00%	5.00%
Volatility...	65%	--
Dividend yield...	--	--

</TABLE>

The weighted average estimated grant date fair value of rights to purchase common stock under the ESPP was $4.03 in 1999 and $7.62 in 2000.

NOTE 7--STOCKHOLDERS' EQUITY (CONTINUED)

Had the Company recorded compensation cost based on the estimated grant date fair value, as defined by SFAS 123, for awards granted under its stock option and employee stock purchase plans, its pro forma net loss would have been as follows for the years ended December 31, 1998, 1999 and 2000:

<TABLE>
<CAPTION>

	DECEMBER 31, 1998	DECEMBER 31, 1999	DECEMBER 31, 2000
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
<S>	<C>	<C>	<C>
Pro forma net income (loss)................................	$ (663)	$1,650	$3,138
Pro forma net income (loss) per share:			
Basic..	$(0.16)	$ 0.22	$ 0.16
Diluted..	$(0.16)	$ 0.11	$ 0.14

</TABLE>

DEFERRED STOCK COMPENSATION

During the years ended December 31, 1998 and 1999, the Company granted options to purchase 139,000 and 866,000 shares of common stock, respectively, at a price less than the fair market value of its common stock at the time of the grant and recorded related deferred stock compensation of $204,000 and $908,000, respectively, net of reversals associated with unvested shares of terminated employees. There was no deferred stock compensation recorded during the year ended December 31, 2000. Such deferred stock compensation is being amortized ratably over the vesting period of the options. During the years ended December 31, 1998, 1999, and 2000, the Company amortized $426,000, $512,000 and $589,000, respectively, of deferred stock compensation.

NOTE 8--RELATED PARTY TRANSACTIONS

On April 1, 1998, the Company issued 3,037,786 shares of common stock to Cypress Semiconductor Corporation ("Cypress") in connection with the termination of a Technical Transfer, Joint Development License and Foundry Supply Agreement with Cypress. The Company granted certain contractual right as to the shares of the Company's stock held by Cypress, including the right to sell shares in an initial public offering. Additionally, the Company entered into a new foundry agreement and a cross-licensing agreement with Cypress.

In conjunction with the Company's initial public offering in October 1999, Cypress sold its entire holding in the Company's common stock.

NOTES RECEIVABLE FROM STOCKHOLDER

As of December 31, 1999, we had $121,000 of demand promissory notes due from a stockholder. The notes bear interest at rates ranging from 6.7% to 8.5% per annum and are secured by shares of our common stock held by the stockholder. The notes were paid in full in September 2000.

NOTE 9--MANUFACTURING AGREEMENT

In July 1997, the Company entered into a manufacturing agreement with Taiwan Semiconductor Manufacturing Company, Ltd. ("TSMC") for a term of three years. In July 2000, TSMC notified the Company that the agreement had expired, and although the Company does not agree with TSMC, it is negotiating a new contract with TSMC. The Company currently buys product from TSMC on a

NOTE 9--MANUFACTURING AGREEMENT (CONTINUED)

purchase order basis. Under this arrangement, the Company is not required to pay for a predetermined volume of product, and TSMC is not required to guarantee capacity availability. Purchases from TSMC totaled $1.0 million, $2.1 million and $7.1 in 1998, 1999 and 2000, respectively.

NOTE 10--INFORMATION CONCERNING BUSINESS SEGMENTS AND MAJOR CUSTOMERS

INFORMATION ABOUT GEOGRAPHIC AREAS

All of our sales originate in the United States. Shipments to some of our distributors are made to centralized purchasing and distributing locations, which in turn sell through to other locations. As a result of these factors, we believe that sales to certain geographic locations might be higher or lower, though accurate data is difficult to obtain.

The following is a breakdown of revenues by shipment destination for the years ended 1998, 1999 and 2000:

<TABLE>
<CAPTION>

	DECEMBER 31,		
	1998	1999	2000
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
United States	$15,784	$20,681	$33,275

Japan	3,162	5,033	6,341
Europe	4,752	4,871	9,519
Rest of world	6,309	9,200	4,207
	$30,007	$39,785	$53,342

</TABLE>

The countries comprising "Rest of world" category include Canada, the UK, Korea and other countries in Asia, none of which individually comprise more than 10% of our sales.

One customer, a distributor of our products, accounted for approximately 20% of revenue in 2000. Three customers, distributors of our products, accounted for approximately 24%, 11% and 10% of revenues in 1999. Three customers, distributors of our products, accounted for approximately 27%, 10% and 10% of revenues in 1998. All sales are made from the United States and are denominated in U.S. dollars.

Less than 10% of our long-lived assets, including property and equipment and other assets, were located outside the United States.

NOTE 11--COMMITMENTS

On December 12, 2000 we entered into a Share Purchase Agreement (the "Agreement") with Tower Semiconductor Ltd. under which we will make a $25 million strategic investment in Tower as part of Tower's plan to build a new wafer fabrication facility. The new fabrication facility will produce 200-mm wafers in geometries of 0.18 micron and below, using advanced CMOS technology from Toshiba. In return for our investment, we will receive equity and committed production capacity in the advanced fabrication facility that Tower is building. Under the terms of the Agreement, our investment will be made in several stages over an approximately 22-month period, against satisfactory completion of key milestones for the construction, equipping and commencement of production at the new wafer fabrication facility. Tower will develop manufacturing capability for our proprietary ViaLink technology,

NOTE 11--COMMITMENTS (CONTINUED)
and supply us with a guaranteed portion of the new fabrication facility's available wafer capacity at competitive pricing, with first production expected in 2002. Per the terms of the Agreement, we paid Tower $6.7 million on January 22, 2001.

We lease our primary facility under a noncancelable operating lease which expires in 2003, and includes an option to renew through 2006. Rent expense for the years ended December 31, 1998, 1999 and 2000 was approximately $531,000, $628,000, and $620,000 respectively.

Assets acquired under capital leases and included in plant and equipment at December 31, 1998, 1999 and 2000, were $232,000, $198,000 and $153,000 respectively. Depreciation expense on leased assets in 1998, 1999 and 2000 were $182,000, $284,000 and $388,000 respectively.

Future minimum lease commitments, excluding property taxes and insurance, are as follows:

<TABLE>
<CAPTION>

	OPERATING LEASES	CAPITAL LEASES
	(IN THOUSANDS)	
<S>	<C>	<C>
Year Ending December 31,		
2001	$ 681	$ 67
2002	794	67
2003	717	47
2004	54	--
2005 and thereafter	0	--

	$2,246	181
Less amount representing interest		(28)
Present value of capital lease obligations		153
Less current portions		(51)
Long-term portion of capital lease obligations		$102

</TABLE>

NOTE 12--LITIGATION

On March 29, 2000, Unisys Corporation filed a patent infringement lawsuit against the Company alleging that the Company infringed upon three of Unisys' patents. The Company believes that the lawsuit has no merit and accordingly has not recorded any liability in the financial statements associated with this lawsuit. No assurance can be given, however, that these matters will be resolved without the Company becoming obligated to make payments or to pay other costs to the opposing party, with the potential for an adverse effect on the Company's financial position or its results of operations.

The semiconductor industry has experienced a substantial amount of litigation regarding patent and other intellectual property rights. From time to time, we have received and may receive in the future, communications alleging that our products or our processes may infringe on product or process technology rights held by others. We may in the future be involved in litigation with respect to alleged infringement by us of another party's patents. In the future, we may be involved with litigation to:

- Enforce our patents or other intellectual property rights;

NOTE 12--LITIGATION (CONTINUED)

- Protect our trade secrets and know-how;

- Determine the validity or scope of the proprietary rights of others; and

- Defend against claims of infringement or invalidity.

Such litigation has in the past and could in the future result in substantial costs and diversion of management resources. Such litigation could also result in payment of substantial damages and/or royalties or prohibitions against utilization of essential technologies, and could have a material adverse effect on our business, financial condition and results of operations.

LITIGATION SETTLEMENT

During 1994, Actel Corporation ("Actel"), a competitor of the Company, filed a lawsuit seeking unspecified damages and alleging that our products infringe upon its patents. We countersued alleging that Actel's products infringed on our patents. During 1995 and 1996, Actel's suit was amended to include a trade misappropriation claim and additional patent infringement claims. Actel and the Company settled their litigation in August 1998. The Company and Actel have granted each other non-exclusive, royalty free, worldwide, perpetual cross licenses of their existing technology, excluding only certain SRAM technology owned by Actel. We have made quarterly payments to Actel since the settlement date. The remainder of the settlement was paid to Actel immediately after our initial public offering. We paid all of our remaining obligation under the settlement on November 3, 1999.

NOTE 13--SUBSEQUENT EVENT

On March 1, 2001, we made a payment to Tower Semiconductor in the amount of $3.7 million representing the second installment payment pursuant to the Agreement.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND

FINANCIAL DISCLOSURE.

Not applicable.

PART III

Certain information required by Part III is omitted from this Report in that the registrant will file a definitive Proxy Statement pursuant to Regulation 14A (the "Proxy Statement") not later than 120 days after the end of the fiscal year covered by this Report, and certain information therein is incorporated herein by reference.

ITEM 10. DIRECTORS AND OFFICERS OF THE COMPANY

Certain information regarding the directors and officers of the Company is contained herein under Item 1, "Executive Officers and Directors of the Company."

Information regarding directors appearing under the caption "Election of Directors-Directors and Nominees for Director" in the Proxy Statement is hereby incorporated by reference.

Information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is hereby incorporated herein by reference from the section entitled "Election of Directors-Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is set forth under the caption, "Executive Compensation" in our Proxy Statement, which information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is set forth under the caption "Security Ownership" in our Proxy Statement, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is set forth under the captions "Compensation Committee Interlocks and Insider Participation" and "Related Party Transactions" in our Proxy Statement, which information is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

(a) 1. Financial Statement

Reference is made to page 26 for a list of all financial statements and schedule filed as a part of this report.

2. Financial Statement Schedules

QUICKLOGIC CORPORATION
VALUATION AND QUALIFYING ACCOUNTS
(IN THOUSANDS)

<TABLE>
<CAPTION>

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
<S>	<C>	<C>	<C>	<C>	<C>
Allowance for Doubtful Accounts					
Year ended December 31, 2000...........	$ 194	209		(109)	$ 294
Year ended December 31, 1999...........	$ 245	--	--	(51)	$ 194

Year ended December 31, 1998..........	$ 226	29	--	(10)	$ 245

</TABLE>

All other schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes hereto.

3. Exhibits

The exhibits listed under Item 14(c) hereof are filed as part of this Annual Report on Form 10-K.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the last quarter of the period covered by this report.

(c) Exhibits

The following exhibits are filed with this report:

<TABLE>
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION
<C>	<S>
3.1(1)	Amended and Restated Certificate of Incorporation of the Registrant.
3.2(1)	Bylaws of the Registrant.
4.1(1)	Specimen Common Stock certificate of the Registrant.
10.1(1)	Form of Indemnification Agreement for directors and executive officers.
10.2(1)	1999 Stock Plan and form of Option Agreement thereunder.
10.3(1)	1999 Employee Stock Purchase Plan.
10.4(1)	1989 Stock Option Plan.
10.5(1)	Series F Preferred Stock Purchase Agreement dated November 27, 1996 and January 24, 1997 by and among the Registrant and the Purchasers named therein.
10.6(1)	Termination Agreement dated March 29, 1997 between the Registrant and Cypress Semiconductor Corporation.

</TABLE>

<TABLE>
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION
<C>	<S>
10.7(1)	Cross License Agreement dated March 29, 1997 between the Registrant and Cypress Semiconductor Corporation.
10.8(1)	Wafer Fabrication Agreement March 29, 1997 between the Registrant and Cypress Semiconductor Corporation.
10.9(1)	Sixth Amended and Restated Shareholder Agreement dated March 29, 1997 by and among the Registrant, Cypress Semiconductor Corporation and certain stockholders.
10.10(1)	Sixth Amended and Restated Registration Rights Agreement dated March 29, 1997 by and among the Registrant, Cypress and certain stockholders.

10.11(1)	Technical Transfer, Joint Development License and Foundry Supply Agreement, dated October 2, 1992, between the Registrant and Cypress.
10.12(1)	Lease dated June 17, 1995, as amended, between Kairos, LLC and Moffet Orchard Investors as Landlord and the Registrant for the Registrant's facility located in Sunnyvale, California.
10.13(1)	Business Loan Agreement dated August 9, 1995 between the Registrant and Silicon Valley Bank, as amended.
10.14(1)	Loan and Security Agreement dated August 8, 1996 between the Registrant and Silicon Valley Bank, as amended.
10.15(1)	Export-import Bank Loan and Security Agreement dated August 8, 1996 between the Registrant and Silicon Valley Bank.
10.16(1)	First Amended and Restated Common Stock Purchase Agreement dated June 13, 1997 between the Registrant and Cypress.
10.17(1)	Take or Pay Agreement dated July 21, 1997 between the Registrant and Taiwan Semiconductor Manufacturing Company, Ltd.
10.18(1)	Patent Cross License Agreement, dated August 25, 1998, between the Registrant and Actel Corporation.
10.19+	Share Purchase Agreement dated December 11, 2000 between the Company and Tower Semiconductor Ltd.
10.20+	Foundry Agreement dated December 11, 2000 between the Company and Tower Semiconductor Ltd.
10.21	Registration Rights Agreement dated January 18, 2001 among, inter alia, the Company and Tower Semiconductor Ltd.
16.1(1)	Letter of Deloitte & Touche LLP, Independent Accountants, dated July 28, 1997 regarding change in certifying accountant.
21.1(1)	Subsidiary of the Registrant.
23.1	Consent of Independent Accountants
24.1	Power of Attorney-See page II-5.

</TABLE>

- ------------------------

(1) Incorporated by reference to the Company's Registration Statement on Form S-1 declared effective October 14, 1999 (Commission File No. 333-28833).

\+ The Company has requested confidential treatment pursuant to Rule 406 for a portion of the referenced exhibit and has separately filed such exhibit with the Commission.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1933, as amended, the Registrant has duly caused report to be signed on its behalf by the undersigned, thereunto duly authorized on this 23rd day of March, 2000.

<TABLE>
<S> <C> <C>

QUICKLOGIC CORPORATION, INC.

By: /s/ E. THOMAS HART

E. Thomas Hart

PRESIDENT AND CHIEF EXECUTIVE OFFICER
</TABLE>

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints E. Thomas Hart and Arthur O. Whipple and each of them singly, as true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities to sign this Annual Report on Form 10-K filed herewith and any or all amendments to said report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission granting unto said attorneys-in-fact and agents the full power and authority to do and perform each and every act and the thing requisite and necessary to be done in and about the foregoing, as to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this report has been signed by the following persons in the capacities and on the dates indicated below.

<TABLE>
<CAPTION>

SIGNATURE	CAPACITY IN WHICH SIGNED	DATE
/s/ E. THOMAS HART E. Thomas Hart	President, Chief Executive Officer and Director (Principal Executive Officer)	March 23, 2000
/s/ ARTHUR O. WHIPPLE Arthur O. Whipple	Vice President, Finance, Chief Financial Officer and Secretary (Principal Financial Officer and Chief Accounting Officer)	March 23, 2000
/s/ IRWIN B. FEDERMAN Irwin B. Federman	Chairman of the Board	March 23, 2000
/s/ DONALD P. BEADLE Donald P. Beadle	Director	March 23, 2000
/s/ ROBERT J. BOEHLKE Robert J. Boehlke	Director	March 23, 2000
/s/ MICHAEL J. CALLAHAN Michael J. Callahan	Director	March 23, 2000
/s/ HUA-THYE CHUA Hua-Thye Chua	Director	March 23, 2000

</TABLE>

SUPPLEMENTARY FINANCIAL DATA
QUARTERLY DATA (UNAUDITED)

<TABLE>
<CAPTION>

	QUARTER ENDED							
	MAR. 31, 1999	JUNE 30, 1999	SEPT. 30, 1999	DEC. 31, 1999	MARCH 31, 2000	JUNE 30, 2000	SEPT. 30, 2000	DEC. 31, 2000
	(IN THOUSANDS)							
STATEMENT OF OPERATIONS								

Revenue........................	$8,597	$9,828	$10,278	$11,082	$12,216	$14,059	$14,864	$12,203
Cost of revenue................	3,722	4,236	4,378	4,767	5,015	5,703	5,846	4,504
Gross profit..................	4,875	5,592	5,900	6,315	7,201	8,356	9,018	7,699
Operating expenses:								
Research and development.....	1,780	1,787	1,849	1,939	2,153	2,367	2,398	2,382
Selling, general and administrative............	2,856	3,144	3,222	3,396	3,738	4,227	4,629	4,543
Net operating income (loss)....	239	661	829	980	1,310	1,762	1,991	774
Interest expense..............	(26)	(23)	(27)	(21)	(17)	(13)	(11)	(8)
Interest income and other, net.........................	69	67	48	365	453	967	1,271	1,151
Net income (loss).............	$ 282	$ 705	$ 850	$ 1,324	$ 1,746	$ 2,716	$ 3,251	$ 1,917

</TABLE>

* An asterisk indicates confidential material has been omitted from this document filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

EXHIBIT 10.19

SHARE PURCHASE AGREEMENT
BETWEEN
QUICKLOGIC CORPORATION AND
TOWER SEMICONDUCTOR LTD.

AGREEMENT (this "Agreement"), dated as of December 11, 2000, by and between QuickLogic Corporation ("QuickLogic") and Tower Semiconductor Ltd. (the "Company").

RECITALS

WHEREAS on July 4, 2000, SanDisk Corporation ("SanDisk") and the Company entered into a Share Purchase Agreement in the form attached as Attachment 1 hereto (as amended by that certain Side Letter Agreement dated August 29, 2000 also attached in Attachment 1 hereto, the "SPA") and an Additional Purchase Obligation Agreement in the form attached as Attachment 2 hereto (the "APOA"), and agreed to enter into an Escrow Agreement (the "Escrow Agreement") and a Registration Rights Agreement (the "Registration Rights Agreement") in substantially the same form as Exhibits C and E to the SPA, all upon the terms and conditions detailed therein (collectively, the "SD Transaction Agreements"); and

WHEREAS QuickLogic desires to purchase and the Company desires to issue and sell to QuickLogic Ordinary Shares of the Company (the "Shares") pursuant to substantially the same terms and conditions as set forth in the SD Transaction Agreements except as expressly set forth herein.

NOW, THEREFORE, in consideration of the premises and the covenants hereinafter contained, it is agreed as follows:

1. Capitalized terms used and not defined herein shall have the meanings set forth in the SD Transaction Agreements.

2. There is hereby incorporated into this Agreement all of the terms and conditions of the SD Transaction Agreements (other than the Escrow Agreement), as if each is set forth in full herein, but such incorporation herein by reference is subject to the following:

(a) Each reference in such SD Transaction Agreements to SanDisk Corporation, "Buyer", "S" and "Holder" will refer to QuickLogic and not to SanDisk Corporation except as expressly set forth below.

* An asterisk indicates confidential material has been omitted from this document filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

(b) Effectiveness of same shall be upon the date hereof (and references therein to the "date hereof" shall mean the date of this Agreement), notwithstanding anything to the contrary set forth therein.

(c) The definition of "Shares" in the Recitals of the SPA shall reflect that 288,850 Shares are being initially purchased by QuickLogic.

(d) The term "Buyer" referenced in Section 1 of the SPA under the definition of "Steering Committee", in the first sentence of Section 5.6.3 of the SPA, and in Sections 5.6.4 and 7.17, the last sentence of Section 7.2.2, and in Sections 11.2, 11.3 and 11.4 of the SPA shall mean and refer to SanDisk or any of its permitted assignees, and shall not mean or refer to QuickLogic or provide rights to QuickLogic.

(e) The "purchase price" for the Shares to be purchased by QuickLogic as referenced in Section 2.2 of the SPA shall be $23.08 per share representing an aggregate purchase price of $6,666,666. All references to the Escrow Agreement in the SPA and all references to interest on escrowed funds in the SPA are deemed deleted; the Purchase Price payable under Sections 2.1/2.2 will be paid in immediately available funds at the Closing.

(f) QuickLogic will have no obligation to enter into or deliver at the Closing the Shareholders Agreement referred to in Section 2.4 of the SPA. The following parenthetical in Section 2.4 of the SPA shall be deleted: "subject, in relation to the issuance of the Shares and the Additional Purchase Obligation Shares, to Company shareholder approval pursuant to a general meeting of the Company."

(g) From the date of this Agreement and until the end of three years from the initial sale of Shares to QuickLogic as contemplated hereunder (the "Restricted Period") neither QuickLogic nor any of its Permitted Transferees shall sell, assign, transfer, pledge, hypothecate, or otherwise encumber or dispose of in any way (hereinafter referred to as "Transfer"), all or any part of or any interest in the Equity Securities now or hereafter owned or held by QuickLogic or such Permitted Transferees except to a Permitted Transferee. For the purposes hereof, a "Permitted Transferee" is any entity at least the majority of the voting rights in which is held by the transferring shareholder, provided that (i) such entity is or becomes a party to this Agreement and agrees in writing to be bound by all of the provisions of this Agreement, and (ii) such transferring shareholder shall not be relieved of its obligations hereunder.

(h) QuickLogic acknowledges the supplemental disclosures attached hereto as Attachment 4, which are responsive to, and qualify, the representations and warranties set forth in Section 3 of the SPA.

(i) The reference to the Non-Disclosure Agreement in Section 5.1 of the SPA will instead refer to that certain Nondisclosure Agreement dated as of August 1, 2000.

(j) Section 5.7 of the SPA is hereby deleted.

(k) Section 5.11 of the SPA is hereby deleted.

(l) Satisfaction of the condition to Closing set forth in Section 7.3 shall be determined exclusively by SanDisk or its permitted assignees.

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* An asterisk indicates confidential material has been omitted from this document filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

(m) "Indemnifying party" in the second line from the bottom of Section 10.6.1 of the SPA shall be replaced by "indemnified party".

(n) All but the first sentence of Section 11.5 of the SPA is deleted. Section 11.7 of the SPA is deleted.

(o) In the first sentence of Section 12.1 of the SPA, the cap on reimbursement of Buyer legal fees is limited to US$10,000.

(p) The first parenthetical of Section 12.8 of the SPA is replaced with the following: "(including any term sheet between Buyer and the Company and all drafts hereof and thereof)".

(q) The amount of "Shares" referenced in the Recitals of the APOA shall be adjusted to reflect the transactions contemplated hereby and described herein. References in the Recitals of the APOA to the Share Purchase Agreement and in the APOA generally shall refer to this Agreement (or the SPA as the context may require) and to the Foundry Agreement shall refer to the Foundry Agreement attached hereto as Attachment 3.

(r) The amount of "A Additional Purchase Obligations" referenced in Section 2.1.1 of the APOA and which are to be issued and delivered to QuickLogic as provided therein shall be 611,150 Ordinary Shares. Each Series A Additional Purchase Obligation referenced in Section 2.2 of the APOA shall contain Additional Purchase Obligations to purchase up to an aggregate of 122,230 Ordinary Shares of the Company. The "Exercise Price" for the Additional Purchase Obligations to be purchased by QuickLogic pursuant to the APOA shall be $30 per additional purchase obligation.

(s) Sections 2.1.2, 2.1.3 and 3.2.2 of the APOA and all references to the "B Additional Purchase Obligations" in the APOA shall be deleted and shall not be applicable to QuickLogic.

(t) The following sentence shall be appended to Section 5.1.5 of the APOA: "QuickLogic shall have no obligation to exercise the Series A-5 Additional Purchase Obligation unless and until, in addition to the requirements set forth above in this Section 5.1.5, QuickLogic receives written notice from the Company signed by the two Co-CEOs or the CEO, as the case may be, and the Chairman of the Board of the Company certifying that Fab 2 has produced and is able to produce wafers pursuant to the 0.18 micron CMOS process described in Section 7of the Share Purchase Agreement Between QuickLogic Corp. and Tower Semiconductor Ltd. dated as of December 11, 2000."

3. It is the intent of the parties that the Registration Rights Agreement will be amended in its entirety in order to provide registration and other rights set forth therein as to which SanDisk, QuickLogic and other purchasers of Ordinary Shares in the Company will share, under a single agreement, on a pari passu basis, superseding Section 2.5.1.5 of the SPA. QuickLogic agrees to cooperate in executing such an amendment.

4. The addresses for notices to be sent to QuickLogic pursuant to Sections 12.4 of the SPA and 8.4 of the APOA, shall be as follows:

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* An asterisk indicates confidential material has been omitted from this document filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

QuickLogic Corporation
Attn: President and CEO
Tel:
Fax:

5. Concurrent with the execution of this Agreement, the parties shall execute and enter into the Foundry Agreement in the form of Attachment 3 hereto. All references in the SPA to the Foundry Agreement will mean and refer to the Foundry Agreement in the form of Attachment 3 hereto.

6. Concurrent with the execution of this Agreement, QuickLogic shall execute the OCS Undertaking attached hereto.

7. The Company hereby agrees to commence, jointly with QuickLogic, the development of QuickLogic amorphous silicon antifuse technology in its pilot line no later than September 30, 2001, and expects to complete the development and provide in its pilot line no later than December 31, 2001, the technological capabilities, processes, and means to fulfill QuickLogic's anticipated prototype manufacturing requirements contemplated by this Agreement and the Foundry Agreement. Further, in Fab 2, the Company will offer to QuickLogic a version of the 0.18 micron CMOS process that is as fast as the competing * process offered by *. This equivalence shall be demonstrated by SPICE modeling the speed of "* input nand, a * input nor, and an inverter at typical Vdd" according to the following constraints:

(a) * nominal * SPICE models shall be used.

(b) The Company shall supply nominal, theoretically-based SPICE models for the objective process to be used in this comparison.

In addition, this version of the 0.18 micron process shall be delivered in accordance with the following milestones:

(a) The theoretically derived SPICE models (equivalent functionality to the Company's standard 0.18 um process) available no later than ten (10) weeks after the Closing of Escrow (as defined in the SPA).

(b) Equivalent (theoretically modified) library support available within eight (8) weeks of the library availability for the standard 0.18 um process (availability includes all phases of library access).

The Company and QuickLogic shall cooperate in having Toshiba establish this version of the 0.18 micron process at its facilities, or have Toshiba manufacture for the Company fast corner lots that would yield similar characteristics. Based on that the Company expects to be able to supply silicon based characterized libraries nine (9) months from the Closing of Escrow.

8. To the extent the terms of this Agreement conflict with or contradict the terms of the Foundry Agreement or any of the SD Transaction Documents incorporated herein by reference, the terms of this Agreement shall govern.

---

* An asterisk indicates confidential material has been omitted from this document filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

9. Neither party may assign any of its rights under this Agreement, the Foundry Agreement or any of the SD Transaction Agreements without the prior written consent of the other party, which consent shall not be unreasonably withheld; provided, however that QuickLogic may assign any of its rights under this Agreement to any wholly owned Subsidiary of QuickLogic. Subject to the preceding sentence, this Agreement will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the parties. Nothing expressed or referred to in this Agreement will be construed to give any Person other than the parties to this Agreement any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement. This Agreement and all of its provisions and conditions are for the sole and exclusive benefit of the parties to this Agreement and their successors and assigns.

10. This Agreement may be executed in one or more counterparts.

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

Tower Semiconductor Ltd.
By: ________________________________
Name:
Title:

QuickLogic Corporation
By: ________________________________
Name: E. Thomas Hart
Title: President and CEO

* An asterisk indicates confidential material has been omitted from this document filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

SHARE PURCHASE AGREEMENT

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

RECITALS

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

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

1. DEFINITIONS.

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

"Additional Financings" - as defined in Section 3.5.

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

"Ancillary Agreements" - as defined in Section 3.2.4.

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

"Assets" - as defined in Section 3.6.

"Balance Sheet" - as defined in Section 3.4.2.

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

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

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"Closing" - as defined in Section 2.3.

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

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

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

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

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

"Damages" - as defined in Section 10.2.

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

"Escrow Agreement" - as defined in Section 2.4.

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

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

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

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

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

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

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

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

"Intellectual Property Assets" - as defined in Section 3.2.0.

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

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

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

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

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

"OCS" - as defined in Section 3.2.1.

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

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

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

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

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

"Organizational Documents" - (a) the memorandum of association, articles of association, certificate of incorporation and/or the bylaws of a corporation; (b) the partnership agreement and any statement of partnership of a general partnership; (c) the limited partnership agreement and the certificate of limited partnership of a limited partnership; (d) any charter or

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similar document adopted or filed in connection with the creation, formation, or organization of a Person; and (e) any amendment to any of the foregoing.

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

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

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

"Schedule" - means a schedule comprising part of the disclosure schedule delivered by the Company to Buyer concurrently with the execution and

delivery of this Agreement.

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

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

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

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

"Tax Return" - any return (including any information return), report, statement, schedule, notice, form, or other document or information filed with or submitted to, or required to be filed with or submitted to, any Governmental Body in connection with the determination,

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assessment, collection, or payment of any Tax or in connection with the administration, implementation, or enforcement of or compliance with any Legal Requirement relating to any Tax.

"TIC" - The Israel Corporation Ltd.

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

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

"Wafer Partner" - a wafer manufacturer that either invests in the equity of the Company and enters into an agreement with the Company providing for a wafer order right or that enters into a wafer manufacturing agreement with the Company on a "take or pay" basis or on a "pre-payment" basis, in each case

in accordance with the provisions of Sections 7.6(ii) and 7.7 hereof.

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

Additional Defined Terms

<TABLE>

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

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2. SALE AND TRANSFER OF SHARES; PURCHASE PRICE; CLOSINGS.

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

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

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

the Purchase Price and the Purchase Price shall be retained by Buyer.

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

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2.5 CLOSING OBLIGATIONS. At the Closing:

2.5.1 The Company will deliver to Buyer:

2.5.1.1 Certified copies of resolutions of the Company's shareholders relating to, among other things, an increase in the Company's registered share capital and the issuance of the Shares and the Additional Purchase Obligation Shares, and the Board authorizing and approving the Ancillary Agreements and the transactions contemplated therein;

2.5.1.2 Certified copies of the Company's Articles of Association (the "Articles") as amended through the Closing Date;

2.5.1.3 A certified duly executed by two executive officers of the Company in the form set forth in Schedule 2.5.1.3, dated as of the date of the Closing;

2.5.1.4 The opinion of Yigal Arnon & Co., counsel to the Company, in the form reasonably satisfactory to Buyer and its counsel to be attached hereto as Schedule 2.5.1.4, dated as of the Closing;

2.5.1.5 Executed copies of the Registration Rights Agreement substantially in the form of Exhibit E hereto (the "Registration Rights Agreement"), which shall provide an equal number of Demand Rights (as defined in such agreement) to Buyer and TIC;

2.5.1.6 Validly executed certificates representing the Shares, issued in the name of the Buyer and a certificate of the secretary of the Company confirming that the Shares were registered in the share register of the Company in the name of Buyer,

2.5.1.7 Copies of documents evidencing all Consents and approvals required under Section 7.3 hereof;

2.5.1.8 Copies of all the Ancillary Agreements duly executed and delivered and in accordance with Section 7 hereof;

2.5.1.9 The written consent of the OCS and the Investment Center to the execution of this Agreement and the issuance of the Shares to the Buyer.

2.5.1.10 The certificate required to be delivered under Section 7.15 hereof.

2.5.2 Buyer will deliver to the Company:

2.5.2.1 A copy of a letter from Buyer to the Escrow Agent irrevocably authorizing the release of the Purchase Price to the account of the Company pursuant to the terms of the Escrow Agreement;

2.5.2.2 A certificate duly executed by two executive officers of Buyer in the form set forth in Schedule 2.5.2.2, dated as of the date of the Closing;

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2.5.2.3 Executed copies of the Shareholders Agreement and the Registration Rights Agreement.

3. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

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

3.1 ORGANIZATION AND GOOD STANDING.

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

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

3.2 AUTHORITY; NO CONFLICT; CONSENTS AND APPROVALS.

3.2.1 Each of this Agreement, the Additional Purchase Obligation Agreement, the Additional Purchase Obligations, the Escrow Agreement and the Foundry Agreement (the "Executed Transaction Documents") has been duly authorized, executed and delivered by the Company (subject, with respect to the increase in the Company's registered share capital and issuance of the Shares and the Additional Purchase Obligation Shares, to receipt of shareholder approval by Closing) and, assuming the due execution and delivery hereof and thereof

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

3.2.2 Except as set forth in Schedule 3.2, neither the execution and delivery of this Agreement, any of the Transaction Documents or any of the other Ancillary documents nor the consummation or performance of any of the foregoing is or will, directly or indirectly (with or without notice or lapse of time):

3.2.2.1 contravene, conflict with, or result in a violation of (A) any provision of the Organizational Documents of the Company or any Subsidiary, or (B) any resolution adopted by the board of directors or the shareholders of the Company or any Subsidiary; or

3.2.2.2 contravene, conflict with, or result in a violation of, or give any Governmental Body or other Person the right to challenge or to exercise any remedy or obtain any relief under, any Legal Requirement or any Order to which the Company or any Subsidiary, or any of the assets owned or used by the Company or any Subsidiary, may be subject, the breach of or default under which could have a Material Adverse Effect or could materially adversely affect the consummation of the Contemplated Transactions; or

3.2.2.3 contravene, conflict with, or result in a violation of any of the terms of requirements of, or give any Governmental Body the right to revoke, withdraw, suspend, cancel, terminate or modify any Governmental Authorization that is held by the Company or any Subsidiary or that otherwise relates to the business of, or any of the assets owned or used by, the Company or any Subsidiary, the effect of which would have a Material Adverse Effect or materially adversely affect the consummation of the Contemplated Transactions; or

3.2.2.4 contravene, conflict with, or result in a violation or breach of any provision of, or give any Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify, any Applicable Contract, the

effect of which could have a Material Adverse Effect or materially adversely affect the consummation of the Contemplated Transactions; or

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

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

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

3.3 CAPITALIZATIONS; ISSUANCE OF SHARES; OFFICERS AND DIRECTORS.

3.3.1 The authorized share capital of the Company, immediately prior to the Closing, including the proposed increase in share capital referred to in Section 2.4, will consist of 70,000,000 Ordinary Shares, of which 12,207,007 shares are issued and outstanding and 1,784,804 are reserved for issuance of outstanding options to employees, officers and directors and 1,615,500 are reserved for future grants of options to employees, officers and directors. All of the outstanding Ordinary Shares have been duly authorized and validly issued and are fully paid and nonassessable. Schedule 3.3 sets forth the list of the Company's shareholders of record as maintained by the transfer agent and a list of all the options outstanding, the vesting schedules of such options and the exercise prices thereof. Except as set forth in Schedule 3.3, there are no Contracts relating to the issuance, or to the Knowledge of the Company, sale, transfer, or Encumbrance (other than arising solely by or through actions of Buyer) of any equity securities or securities convertible or exchangeable into equity securities or securities convertible or exchangeable into equity securities of the Company. When the Shares shall have been issued and delivered to Buyer as part of the Closing, such Shares will: (i) have been duly authorized for issuance by the Company's Board, (ii) upon delivery of the consideration therefor in accordance with the terms of this Agreement and the Escrow Agreement, be duly and validly issued, fully paid and nonassessable and (iii) be free and clear of any Encumbrances, and not the subject of any preemptive or other participation rights.

3.3.2 The Company's and its Subsidiaries current officers and directors are those persons whose names are set forth in Schedule 3.3.2 (the "Named Officers and Directors").

3.3.3 Neither the Company nor any Subsidiary has any agreement, obligation or commitment with respect to the election of any Person to the Company's Board and/or any Subsidiary's board of directors and to the actual knowledge of the Company, there is no voting agreement or other arrangement among the Company's shareholders or the Subsidiaries' shareholders, and there are no agreements or arrangements between any Person which affects or relates to the voting or giving written consents with respect to the Company's or any Subsidiaries' securities including with respect to the nomination of a director and/or officer of the Company and/or the Subsidiary.

3.3.4 There are no agreements, commitments and understandings, whether written or oral, with respect to any compensation to be provided by the Company and/or the Subsidiary to any of the Named Officers and Directors, and, to the best knowledge of the Company, to be provided by any third party to any of the Named Officers and Directors, except as set forth in Schedule 3.3.4.

3.3.5 Except as set forth in Schedule 3.3.5(a) and in the Registration Rights Agreement to be entered into hereunder, the Company is not under any obligation to register for trading on any securities exchange any of its currently outstanding securities or any of its securities which may hereafter be issued. Since its incorporation there has been no declaration or payment by the Company of dividends, or any distribution by the Company of any assets of any kind to any of its shareholders in redemption of or as the purchase price for any of the Company's securities except as set forth in Schedule 3.3.5(b).

3.4 SEC DOCUMENTS; FINANCIAL STATEMENTS.

3.4.1 The Company has furnished to Buyer copies of the Company's Annual Report on Form 20-F for the year ended December 31, 1999 (the "Annual Report") as filed with the U.S. Securities and Exchange Commission ("SEC") on March 20, 2000. The Company represents and warrants to Buyer that: (i) the Annual Report has been duly filed with the SEC, and when filed was in compliance in all material respects with the requirements of the Exchange Act and the rules and regulations of the SEC applicable to such Annual Report; and (ii) the Annual Report was complete and correct in all material respects as of its date and, as of its date, did not contain any untrue statement of material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The Company has provided the Buyer with a copy of each document submitted to the SEC on Form 6-K since January 1, 1999 (the "6K Reports" and together with the Annual Report, the "SEC Documents"). The Company represents and warrants to Buyer that: (i) the 6K Reports have been duly submitted to the SEC, and when submitted were in compliance in all material respects with the requirements of the Exchange Act and the rules and such regulations of the SEC applicable to such 6K Reports; and (ii) the 6K Reports were complete and correct in all material respects as of their respective dates and, as of such dates, did not contain any untrue statement of material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which

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they were made, not misleading. The Company represents that it has filed all the reports that the Company was required to file with the SEC since January 1, 1998, according to the requirements of the Exchange Act.

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

3.5 BUSINESS PLAN; ADDITIONAL FINANCING PLAN.

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

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3.6 TITLE TO PROPERTIES; ENCUMBRANCES. Except as set forth

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

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

3.8 CUSTOMERS AND SUPPLIERS. Since January 1, 2000, there has not been any adverse change in the business relationship of the Company with any material customer or material supplier of the Company.

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

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

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3.11 TAXES.

3.11.1 The Company and each Subsidiary has filed or caused to be filed (on a timely basis since January 1, 1994) all Tax Returns that are or were required to be filed by or with respect to it, pursuant to applicable Legal Requirements. The Company and each Subsidiary has paid, or made provision for the payment of, all Taxes that have or may have become due pursuant to those Tax Returns or otherwise, or pursuant to any assessment

received by the Company, except such Taxes, if any, as are listed in Schedule 3.11 and are being contested in good faith and as to which adequate reserves (determined in accordance with GAAP) have been provided in the Balance Sheet and the Interim Balance Sheet.

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

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

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

3.12 NO MATERIAL ADVERSE CHANGE. Except as set forth in Schedule 3.12, since the date of the Balance Sheet, there has not been any material adverse change in the business, operations, properties, assets or condition of the Company (financial or other), including in the prospects of the construction, deployment and operation of Fab 2 in accordance with the Business Plan, and no event or development has occurred or circumstance exists that may result in such a material adverse change.

3.13 EMPLOYEE BENEFITS; LABOR.

3.13.1 Except as set forth in Schedule 3.13.1, neither the Company nor any Subsidiary is a member of any employers union or a party to any collective bargaining contract, collective labor agreement or other contract or arrangement with a labor union, trade union or other organization or body involving any of its employees, or is otherwise required (under any legal requirement, including under any profit sharing, bonus, deferred compensation, savings, insurance, pension, retirement, or other employee benefit plan for or with any employees of the Company or any of its Subsidiaries, except for the respective personal employment agreements) to provide benefits or working conditions beyond the minimum benefits and working conditions required by

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law. Neither the Company nor any Subsidiary has recognized or received a demand for recognition from any collective bargaining representative with respect to any of its employees. Except as set forth in Schedule 3.13.1, neither the Company nor any Subsidiary are subject to, and no employee of the Company or any Subsidiary benefits from, any extension order (IZAVEI HARCHAVA) or any arrangement or custom with respect to employment or termination thereof. All of the Company's and the Subsidiaries' employees are "at will" employees and neither the Company nor any Subsidiary has any obligation to employee any employee for a specified period.

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

in the aggregate, have a Material Adverse Effect.

3.13.3 Since January 1, 1995, (i) there has been no labor strike, slowdown or stoppage pending or threatened against or affecting the Company or any Subsidiary and (ii) there has been no material dispute between the Company or any Subsidiary and any group of its employees which was not resolved.

3.13.4 Except as set forth in Schedule 3.13.4, the Company's and its Subsidiaries' obligations to provide severance pay to its employees are fully funded or have been properly provided for in the Financial Statements in accordance with GAAP including by contribution to appropriate insurance funds. All other liabilities of the Company or any Subsidiary (absolute or contingent) relating to their employees were properly accrued in the Financial Statements in accordance with GAAP.

3.13.5 All amounts that the Company or any Subsidiary is legally or contractually required either (i) to deduct from its employees' salaries or to transfer to such employees' pension or provident, life insurance manager insurance, incapacity insurance, continuing education fund or other similar fund or (ii) to withhold from their employees' salaries and pay to any Governmental Entity as required by Israeli Legal Requirements relating to any tax or any other compulsory payment have, in each case, been duly deducted, transferred, withheld and paid.

3.13.6 The Company and each Subsidiary is in compliance in all material respects with all applicable Legal Requirements and contracts relating to employment, employment practices, wages, bonuses and other compensation matters and terms and conditions of employment.

3.13.7 Schedule 3.13.7 sets forth true and complete details of payment by the Company or any of its Subsidiaries since January 1, 2000 of any bonuses, salaries or other compensation to any shareholder or Named Director or Officer (except in the Ordinary Course of Business) or entry into any employment, severance, or similar Contract with any Named Director or Officer.

3.14 COMPLIANCE WITH LEGAL REQUIREMENTS; GOVERNMENTAL AUTHORIZATIONS.

3.14.1 Except as set forth in Schedule 3.14 (i) the Company and its Subsidiaries are, and at all times since January 1, 1997 have been, in full compliance with each

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

3.14.2 The Company and each Subsidiary has all Governmental Authorizations necessary to permit the Company and its Subsidiaries to lawfully conduct and operate their business as currently conducted and as approved by the Board to be conducted in the future, except for such authorizations, the failure to possess which would not have a Material Adverse Effect. The Company and its Subsidiaries are and have been in full compliance with all of the terms and requirements of each Governmental Authorization that is held by the Company and its Subsidiaries or that otherwise relates to the

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

3.15 LEGAL PROCEEDINGS; ORDERS. Except as set forth in Schedule 3.15, there is no pending Proceeding (i) that has been commenced by or against the Company or that otherwise relates to or may affect the business of, or any of the assets owned or used by, the Company or any Subsidiary in a material manner, or (ii) that challenges, or that may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Contemplated Transactions.

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

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

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3.15.3 Except as set forth in Schedule 3.15, the Company and all its Subsidiaries are, and at all times have been, in full compliance with all of the terms and requirements of each Order to which it, or any of the assets owned or used by it, is or has been subject other than any non-compliance which would not have a Material Adverse Effect.

3.16 ABSENCE OF CERTAIN CHANGES AND EVENTS. Except as set forth in Schedule 3.16, since the date of the Balance Sheet, the Company and all its Subsidiaries have conducted their businesses only in the Ordinary Course of Business and there has not been any:

3.16.1 entry into, termination of, or receipt of notice of termination of (i) any license, distributorship, dealer, sales representative, joint venture, credit, or similar agreement, or (ii) any Contract or transaction involving a total remaining commitment by or to the Company or any of its Subsidiaries of at least $2,000,000; or

3.16.2 sale (other than sales of inventory in the Ordinary Course of Business), lease, or other disposition of any asset or property of the Company or any of its Subsidiaries for at least $2,000,000 or mortgage, pledge, or imposition of any lien or other encumbrance on any material asset or property of the Company or any of its Subsidiaries, including the sale, lease, or other disposition of any of the Intellectual Property Assets except in the Ordinary Course of Business; or

3.16.3 cancellation or waiver of any claims or rights with a value to the Company or any of its Subsidiaries in excess of $2,000,000; or

3.16.4 material change in the accounting methods used by the Company or any of its Subsidiaries; or

3.16.5 agreement, whether oral or written, by the Company or any of its Subsidiaries to do any of the foregoing.

3.17 CONTRACTS; NO DEFAULTS.

3.17.1 Except as set forth in Schedule 3.17.1 and except for agreements, instruments, arrangements and contracts which are exhibits to the SEC Documents, as of the date of this Agreement, there is no Applicable Contract that:

3.17.1.1 involves performance of services or delivery of goods or materials by or to the Company or any of its Subsidiaries of an amount or value in excess of $1,000,000; or

3.17.1.2 was not entered into in the Ordinary Course of Business and that involves expenditures or receipts of the Company or any of its Subsidiaries in excess of $2,000,000; or

3.17.1.3 affects the ownership of, leasing of, title to, use of, or any leasehold or other interest in, any real or personal property (except personal property leases and

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installment and conditional sales agreements having a value per item or aggregate payments of less than $500,000 and with terms of less than one year); or

3.17.1.4 relates to patents, trademarks, copyrights, or other intellectual property, except for standard agreements with current or former employees, consultants, or contractors regarding the appropriation or the non-disclosure of any of the Intellectual Property Assets; or

3.17.1.5 constitutes a collective bargaining agreement or other commitment to or with any labor union or other employee representative of a group of employees; or

3.17.1.6 involves a sharing of profits, losses, costs, or liabilities by the Company or any of its Subsidiaries with any other Person; or

3.17.1.7 contains covenants that in any way purport to restrict the business activity of the Company or any of its Subsidiaries or limit the freedom of the Company or any of its Subsidiaries to engage in any line of business or to compete with any Person; or

3.17.1.8 provides for payments to or by any Person based on sales, purchases, or profits, other than direct payments for goods; or

3.17.1.9 constitutes a currently effective and outstanding power of attorney; or

3.17.1.10 was entered into other than in the Ordinary Course of Business and that contains or provides for an express

undertaking by the Company or any of its Subsidiaries to be responsible for consequential damages; or

3.17.1.11 is for capital expenditures of the Company or any of its Subsidiaries in excess of $1,000,000; or

3.17.1.12 represents a written warranty, guaranty, and/or other similar undertaking with respect to contractual performance extended by the Company or any of its Subsidiaries other than in the Ordinary Course of Business.

3.17.2 Each Contract identified in Schedule 3.17.1 is in full force and effect in all respects and is valid and enforceable in accordance with its terms. No event has occurred or circumstance exists that (with or without notice or lapse of time) may materially contravene, conflict with, or result in a material violation or breach of, or give the Company or any other Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify, any Contract listed on Schedule 3.17.1.

3.17.3 Except as set forth in Schedule 3.17.3, there are no renegotiations of any material amounts paid or payable to the Company or any of its Subsidiaries under current or completed Contracts listed on Schedule 3.17.1 with any Person and no such Person has made written demand for such renegotiations.

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

3.19 ENVIRONMENTAL MATTERS. Except for (i) matters disclosed in the SEC Documents or (ii) matters disclosed in Schedule 3.19:

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

3.19.2 There is no Environmental Claim pending or, to

the best of the Company's knowledge, Threatened against the Company or its Subsidiaries or against any Person whose liability for such an Environmental Claim the Company or its Subsidiaries have or may have retained or assumed whether contractually or by operation of law.

3.19.3 To the best of the Company's knowledge, there are no Materials of Environmental Concern present in or at the facilities of the Company or any of its Subsidiaries or at any geologically or hydrological adjoining property, including any Materials of Environmental Concern contained in barrels, above or underground storage tanks, landfills, land deposits, dumps, equipment (whether moveable or fixed) or other containers, either temporary or permanent, and deposited or located in land, water, sumps, or any other part of the facilities of the Company or any of its Subsidiaries or such adjoining property, or incorporated into any structure therein or thereon.

3.19.4 The Company has delivered to Buyer true and complete copies and results of any reports, studies, analyses, tests, or monitoring possessed or initiated by the Company pertaining to Materials of Environmental Concern in, on, or under the facilities of the Company or

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any of its Subsidiaries, or concerning compliance by the Company, or any other Person for whose conduct it is or may be held responsible, with Environmental Laws.

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

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

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

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

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

"Release" means any spilling, leaking, pumping, pouring, emitting, discharging, injecting, escaping, leaching, dumping or disposing into the environment, including, without limitation, the abandonment or discarding of barrels, containers and other closed receptacles containing

Materials of Environmental Concern.

3.20 INTELLECTUAL PROPERTY.

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

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accordance with the Business Plan. Schedule 3.20.1 sets forth a list of the Intellectual Property Rights, other than Trade Secrets and unregistered Copyrights:

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

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

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

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

3.20.3 KNOW-HOW NECESSARY FOR THE BUSINESS.

3.20.3.1 To the Company's best Knowledge, the Intellectual Property Assets are all those necessary for the operation of the Company's and its Subsidiaries' business as it is currently conducted and as is approved by the Board to be conducted, including, without limitation, in connection with the operation of Fab-2 in accordance with the Business Plan, except as would not have a Material Adverse Effect. Except as set forth in Schedule 3.20.3, the Company is the owner of all right, title, and interest in and to each of the Intellectual Property Assets, to the Company's best Knowledge, free and clear of all, Encumbrances, equities, and other adverse claims, and has the right to use without payment to a third party all of the Intellectual Property Assets, except as would not have a Material Adverse Effect.

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

Company and its Subsidiaries to anyone other than the Company and its
Subsidiaries.

3.20.4 PATENTS; TRADEMARKS; COPYRIGHTS; MASK WORKS.

3.20.4.1 Schedule 3.20.1. contains a complete
and accurate list and summary description of all Patents, Trademarks and
registered Copyrights. The Company owns

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all right, title, and interest in and to each of the Patents, Trademarks and
Copyrights, free and clear of all liens, security interests, charges,
encumbrances, entities, and other adverse claims.

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

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

3.20.4.4 No Patent, Mark or Copyright is (with
respect to issued Patents relating to wafer fabrication technology, to the best
knowledge of the Company) infringed or, to the best of the Company's knowledge,
has been challenged or threatened in any way. To the best knowledge of the
Company, none of the products manufactured and sold, nor any process or know-how
used, by the Company infringes or is alleged to infringe any patent or other
proprietary right of any other Person; to the best knowledge of the Company,
none of the Marks used by the Company or any of its Subsidiaries infringes or is
alleged to infringe any trade name, trademark, or service mark of any third
party; and to the best knowledge of the Company, none of the subject matter of
any of the Copyrights infringes or is alleged to infringe any copyright of any
third party or is a derivative work based on the work of a third party.

3.20.5 TRADE SECRETS.

3.20.5.1 With respect to each Trade Secret, the
documentation relating to such Trade Secret is current, accurate, and sufficient
in detail and content to identify and explain it and to allow its full and
proper use without reliance on the knowledge or memory of any individual.

3.20.5.2 The Company and its Subsidiaries have
taken all reasonable precautions to protect the secrecy, confidentiality, and
value of its Trade Secrets to the extent that the maintenance of any such Trade
Secret as a legally protectible trade secret under applicable law is material to
the Company.

3.20.5.3 The Company and its Subsidiaries have
good title and an absolute (but not necessarily exclusive) right to use the
Trade Secrets to the extent that the maintenance of any such Trade Secret as a
legally protectible trade secret under applicable law is material to the
Company. The Trade Secrets, the maintenance of any of which as a legally
protectible trade secret under applicable law are material to the Company, are
not part of the public knowledge or literature, and, to the Company's Knowledge,
have not been used, divulged, or appropriated either for the benefit of any

Person or to the detriment of the Company or its Subsidiaries. No Trade Secret, the maintenance of which as a legally protectible trade secret under

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applicable law is material to the Company, is subject to any adverse claim or has been challenged or threatened in any way.

3.21 GRANTS, INCENTIVES AND SUBSIDIES. Schedule 3.21 provides a correct and complete list of the aggregate amount of pending and outstanding grants from each Governmental Body of the State of Israel, or from any other Governmental Body, to the Company or any Subsidiary, net of royalties paid, and any tax incentive or subsidy granted to the Company or any Subsidiary, including the material terms and benefit periods thereof (collectively, "Grants") including, without limitation, (i) Approved Enterprise Status from the Israeli Investment Center, and (ii) Grants from the Office of the Chief Scientist of the Israel Ministry of Industry and Trade ("OCS"). The Company has made available to Buyer, prior to the date hereof, correct and complete copies of all letters of approval, and supplements thereto, granted to the Company or any Subsidiary relating to Approved Enterprise Status from the Investment Center and Grants under from the OCS. Except for undertakings set forth in such letters of approval and undertakings under applicable laws and regulations, there are no material undertakings of the Company or any Subsidiary given in connection with the Grants. The Company and each of Subsidiary are in compliance, in all material respects, with the terms and conditions of such Grants and, except as disclosed in Schedule 3.21, have duly fulfilled, in all material respects, all the undertakings relating thereto. The Company's application to the Israeli Investment Center with respect to Fab-2 was submitted on May 17, 2000 and was previously provided to Buyer (the "Investment Center Application"). To the extent that there are changes to the assumptions contained in the Investment Center Application as submitted, they are reflected in the Business Plan. The Investment Center Application complies as to form with all Legal Requirements.

3.22 DISCLOSURE.

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

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

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

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3.24 BROKERS OR FINDERS. The Company and its agents have incurred no obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payment in connection with the Contemplated Transactions.

4. REPRESENTATIONS AND WARRANTIES OF BUYER.

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

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

4.2 AUTHORITY; NO CONFLICT.

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

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

4.2.2.1 any provision of Buyer's Organizational Documents;

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

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

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

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

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4.3 INVESTMENT INTENT; NO REGISTRATION.

4.3.1 Buyer is acquiring the Shares for its own account and not with a view to their distribution within the meaning of Section

2(11) of the Securities Act. Buyer has requisite knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of an investment in the Company and is an accredited investor as defined under Regulation D as promulgated by the United States Securities and Exchange Commission; and

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

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

4.4 CERTAIN PROCEEDINGS. There is no pending Proceeding that has been commenced against Buyer and that challenges, or may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Contemplated Transactions. To Buyer's knowledge, no such Proceeding has been Threatened.

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

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4.6 BROKERS OR FINDERS. Buyer and its officers and agents have incurred no obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payment in connection with the Contemplated Transactions.

5. COVENANTS OF THE COMPANY PRIOR TO CLOSING.

5.1 ACCESS AND INVESTIGATION. Between the date of this Agreement and the Closing Date, the Company will, and will cause its Representatives to, (i) afford Buyer and its Representatives (collectively, "Buyer's Advisors") full and free access to the Company's personnel, properties, contracts, books and records, and other documents and data, (ii) furnish Buyer and Buyer's Advisors with copies of all such contracts, books and records, and other existing documents and data as Buyer may reasonably request, and (iii) furnish Buyer and Buyer's Advisors with such additional financial, operating, technical and other data and information as Buyer may reasonably request. All

information so provided to Buyer and its representatives will be subject to the Non-Disclosure Agreement dated April 4, 2000 between the parties (except for Section 6 thereof which shall expire upon signing of this Agreement).

5.2 OPERATION OF THE COMPANY'S BUSINESS. Between the date of this Agreement and the Closing Date, the Company will:

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

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

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

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

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

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

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

5.6 FINANCINGS.

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

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

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5.6.3 The proceeds from each of the equity financing sources referred to in clauses (ii) and (iii) of Section 7.6 with respect to Wafer Partners shall be obtained only from parties acceptable to Buyer upon Buyer's prior approval. In addition, in the event that the underlying agreements with respect thereto contain any terms or conditions (including, without limitation, (a) pricing terms and (b) other economic terms taken as a whole) more favorably (the "Terms of the Other Agreements") than those provided hereunder and in the Transaction Agreements, the terms and conditions of this Agreement and the Transaction Agreements, as the case may be, shall be automatically amended, without further action by the parties hereto and thereto, to provide such terms and conditions that are at least equally favorable to the Buyer as the Terms of the Other Agreements. The Company shall not enter into any agreement with respect to the equity financings referred to in clauses (ii) and (iii) of Section 7.6 if any of such agreements contain provisions that would impede the ability of the Company to effect the terms of the preceding sentence.

5.6.4 The proceeds from each of the debt financing sources referred to in clause (i) of Section 7.6 and the underlying agreements with respect thereto shall be obtained only on terms and conditions that are materially consistent with the terms and conditions to be set forth in a term sheet or similar agreement or document relating to such financing (a "Debt Financing Term Sheet"). The Company shall consult with Buyer in advance of execution of any Debt Financing Term Sheet and shall enter into such Debt Financing Term Sheet only upon the consent of Buyer which shall not be unreasonably withheld. The terms and conditions of such debt financing shall not be in conflict with the terms of the Contemplated Transactions and shall be consistent with the terms and conditions contained in the Additional Financing Plan and the Business Plan. The Company shall provide to the Buyer the

transaction documents of each debt financing (the "Debt Financing Documents") in the form presented to the Board for its approval, at least 10 business days prior to the execution thereof, in order to enable Buyer to review such documents and confirm that the terms thereof are consistent with the Debt Financing Term Sheet previously approved by Buyer. The Buyer shall deliver to the Company its written approval or other response to the Debt Financing Documents within 5 business days from its receipt of the Debt Financing Documents; Buyer's failure to provide its written response to the Company within such period of time shall be deemed Buyer's approval of the Debt Financing Documents.

5.6.5 Between the date of this Agreement and the Closing Date, the Company shall not change or modify or agree to change or modify any of the terms and conditions listed in the Additional Financing Plan, the Business Plan or the Investment Center Application without the prior written unanimous approval of all members of the Steering Committee if any such change, modification or agreement would or would reasonably be expected to (a) change the construction schedule of Fab 2 as set forth in the Business Plan, (b) change the Additional Financing Plan as set forth in the Business Plan or result in a failure to comply with the schedule for the financings described therein, (c) significantly increase the cost of Fab 2 beyond that set forth in the Business Plan or (d) change the production capacity schedule of Fab 2 as set forth in the Business Plan. Any change, modification or agreement to change or modify the Business Plan, the Additional Financing Plan or the Investment Center Application which does not require written unanimous approval of all members of the Steering Committee pursuant to the preceding sentence shall require written approval of a majority of the members of the Steering Committee.

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5.7 SHAREHOLDERS AGREEMENT. The Company will use its best efforts to ensure that any entity purchasing equity securities or securities exchangeable or convertible into equity securities comprising five percent (5%) or more of the outstanding Ordinary Shares of the Company pursuant to the Additional Financing Plan (other than investors purchasing any such securities in connection with a public offering conducted by the Company as part of the Additional Financing) shall execute the Shareholders Agreement as a counterparty or a similar agreement whose provisions, among other things, provide for such entity to take such actions as may be necessary to vote for the election of Buyer's, TIC's, and any other entity's representative(s) to the Board, in accordance with the terms of the Shareholders Agreement.

5.8 NO NEGOTIATION. Until the later of (i) such time, if any, as this Agreement is terminated pursuant to Section 9, and (ii) the Closing Date, the Company will not, and will cause its Representatives not to, directly or indirectly solicit, initiate, or encourage any inquiries or proposals from, discuss or negotiate with, provide any non-public information to, or consider the merits of any unsolicited inquiries or proposals from, any Person (other than Buyer) relating to any transaction involving the sale of all or a substantial portion of the business or assets, or any of the capital stock of the Company (other than (i) in the Ordinary Course of Business; (ii) in connection with issuances of stock options or shares upon the exercise thereof under the Company's employee stock incentive plans and (iii) in connection with issuances of equity securities in accordance with Section 7.6(ii) and (iii) below pursuant to the Additional Financing Plan and in accordance therewith), or any merger, consolidation, business combination, or similar transaction involving the Company or any of its Subsidiaries pursuant to which the shareholders of the Company immediately prior to such merger, consolidation, business combination, or similar transaction do not continue to hold a majority of the outstanding equity of the continuing or resulting entity.

5.9 BOARD OF DIRECTORS. As long as Buyer has a representative on the Board, each committee of the Board shall include at least one representative of Buyer and, so long as TIC has a representative on the

Board, one representative of TIC. The Company will ensure that the time period between each annual shareholders' meeting shall not exceed 15 months. The Board shall meet at least once in every three months and notice of each Board meeting shall be provided in writing in English to all Board members at least 10 days in advance. All communications to the Directors will be provided in English. The quorum for each meeting of the Board shall include at least one representative of Buyer, so long as Buyer has at least two representatives on the Board. Notwithstanding the preceding sentence, in the event that quorum is not present at a meeting of the Board solely because a representative of Buyer was not present and such meeting is adjourned, the failure of a representative of Buyer to be present at the adjourned meeting shall not constitute lack of quorum. The Company acknowledges that the representatives of Buyer on the Board may at any time participate or fail to participate in any Board action concerning this Agreement if in their view such action is appropriate under applicable law.

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

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

6. COVENANTS OF BUYER PRIOR TO CLOSING DATE.

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

7. CONDITIONS PRECEDENT TO BUYER'S OBLIGATIONS AT CLOSING.

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

7.1 ACCURACY OF REPRESENTATIONS. All of the Company's representations and warranties in this Agreement and the Transaction Agreements (considered collectively, without giving effect to any supplement to the Schedules), and each of these representations and warranties (considered individually) must have been accurate in all material respects as of the date of this Agreement and must be accurate in all material respects as of the Closing Date as if made on the Closing Date (except to the extent such representations and warranties are only given as of the date hereof), without giving effect to any supplement to the Schedules, provided that any inaccuracies in such representations and warranties will be disregarded if the circumstances giving rise to all such inaccuracies (considered collectively) do not constitute, and

are not reasonably expected to result in, a Material Adverse Effect (it being understood that any materiality qualifications contained in such representations and warranties shall be disregarded for this purpose).

7.2 COMPANY'S PERFORMANCE.

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

7.2.2 Each of the Transaction Documents and the Ancillary Agreements shall have been duly executed by the Company and shall have been in full force and effect and no

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party to such document (other than Buyer) shall be in a breach thereof. The Shareholders Agreement shall have been executed by Buyer and The Israel Corporation.

7.2.3 Each document required to be delivered by the Company pursuant to Section 2.5.1 must have been delivered.

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

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

7.5 OCS APPROVAL. The Company has obtained the approval of the OCS with respect to the consummation of the Contemplated Transactions.

7.6 ADDITIONAL FINANCINGS. The Company shall have (i) entered into binding definitive agreements in accordance with Section 5.6.4 providing for loans in an aggregate amount of at least $550,000,000 from reputable financial institutions solely for the purposes of the construction of Fab 2, as described in Section 10.4 of the Financing Plan, (ii) entered into binding definitive agreements providing for at least $225,000,000 in wafer partner pre-payments or equity financing from Wafer Partners (other than Buyer) obtained in accordance with the terms of

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Section 5.6.3 and provided to the Company by Wafer Partners pursuant to which all closing conditions have been satisfied and at least 15% of the equity of each equity investor has been transferred to or placed in escrow for the benefit of the Company subject only to the closing of this Agreement and the balance of such financing shall be forwarded automatically upon the occurrence of specified milestones relating to the construction and operation of Fab-2, which milestones are generally similar to the milestones described in the Additional Purchase Obligation Agreement, (iii) in the event that the Company only satisfies the condition in the preceding clause (ii) in relation to at least $150,000,000 of the $225,000,000 referred to above (such difference being the "Wafer Partner Differential"), entered into binding definitive agreements providing for at least the Wafer Partner Differential through non-Wafer Partner equity investors; provided, however, that the Company shall be required no later than October 1, 2001 (the "Additional Wafer Partner Financing Date") to enter into binding definitive agreements with respect to the Wafer Partner Differential from additional Wafer Partners as a condition to the exercise of Additional Purchase Obligations not exercised prior to such time pursuant to the Additional Purchase Obligation Agreement on the Additional Wafer Partner Financing Date, pursuant to which agreement(s) all closing conditions have been satisfied and at least 15% of the equity of each equity investor has been transferred to or placed in escrow for the benefit of the Company and the balance of such financing shall be forwarded automatically upon the occurrence of specified milestones relating to the construction and operation of Fab-2, which milestones are generally similar to the milestones described in the Additional Purchase Obligation Agreement and (iv) provided to Buyer a commitment in writing to provide $100,000,000 from the Company's own cash resources, including, but not limited to, proceeds from the exercise of employee stock options, existing cash reserves, proceeds from sales of private equity securities, royalties and sales; in the event that the Company shall close on the basis of section (iii) above, at such time as the Wafer Partner Differential shall have been raised by the Additional Wafer Partner Financing Date, the Company's commitment to provide $100,000,000 under this clause (iv) shall be reduced by the Wafer Partner Differential.

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

7.8 TOSHIBA AGREEMENT. The Toshiba Agreement shall be in full force and effect and shall not have been breached by any party thereto.

7.9 CERTIFICATES. In addition to the documents the Company is obligated to deliver to Buyer under Section 2.5 and this Section 7, the

Company shall furnish Buyer with such other documents as Buyer may reasonably request for the purpose of (i) evidencing the accuracy of any of the Company's representations and warranties, (iii) evidencing the performance by the Company of, or the compliance by the Company with, any covenant or obligation required to be performed or complied with by the Company, (iv) evidencing the satisfaction of any condition referred to in this

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Section 7, or (v) otherwise facilitating the consummation or performance of any of the Contemplated Transactions.

7.10 NO PROCEEDINGS. Since the date of this Agreement, there must not have been commenced or Threatened by a third party against Buyer or the Company, or against any Person affiliated with Buyer or the Company, any Proceeding (a) involving any challenge to, or seeking material damages or other relief in connection with, any of the Contemplated Transactions, or (b) that may have the effect of making illegal, materially preventing, delaying, or otherwise interfering with any of the Contemplated Transactions.

7.11 NO PROHIBITION. Neither the consummation nor the performance of any of the Contemplated Transactions will, directly or indirectly (with or without notice or lapse of time), materially contravene, or conflict with, or result in a material violation of, or cause the Company, Buyer or any Person affiliated with the Company or Buyer to suffer any material adverse consequence under, (a) any applicable Legal Requirement or Order, or (b) any Legal Requirement or Order that has been published, introduced, or otherwise formally proposed by or before any Governmental Body.

7.12 DIRECTORS. The Board of Directors of the Company shall have been reformed in accordance with the provisions of Section 2 of the Shareholders Agreement.

7.13 NO MATERIAL ADVERSE CHANGE. There shall have been no material adverse change in the business, financial condition, results of operations, assets, operations or prospects of the Company.

7.14 INCENTIVE PLAN. The Company shall have adopted stock based incentive plans (the "Additional Incentive Plans") reserving 1,500,000 Ordinary Shares or such other number as may be approved by the Board for the purpose of the work force and human resources employed in Fab 2, such plans being satisfactory to Buyer, and the Company shall have submitted to Buyer a plan satisfactory to Buyer setting forth the Company's efforts to recruit the required work force and human resources for Fab 2.

7.15 CLOSING DISCLOSURE. There shall be no fact known to the co-Chief Executive Officer of the Company identified in Schedule 7.15, that has specific application to the Company or any of its Subsidiaries (other than general economic or industry conditions) and that materially adversely affects the assets, business, financial condition, results of operations or prospects of the Company or any of its Subsidiaries that has not been set forth in this Agreement or the Schedules or the Business Plan (without giving effect to any risk factors included therein).

7.16 SHAREHOLDER APPROVAL. Shareholders of the Company shall have approved the increase in registered share capital, the issuance of the Shares hereunder, the issuance of the Shares and Additional Purchase Obligations under the Additional Purchase Obligation Agreement and the reconstitution of the Board.

7.17 UPDATED BUSINESS PLAN. Without derogating from sections 5.6 and 7.3, Buyer and the Company shall have agreed to updates to the Business Plan (which thereafter shall be

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deemed to be the Business Plan for all purposes of this Agreement) which shall, among other things (a) provide that wafer rights approvals satisfactory to the Steering Committee in the manner set forth in Section 7.3 shall have been obtained prior to Closing, (b) indicate that Seller provided the relevant Governmental Authority with an environmental study which had been prepared in 1995 and updated recently to reflect changes from the date of the original survey, which survey shall be acceptable to the relevant Governmental Authority and (c) include wafer costs data as part of the financial plan assumptions as part of the base case.

8. CONDITIONS PRECEDENT TO THE COMPANY'S OBLIGATION AT CLOSING.

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

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

8.2 BUYER'S PERFORMANCE.

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

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

8.3 ADDITIONAL DOCUMENTS.

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

8.4 NO INJUNCTION. There must not be in effect any Legal Requirement or any injunction or other Order that (i) prohibits the issuance and sale of the Shares the Company to Buyer, and (ii) has been adopted or issued, or has otherwise become effective, since the date of this Agreement.

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8.5 SHAREHOLDER APPROVAL. Shareholders of the Company shall have approved the increase in registered share capital, the issuance of the Shares hereunder, the issuance of the Shares and Additional Purchase Obligations under the Additional Purchase Obligation Agreement and the reconstitution of the Board.

9. TERMINATION.

9.1 TERMINATION EVENTS. This Agreement may, by written notice given prior to or at the Closing, be terminated:

9.1.1 by either Buyer or the Company if a material breach of any provision of this Agreement has been committed by the other party and such breach has not been waived;

9.1.2 (i) by Buyer if any of the conditions in Section 7 has not been satisfied in all material respects by January 31, 2001 (unless extended by Buyer in its discretion), and Buyer has not waived such condition on or before the Closing Date; or (ii) by the Company, if any of the conditions in Section 8 has not been satisfied in all material respects by January 31, 2001; or

9.1.3 by mutual consent of Buyer and the Company.

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

10. INDEMNIFICATION; REMEDIES.

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

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affected by any investigation conducted with respect to, or any knowledge

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

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

10.2.1 any breach of any representation or warranty made by the Company in this Agreement or in any other Transaction Document (without giving effect to any materiality qualification), the Schedules, the supplements to the Schedules, or any other certificate or document delivered by the Company pursuant to this Agreement, provided, however, that the determination of any breach of any representation or warranty made by the Company with respect to information contained in the Business Plan shall only be assessed when considering the Business Plan in its entirety and to any changes or modifications thereto which were made with Buyer's approval, and that the Company shall not be liable under this clause 10.2.1 for an amount of Damages exceeding the aggregate proceeds actually provided by the Buyer to the Company pursuant to this Agreement and the Additional Purchase Obligation Agreement, as the case may be, at the time the Company becomes required to make payment pursuant hereto; or

10.2.2 any breach by the Company of any covenant or obligation of the Company in this Agreement; or

10.2.3 any claim by any Person for brokerage or finder's fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by any such Person with the Company (or any Person acting on its behalf) in connection with any of the Contemplated Transactions.

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

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

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10.5 INDEMNIFICATION AND PAYMENT OF DAMAGES BY BUYER. Buyer will indemnify and hold harmless the Company, its Representatives, controlling persons and affiliates (the "Company Indemnified Persons") and will pay to the Company Indemnified Persons the amount of any Damages arising, directly or indirectly, from or in connection with (i) any breach of any representation or warranty made by Buyer in this Agreement or in any certificate delivered by Buyer pursuant to this Agreement, (ii) any breach by Buyer of any covenant or obligation of Buyer in this Agreement, or (iii) any claim by any Person for

brokerage or finder's fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by such Person with Buyer (or any Person acting on its behalf) in connection with any of the Contemplated Transactions.

10.6 PROCEDURE FOR INDEMNIFICATION - THIRD PARTY CLAIMS.

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

10.6.2 If any Proceeding referred to in Section 10.6.1 is brought against an indemnified party and it gives notice to the indemnifying party of the commencement of such Proceeding, the indemnifying party will, unless the claim involves Taxes, be entitled to participate in such Proceeding and, to the extent that it wishes (unless (i) the indemnifying party is also a party to such Proceeding and the indemnified party determines in good faith that joint representation would be inappropriate, or (ii) the indemnifying party fails to provide reasonable assurance to the indemnified party of its financial capacity to defend such Proceeding and provide indemnification with respect to such Proceeding), to assume the defense of such Proceeding with counsel reasonably satisfactory to the indemnified party and, after notice from the indemnifying party to the indemnified party of its election to assume the defense of such Proceeding, the indemnifying party will not, as long as it diligently conducts such defense, be liable to the indemnified party under this Section 10 for any fees of other counsel or any other expenses with respect to the defense of such Proceeding, in each case subsequently incurred by the indemnified party in connection with the defense of such Proceeding, other than reasonable costs of investigation. If the indemnifying party assumes the defense of a Proceeding, (i) it will be conclusively established for purposes of this Agreement that the claims made in that Proceeding are within the scope of and subject to indemnification; (ii) no compromise or settlement of such claims may be effected by the indemnifying party without the indemnified party's consent unless (A) there is no finding or admission of any violation of Legal Requirements or any violation of the rights of any Person and no effect on any other claims that may be made against the indemnified party, and (B) the sole relief provided is monetary damages that are paid in full by the indemnifying party; and (iii) the indemnified party will have no liability with respect to any compromise or settlement of such claims effected without its consent. If notice is given to an indemnifying party of the commencement of any Proceeding and the indemnifying party does not, within ten days after the indemnified party's notice is given, give notice to the indemnified party of its election to assume the defense of such Proceeding, the indemnifying party will be bound

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by any determination made in such Proceeding or any compromise or settlement effected by the indemnified party.

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

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

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

11. COVENANTS OF THE COMPANY SUBSEQUENT TO THE CLOSING DATE.

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

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

11.3 BUSINESS PLAN. The Company shall use the proceeds of this Agreement, the Additional Purchase Obligations and the Additional Financings solely in order to finance the construction, deployment and operation of Fab 2 in accordance with the Business Plan and the timetable included therein. The Company shall not change or modify or agree to change or modify the Business Plan and shall not deviate materially from the Business Plan (whether or not it is changed) without the prior written approval of Buyer (which shall not be unreasonably withheld) if any such change, modification or agreement would or reasonably be expected to (a) materially change the construction schedule of Fab 2 as set forth in the Business Plan, (b) significantly increase the cost of Fab 2 beyond that set forth in the Business Plan or (c) materially change the production capacity schedule of Fab 2 as set forth in the Business Plan. In addition, the Company shall not change or modify or agree to change or modify the Business Plan and shall not deviate materially from the Business Plan (whether or not it is changed) if any such change, modification or agreement

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would or reasonably be expected to materially change the Additional Financing Plan as set forth in the Business Plan or result in a material failure to comply with the schedule for the financings described therein unless such change, modification or agreement has been approved by the Company's Board, provided, however that such approval shall not be deemed granted if two or more members of the Board shall have voted against such change, modification or agreement.

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

11.5 PROJECT PROGRESS REPORTS; LIAISON OFFICER. The Company shall, on a monthly basis starting immediately subsequent to the date hereof,

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

11.6 INFORMATION RIGHTS. As long as Buyer, together with its Affiliates, holds at least 3% of the outstanding share capital of the Company, the Company shall deliver to Buyer copies of each report filed or furnished by the Company to the SEC, within no later than five days after such report if filed or furnished to the SEC.

11.7 PRE-EMPTIVE RIGHTS.

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

11.7.2 If the Company proposed to issue Offered Securities, it shall give the Buyer written notice of its intention (the "Pre-emptive Notice") and shall, in such notice, fully

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

12. GENERAL PROVISIONS.

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

12.2 PUBLIC ANNOUNCEMENTS. Any public announcement or similar publicity with respect to this Agreement or the Contemplated Transactions will be issued, if at all, by mutual agreement by the parties, except as required by applicable law or the regulations of the securities exchange upon which the securities of either party are traded or quoted. The Company and Buyer will consult with each other concerning the means by which the Company's employees, customers, and suppliers and others having dealings with the Company will be informed of the Contemplated Transactions, and Buyer will have the right to be present for any such communication.

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

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

12.4 NOTICES. All notices, consents, waivers, and other communications under this Agreement must be in writing and will be deemed to have been duly given when (a) delivered by

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

Company:

Attention: Co-Chief Executive Officer
P.O. Box 619
Migdal Haemek 23105 Israel

Facsimile No.: 972-6-654-7788

with a copy to: Yigal Arnon & Co.
3 Daniel Frisch Street
Tel Aviv, Israel

Attention: David H. Schapiro, Adv.

Facsimile No.: 972-3-608-7714

Buyer:

Attention: President and CEO
SanDisk Corporation

140 Caspian Court
Sunnyvale, California 94089

Facsimile No.: (408) 542-0600

with a copy to: SanDisk Corporation
140 Caspian Court
Sunnyvale, California 94089

Attention: Vice President and General Counsel

Facsimile No.: (408) 548-0385

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

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

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

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

12.9 DISCLOSURE SCHEDULES.

12.9.1 The disclosures in the Schedules, and those in any supplement thereto, must relate only to the representations and warranties in the Section of the Agreement to which they expressly relate and not to any other representation or warranty in this Agreement.

12.9.2 In the event of any inconsistency between the

statements in the body of this Agreement and those in the Schedules (other than an exception expressly set forth as such in the Schedules with respect to a specifically identified representation or warranty), the statements in the body of this Agreement will control.

12.10 ASSIGNMENTS, SUCCESSORS, AND NO THIRD-PARTY RIGHTS. Neither party may assign any of its rights under this Agreement without the prior consent of the other parties, except that Buyer may assign any of its rights under this Agreement to any wholly owned Subsidiary of Buyer or to any Subsidiary which is wholly owned other than a nominal interest, so long as such ownership shall be maintained. Subject to the preceding sentence, this Agreement will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the parties. Nothing expressed or referred to in this Agreement will be construed to give any Person other than the parties to this Agreement any legal or equitable right, remedy, or claim under or with

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respect to this Agreement or any provision of this Agreement. This Agreement and all of its provisions and conditions are for the sole and exclusive benefit of the parties to this Agreement and their successors and assigns.

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

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

12.13 TIME OF ESSENCE. With regard to all dates and time periods set forth or referred to in this Agreement, time is of the essence.

12.14 GOVERNING LAW. This Agreement will be governed by the laws of the State of California without regard to conflicts of law principles.

12.15 COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement.

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

SanDisk Corporation: Tower Semiconductor Ltd.:

By:________________________________ By:___________________________________

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EXHIBIT 10.20

FOUNDRY AGREEMENT FOR SHARE HOLDERS

This Foundry Agreement (this "Agreement") is made and entered into as of December 11, 2000 by and between QuickLogic Corporation, a Delaware, USA corporation having its principal place of business at 1277 Orleans Drive, Sunnyvale, CA 94089, USA ("CUSTOMER") and TOWER SEMICONDUCTOR LTD. an Israel Corporation having its principal place of business at Ramat Gavriel Industrial Zone, P.O. Box 619, Migdal Haemek 23105 ISRAEL ("TOWER").

WITNESSETH:

WHEREAS, CUSTOMER is a fabless semiconductor manufacturer and desires to contract with a semiconductor manufacturer with the capability to supply CUSTOMER with certain CUSTOMER designed products in wafer form in accordance with CUSTOMER's design and product specifications;

WHEREAS, Tower is a manufacturer that sells silicon wafers containing client designed integrated circuits to these clients, provides other manufacturing and relating design and turn-key services, as well as manufacturing process adaptation and customization to such clients; and

WHEREAS, TOWER plans to develop the capability of manufacturing certain CUSTOMER designed products in sorted wafer form in the new Fab 2 it plans to construct or such other locations agreed upon in writing by both parties, and desires to manufacture and test such products for CUSTOMER in accordance with CUSTOMER's design and product specifications;

WHEREAS, CUSTOMER desires to buy certain Products in Wafer form, or as otherwise agreed to between the parties, from TOWER, and Customer is willing to enter the Share Purchase Agreement between TOWER and CUSTOMER, dated December 11, 2000 in consideration

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for TOWER's selling same to CUSTOMER pursuant to the terms and conditions set forth below, including TOWER's obligations regarding Base Capacity and pricing as defined herein;

NOW, THEREFORE, in consideration of the mutual premises and covenants contained herein, the parties hereto agree as follows:

1.0 DEFINITIONS

As used in this Agreement, the following terms shall have the following respective meanings:

1.1 FAB 2 shall mean the new eight inch semiconductor manufacturing facility contemplated in the Share Purchase Agreement, as defined in Section 1.11.

1.2 MANUFACTURING PROCESS shall mean TOWER's 0.18 micron or smaller geometries semiconductor manufacturing process and method to the extent such process and method is required to be used in the manufacture of Products for CUSTOMER under this Agreement.

1.3 MARKET PRICE for Wafers or sorted die (whichever is applicable) shall mean the average foundry price for similar (feature size, number of layers, size, technology, etc.) wafers or sorted die (whichever is applicable) in other foundries.

1.4 NOTICE OF QUALIFICATION shall mean the receipt by TOWER of written

notice sent by CUSTOMER, followed by written acknowledgment and concurrence by TOWER in which CUSTOMER states that TOWER has satisfied the final qualification criteria set forth in Appendix I hereto. Neither CUSTOMER nor TOWER shall withhold such Notice or written acknowledgment for reasons not pertaining to product quality, reliability or matters set forth in the qualification criteria. Appendix I criteria shall be developed by the parties and added to this Agreement as soon as practical following the execution hereof, but prior to the start of production activities.

1.5 PRE-PRODUCTION WAFERS shall mean Wafers that are produced by TOWER hereunder prior to the issuance by CUSTOMER of a Notice of Qualification therefore and which may conform only to the electrical parameters to be provided by CUSTOMER.

1.6 PRODUCTION WAFERS shall mean Wafers in sorted wafer form that are manufactured in

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TOWER's Fab 2 and delivered to CUSTOMER after Notice of Qualification and which conform to the manufacturing criteria set forth in Appendix II. Appendix II criteria shall be developed by the parties and added to this Agreement as soon as practical following the execution hereof, but prior to the start of production activities.

1.7 PRODUCT shall mean a CUSTOMER's designed device, for which the CUSTOMER has manufacturing rights, targeted for manufacture at TOWER using a Tower Manufacturing Process and/or its derivatives.

1.8 RETICLE MASK SET shall mean the reticle masks required to produce a fully functional Product.

1.9 CUSTOMER TECHNICAL INFORMATION shall mean any and all design rules, electrical test structures, device designs, process knowledge, process flow, test flow, test software, drawings, bills of materials, specifications, data, descriptions and all other technical information (including, without limitation, trade secrets, inventions (whether or not patented or patentable) and know-how), all pertaining to the Products or otherwise proprietary to CUSTOMER, including CUSTOMER'S metal to metal amorphous silicon antifuse technology, and ViaLink (R), and any such process or successor processes, and improvements, that are disclosed to, jointly developed with or provided by CUSTOMER to TOWER under this Agreement and which is needed to be disclosed in order to manufacture the Wafers.

1.10 TOWER TECHNICAL INFORMATION shall mean any and all design rules, electrical test structures, device designs, process knowledge, process flow, test flow, test software, drawings, bills of materials, specifications, data, descriptions and all other technical information (including, without limitation, trade secrets, inventions (whether or not patented or patentable) and know-how, or otherwise proprietary to TOWER, including any such process or successor processes and improvements that are disclosed to, jointly developed with or provided by TOWER to CUSTOMER under this Agreement and which is needed to be disclosed in order to manufacture the Wafers.

1.11 SHARE PURCHASE AGREEMENT, or SPA shall mean the Share Purchase Agreement made as of July 4, 2000 by and between SanDisk Corporation and Tower and incorporated by reference into the Share Purchase Agreement made as of December 11, 2000 by and

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between CUSTOMER and TOWER. In the event the terms in the SPA, this Agreement and/or the CUSTOMER SPA conflict, the terms of the CUSTOMER SPA shall take precedence.

1.12 WAFER(S) shall mean an eight inch silicon wafer processed by TOWER in Fab 2 and in accordance with specification agreed upon in this Agreement, so that the processed wafer(s) will embody a Product. Unless otherwise specifically mentioned herein wafers shall mean wafer starts.

2.0 FABRICATION FACILITIES AND GENERAL SCOPE

2.1 TOWER shall fabricate at Fab 2 or at other locations agreed upon in writing by both parties, Pre-Production Wafers and Production Wafers ordered by CUSTOMER pursuant to this Agreement, and provided any such third party location has entered into a written agreement containing terms as least as restrictive as those stated herein, including but not limited those regarding confidentiality and the restrictions on use of CUSTOMER'S Technical Information. TOWER hereby represents and warrants that the actual fabrication of all Wafers shall be performed at its semiconductor facilities in Israel or such other locations agreed upon in writing by both parties. *.

2.2 This Agreement does not constitute a forecast, purchase order or release for the services set forth in Section 2.1. TOWER shall not undertake or incur any expenses or perform any services or acts on CUSTOMER's behalf except as specified in a release against a CUSTOMER purchase order.

2.3 *.

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2.4 All terms and conditions otherwise not dealt with in the body of this Agreement shall be governed by Appendixes and Schedules, attached hereto.

3.0 TERM AND TERMINATION

3.1 TERM OF THE AGREEMENT. This Agreement shall become effective on the Closing Date, as that term is defined in the Share Purchase Agreement, and shall expire * thereafter, unless earlier terminated by one or both parties pursuant to the terms of this Agreement. * prior to its termination, the parties will review this Agreement in good faith and, if mutually agreed to by both parties in writing, the term of this Agreement may be extended or its scope expanded.

3.2 TERMINATION FOR DEFAULT. In the event that either party has committed a material breach of this Agreement, the other party shall have the right to terminate this Agreement if the party in breach fails to cure such breach within * of written notice thereof.

3.3 In the event of termination, both parties shall be relieved from their obligations under this Agreement except (i) for CUSTOMERS duty to perform all payments due to Tower under this agreement, (ii) for confidentiality under section 13.0, and (iii) Tower shall complete any outstanding orders as of the date of termination and CUSTOMER shall pay for such orders in accordance with the terms of this Agreement, and (iv) for the parties obligations under section 11 (PATENTS AND OTHER PROPRIETARY RIGHTS).

4.0 PROCESS INTEGRATION

4.1 Promptly following execution of this Agreement, representatives of TOWER and CUSTOMER will meet to establish definitive schedules and staffing requirements for completing CUSTOMER's Product designs into TOWER's CMOS process, as well as the necessary modifications as defined for CUSTOMER's process, contemplated to be utilized in Fab 2. In connection with such Product design and process customization, CUSTOMER shall transfer CUSTOMER Technical Information described in Appendix IV and TOWER shall transfer TOWER Technical Information. Appendix IV criteria shall be mutually agreed upon by the parties and added to this Agreement as soon as practical following the execution hereof, but prior to the start of production activities.

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4.2 CUSTOMER will provide all commercially reasonable design engineering support at CUSTOMER's expense during the period of Product design and pre-production. TOWER will be responsible for developing at its own expense the Manufacturing Process(es) contemplated for use in Fab2.

4.3 TOWER will fabricate and provide Pre-Production Wafers to CUSTOMER at CUSTOMER's expense, in such amounts and on the time schedule specified in Appendix I and as amended from time-to-time by mutual agreement of the parties. CUSTOMER will provide, at CUSTOMER's own cost and expense, one (1) Reticle Mask Set, for each new Product to be manufactured at Tower on behalf of CUSTOMER. TOWER shall replace at its own cost and expense masks which must be replaced due to process changes initiated by TOWER. CUSTOMER will replace at its cost and expense masks which must be replaced due to process and/or design changes initiated by CUSTOMER. Replacement production Reticle Mask Sets for normal wear and tear shall be made by * at its own cost and expense. All such Pre-Production Wafers are provided to CUSTOMER "as-is" and TOWER makes no warranty what-so-ever relative to such Pre-Production Wafers.

4.4 CUSTOMER shall have the right to order, at CUSTOMER's expense, Pre-Production Wafers that meet the manufacturing acceptance criteria in Appendix II, even though such wafers have not yet passed CUSTOMER qualification. Subject to Section 6.3.1, the price for such Pre-Production Wafers shall be *. Any purchase order for such Pre-Production Wafers shall indicate that such order is for Pre-Production Wafers that meet the manufacturing acceptance criteria in Appendix II but for which a Notice of Qualification has not yet been issued. If CUSTOMER orders such Pre-Production Wafers, CUSTOMER shall have the right to reject only such Pre-Production Wafers that do not meet the manufacturing acceptance criteria in Appendix II, and CUSTOMER shall not be obligated to pay for any such Pre-Production Wafers that are rejected by CUSTOMER for such cause. Other than the above, all such Pre-Production Wafers are provided to CUSTOMER "as-is" and TOWER makes no warranty what-so-ever in relation to such Pre-Production Wafers.

4.5 Each party shall appoint a technology project manager. Such managers shall consult regularly to review the progress of the design and implementation of the fabrication process for the Product and shall, in good faith, attempt to jointly solve any problems that may arise during the design and implementation phase. The initial manager for TOWER shall be

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*. The initial manager for CUSTOMER shall be *.

4.6 *.

4.7 TOWER will be deemed to have successfully completed the design and implementation phase of the fabrication process for the Product only after all qualification tests have been successfully completed for the Product pursuant to the qualification criteria set forth in Appendix I, or once the Notice of Qualification for this Product has been issued by CUSTOMER and acknowledged by TOWER.

4.8 TOWER will offer a version of the 0.18 micron process as specified in CUSTOMER's SPA, Section 7.

5.0 PRODUCT FABRICATION

5.1 TOWER shall cause Production Wafers to be fabricated in accordance with the integrated fabrication process developed pursuant to Section 4 above. Both parties acknowledge that such fabrication process may be changed from time to time only upon the mutual written agreement of TOWER and CUSTOMER, which agreement shall not be unreasonably withheld. CUSTOMER and TOWER agree that if one party proposes a change to such fabrication process to the other party, such other party must approve or disapprove, in writing, of such proposed change within * after receiving notification of such proposed change. *.

5.2 Appendix II shall be updated and revised, if necessary and as mutually agreed upon by both parties, within thirty (30) days after CUSTOMER's issuance of a Notice of Qualification for a Product as well as mutually agreed to by the parties. Terms and Conditions of Sales not specifically mentioned in this Agreement shall be governed by the provisions of Appendix III hereto.

5.3 TOWER shall maintain records of all Production Wafers manufactured for CUSTOMER

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for a period of *, after which, at CUSTOMER's prior written request, TOWER will transfer such information to CUSTOMER. TOWER shall provide Work in Process (WIP) reports to CUSTOMER *.

5.4 During the ramp-up period described in Business Plan agreed upon by the parties as part of the Share Purchase Agreement, in Chapter 3, Financial Plan, Version 11.00, the chart entitled FAB-2 FINANCIAL ASSUMPTIONS - Base, PRODUCTION Plan, 1. CAPACITY PER MONTH ("INITIAL RAMP-UP PERIOD"), and thereafter, TOWER shall make available to CUSTOMER up to * of available wafers starts specified in said chart, but TOWER is not committed to exceed * Wafer starts per month ("Base Capacity"). The actual capacity referenced in said chart may be changed and/or updated pursuant to Section 5.6, or 11.3 of the Share Purchase Agreement. If CUSTOMER fails to exercise any of the Series A-1 through A-5 Additional Purchase Obligations (the Mandatory Additional Purchase Obligations) within the time periods specified in the Share Purchase Agreement, including any applicable Grace Periods (as defined in the Share Purchase Agreement), the Base Capacity shall be reduced by * Wafers per month for each such Series A of the Additional Purchase Obligations (the Mandatory Additional Purchase Obligations) not so exercised. Notwithstanding the foregoing TOWER may limit the month to month ramp up of the new fab and of new processes to a mutually agreed upon number of wafers.

5.5 Subject to the volume restrictions imposed on CUSTOMER in Section 5.4, TOWER shall start the exact quantity of Production Wafers ordered by CUSTOMER. CUSTOMER shall pay only for the total quantity of Wafers delivered by TOWER and accepted in good faith by CUSTOMER. The Parties acknowledge that actual capacity may be reduced as a

result of unexpected occurrences in excess of TOWER's normal planning allowances, including by way of example and without limitation, abnormal equipment down-time, abnormal process problems or events such as those set forth in section 14 hereof. In addition, TOWER may reduce actual capacity as a result of planned shutdowns to facilitate process or equipment upgrades or for other reasonable purposes. In all such cases, TOWER shall use commercially reasonable efforts to restore capacity in the shortest practicable time. During such periods, TOWER shall be entitled to reduce CUSTOMER's capacity by a

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percentage equal to the percentage reduction that occurs in TOWER's aggregate capacity after all otherwise available slack capacity has been taken up at the facility.

5.6 * months prior to the contemplated completion of the design and implementation of the fabrication process for the first Products and in each month, on the twenty-fifth day thereof, during the remaining term of this Agreement, CUSTOMER shall provide TOWER with a * rolling forecast of anticipated purchase orders for Products. The first * months of each forecast will constitute a binding, firm purchase order ("Firm Purchase Order"), subject to the rescheduling rights described below. TOWER's acceptance, based on the provisions of this Agreement, of each Firm Purchase Order or release hereunder shall be communicated to CUSTOMER in writing within seven (7) business days of its receipt thereof.

TOWER shall provide CUSTOMER with a response to each forecast within seven (7) business days and a schedule of wafer delivery dates for the first * months deliveries of Firm Purchase Orders within seven (7) business days of its acceptance of a Firm Purchase Order or release. Such schedule shall be updated by TOWER on *.

If TOWER fails to meet its delivery dates on * successive deliveries by more than *, a senior officer of CUSTOMER will discuss the cause of the delay with the CEO of TOWER and discuss the means to correct the failures and TOWER shall take specific steps to prevent similar events in the future, thus ensuring that TOWER meets it commitments in the shortest possible time.

CUSTOMER may allocate certain of its capacity *.

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If CUSTOMER's forecast falls below the Base Capacity per month, or as a result of rescheduling actual Wafer consumption falls below the Base Capacity per month, then TOWER may sell the unused portion of CUSTOMER's capacity to other customers, provided *.

5.7 CUSTOMER may reschedule starts of Pre-Production Wafers and Production Wafers, based on TOWER's schedule of wafer delivery dates provided pursuant to Section 5.6, as indicated below:

5.7.1 *: No rescheduling of Wafers for the * of any forecast is permitted.

5.7.2 *: Rescheduling of no more than * of the number of Wafers scheduled in current forecast and no more than * of the number

of Wafers originally scheduled is permitted.

5.7.3 *: Rescheduling of no more than * of the number of Wafers originally scheduled is permitted.

In no event may the number of Wafers for a given month fall below * of the highest

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forecast given by CUSTOMER for that month.

In no event shall TOWER be committed to provide more than the Base Capacity allocated to CUSTOMER. All increases in the number of wafers ordered pursuant to Section 5.7.2 and 5.7.3 above will be subject to TOWER's then current obligations to its customers.

The total number of Wafers ordered for a given process in a given month may be rescheduled by CUSTOMER only once. However, at any time, CUSTOMER may change by written notification to TOWER the mix of Products utilizing the same manufacturing process, provided the Wafers have not been started.

For the purpose of illustration, Appendix VI provides an example of the forecasting schedule on a month to month basis.

Cycle times for Wafers shall be agreed upon by the parties, but shall be competitive with industry standards for similar technologies, with a current guideline of an average of *, to become effective twelve (12) months after the start of the Initial Ramp-Up Period. Once Wafer production begins, the parties intend to conduct quarterly "business partner" meetings to monitor the foundry relationship contemplated by this Agreement, and in these meetings, cycle time status and/or improvement will be reviewed.

5.8 Each Wafer lot will be inspected by TOWER prior to shipment to ensure compliance with the acceptance criteria set forth in Appendix II and TOWER will include the resulting parametric and visual data with each Wafer lot shipped to CUSTOMER. CUSTOMER may perform incoming inspection of each Product Wafer lot to likewise ensure compliance with the acceptance criteria set forth in Appendix II within thirty (30) days after the delivery date of the Wafer lot. In the event any Wafer is found to be incomplete or broken or fails the foregoing inspection criteria, CUSTOMER shall have the right to reject such Wafers within thirty (30) days after the delivery date thereof and return such Wafers to TOWER for full credit or replacement at TOWER's option.

5.9 CUSTOMER may, at its option, periodically utilize life test and other mutually agreed upon reliability monitors to evaluate Products and/or Production Wafers; the specific details of such monitors will be mutually agreed upon in writing in advance and no later than such time as CUSTOMER issues a Notice of Qualification for each Product. If these

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tests and monitors indicate that TOWER's Manufacturing Process is not meeting the required standards and criteria, TOWER will promptly correct any such problems and CUSTOMER reserves the right to return for full credit any Wafers manufactured under procedures that do not

satisfy such tests and monitors

5.10 No Wafers shall be returned to TOWER pursuant to this Agreement without TOWER's prior written consent which shall not be unreasonably withheld.

5.11 TOWER may choose to offer for sale to CUSTOMER at a reduced price mutually agreed to by both parties in writing, any Production Wafers rejected *.

5.12 TOWER, upon mutual agreement with CUSTOMER, will wafer probe all or certain of the Products, pursuant to the requirements of Appendix V and using the wafer sort programs provided by CUSTOMER, and backgrind all Products to a mutually agreed upon industry standard thickness, and in accordance with CUSTOMER specifications, prior to shipment. Wafer probe price is *. Backgrinding to thickness other than industry standard thickness may be subject to additional costs, or subject to price adjustments.

5.13 Masks requiring replacement due to normal wear and tear shall be replaced by TOWER at its own cost and expense, provided that the respective Product is continuing volume production at TOWER, and that such Product has a current Notice of Qualification. Masks requiring replacement due to CUSTOMER changes, amendments, bug fixing and the like shall be borne solely by CUSTOMER. CUSTOMER may subcontract mask making to TOWER, and TOWER may, in turn, subcontract mask making to a subcontractor. At its discretion, TOWER may place masks of Products not ordered by CUSTOMER for six (6) months or more in storage at CUSTOMER's cost and expense. After twelve (12) months in storage, and with three (3) months advanced notice to CUSTOMER, or if mask must be replaced, TOWER may dispose of the mask pursuant to CUSTOMER's written instructions, or if such were not provided by the end of such three (3) months period, Tower will be free to discard the mask. CUSTOMER's intellectual property rights in the masks, demonstrated by the CUSTOMER's portions of the GDS2 representation, will be owned by CUSTOMER. Any

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other intellectual property created or otherwise attached to the mask shall be the sole property of TOWER and/or its respective owner.

5.14 TOWER may discontinue any of its Manufacturing Processes ("Obsolete Process") provided that:

(a) Eighteen (18) months prior to the last planned production day using such Obsolete Process CUSTOMER will be notified in writing of TOWER's intent to discontinue the process; and

(b) Twelve to fifteen (12-15) months prior to the last planned production day using such Obsolete Process CUSTOMER will have the option to enter Life Time Purchase Orders ("LTPO") with scheduled deliveries to extend over a twelve (12) months period prior to the last planned production day using such Obsolete Process; and

(c) Tower will produce Wafers under an LTPO in quantities not exceeding the quantities to which TOWER is committed in accordance with this Agreement. In special cases where additional capacity may be necessary, the parties will negotiate in good faith in attempt to achieve a mutually acceptable production schedule.

6.0 PRICES AND PAYMENT

6.1 As long as CUSTOMER continues to own at least * shares of the

Ordinary Shares of TOWER (subject to adjustment for the events listed in clauses (a) through (d) in Section 4.1.1 of the Additional Purchase Obligation Agreement), the prices for up to the first * Wafers purchased per month by CUSTOMER shall not exceed *. The prices for Wafers in excess of * Wafers per month shall not exceed *, or otherwise another price mutually agreed upon by the parties.

All prices are Ex Works (as defined by Incoterms 2000) Tower's manufacturing facility. Tower shall take care to ship Wafers in industry standard packaging to protect Wafers in transit, and shall be responsible for the loading of the Wafers on departure and will bear the risks and costs of such loading.

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CUSTOMER shall have the right, at its sole cost and expense, to have an agreed upon independent certified public accountant conduct, during normal business hours, with at least two weeks advanced notice, and not more frequently than twice per year, an audit of the appropriate records of TOWER to verify *.

6.2 All payments due to TOWER under this Agreement shall be payable in United States Dollars specified in the applicable purchase order. Payments will be made within * from date of invoice and transferred using means of electronic transfer of funds to a bank or other financial institution of TOWER'S choice.

6.3 The following Wafer return/credit agreement shall apply with respect to Pre-Production and Production Wafers:

6.3.1 Pre-Production Wafers (based on 10 Representative lots, after passing 500 hour card qualification and excluding Development Wafers)

Wafer sort yield smaller than * % *
Wafer sort yield between * % and * % *
Wafer sort yield greater than * % *

6.3.2 Production Wafers

Wafer sort yield smaller than * % *
Wafer sort yield between * % and * % *
Wafer sort yield greater than * % *

6.3.3 If wafer sort is performed by CUSTOMER (or by CUSTOMER'S agent) then TOWER shall issue CUSTOMER a Return Materials Authorization for the affected wafers and/or issue a credit memorandum to CUSTOMER in an amount calculated according to the provisions of the Section 6.3, provided that notification is provided to Tower within twenty one (21) days from Wafer delivery. No adjustment shall be made if yield shortfall is due principally to product design sensitivity or process

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sensitivity in CUSTOMER's control. To eliminate doubt CUSTOMER will provide TOWER with sort results in a period of time no longer than thirty (30) days, or otherwise CUSTOMER shall be responsible for the full purchase price of such WIP that TOWER could have avoided production thereof had it received the sort results in a timely manner.

6.3.4 The Wafer return/credit agreement set forth in Section 6.3 shall apply to Wafers that have die areas of up to * cm2. The return/credit provisions for Wafers having dies with areas larger than * cm2 will be adjusted using the following formula:

yield = *

where A is the die area in square inches and D is the defect density per square inch, and shall be as follows:

Pre-Production Wafers (based on 10 Representative lots, after passing 500 hour card qualification and excluding Development Wafers):

Average defect density greater than * *
Average defect density between * and * *
Average defect density lower than * *

Production Wafers:
Average defect density greater than * *
Average defect density between * and * *
Average defect density lower than * *

However, if yield is lower due to specific nature of CUSTOMER's unique process and/or design then the necessary adjustments to the formulas shall be made.

6.4 Notwithstanding Section 6.3, TOWER shall credit the order value of any order placed hereunder by 15%, by applying funds, to the extent funds remain in CUSTOMER'S Prepaid Wafer Account as described in Schedule 6.4, attached hereto and made a part hereof, against such order. TOWER'S invoice shall reflect the amount of the credit and indicate the use of funds from CUSTOMER'S Prepaid Wafer Account. The provision of this Section 6.4 shall apply solely to those Wafers ordered by CUSTOMER.

6.5 Prices, other than for Wafers, for goods and services, including but not limited to mask

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reticles (as contemplated in this Agreement), Wafer probe, probe cards, probe program development, mask storage, which are provided by TOWER, shall be agreed upon in advance and in writing between the parties.

6.6 *.

7.0 TAXES

All quoted prices are exclusive of any present or future sales or use tax, revenue or value-added tax, import duty (including brokerage fees) or any other tax or charge applicable to the manufacture, sale or delivery of any Product. Such taxes and charges, when applicable, shall be paid by CUSTOMER, or immediately reimbursed to TOWER upon delivery of an invoice for same if applicable law requires TOWER to collect and remit such taxes or charges to relevant authorities. Not withstanding the foregoing taxes which are directly imposed on TOWER, such as income tax, shall be borne by TOWER.

8.0 TITLE AND RISK OF LOSS

Title and risk of loss and damage to Production Wafers purchased by CUSTOMER shall vest in CUSTOMER when the Products have been delivered, ex works Tower's manufacturing facility. All Wafers to be delivered to CUSTOMER under this Agreement shall be packed, marked and shipped by TOWER

according to current industry standard practices and care for transportation of Wafers of a similar type, unless otherwise specified by CUSTOMER. Deliveries of Wafers will be accompanied by the following information, as appropriate: (i) purchase order number, (ii) product type, (iii) lot number, (iv) number of Wafers, (v) the inspection results described in Section 5.8, and any other test or process information to be mutually agreed upon in writing by both parties. CUSTOMER shall be solely responsible for filing any claims for damage during shipment with the carrier.

9.0 WARRANTY

9.1 TOWER hereby warrants to CUSTOMER that Production Wafers supplied hereunder shall be free from defects in material and workmanship, other than normal manufacturing yield loss, and shall conform in all material respects to the specifications set forth in Appendix II

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and shall have been manufactured pursuant to the Manufacturing Process qualified under Appendix I, for a period of * from the date of acceptance by CUSTOMER (the "Warranty Period"). The foregoing warranty does not apply to (a) any Product which has been subject to misuse, neglect, accident, or modification or which has been altered and therefore are not capable of being tested by Tower under its normal test conditions, (b) non-conformities which result from CUSTOMER's design or process or which result from testing procedures not previously agreed in writing by TOWER, or (c) any Products that are intended to be prototypes, risk production or engineering products. TOWER's sole obligation, and CUSTOMER's sole remedy hereunder for Products failing to meet the aforesaid warranty shall be, at TOWER's discretion, to replace the nonconforming Products or issue CUSTOMER a credit for the purchase price of the nonconforming Products, where within the warranty period: 1) TOWER has received written notice of any nonconformity; 2) after TOWER's written authorization to do so (represented by an RMA, which shall not be unreasonably withheld) CUSTOMER has returned the nonconforming Products to TOWER, freight prepaid; and 3) TOWER determines that the Products are nonconforming. Any replacement Products shall be subject to the foregoing warranty for only the unexpired term of the warranty with respect to the original nonconforming Products and shall be delivered to CUSTOMER, freight pre-paid by TOWER. TOWER warrants that Products sold hereunder shall at the time of delivery be free and clear of liens and encumbrances. THIS WARRANTY EXTENDS TO CUSTOMER AND ITS AFFILIATES ONLY AND TOWER SHALL HAVE NO OBLIGATION TO ACCEPT WARRANTY RETURNS DIRECTLY FROM CUSTOMER'S CUSTOMERS OR ANY OTHER USERS OF CUSTOMER'S PRODUCTS NOR WILL IT BEAR ANY OBLIGATION OR LIABILITY TO SUCH CUSTOMER'S CUSTOMERS WHATSOEVER. THIS WARRANTY IS IN LIEU OF ALL OTHER WARRANTIES WHETHER EXPRESS, IMPLIED OR STATUTORY INCLUDING IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE. IN NO EVENT SHALL TOWER BE LIABLE FOR ANY INDIRECT, INCIDENTAL, PUNITIVE OR CONSEQUENTIAL DAMAGES DUE TO BREACH OF THIS WARRANTY OR ANY OTHER LIABILITY ARISING UNDER THIS AGREEMENT EVEN IF TOWER HAS BEEN ADVISED OF THE POSSIBILITY OF SAME. TOWER'S TOTAL LIABILITY FOR ALL CLAIMS ARISING UNDER THIS SECTION 9.1, REGARDLESS OF THE LEGAL THEORY FOR SAME, SHALL BE LIMITED TO THE TOTAL AMOUNTS ACTUALLY PAID TO TOWER BY CUSTOMER FOR PRODUCTS PURCHASED HEREUNDER DURING THE

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PRECEDING *, AND CUSTOMER SHALL INDEMNIFY AND HOLD TOWER HARMLESS FROM ANY ADDITIONAL WARRANTY CLAIMS REGARDLESS OF WHETHER SUCH WERE PUT FORTH BY CUSTOMER OR CUSTOMER'S CUSTOMER, OR OTHERWISE BY ANY THIRD PARTY.

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9.2 CUSTOMER acknowledges that Pre-Production Wafers provided to CUSTOMER, pursuant to the terms of Section 4.3 and 4.4, are not covered by this warranty and are sold "as is" and with all faults and without warranties either express or implied, unless specifically noted in the respective Sections 4.3 and 4.4 above.

9.3 LIFE SUPPORT POLICY. TOWER does not authorize, endorse, certify or recommend the Products and/or Wafers for use as a critical component in life support devices or systems (as defined herein) without the express written permission of the chief executive officer of TOWER. For these purposes, "life support devices or systems" are devices or systems which (a) are intended for the surgical implant into the human body or (b) support or sustain human life, and whose failure to perform can be reasonably expected to result in a significant injury to or death of the human subject, and a "critical component" is any component of a life support device or system whose failure to perform can be reasonably expected to cause the failure of the life support device or system, or to affect its safety or effectiveness. CUSTOMER shall notify its customers that the Products are not intended for such use and that its customer assumes all risk associated with such use, and shall fully indemnify TOWER from any claims resulting of such unauthorized use.

10.0 LICENSE GRANTS

10.1 CUSTOMER hereby grants to TOWER a nonexclusive, nontransferable, royalty-free, worldwide license to use the CUSTOMER Technical Information, and all improvements thereof, solely for the purpose of fabricating Wafers for CUSTOMER pursuant to the terms of this Agreement. However, TOWER may use improvements to its Manufacturing Process for the benefit of other customers without entitling CUSTOMER to any right or compensation from TOWER or TOWER'S customers, except to the extent such

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improvements are used with any process step that forms a metal-to-metal antifuse. CUSTOMER agrees not to file any suit, claim, action or other proceeding against TOWER for infringement or violation of CUSTOMER's intellectual property rights for anything included in TOWER's Manufacturing Process or designs provided to CUSTOMER by TOWER.

10.2 TOWER hereby grants CUSTOMER * a non-exclusive, non-transferable, royalty free, worldwide license to use, only for the sale and distribution by CUSTOMER *, and their authorized agents, of CUSTOMER's * products, including components thereof manufactured by TOWER, TOWER's patents used for the manufacture of the Wafers for CUSTOMER *, but solely for products manufactured by TOWER.

10.3 In the event CUSTOMER is or becomes a party to a separate agreement with a third party and such agreement grants to CUSTOMER certain "have-made" rights under such third party's patents or otherwise other intellectual property (collectively "IP"), and in the event that activity performed by TOWER to provide any Production Wafers to CUSTOMER infringes such third party's IP and such IP are covered under such "have-made" rights granted to CUSTOMER by the third party, then CUSTOMER shall exercise its "have made" rights for the benefit of TOWER, provided that such exercise is permitted under the relevant "have made" rights.

10.4 In the event TOWER is or becomes a party to a separate agreement with a third party and such agreement grants to TOWER certain rights to manufacture products under such third party's IP, and in the event that any activity performed by TOWER to provide any Production Wafers to CUSTOMER hereunder infringes such third party's IP and such IP are covered under such manufacturing rights granted to TOWER by the third party, then TOWER shall exercise its manufacturing rights for the benefit of CUSTOMER, provided that such exercise is permitted under the relevant "have made" rights.

11.0 PATENTS AND OTHER PROPRIETARY RIGHTS

11.1 The parties agree to abide by the terms of this Section 11.1 in the event there is any claim, liability or suit (or notice of any of the foregoing) brought against TOWER and/or

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CUSTOMER alleging: (i) that either party's or both parties' use of or compliance with any design, specification, process or method contained in CUSTOMER's Technical Information infringes any United States or foreign patent, trade secrets, copyright, mask work or other third party intellectual property right and/or (ii) that the Manufacturing Process or any proprietary information of TOWER related to the Manufacturing Process (including, without limitation, manufacturing drawings, bills of materials, specifications, data, descriptions and all other technical information, trade secrets, inventions (whether or not patentable) and know-how) infringes any United States or foreign patent, trade secrets, copyright, mask work or other third party intellectual property right.

(a) Each party shall promptly notify the other of any notice of a claim of infringement as described above. If a claim of infringement is brought against either party, both parties shall promptly meet, confer and cooperate with each other in good faith to resolve such claim on terms mutually agreeable to both parties; each party shall bear its own costs and expenses related thereto, except as covered in subparagraphs (b), (d), (e), (f) and (g) of this Section 11.1.

(b) If a claim of infringement is brought against both TOWER and CUSTOMER with respect to the Tower Technical Information and/or the CUSTOMER Technical Information and/or the Manufacturing Process, the parties shall promptly meet, confer and cooperate with each other in good faith to mutually agree on joint representation in connection with such claim. In the event the parties agree upon joint representation, all costs and expenses (including reasonable attorneys' fees) related to such joint representation shall be shared equally between TOWER and CUSTOMER. If, after conferring with each other in good faith, the parties are unable to agree upon joint representation, each party shall be free to retain its own attorney; in such event, each party shall bear its own costs and expenses (including attorneys' fees) related to such individual representation, except as covered in subparagraphs (d), (e), (f) and (g) of this Section 11.1. In any event, whether the parties are jointly represented or individually represented, both parties shall reasonably cooperate with each other in good faith in defending and settling such claim of infringement and shall not settle such claim in a manner impacting the rights and obligations of the other party without the prior written consent of the other.

(c) If a claim of infringement is brought against either or both parties and a final non-

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appealable court order restricts the use of the allegedly infringing Tower Technical Information and/or Customer Technical Information and/or Manufacturing Process, CUSTOMER and TOWER agree that, to the extent reasonably possible on reasonable terms and conditions, they will either (i) procure, from the third party that has given notice of the claim, the right to continue using the allegedly infringing TOWER Technical Information and/or CUSTOMER Technical Information and/or Manufacturing Process (to the extent reasonably possible on reasonable terms and conditions, each party will use its respective patent and license portfolios in an effort to accomplish such procurement) or (ii) modify the allegedly infringing TOWER Technical Information and/or CUSTOMER Technical Information or Manufacturing Process to make it non-infringing. In the event the parties cannot accomplish either of the foregoing within ninety (90) days of such court order, each party shall have the right to terminate this Agreement with respect to the Product(s) subject to third party claims and any such termination shall be effective against both parties.

(d) If a claim of infringement is brought against CUSTOMER alone with respect to the CUSTOMER Technical Information, or if the parties choose to defend claims separately, and CUSTOMER is required to pay attorneys' fees, damages, or a monetary settlement amount (whether in a lump sum, through royalty payments, or otherwise) with respect thereto, the parties agree that CUSTOMER shall bear 100% of such attorneys' fees, damages, or settlement payment and shall not be entitled to any indemnification from TOWER.

(e) If a claim of infringement is brought against TOWER alone with respect to the Manufacturing Process and/or TOWER Technical Information, or if the parties choose to defend claims separately, and TOWER is required to pay attorneys' fees, damages, or a monetary settlement amount (whether in a lump sum, through royalty payments, or otherwise) with respect thereto, the parties agree that TOWER shall bear 100% of such attorneys' fees, damages, or settlement payment and shall not be entitled to any indemnification from CUSTOMER.

(f) If a claim of infringement is brought against both CUSTOMER and TOWER and the parties have agreed upon joint representation in the defense thereof in accordance with subparagraph (b) above and the parties are required to pay attorneys' fees, damages, or a settlement amount (provided, however, such settlement was mutually agreed upon by

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both parties), the parties agree that such attorneys' fees, damages, or settlement amount shall be split equally between TOWER and CUSTOMER, unless otherwise agreed in writing.

(g) For avoidance of doubt, the parties agree that:

(i) Claims brought against TOWER due to any infringement resulting from: (1) CUSTOMER Technical Information, or; (2) the combination of CUSTOMER Technical Information

with the Manufacturing Process and/or Tower Technical Information, shall be the sole responsibility of CUSTOMER which shall indemnify and hold TOWER harmless against all such claims, including also all reasonable cost and expenses deriving thereof; and

(ii) Claims brought against Customer due to an infringement caused solely by TOWER Technical Information or Manufacturing Process, shall be the responsibility of TOWER which shall indemnify and hold CUSTOMER harmless against such claims, including also all reasonable cost and expenses deriving thereof.

11.2 The foregoing states the entire liability of the parties for infringement, provided however, that the total liability for either party under this provision shall not exceed the total sales of TOWER to CUSTOMER over a period of * immediately preceding such infringement claim.

11.3 All ideas, designs, methods, processes and inventions conceived solely by personnel of one party while such personnel are engaged in performance of this Agreement, and patents, copyrights, mask works and other intellectual property rights arising therefrom, shall be owned solely by such party, except that each party shall own and shall retain all rights, title and interest in its respective technical information (CUSTOMER for CUSTOMER Technical Information and TOWER for TOWER Technical Information), and any modifications thereto. All intellectual property rights in the Confidential Information of a party shall remain the property of such party.

11.4 All ideas, designs, methods, processes and inventions conceived jointly by personnel of both parties while such personnel are engaged in performance of this Agreement, and patents, copyrights, mask works and other intellectual property rights arising therefrom, shall be equally owned by both parties, except that each party own and shall retain all rights, title and interest in its respective technical information (CUSTOMER for

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CUSTOMER'S Technical Information and TOWER for TOWER Technical Information), and any modifications thereto. All intellectual property rights in the Confidential Information of a party shall remain the property of such party.

12.0 TRADEMARKS

Neither party will, without the prior written consent of the other party, use in advertising, publicity, or otherwise any trade name, trademark, trade device, service mark, symbol or any other identification or any abbreviation, contraction or simulation thereof owned or used by the other party. CUSTOMER may use TOWER's MICROFLASH trademark accompanied by an industry customary footnote as follows: "MICROFLASH(R) is a trademark of Tower Semiconductor Ltd, for the N-ROM(TM) Technology licensed from Saifun Semiconductors Ltd.". Tower may reasonably change from time to time the content of such footnote.

13.0 CONFIDENTIALITY OBLIGATIONS

13.1 CONFIDENTIAL INFORMATION: As used in this Agreement ("Confidential Information") shall mean: (i) all information related to Production Wafers fabricated by TOWER for CUSTOMER hereunder; (ii) CUSTOMER Technical Information; (iii) TOWER Technical Information, (iv) this Agreement and (v) all other information disclosed by one party to the other pursuant to this Agreement which is written, graphic, machine readable or in other tangible form or, subject to Section 13.3 below, intangible form.

13.2 The parties shall not use or disclose Confidential Information except as herein provided. Each party agrees to keep the Confidential Information disclosed to it by the other party confidential and to use or disclose it only for the purposes described herein, for seven (7) years from each disclosure of the Confidential Information, except as the other party may otherwise agree in writing.

13.3 Each party's obligation to keep the Confidential Information confidential shall extend only to the Confidential Information which is at the time of disclosure conspicuously labeled as "Confidential" or "Proprietary" (or other similar marking to indicate its confidential nature) belonging to the other party. If the Confidential Information is disclosed orally or through demonstration, it must be specifically designated as proprietary or confidential information at the time of the oral disclosure and confirmed in a writing to be received by

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the party to which the Confidential Information is disclosed within thirty (30) days after the oral disclosure. Such written confirmation shall set forth in detail the Confidential Information to be kept confidential.

13.4 Each party will use at least the same degree of care in keeping the Confidential Information of the other party confidential as it uses for its own proprietary or confidential information of a similar nature, including but not limited to jointly developed Confidential Information disclosed to a third party in compliance with the provisions of this Agreement. Each party further agrees to refrain from reverse engineering, or otherwise analyzing for the purpose of copying, each other's Confidential Information.

13.5 Subject to the restrictions imposed by law, the obligation of the party to which the Confidential Information is disclosed under this Agreement shall not extend to any Confidential Information that:

(a) was in the public domain at the time it was disclosed;

(b) was known to that party at the time of its disclosure, provided that it can be evidenced by that party's records in existence prior to the disclosure;

(c) was independently developed by that party or one of the group companies of that party by employees of that party or group of companies of that party who have had no possession or access to such Confidential Information, provided that it can be evidenced by that party's records in existence prior to the disclosure;

(d) becomes part of the public domain after disclosure (through no improper action or inaction of that party);

(e) is disclosed by the other party to a third party without restrictions on such third party's rights to disclose or use the same; or

(f) is disclosed after receipt of a party's written notification that it will not accept any further Confidential Information in confidence; or

(g) subject to Section 13.4 above, the disclosure of jointly developed Confidential Information.

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14.0 FORCE MAJEURE

Neither party hereto shall be liable in any manner for failure or delay in fulfillment of all or part of this Agreement directly or indirectly owing to any causes or circumstances beyond its reasonable control, including, but not limited to, acts of God, governmental orders or restrictions, war, war-like conditions, sanctions, strikes, revolution, riot, plague, or other epidemics, fire and flood; provided, however, that nothing under this Section 14 shall relieve either party of its obligations to make any payment required under this Agreement.

15.0 INCIDENTAL, CONSEQUENTIAL DAMAGES

No party shall be liable to the other for any incidental, indirect, special or consequential damages, or for lost profits, savings or revenues of any kind, whether or not there has been notification of possibility of such damages. CUSTOMER undertakes that TOWER shall not be liable to CUSTOMER's customers for any incidental, indirect, special or consequential damages, or for lost profits, savings or revenues of any kind, whether or not there has been notification of possibility of such damages, and CUSTOMER shall indemnify and hold TOWER harmless if such is brought against TOWER.

If CUSTOMER's customer has a direct relationship with Tower, as contemplated in Section 2.3, then the provisions included in the agreement between Tower and such CUSTOMER's customer shall exclusively apply.

16.0 NOTICES

All notices, demands or consents required or permitted hereunder shall be in writing and shall be delivered, sent by telegram, telex, or facsimile, or mailed by registered mail to the respective parties at the addresses set forth below or at such other address as shall have been given to the other party in writing for the purposes of the clause. Such notices and other communications shall be deemed effective upon the earliest to occur of:

(a) actual delivery;

(b) seven (7) business days after mailing, addressed and postage prepaid; return receipt requested, or

(c) three (3) business days after transmission by fax with printed confirmation of fax

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transmission.

Notices shall be given:

To CUSTOMER:

QuickLogic Corp.
1277 Orleans Drive
Sunnyvale, CA 94089
USA
Attention: President

Tel: 408-990-4000
Fax: 408-990-4040

To TOWER:

TOWER SEMICONDUCTOR LTD.
Ramat Gavriel Industrial Zone
P.O. Box 619
Migdal Haemek 23105
ISRAEL
Attention: Vice President Marketing and Sales

Tel: +972-6-650-6611
Fax: +972-6-654-7788

17.0 WAIVER AND AMENDMENT

No waiver of any right under this agreement shall be effective unless in writing and signed by the party against whom such waiver is sought to be enforced. No failure or delay by either party in exercising any right, power, or remedy hereunder shall operate as a waiver of any such right, power or remedy.

18.0 ASSIGNMENT

Except as otherwise provided herein, neither party shall assign or in any way transfer any rights or obligations hereunder without the prior written consent of the other party, and such consent shall not be unreasonably withheld, and any attempted assignment or transfer without such consent shall be void and without effect; except that either party hereto may assign this Agreement to any person or entity acquiring all or substantially all of its business, assets or stock.

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19.0 ARBITRATION

19.1 In the event that any dispute or disagreement between the parties as to this Agreement shall arise, and such cannot be resolved by the Project Managers, prior to taking any other action, the matter shall be referred to responsible executives of the parties for consideration and resolution. Any party may commence such proceedings by delivering a written request to the other party for a meeting of such responsible executives. The other party shall be required to set a date for the meeting to be held within thirty (30) days after receipt of such request and the parties agree to exercise their best efforts to settle the matter amicably. All meetings shall be held at a location mutually agreed upon by both parties.

19.2 If any dispute or disagreement is not settled within sixty (60) days from the initial meeting pursuant to Section 19.1 of this Agreement, such dispute or disagreement may, at the demand of any party, be submitted to arbitration by a panel of three (3) arbitrators knowledgeable in the area of the issues to be resolved and chosen pursuant to the Rules of Arbitration of the International Chamber of Commerce, unless the parties mutually agree otherwise in writing. Disputes under this provision shall be governed by the Rules of Arbitration of the International Chamber of Commerce then in effect. All proceedings before the arbitrators shall be conducted in the English language and shall be held in San Francisco, California, U.S.A.

19.3 Each party will share equally in the costs and expenses of arbitration unless the arbitrators find that the position of the non-prevailing party or parties in such arbitration was frivolous, in which event the arbitrators may assess all of such costs and expenses together with reasonable attorneys' fees against the non-prevailing party or parties.

19.4 The decision of the arbitrators pursuant to this Section 19 shall be final and shall be conclusive and binding on all parties.

20.0 GOVERNING LAW

This Agreement and matters connected with the performance hereof shall be construed, interpreted, applied and governed in all respects in accordance with the laws of the State of California, without regard to conflicts of laws provisions thereof and without regard to the United

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Nations Convention on Contracts for the International Sale of Goods.

21.0 INTEGRATION

This Agreement, including all attached Schedules and Appendices, constitutes the final, complete and exclusive agreement of the parties concerning the subject matter contained herein, and supersedes all prior agreements and understanding, whether written or oral, between the parties related thereto. This Agreement may not be modified in any respect except in a writing which states the modification and is signed by both parties hereto.

22.0 SEVERABILITY

In the event that any provision of this Agreement shall be held to be unenforceable or illegal, such provision shall be deemed modified or, if necessary, deleted to the extent necessary so that the entire Agreement shall not fail, but shall continue in force and effect. In such event, the parties shall in good faith negotiate to replace such illegal or unenforceable provision with enforceable and legal provisions which will, in effect, most nearly and fairly accomplish the effect of the illegal or unenforceable provision, if possible.

23.0 EXPORT CONTROL

The parties hereto understand and recognize that the materials and information made available to them hereunder and the product(s) produced through use thereof may be subject to the Export Administration Regulations of the United States Department of Commerce and other United States government regulations. The parties are familiar with and agree to comply with all such regulations, including any future modifications thereof.

24.0 RIGHTS AND REMEDIES CUMULATIVE

The rights and remedies herein provided shall be cumulative and not exclusive of any other rights or remedies provided by law or otherwise.

25.0 HEADINGS

The headings of the various sections of this Agreement have been inserted for convenience of reference only and shall not be deemed to be a part of this Agreement.

26.0 COUNTERPARTS

This Agreement may be executed in any number of counterparts, and each such counterpart

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hereof shall be deemed to be an original instrument, but all such

counterparts together shall constitute one Agreement.

27.0 PUBLIC ANNOUNCEMENTS

Neither party shall publicly announce the execution and existence of this Agreement without first submitting the text of such public announcement to the other party and receiving the approval of the other party of such text (which approval shall not be unreasonably withheld), except that approval of the other party shall not be necessary when public disclosure is required by law or generally accepted accounting principles.

28.0 INDEPENDENT CONTRACTORS

Each Party is an independent contractor of the other and neither shall be deemed an employee, agent, partner or joint venture of the other. Neither party shall make any commitment, by contract or otherwise, binding upon the other nor represent that it has any authority to do so.

29.0 TOWER IS A FOUNDRY

TOWER is a Semiconductor Contract Manufacturer ("SCM" or "Foundry") that provides manufacturing services based on its manufacturing processes to other third party clients, some of which may be competitors of CUSTOMER. TOWER may use all its Manufacturing Processes, without any restrictions or limitations, subject to the terms of this Agreement, including Section 10.1(a), and subject to the terms and conditions of its agreements with the licensors of Tower's manufacturing processes. Subject to the aforementioned limitations and the terms of this Agreement, including Section 10.1(a), Tower may also use processes based on its core processes with modifications proposed or specified by the CUSTOMER and/or a third party client, with no restrictions or limitations.

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IN WITNESS WHEREOF, the parties have caused this Foundry Agreement to be executed in their respective corporate names by their duly authorized representatives on the date first written above.

CUSTOMER	TOWER SEMICONDUCTOR LTD.
By:________________________________	By:________________________________
E. Thomas Hart	Dr. Yoav Nissan-Cohen
President and CEO	Co-CEO

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APPENDIX I

QUALIFICATION CRITERIA

To Be Added.

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APPENDIX II

MANUFACTURING AND ACCEPTANCE CRITERIA

To Be Added.

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APPENDIX III
STANDARD TERMS AND CONDITIONS OF SALE

1. SCOPE. The terms and conditions of sale contained herein apply to all quotations and offers made by Tower Semiconductor Ltd. ("Tower"), including all Purchase Orders ("POs") accepted by Tower for the manufacture and sale of Tower wafers, die, as well as other goods or services (the "GOODS"). These terms and conditions may in some instances conflict with some of the terms and conditions affixed to the POs or other procurement documents issued by a Tower customer ("Customer") ordering GOODS. In the case of any such conflict, the terms and conditions herein shall govern, and acceptance of Customer's order is expressly conditioned upon Customer's acceptance of these terms and conditions whether by Customer's written acknowledgment, by implication, or by its acceptance and payment of GOODS ordered hereunder. Tower's failure to object to conflicting terms and conditions affixed to any POs or other communication from Customer shall not be deemed a waiver of these terms and conditions. Notwithstanding the foregoing, if any term or condition herein conflicts with terms or conditions of the Agreement, the terms and conditions of the Agreement shall apply. Any modification of these terms and conditions must be agreed to in a writing signed by eligible officers of each party.

2. PAYMENT - TERMS. All prices quoted shall be Ex-works (as defined by Incoterms 2000) (at the wafer production facility set forth in paragraph 4 below). Payment for GOODS due to Tower shall be * from date of invoice. All payments shall be in United States dollars, unless otherwise agreed in writing, and shall be electronically transferred to a bank or other financial institution of Tower's choice. Unless expressly waived by Tower, late payments will bear interest at the lesser of the three months LIBOR rate plus two percent, or the maximum rate allowed by applicable law. If Tower determines that it is necessary to bring legal action to collect delinquent accounts, Customer will pay or reimburse Tower for the reasonable costs of suit, collection and attorney's fees. In addition, upon delinquency, or if Tower has reason to doubt the creditworthiness of Customer, Tower at its sole discretion, may delay delivery of GOODS, cancel outstanding orders, reduce amounts, deliver C.O.D., require Customer to post an appropriate letter of credit, Bank Guarantee or any other security, and/or seek to enforce any of Tower's other available legal remedies. Tower shall retain a security interest and right of possession in the GOODS until Customer makes full payment.

3. TAXES. All quoted prices are exclusive of any present or future sales or use tax, revenue or value-added tax, import duty (including brokerage fees) or any other tax or charge applicable to the manufacture, sale or delivery of any GOODS. Such taxes and charges, when applicable, shall be paid by Customer, or immediately reimbursed to Tower upon delivery of an invoice for same if applicable law requires Tower to collect and remit such taxes or charges to relevant authorities.

4. DELIVERY. Sales of GOODS shall be Ex-works (Tower's Migdal Ha'emek, Israel facility or at such other Tower wafer production facility mutually agreed upon). Customer shall acknowledge to Tower the receipt of each delivery of GOODS stating quantity, type, and damages (if any) existing at delivery, within * following delivery of GOODS. Tower shall not be responsible for any claims relative to quantity and type made after such * period. On-time delivery shall be deemed to be any delivery made to Customer within the period of * prior to until * after the scheduled delivery date, or as agreed in writing. However, shipping up to

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* ahead of delivery schedule is authorized. Tower shall use its commercially reasonable efforts to meet Customer's delivery schedules. Delivery schedule changes on existing POs may be made by mutual agreement of Tower and Customer. Tower reserves the right to make deliveries of GOODS in installments and these terms and conditions shall be severable with respect to such installments. Delivery delay or default of any installment shall not relieve Customer of its obligation to accept and pay for remaining deliveries of GOODS.

5. ACCEPTANCE.

a) Customer shall accept GOODS or reject them as nonconforming within * of receipt of each delivery. Failure to notify Tower in writing of nonconforming GOODS within such period shall be deemed an unconditional acceptance.

b) The determination of conformity will be based solely on final electrical testing to be conducted using Tower's Electrical Test Specifications (ETS) procedures and the yield guarantees agreed upon in writing between Tower and Customer. Should the GOODS meet or exceed the criteria of the electrical testing and yield, Customer will not be allowed to reject GOODS. To reject GOODS Customer must request a return material authorization ("RMA") from Tower. Customer may ship the rejected GOODS to Tower only after receiving an RMA. Customer shall bear all risk of loss, damage, or destruction to the GOODS rejected by Customer until same are returned to Tower (either hereunder or under GENERAL WARRANTY). Tower will retest the GOODS and if they fail, Tower will either credit Customer

for the price of the GOODS or replace same with conforming GOODS.

c) To prevent splitting of production lots of GOODS that are wafers, Customer agrees to purchase an over-shipment of up to a full lot size minus one wafers, or the equivalent number of die or packaged die.

6. INTELLECTUAL PROPERTY. All patent rights, copyrights, trademarks, trade names, trade dress, designs, mask works, trade secrets, know-how, ideas, proprietary information, confidential information, inventions, technical data, and any other information or materials commonly recognized as intellectual property in the semiconductor industry (collectively, "Intellectual Property Rights") owned by either Tower or Customer (or their respective licensors) shall continue to be owned by such parties, and no license is granted herein, except to the extent necessary for Tower to manufacture the GOODS for Customer.

7. EXPORT CONTROL. Customer agrees: a) to fully comply with United States (the "US") laws and regulations, assuring Tower that, unless prior authorization is obtained from the competent US government agency, the customer does not intend and shall not knowingly export or re-export, directly or indirectly, any wafer, devices, technology or technical information received from Tower in contravention of any law and regulations published by any US government or other government agency; b) to determine the jurisdiction and export classification under the US Export Administration Regulations and the US International Traffic in Arms Regulations of any wafer or device manufactured by Tower under Customer's direction and to provide the results of such determination to Tower; c) to take steps, including screening of end-use and end-user as appropriate, to ensure that any wafer or device shipped ex-works from Tower will not be used in an sensitive nuclear, missile, or chemical/biological warfare end-use; d) that any end-user to whom Tower is directed to assist in delivery is not on the US Denied Person List, the US Proliferation Entities List, or, if subject to appropriate jurisdiction, the US Designated National list; and e) that

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the Customer shall not export or re-export, without the necessary export licenses from the appropriate authorities, to Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Cambodia, China, Cuba, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Libya, Laos, Latvia, Lithuania, Moldavia, Mongolia, North Korea, Romania, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, Vietnam or Yugoslavia.

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APPENDIX IV

TRANSFER OF CUSTOMER TECHNICAL INFORMATION

To Be Added.

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APPENDIX V

WAFER PROBE CRITERIA

To be added

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APPENDIX VI

SCHEDULING EXAMPLE

The examples below illustrate certain of the provisions defined in Section 5.7 of the Agreement. In case of conflict between the Appendix VI and Section 5.7, the provisions of Section 5.7 shall govern. In the examples below an assumption is made that the Base Capacity is already * Wafers per month.

Example 1: CUSTOMER has ordered for month * of the forecast * wafers and when it becomes month * CUSTOMER wishes to increase the number of wafers purchased to *. TOWER may approve such a request, but is not obliged to as it is beyond the capacity commitment.

Example 2: CUSTOMER has ordered for month * of the forecast * wafers and when it becomes current CUSTOMER wishes to increase the number of wafers purchased to *. TOWER will approve such a request, assuming it does not contradict the provisions for sale of unused capacity and upside limitations.

Example 3: CUSTOMER has initially forecasted for month * of the forecast use of * wafers. After * months, when that month becomes month * of the current forecast, CUSTOMER wishes to reduce the purchase to * wafers. TOWER will approve the request as it is within the minus * limit and within the allowed time frame. When the month becomes month * of the forecast the CUSTOMER wishes to reduce the purchase of wafers to *. TOWER may refuse such a request and allow the reduction only to * wafers, which is minus * of the highest forecast made for that month.

Example 4: CUSTOMER has initially forecasted for month * of the forecast use of * wafers. After * months, when that month becomes month * of the current forecast, CUSTOMER wishes to increase the purchase to * wafers. TOWER will approve the request as it is within the plus * limit and within the allowed time frame, however it may be restricted subject to the provisions of the unused capacity and upside limitations. When the month becomes month * of the forecast the CUSTOMER wishes to increase the purchase of wafers to *. TOWER may refuse such a request and allow the increase only up to * wafers, which is plus * of the original forecast made for that month, however it may be restricted subject to the provisions of the unused capacity and upside limitations.

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Schedule 6.4

PRE-PAID WAFER ACCOUNT

Immediately upon Closing of the Share Purchase Agreement, TOWER shall establish a Pre-Paid Wafer Account, consisting of a credit balance in CUSTOMER'S favor, equal to the amount of interest accumulated on the escrow funds and remitted to TOWER on the Closing Date, to be used to credit the order value of any order placed by CUSTOMER as provided in Section 6.4 of this Agreement.

Thereafter, upon each exercise by CUSTOMER of the Series A-1 through A-5 Additional Purchase Obligations (the Mandatory Additional Purchase Obligations), as such Additional Purchase Obligations are described in Exhibit B to the Share Purchase Agreement, if the Average Traded Price ("ATP") of the Ordinary Shares is less than Strike Price on the day such Additional Purchase Obligations are exercised, then TOWER shall increase CUSTOMER'S Pre-Paid Wafer Account by an amount equal to difference between the ATP and Strike Price multiplied times the number of Ordinary Shares purchased by CUSTOMER as a result of such exercise.

Average Traded Price or ATP shall mean as of date of any exercise of Additional Purchase Obligations with respect to the Ordinary Shares, the average of the Quoted Prices (as defined below) of the Ordinary Shares for the thirty (30) consecutive trading days immediately preceding such date; provided, however, that if ATP for any specific exercise is less than US $ *, the ATP shall be adjusted for that exercise to a floor of US $ * "Quoted Price" of the Ordinary Shares for any date shall be the last reported sales price (or, in case no such sale takes place on such date, the average of the reported closing bid and ask prices) of the Ordinary Shares as reported by NASDAQ or the principal national securities exchange upon which the Ordinary Shares are listed or traded. If the Ordinary Shares are not so quoted, listed or traded, the ATP shall be an amount mutually agreed upon by CUSTOMER AND TOWER.

If an event described in clauses (a) through (d) of Section 4.1.1 of Exhibit B to the Share Purchase Agreement occurs with respect to the Ordinary Shares prior to the date of any exercise of Additional Purchase Obligations, the computation of the Strike Price and the ATP, if such event occurs during the thirty day calculation of the ATP, shall be appropriately adjusted, to take such event in to account.

The Strike Price with respect to the Additional Purchase Obligations is US $ *.

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* An asterisk indicates confidential material has been omitted from this document filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

EXHIBIT 10.21

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

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

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

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

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

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

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

1. DEFINITIONS

For purposes of this Agreement:

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

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

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

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

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

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

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

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

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

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

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

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

to be outstanding, or (iv) such shares have been sold pursuant to Rule 144 or Rule 144A under the Securities Act.

1.12 The term "Additional Purchase Obligation" means each of the additional

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

2. DEMAND REGISTRATION

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

2.2 In the event of a Demand by a member or members of the Purchaser Group in which the registration of Registrable Securities is underwritten

and the managing underwriter of the offering advises the members of the Purchaser Group and TIC in writing that marketing factors require a limitation of the number of shares to be underwritten, then there shall be excluded from such registration and underwriting to the extent necessary to satisfy such limitation, first shares which the Company may wish to register for its own account or for the account of other shareholders of the Company, and then shares held by TIC, and then shares held by the members of the Purchaser Group on a pro rata basis to the number of shares that each member of the Purchaser Group included in the Demand. In the event of a Demand by TIC in which the registration of the Registrable Securities is underwritten and the managing underwriter of the offering advises TIC and the members of the Purchaser Group in writing that marketing factors require a limitation of the number of shares to be underwritten, then there shall be excluded from such registration and underwriting to the extent necessary to satisfy such limitation, first shares which the Company may wish to register for its own account or for the account of other shareholders of the Company, and then shares held by the members of the Purchaser Group on a pro rata basis to the number of shares that each member of the Purchaser Group included in the Demand, and then shares held by TIC. In the event that, following a receipt of a request by the members of the Purchaser Group and/or TIC, as the case may be, as detailed above, the managing underwriter advises the Company that due to marketing factors the shares requested to be registered for trading could not be sold, and accordingly the Company does not effect a registration statement, then such request by the members of the Purchaser Group and/or TIC, as the case may be, shall not be considered a Demand under this Section 2.

2.3 Any registration proceeding begun pursuant to Section 2.1 that is subsequently withdrawn at the request of the members of the Purchaser Group that initiated such registration proceeding and/or TIC, as the case may be, shall count toward the quota of registration statements which the members of the Purchaser Group and/or TIC, as the case may be, have the right to Demand pursuant to Section 2.1; provided, however, that such withdrawn registration shall not be so counted as a Demand if such withdrawal is based upon (a) material adverse information relating to the Company or its condition, business or prospects which is different from that generally known to the member(s) of the Purchaser Group that were to participate in such registration proceeding, in the event of a Demand by a member or members of the Purchaser Group and/or TIC, in the event of a Demand by TIC, as the case may be, at the time of its request or (b) general securities market conditions which are different from that generally known to the member(s) of the Purchaser Group that were to participate in such registration proceeding, in the event of a Demand by a member or members of the Purchaser Group and/or TIC, in the event of a Demand by TIC, as the case may be, at the time of its request, provided, in connection with this clause (b), that the member(s) of the Purchaser Group that were to participate in such registration proceeding, in the event of a Demand by a member or members of the Purchaser Group and/or TIC, in the event of a Demand by TIC, as the case may be, reimburse the Company for its expenses incurred in connection with effecting such withdrawn registration.

2.4 The Company may not cause any other registration of securities for sale for its own account (other than a registration of securities to be offered to employees, directors or consultants pursuant to a benefit plan on Form S-8 or a registration in connection with a merger, an exchange offer or any acquisition) to be initiated after a registration requested pursuant to Section 2.1 and to become effective less than 180 days after the effective date of the registration requested pursuant to Section 2.1.

2.5 Notwithstanding the other provisions of this Section 2, in the event that at any time during the Demand Period the Company shall receive from a Holder, or a group of Holders, a written request that the Company effect a registration on Form F-3 (or any equivalent or successor form) with respect to Registrable Securities (the "F-3") where the aggregate net proceeds from the sale of such Registrable

Securities equals at least three million United States Dollars (US$3,000,000), the Company will within twenty (20) days after receipt of any such request, file such registration and all such qualifications and compliance as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of the Registrable Securities as are specified in such request, and use its best efforts to have such registration on Form F-3 effective by the 60th day after the Holder, or group of Holders, make such request and keep such registration on Form F-3 effective until the distribution is complete, if underwritten, or, otherwise, for 270 days; PROVIDED, HOWEVER, that the Company shall not be obligated to file any such registration, qualification or compliance, pursuant to this Section 2.5 if the Company has, within the 180 day period preceding the date of such request, already effected one (1) registration for a requesting Holder pursuant to this Section 2.5. The Company undertakes that it will use its best efforts to continue to comply with all necessary filings and other requirements so as to maintain its qualification to use Form F-3.

2.6 The Company shall not be required to effect more than three (3) registrations initiated by TIC under Section 2.1. The Company shall not be required to effect more than one (1) registration initiated by each of S, Alliance and Macronix under Section 2.1 and one (1) additional registration (the "Additional Registration") jointly initiated by members of the Purchaser Group holding a majority of the Purchaser Group Registrable Securities under Section 2.1. For purposes of clarity, in the event multiple Holders that have yet to exercise a Demand jointly initiate a Demand and each such holder holds under 1,500,000 Ordinary Shares as the result of the sale of Ordinary Shares but together such holders hold at least 1,500,000 Ordinary Shares, such Demand shall be deemed to be a registration initiated on an individual basis by each Holder included in such joint initiation and shall not be considered an Additional Registration. Concurrent registrations in respect of multiple exchanges shall be construed as a single registration for the purposes of this Section 2.6.

2.7 The Company shall have the right to defer filing a registration statement (a "Registration Deferral") under the Securities Act pursuant

to this Section 2 not more than once in any 12-month period if (i) the Board of Directors of the Company shall determine that it would be seriously detrimental to the Company to file such registration statement at the date the filing would otherwise be required under this Agreement, or (ii) the Board of Directors of the Company determines in good faith that (A) the Company is in possession of material, non-public information concerning an acquisition, merger, recapitalization, consolidation, reorganization or other material transaction by or of the Company or concerning pending or threatened litigation and (B) disclosure of such information would jeopardize any such transaction or litigation or otherwise materially harm the Company.

2.8 A Registration Deferral shall end by the date that is 90 days from the date of such determination by the Company (the "90th Day"), or, in the case described in Section 2.7(ii) above, the earlier of the 90th Day and the date such material information is disclosed to the public or ceases to be material, such transaction is completed or abandoned or such litigation is settled or finally determined. In the event a Registration Deferral is instituted, the members of the Purchaser Group and/or TIC, as the case may be, shall be entitled to withdraw such request. If such request is withdrawn, such registration shall not count as one of the permitted registrations under this Section 2. The Company shall promptly notify the members of the Purchaser Group and/or TIC of the expiration or earlier termination of any Registration Deferral.

3. INCIDENTAL REGISTRATION

3.1 If the Company at any time proposes to register (other than a registration of securities to be offered to employees, directors or

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

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

4. OBLIGATIONS OF THE COMPANY

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

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

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

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

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

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

4.6 Notify the Holders at any time when a prospectus relating to a registration statement filed pursuant hereto is required to be delivered under the Securities Act or the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated

therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, in which event the Holders shall forthwith discontinue disposition of its Registrable Securities pursuant to such prospectus until it is advised in writing by the Company that the use of such prospectus may be resumed or until such holder receives copies of any supplement or amendment to such prospectus.

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

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

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

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

5. INFORMATION

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

6. EXPENSES OF REGISTRATION

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

7. INDEMNIFICATION

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

7.1 To the extent permitted by law, the Company will indemnify and hold harmless the Holders, the officers and directors of any Holder, any underwriter (as defined in the Securities Act) for any Holder and each person, if any, who controls any Holder or underwriter within the meaning of the Securities Act or the 1934 Act against any losses, claims, damages, or liabilities to which they may become subject under the Securities Act, the Securities Exchange Act or other United States federal or state law or the securities laws of the State of Israel,

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

7.2 To the extent permitted by law, each Holder will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed the registration statement, each person, if any, who controls the Company within the meaning of the Securities Act, any underwriter (within the meaning of the Securities Act) for the Company, any person who controls such underwriter, and any other parties selling securities in such registration statement or any directors or officers or any persons controlling such parties, against any losses, claims, damages, or liabilities to which the Company or any such director, officer, controlling person, or underwriter or controlling person may become subject under the Securities Act, the Securities Exchange Act or other United States federal or state law, or any of the securities laws of the State of Israel, insofar as such losses, claims, damages, liabilities (or actions in respect hereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by such Holder expressly for use in connection with such registration statement; and such Holder will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, underwriter or controlling person, in connection with investigating or defending any such loss, claim, damage, liability or action attributable to such Violation or alleged Violation; provided, however, that the indemnity agreement contained in this Section 7 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of such Holder, which consent shall not be unreasonably withheld. In no event shall the liability of a Holder hereunder exceed the net proceeds from the offering received by such Holder.

7.3 Promptly after receipt by an indemnified party under this Section 7.3 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 7, notify the indemnifying party in writing of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so

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

8. CONTRIBUTION

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

9. DESIGNATION OF UNDERWRITER

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

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

10. RULE 144 REPORTING

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

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

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

10.3 so long as a Holder owns any Registrable Securities, furnish to such Holder forthwith upon written request a written statement by the Company as to its compliance with the reporting requirements of Rule 144, and of the Securities Act and the Securities Exchange Act, a copy of the most recent annual or quarterly report of the Company, and such

other reports and documents so filed as such Holder may reasonably request in availing itself of any rule or regulation of the SEC allowing such Holder to sell any such securities without registration.

11. ASSIGNMENT OF REGISTRATION RIGHTS

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

12. AMENDMENTS, WAIVERS, ETC.

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

13. MARKET STAND-OFF AGREEMENT.

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

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

14. COUNTERPART

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

15. ENTIRE AGREEMENT

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

16. GOVERNING LAW AND JURISDICTION

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

17. ADDITIONAL PARTIES

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

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

Tower Semiconductor Ltd.

By: ---------------------------

Name: ---------------------------

Title: ---------------------------

SanDisk Corporation

By: ---------------------------

Name: ---------------------------

Title: ---------------------------

The Israel Corporation Ltd.

By: ---------------------------

Name: ---------------------------

Title: ---------------------------

Alliance Semiconductor Corp.

By: ---------------------------

Name: ---------------------------

Title: ---------------------------

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

By: ---------------------------

Name: ---------------------------

Title: ---------------------------

QuickLogic Corp.

By: ---------------------------

Name:

Title:

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-34898, No. 333-34900 and No. 333-34902) of QuickLogic Corporation of our report dated January 23, 2001, except as to Note 13, which is as of March 1, 2001, relating to the financial statements and financial statement schedules, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

San Jose, California
March 23, 2001