

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM S-8  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

APPLIED MATERIALS, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware 94-1655526  
(State or Other Jurisdiction (I.R.S. Employer  
of Incorporation or Organization) Identification Number)

3050 Bowers Avenue, Santa Clara, California 95054  
(Address of Principal Executive Offices) (Zip Code)

Opal, Inc. Employee Stock Option Plan  
and  
Orbot Instruments Ltd. Employee Share Ownership and Option Plan  
(Full Title of the Plan)

Joseph J. Sweeney  
Applied Materials, Inc.  
2881 Scott Boulevard, Santa Clara, California 95050  
(Name and Address of Agent for Service)

(408) 748-5420  
(Telephone Number, Including Area Code,  
of Agent For Service)

copies to:

David Fox, Esq.  
Skadden, Arps, Slate, Meagher & Flom LLP  
919 Third Avenue  
New York, New York 10022

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share (1)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
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Common Stock	492,321 shares(3)	\$11.53	\$5,674,233.43	\$1,719.46

- (1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(h)(1) under the Securities Act of 1933, as amended (the "Securities Act"), and is based on the weighted average of the exercise prices for the options granted under the Opal, Inc. Employee Stock Option Plan and the Orbot Instruments Ltd. Employee Share Ownership and Option Plan (collectively, the "Plans") rounded to the nearest whole cent.
- (2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(h)(1) under the Securities Act.
- (3) Plus such additional number of shares of Common Stock as may be issuable pursuant to the antidilution provisions of the Plans.

ITEM 3. INCORPORATION OF DOCUMENTS BY REFERENCE.

The following documents filed by Applied Materials, Inc. (the "Registrant") with the Securities and Exchange Commission (the "Commission") are incorporated by reference into this Registration Statement:

- (a) The Registrant's Annual Report on Form 10-K for the period ended October 27, 1996, filed by the Registrant on January 24, 1997 (File No. 0-6920) and;
- (b) The description of the Registrant's Common Stock set forth in the Registrant's Registration Statement on Form 8-A filed on April 5, 1994 (File No. 0-6920), including any amendment or report filed for the purpose of updating such information.

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

ITEM 4. DESCRIPTION OF SECURITIES.

Not applicable.

ITEM 5. INTERESTS OF NAMED EXPERTS AND COUNSEL.

Not applicable.

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145 of the Delaware General Corporation Law (the "Delaware Law") authorizes a court to award, or a corporation's board of directors to grant, indemnity to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act. The Registrant's Certificate of Incorporation and Bylaws provide for indemnification of the Registrant's directors, officers, employees and other agents to the maximum extent permitted by the Delaware Law. In addition, the Registrant has entered into indemnification agreements with its officers and directors.

ITEM 7. EXEMPTION FROM REGISTRATION CLAIMED.

Not applicable.

ITEM 8. EXHIBITS.

The following are filed herewith as part of this Registration Statement:

Exhibit No. -----	Exhibit -----
3.1	Certificate of Incorporation of the Registrant, as amended to March 18, 1996, filed as an Exhibit to the Registrant's Annual Report on Form
3.2	10-K for the fiscal year ended October 27, 1996 and incorporated

herein by reference.

By-Laws of the Registrant, as amended to December 13, 1996, filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended October 27, 1996 and incorporated by reference herein.

- 5.1 Opinion of Skadden, Arps, Slate, Meagher & Flom LLP.
- 23.1 Consent of Price Waterhouse LLP.
- 23.2 Consent of Skadden, Arps, Slate, Meagher & Flom LLP (included in Exhibit 5.1).
- 24.1 Powers of Attorney (included in the signature page of this Registration Statement).
- 99.1 Opal, Inc. Employee Stock Option Plan.
- 99.2 English translation of Orbot Instruments Ltd. Employee Share Ownership and Option Plan.

ITEM 9. UNDERTAKINGS.

(a) The undersigned Registrant hereby undertakes:

- (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement;
  - (i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the "Securities Act of 1933");
  - (ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement;
  - (iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement;

provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the Registration Statement is on Form S-3 or Form S-8 and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Securities and Exchange Commission by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Registration Statement.

- (2) That, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
  - (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
- (b) That, for purposes of determining any liability under the Securities Act of 1933, each filing of the

Registrant's Annual Report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in this Registration Statement shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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

#### SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Santa Clara, State of California, on this 7th day of February, 1997.

APPLIED MATERIALS, INC.  
(Registrant)

By: /s/ James C. Morgan

-----  
Name: James C. Morgan  
Title: Chairman of the Board and  
Chief Executive Officer

KNOWN TO ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints James C. Morgan, Gerald F. Taylor and Donald A. Slichter, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Registration Statement (including post-effective amendments), and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons (or by their designated attorney-in-fact) in the capacities indicated on this 7th day of February, 1997.

Name	Title
----- /s/ James C. Morgan	----- Chairman of the Board and Executive Officer
----- James C. Morgan	(Principal Executive Officer)
/s/ Gerald F. Taylor	Senior Vice President and Chief

----- Gerald F. Taylor	Financial Officer (Principal Financial Officer)
/s/ Michael K. O'Farrell ----- Michael K. O'Farrell	Vice President and Corporate Controller (Principal Accounting Officer)
----- Michael Armacost	Director
/s/ Herbert M. Dwight, Jr. ----- Herbert M. Dwight, Jr.	Director
/s/ George B. Farnsworth ----- George B. Farnsworth	Director
/s/ Philip V. Gerdine ----- Philip V. Gerdine	Director
/s/ Tsuyoshi Kawanishi ----- Tsuyoshi Kawanishi	Director
/s/ Paul R. Low ----- Paul R. Low	Director
/s/ Dan Maydan ----- Dan Maydan	Director
/s/ Alfred J. Stein ----- Alfred J. Stein	Director

EXHIBIT INDEX

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February 7, 1997

Applied Materials, Inc.  
3050 Bowers Avenue  
Santa Clara, CA 95054

Re: Registration Statement on Form S-8

Ladies and Gentlemen:

We have acted as special counsel to Applied Materials, Inc., a Delaware corporation (the "Company"), in connection with the preparation of a registration statement on Form S-8, relating to the issuance and sale of up to 492,321 shares (the "Shares") of the common stock of the Company, par value \$.01 per share ("Common Stock"), that consist of (i) 396,089 shares of Common Stock which have been reserved for issuance upon exercise of stock options granted by Opal, Inc., a Delaware corporation and a wholly-owned subsidiary of the Company, pursuant to the Opal, Inc. Employee Stock Option Plan, as amended and restated (the "Opal Plan"), and (ii) 96,232 shares of Common Stock which have been reserved for issuance upon exercise of stock options granted by Orbot Instruments Ltd., a corporation organized under the laws of the State of Israel and a wholly-owned subsidiary of the Company, under the Orbot Instruments Ltd. Employee Share Ownership and Option Plan, as amended and restated (the "Orbot Plan").

This opinion is being furnished in accordance with the requirements of Item 601(b)(5) of Regulation S-K under the Securities Act of 1933 (the "Act").

In connection with this opinion, we have examined originals or copies, certified or otherwise identified to our satisfaction, of (i) the Registration Statement on Form S-8 (the "Registration Statement") to be filed with the Securities and Exchange Commission (the "Commission") on the date hereof, (ii) the Opal Plan, (iii) the Orbot Plan, (iv) a specimen certificate evidencing the Common Stock, (v) the Certificate of Incorporation of the Company, as presently in effect, (vi) the By-Laws of the Company, as presently in effect, (vii) certain resolutions of the Board of Directors of the Company relating to, among other things, the Shares and (viii) such other documents as we have deemed necessary or appropriate as a basis for the opinions set forth below.

In our examination, we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified, conformed or photostatic copies and the authenticity of the originals of such latter documents. In making our examination of documents executed or to be executed by parties other than the Company, we have assumed that such parties had or will have the power, corporate or other, to enter into and perform all obligations thereunder and have also assumed the due authorization by all requisite action, corporate or other, and execution and delivery by such parties of such documents and the validity and binding effect thereof on such parties. As to any facts material to the opinions expressed herein which we did not independently establish or verify, we have relied upon certificates, statements or representations of officers and other representatives of the Company, public officials and others. In rendering the opinion set forth below, we have assumed that the certificates representing the Shares will be manually signed by one of the authorized officers of the transfer agent and registrar for the Common Stock and registered by such transfer agent and registrar and will conform to the specimen thereof examined by us. We express no opinion herein with respect to the meaning, interpretation, validity, binding nature or enforceability of the Opal Plan, the Orbot Plan and any contract, agreement, instrument or other document entered into pursuant to the Opal Plan or the Orbot Plan.

Members of our firm are admitted to the Bar of the State of New York and we do not express any opinion as to the laws of any other jurisdiction other than the Delaware General Corporation Law.

Based upon and subject to the foregoing, we are of the opinion that the Shares have been duly and validly authorized for issuance and, when delivered and paid for in accordance with the terms of the Opal Plan and the Orbot Plan, as the case may be, and the terms of the respective option agreements entered into in accordance with the Opal Plan and the Orbot Plan, as the case may be, as such agreements are currently in effect, will be validly issued, fully paid and nonassessable.

We hereby consent to the filing of this opinion with the Commission as Exhibit 5.1 to the Registration Statement. In giving such consent, we do not thereby admit that we are in the category of persons whose consent is required under Section 7 of the Act or the rules or regulations of the Commission thereunder.

Very truly yours,

/s/ Skadden, Arps, Slate, Meagher & Flom LLP

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in this Registration Statement on Form S-8 of our report dated November 20, 1996, which appears on page 50 of the 1996 Annual Report to Stockholders of Applied Materials, Inc., which is incorporated by reference in Applied materials, Inc's Annual Report on Form 10-K for the year ended October 27, 1996. We also consent to the incorporation by reference of our report on the Financial Statement Schedule, which appears on page 22 of such Annual Report on Form 10-K.

/s/PRICE WATERHOUSE  
San Jose, California  
February 6, 1997



OPAL INC.

EMPLOYEE STOCK OPTION PLAN

A. NAME AND PURPOSE

1. Name: This plan, as amended from time to time, shall be known as the "Opal Inc. Employee Stock Option Plan" (the "Plan").

2. Purpose: The purpose and intent of the Plan is to provide incentives to employees (including officers and directors who are employees) of Opal Inc. (the "Company") and to employees (including officers and directors who are employees) of Opal Technologies, Ltd., a wholly-owned subsidiary of the Company (the "Israeli Company"), by providing them with opportunities to purchase Common Shares, par value \$0.01 each (the "Shares"), of the Company, pursuant to the exercise of options ("Options") granted under the Plan. At the discretion of the Board of Directors of the Company (the "Board"), Options granted under the Plan may qualify as incentive stock options ("Incentive Stock Options") under Section 422 of the International Revenue Code of 1986, as amended (the "Code"), or may be Options which are not described in Sections 422 or 423 of the Code ("Nonqualified Stock Options"). At the discretion of the Board, Options granted under the Plan may alternatively be subject to certain provisions applicable only to such grantees who are, or might become, subject to the payment of income tax in Israel ("Israeli Grantees").

B. GENERAL TERMS AND CONDITIONS OF THE PLAN

3. Administration:

3.1 The Plan will be administered by the Board or by a committee appointed by the Board (the "Committee"), which, if appointed, will consist of such number of Directors of the Company as may be fixed, from time to time, by the Board. If a Committee is not appointed, the term "Committee", whenever used herein, shall mean "the Board". The Board shall appoint the members of the Committee, and may from time to time remove members from, or add members to, the Committee and shall fill vacancies in the Committee however caused.

3.2 The Committee shall select one of its members as its Chairman and shall hold its meetings at such times and places as it shall determine. Actions taken by a majority of the members of the Committee, at a meeting at which a majority of its members is present, or acts reduced to or approved in writing by all members of the Committee, shall be the valid acts of the Committee. The Committee may appoint a Secretary, who shall keep records of its meetings and shall make such rules and regulations for the conduct of its business as it shall deem advisable.

3.3 Subject to the general terms and conditions of this Plan, the Committee shall have the full authority in its discretion, from time to time and at any time, to determine (a) the persons ("Grantees") to whom Options to purchase Shares shall be granted, (b) whether or not such Options be qualified as Incentive Stock Options, be Nonqualified Stock Options or other forms of Options, (c) the number of Shares to be covered by each Option, (d) the time or times at which the same shall be granted, (e) the price, schedule and conditions on which such Options may be exercised and on which such Shares shall be paid for, and/or (f) any other matter which is necessary or desirable for, or incidental to, the administration of the Plan. In determining the number of Shares covered by the Option to be granted to each Grantee, the Committee may consider, among other things, the Grantee's salary and the duration of the Grantee's employment by the Company or the Israeli

Company, as the case may be.

3.4 The Committee may, from time to time, adopt such rules and regulations for carrying out the Plan as it may deem necessary. No member of the Board or of the Committee shall be liable for any act or determination made in good faith with respect to the Plan or any Option granted thereunder.

3.5 The interpretation and construction by the Committee of any provision of the Plan or of any Option thereunder shall be final and conclusive unless otherwise determined by the Board.

3.6 In the event that the Company becomes subject to the requirements of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 16b-3"), then, notwithstanding the provisions of Sections 3.1 - 3.5 hereof, (a) the Committee shall consist of two or more members of the Board or such lesser number of members of the Board as permitted by Rule 16b-3, and (b) none of the members of the Committee shall receive, while serving on the Committee, or during the one-year period preceding appointment to the Committee, a grant or award of equity securities under (i) the Plan or (ii) any other plan of the Company or the Israeli Company under which the participants are entitled to acquire shares, stock options, stock bonuses or related rights of the Company or the Israeli Company, other than pursuant to transactions in any such other plan which do not disqualify a director from being a disinterested person under Rule 16b-3. The limitations set forth in this Section 3.6 shall automatically incorporate any additional requirements that may in the future be necessary for the Plan to comply with Rule 16b-3.

4. Eligible Grantees: Subject to Section 3.6 hereof, the Committee, at its discretion, may grant Options to any employee of the Company and to any employee of the Israeli Company (including directors who are employees of either the Company or the Israeli Company). Anything in this Plan to the contrary notwithstanding, to the extent necessary under any applicable Israeli law, all grants of Options to Office Holders ("Nosei Misra") - as such term is defined in the Israeli Companies Ordinance (New Version), 1983, as amended from time to time (the "Companies Ordinance") - of the Israeli Company shall be authorized and implemented only in accordance with the provisions of the Companies Ordinance. Subject to the terms of the Plan, the grant of an Option to a Grantee hereunder, shall neither entitle such Grantee to participate, nor disqualify him from participating, in any other grant of options pursuant to this Plan or any other stock option plan of the Company or the Israeli Company, as the case may be.

5. Grant of Options and Issuance of Shares in Trust: Dividend and Voting Rights:

5.1 Grant of Options and Issuance of Shares in Trust.

(a) Subject to Section 7.1 hereof, the effective date of the grant of an Option (the "Date of Grant") shall be the date specified by the Committee in its determination relating to the award of such Option. The Committee shall promptly give the Grantee written notice (the "Notice of Grant") of the grant of an Option.

(b) Anything herein to the contrary notwithstanding, to the extent so determined by the Committee, Options granted under the Plan to Israeli Grantees shall be granted by the Company to a trustee designated by the Board and approved by the Israeli Commissioner of Income Tax (the "Trustee"), and the Trustee shall hold each such Option and the Shares issued upon exercise thereof in trust (the "Trust") for the benefit of the Israeli Grantee in respect of whom such Option was granted (the "Beneficial Grantee"). All

certificates representing Shares issued to the Trustee under the Plan shall be deposited with the Trustee, and shall be held by the Trustee until such time that such Shares are released from the Trust as herein provided. Thereafter, such certificate shall be deposited with an Authorized Dealer Bank in accordance with Israel's Currency Control Law, 1978 (the "Control Law").

(c) Anything herein to the contrary notwithstanding, no Options or Shares granted under the Plan to the Trustee on behalf of Israeli Grantees shall be released from the Trust until the later of (i) two (2) years after the Date of Grant, and (ii) the vesting of such Shares pursuant to Section 7.3 hereof (such later date being hereinafter referred to as the "Release Date").

(d) Subject to the terms hereof, at any time after the Release Date with respect to any Options or Shares held in the Trust, the following shall apply:

(i) From and after the Release Date, upon the written request of any Beneficial Grantee, the Trustee shall release from the Trust the Options granted, and/or the Shares issued, on behalf of such Beneficial Grantee, by executing and delivering to the Company such instrument(s) as the Company may require, giving due notice of such release to such Beneficial Grantee, provided, however, that the Trustee shall not so release any such Options and/or Shares to such Beneficial Grantee unless the latter, prior to, or concurrently with, such release, provides the Trustee with evidence, satisfactory in form and substance to the Trustee, that all Israeli taxes, if any, required to be paid upon such release have, in fact, been paid.

(ii) Alternatively, from and after the Release Date, upon the written instructions of the Beneficial Grantee to sell any Shares issued upon exercise of Options, the Trustee shall use its best efforts to effect such sale and shall transfer such Shares to the purchaser thereof concurrently with the receipt, or after having made suitable arrangements to secure the payment of the proceeds, of the purchase price in such transaction. The Trustee shall withhold from such proceeds any and all taxes required to be paid in respect of such sale, shall remit the amount so withheld to the appropriate Israeli tax authorities and shall pay the balance thereof directly to the Beneficial Grantee, reporting to such Beneficial Grantee and to the Company the amount so withheld and paid to said tax authorities.

5.2 Dividend and Voting Rights. All Shares issued upon the exercise of Options granted under the Plan shall entitle the Grantee thereof to receive dividends with respect thereto, and to vote the same at any meeting of the shareholders of the Company. For so long as Shares issued to the Trustee on behalf of a Beneficial Grantee are held in the Trust, the dividends paid or distributed with respect thereto shall be remitted to the Trustee for the benefit of such Beneficial Grantee, and the Trustee shall vote all such Shares in accordance with the instructions of such Grantee.

6. Reserved Shares: The Company has reserved two million two hundred and ninety thousand (2,290,000)\* authorized but unissued Shares for purposes of the Plan, subject to adjustments as provided in Section 11 hereof. All Shares under the Plan, in respect of which the right hereunder of a Grantee to purchase the same shall, for any reason, terminate, expire or otherwise cease to exist, shall against be available for grant through Options under the Plan.

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\* Number of shares eligible for issuance under the Plan increased to 5,790,099 pursuant to vote of Board of Directors dated December 13, 1995 (without giving effect to 1-for-7 reverse stock split).

7. Grant of Options:

7.1 Options may be granted to Israeli Grantees only after the passage of thirty (30) days following the delivery by the Company to the appropriate income tax authorities of a notice pertaining to the appointment of the Trustee and the adoption of the Plan.

7.2 The Notice of Grant shall state, inter alia, the number of Shares covered thereby, the dates when the Option may be exercised, the exercise price, and such other terms and conditions as the Committee at its discretion may prescribe, provided that they are consistent with this Plan. Anything herein to the contrary notwithstanding, in the case of an Incentive Stock Option granted to a person possessing more than ten percent (10%) of the voting power of the Company, the term of each Incentive Stock Option shall be for no more than five (5) years. In addition, in the case of Incentive Stock Options, the aggregate fair market value (determined as of the time such Option is granted) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by a Grantee in any calendar year (under this Plan and any other plans of the Company) shall not exceed one hundred thousand dollars (\$100,000).

7.3 Without derogating from the rights and powers of the Committee under Section 7.2 hereof, unless otherwise specified in the Plan or in the Notice of Grant, each Option under the Plan shall be for a term of ten (10) years, and the schedule pursuant to which such Options shall vest, and the Grantee thereof who shall be entitled to pay for, and acquire, the Shares, shall be such that twenty-five percent (25%) of such Options shall vest on the first anniversary of the Date of Grant, and an additional two point zero eight three percent (2.083%) of such Options shall vest at the end of each month after the first anniversary of the Date of Grant, until all Options are fully vested.

8. Exercise Price: The exercise price per Share covered by each Option shall be determined by the Committee in its sole and absolute discretion. Notwithstanding the foregoing, (a) in the case of an Incentive Stock Option granted to a person possessing more than ten percent (10%) of the voting power of the Company, the exercise price shall be not less than one hundred ten percent (110%) of the fair market value of the Shares on the Date of Grant and (b) in the case of an Incentive Stock Option granted to any other person, the exercise price shall not be less than the fair market value of the Shares on the Date of Grant. The exercise price shall be paid in Israeli currency, unless otherwise specified in the Notice of Grant. To the extent that the exercise price is payable in Israeli currency, the appropriate amount payable shall be determined based on the last available Representative Rate of Exchange of U.S. dollars into Israeli currency.

9. Exercise of Options:

9.1 Options shall be exercisable pursuant to the terms under which they were awarded and subject to the terms and conditions of the Plan.

9.2 The exercise of an Option shall be made by a written notice of exercise (the "Notice of Exercise") delivered by the Grantee (or, with respect to Options held in the Trust, by the Trustee upon receipt of written instructions from the Beneficial Grantee) to the Company at its principal executive office in the United States, specifying the number of Shares to be purchased and accompanied by the payment therefor, and containing such other terms and conditions as the Committee shall prescribe from time to time.

9.3 Anything herein to the contrary notwithstanding, but without derogating from the provisions of Section 9 hereof, if any Option has not

been exercised and the Shares covered thereby not paid for within ten (10) years after the Date of Grant (or any shorter period set forth in the Notice of Grant), such Option and the right to acquire such Shares shall terminate, all interests and rights of the Grantee in and to the same shall ipso facto expire, and, in the event that in connection therewith any Options are still held in the Trust as aforesaid, the Trust with respect thereto shall ipso facto expire and the Trustee shall thereafter hold such Options in an unallocated pool until instructed by the Company that some or all of such Options are again to be held in trust for one or more Israeli Grantees.

9.4 Each payment for Shares shall be in respect of a whole number of Shares, and shall be effected in cash or by a cashier's check payable to the order of the Company, or such other method of payment acceptable to the Company. Not less than one hundred (100) Shares may be purchased at any time upon the exercise of an Option unless the number of Shares so purchased constitutes the total number of Shares then purchasable under such Option.

#### 10. Termination of Employment:

10.1 In the event that a Grantee ceases, for any reason, to be employed by the Company or by the Israeli Company, as the case may be, all Options theretofore granted to such Grantee shall terminate as follows:

(a) If the Grantee's termination of employment is due to such Grantee's death or "Disability" (as hereinafter defined), such Options (to the extent exercisable at the time of the Grantee's termination of employment) shall be exercisable by the Grantee's legal representative, estate or other person to whom the Grantee's rights are transferred by will or by laws of descent or distribution for a period of six (6) months following such termination of employment (but in no event after the expiration date of such Option), and shall thereafter terminate. For purposes hereof, "Disability" shall mean the inability, due to illness or injury, to engage in any gainful occupation for which the individual is suited by education, training or experience, which condition continues for at least six (6) months.

(b) If the Grantee's termination of employment is for any other reason, such Options (to the extent exercisable at the time of the Grantee's termination of employment) shall be exercisable for a period of thirty (30) days following such termination of employment, and shall thereafter terminate; provided, however, that if the Grantee dies within such thirty-day period, such Options (to the extent exercisable at the time of the Grantee's termination of employment) shall be exercisable by the Grantee's legal representative, estate or other person to whom the Grantee's rights are transferred by will or by laws of descent or distribution for a period of six (6) months following the Grantee's death (but in no event after the expiration date of such Option), and shall thereafter terminate.

10.2 Notwithstanding the foregoing provisions of Section 10.1, the Committee may provide, either at the time an Option is granted or thereafter, that such Option may be exercised after the periods provided for in Section 10.1, but in no event beyond the term of the Option.

#### 11. Adjustment Upon Changes in Capitalization

11.1 Subject to any required action by the shareholders of the Company, the number of Shares covered by each outstanding Option, and the number of Shares which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per share of Shares covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease

in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Shares or the payment of a stock dividend (bonus shares) with respect to the Shares or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Option.

11.2 In the event of the proposed dissolution or liquidation of the Company, the Committee shall notify each Grantee at least fifteen (15) days prior to such proposed action. To the extent it has not been previously exercised, each Option shall terminate immediately prior to the consummation of such proposed action. In the event of a consolidation or the merger of the Company with or into another corporation, then, if so determined by the Board at such time, each Option shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation.

#### 12. Non-Transferability:

No Option shall be assignable or transferable by the Grantee to whom granted otherwise than by will or the laws of descent and distribution, and an Option may be exercised during the lifetime of the Grantee only by such Grantee or by such Grantee's guardian or legal representative. The terms of such Option shall be binding upon the beneficiaries, executors, administrators, heirs and successors of such Grantee.

#### 13. Term and Amendment of the Plan:

13.1 The Plan was authorized by the Board on November 10, 1993, and shall expire on November 9, 2003 (except as to Options outstanding on that date), but such expiration shall not affect the instructions contained herein or in any applicable law with respect to the Options and Shares outstanding at such time of expiration. Anything herein to the contrary notwithstanding, the Plan shall only become effective with regard to Incentive Stock Options upon its approval by a majority of the stockholders voting (in person or by proxy) at the stockholders' meeting held within 12 months of the Board's adoption of the Plan. The Committee may grant Incentive Stock Options under the Plan prior to the stockholders' meeting, but until stockholder approval of the Plan is obtained, no Incentive Stock Option shall be exercisable.

13.2 The board may at any time amend, suspend or terminate the Plan as it deems advisable; provided that such amendment, suspension or termination complies with all applicable legal requirements, including any applicable requirement that the Plan or an amendment to the Plan be approved by the stockholders, and provided further that, except as provided in Section 11 above, the Board shall in no event amend the Plan in the following respects without the consent of stockholders then sufficient to approve the Plan in the first instance:

(i) To increase the maximum number of Shares subject to Incentive Stock Options issued under the Plan; or

(ii) To change the designation or class of persons eligible to receive Incentive Stock Options under the Plan.

13.3 In no event may any action of the

Company alter or impair the rights of a Grantee, without his consent, under any Option previously granted to him.

14. Tax Consequences: All tax consequences arising from the grant or exercise of any Option from the payment for, or the subsequent disposition of, Shares covered thereby or from any other event or act (of the Company or the Grantee) hereunder, shall be borne solely by the Grantee, and the Grantee shall indemnify the Company, the Israeli Company and the Trustee and hold them harmless against and from any and all liability for any such tax or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to the Grantee.

15. Miscellaneous:

15.1 Continuance of Employment: Neither the Plan nor the grant of any Option thereunder shall impose any obligation on the Company or the Israeli Company, as the case may be, to continue the employment of any Grantee, and nothing in the Plan or in any Option granted pursuant thereto shall confer upon any Grantee any right to continue in the employ of the Company or the Israeli Company, as the case may be, or restrict the right of the Company or the Israeli Company, as the case may be, to terminate such employment at any time.

15.2 Governing Law: The Plan and all instruments issued thereunder, or in connection therewith, shall be governed by, and interpreted in accordance with, the laws of the State of Delaware. Regarding the Israeli Grantees, the Plan and all instruments issued thereunder or in connection therewith, shall be governed by, and interpreted in accordance with, the laws of the State of Israel.

15.3 Application of Funds: The proceeds received by the Company from the sale of Shares pursuant to Options granted under the Plan will be used for general corporate purposes of the Company.

15.4 Multiple Agreements: The terms of each Option may differ from other Options granted under the Plan at the same time, or at any other time. The Committee may also grant more than one Option to a given Grantee during the term of the Plan, either in addition to, or in substitution for, one or more Options previously granted to that Grantee. The grant of multiple Options may be evidenced by a single Notice of Grant or multiple Notices of Grant, as determined by the Committee.

15.5 Non-Exclusivity of the Plan: The adoption of the Plan by the Board shall not be construed as amending, modifying or rescinding any previously approved incentive arrangement or as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options otherwise than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

15.6 Currency Control Provisions: For so long as, and to the extent that, the Control Law shall so require, the following provisions shall apply:

(i) From and after the Release Date, certificates, if any, representing Shares issued hereunder to Israeli Grantees shall be delivered to an Authorized Dealer Bank in Israel to hold the same for the benefit of such Israeli Grantees pursuant to the terms of the Plan, and in conformity with the applicable requirements of the Controller of Foreign Currency in the Bank of Israel;

(ii) All payments of the purchase price shall be effected by the Israeli Grantees through an Authorized Dealer Bank; and

(iii) The proceeds of any sale by any Israeli Grantee (or by the Trustee at the direction and on behalf of any Israeli Grantee) of Shares which is effected in foreign currency shall be remitted to Israel, and deposited with an Authorized Dealer Bank, immediately upon receipt thereof, and in all events not later than sixty (60) days after the date on which the certificate, if any, representing such Shares is received by the Trustee (on behalf of such Israeli Grantee) for purposes of sale.



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EMPLOYEE SHARE OWNERSHIP AND OPTION PLAN

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## O R B O T I N S T R U M E N T S L T D

### EMPLOYEE SHARE OWNERSHIP AND OPTION PLAN

#### 1. Introduction

1.1 The purpose of the Employee Share Ownership and Option Plan (hereinafter - "the Plan") is to enable selected employees of Orbot Instruments Ltd. (hereinafter -- "the Company") and employees of subsidiary companies (or subsidiaries of subsidiaries) to acquire shares in the Company at their nominal value, or at a higher price, whether at the market price or at a price which

higher or lower than the market price, as the Company's Board of Directors shall decide from time to time. The Plan shall not apply to employees who have control in the Company, as defined in Section 32(9) Income Tax Ordinance (hereinafter -- "the Ordinance").

- 1.2 The Company, by means of the Plan, seeks to continue to benefit from the services of those at present filling positions in the Company, to ensure the attraction of the services of others suitable to perform senior functions in the Company and to create incentives for those holding senior positions to invest maximum effort in the Company's success. The Company is a know-how intensive, high risk, company the value of whose shares is dependent on the amount of effort invested by its employees, their initiative and creativeness. The Company, therefore, seeks to make its success also their success.
- 1.3 The Plan is a continuing scheme, relating both to options and shares which the Company has undertaken to grant or allot in the past, and has not yet done so, and also to options and shares which shall be issued or allotted, in accordance with the Plan in the future.
- 1.4 The Company intends to bring the Plan within the framework of Section 102 Income Tax Ordinance (hereinafter -- "Section 102" or "the Law") and Income Tax Rules (Tax Relief on Allotment of Shares to Employees), 5749-1989 (hereinafter -- "the Commissioner's Rules") so as to enable some, or all, of those employees, to whom the Plan shall apply, to enjoy the benefit of their provisions. On the other hand, the Company does not undertake so to do and, even if it shall decide so to do, it does not undertake that the Plan will receive recognition by the Income Tax Authorities or that, even if it should be in accordance with the present legal provisions, there will not be future amendments to the provisions of the Law, the Regulations or the Commissioner's Rules, which shall be prescribed from time to time, and that these will not have an effect on the taxation of some, or all, of the employees, or that, by reason of other considerations, the Company will prefer not to apply the said Section 102 to some, or all, of the shares or options vested in the employees under the Plan. The Company, therefore, reserves the right from time to time, in its exclusive discretion, to apply the Plan, wholly or in part, outside the framework of Section 102 of the Ordinance.
- 1.5 If Section 102 and the Commissioner's Rules shall apply to some, or all, of the employees, then the provisions of Section 102 and the Commissioner's Rules, a photocopy of which, as they are in force on the date of the commencement of the Plan, is annexed hereto as Appendix A, or as they shall be amended from time to time, or, if the Commissioner shall prescribe special conditions in respect of the Plan or a certain allotment under the Plan, shall constitute an integral part of this Plan, in so far as they relate to those employees to whom Section 102 and the Commissioners Rules have been applied. Wherever there shall be any contradiction between the provisions of the Plan and its Appendices, or their implementation, and the provisions of the Law and the Commissioner's Rules, the latter shall prevail. The Plan and/or the

agreements with the employees shall be deemed to be amended accordingly, provided that wherever the provisions of the Plan are more stringent on the Company, the employee or the Trustee, so as to bring about a fuller or higher payment of tax due, or to ensure that the Tax Authorities will not claim the tax due, or any payment resulting therefrom, from the Company or the Trustee, then the provisions of the Plan shall prevail. The Legal Adviser, as hereinafter defined, shall exclusively determine if the provisions of the Plan are more stringent and that they, therefore, apply or whether the provisions of the Law and the Commissioner's Rules are more stringent and that they, therefore, apply as provided in this Subclause, and he is empowered to resolve any contradiction between them.

- 1.6 In any event, and for the avoidance of doubt, it is hereby clarified in this Introduction to the Plan that the employee alone shall bear all payments and expenses, including payments of tax, whether Israeli tax or the tax of a foreign state, in connection with the granting of the options, their exercise and the allotment of shares, their registration in his name, the distribution of a dividend or any other right in respect of shares and their sale, and that he will indemnify the Company, or subsidiary company, and the Trustee in respect of any payment, liability (including liability in respect of nondeduction of tax at source) or expense caused to the Company, or subsidiary of the Company, or to the Trustee as a consequence thereof.

## 2. Administration of the Plan

- 2.1 The Plan shall be administered by the Board of Directors of the Company (hereinafter -- "the Board of Directors"), whose interpretation of the Plan, implementation thereof and manner of administration thereof, subject to the provisions of the Plan granting powers of interpretation or decision to the Legal Adviser or to the Trustee, shall be final and binding. The Board of Directors shall have the exclusive power to determine questions of policy and efficiency which shall arise on the operation of the Plan. No director shall bear personal liability, nor shall he be liable to an employee in respect of a decision and/or act done regarding the Plan and/or in connection with its operation.

Every right, power or authority vested in the Company under the Plan is to be exercised or implemented by the Board of Directors of the Company, and every instruction or notice signed by two of the members of the Board of Directors shall be conclusive proof and authority for every act or instruction of the Company.

- 2.2 The Board of Directors shall, without prejudice to the generality of the above provision, have the following powers:
  - 2.2.1 to prescribe, from time to time, generally or in respect of each employee individually, in its absolute discretion, the date and manner of granting the options and the allotment of the shares or any part of them; to prescribe the conditions, which need not be identical, for each option or share which the Company shall grant, or undertake in respect thereof, to an

employee, including price, terms of exercise of option and allotment of share; the date or dates on which some, or all, of the options, shall be exercised; the manner of the exercise of options; the number of shares which may be acquired on behalf of an employee from time to time, including minimum number of shares in respect of which an option shall be exercised; the obligations of the employee to the Company, on the performance of which exercise of the option or the receipt of the share or the share certificate by the employee is dependent, including the obligation of the employee to sign any document which, in the opinion of the Board of Directors, is relevant to the interest of the Company; to sign with the employee or the employees an option agreement or agreements or share allotment agreements or any other agreement in any form which shall be determined between the employee and the Company; and generally, this Plan being a skeleton plan, the Board of Directors may finalise any matter connected with the allotment of options and shares with any employee or employees in separate agreements. The Board of Directors is authorised to allot, out of the shares subject to the Plan, shares, or options for shares, also to providers of services to the Company, but such allotment shall not be an entitling allotment within the meaning of Section 102 and the Commissioner's Rules, save to the extent that Section 102 and the Commissioner's Rules shall be amended, should such amendment become possible.

2.2.2 to allot some, or all, of the options or shares subject to the Plan, to a trustee, whether a trustee who is acting within the framework of Section 102, or a trustee acting outside the framework of Section 102, for selected employees of the Company, and to allot the shares subject to the Plan to a trustee, who shall be appointed by the Board of Directors, at such time or times as the Board of Directors shall, in its absolute discretion, consider fit, so that he shall hold the options and/or shares on trust, subject to the conditions determined by the Board of Directors, in its absolute discretion, and subject to the provisions of the Law and the Regulations and subject to the express provisions of the Plan and its restrictions.

2.2.3 to determine, in its exclusive and absolute discretion, who shall serve as trustee under the Plan, and, in its exclusive and absolute discretion to replace the trustee in the future and/or to appoint another who shall serve as trustee in place of the existing trustee, if the existing trustee shall not be capable or willing to fulfill this function, or if, in the event that Section 102 of the Ordinance shall apply to the Plan, the approval of the trustee by the Income Tax Commissioner shall be revoked (all the same being done in coordination with the Income Tax Authorities if Section 102 of the

Ordinance shall apply to the Plan).

- 2.2.4 to interpret the Plan and the options and shares vested under the Plan, to prescribe, amend and rescind regulations and provisions in the Plan. Within the framework of the exercise of its powers the Board of Directors is authorised to correct any defect and/or mistake, and/or lacuna and/or contradiction in the Plan, to the extent that the matter shall seem to it to be necessary or beneficial to the operation of the Plan or its efficiency, and the Board of Directors shall exclusively determine the need for any requisite amendments.
- 2.2.5 to amend and/or substitute the Plan under the provisions of Clause 15 hereunder.
- 2.2.6 to delegate its powers, relating to the Plan, to a committee, whether the said committee shall function as an independent committee or whether it shall function as a committee which is subject to the Board of Directors, but the committee shall not have the power to amend and/or substitute the Plan under the provisions of Clause 15 or to propose to the general meeting approval of an increase in the number of shares subject to the Plan under the provisions of Clause 3.1 hereunder.
- 2.2.7 generally to exercise its powers, to take steps and to impose restrictions and/or conditions in relation to the Plan and/or the shares subject to the options and/or the shares which shall be allotted under the Plan, as the Board of Directors shall, in its absolute discretion, consider proper, right or necessary for the benefit of the Company, including to prescribe that a condition for the granting of options and/or the allotment of shares to employees shall be the receipt of those undertakings and agreements on the part of the employees specified in the Ordinance and the Commissioner's Rules, in this Plan and in any agreement with any of the employees under the Plan which, as above provided, does not have to be identical to any other such agreement.
- 2.2.8 to appoint a trustee for this Plan who, together with the Company's Legal Adviser, Advocate Ephraim Abramson (hereinafter -- "the Legal Adviser") shall fulfill functions as provided in this Plan.
- 2.2.9 these acts and the exercise of this authority by the Board of Directors, as provided in this Clause, shall be final and binding on the employee, so long as the shares and options are held by the Trustee, or the tax due thereon shall have not yet been paid. Nothing provided in this Plan shall prejudice the rights vested in employees and the shares allotted to them, or to the Trustee on their behalf, but likewise nothing in this Clause provided shall prejudice the powers vested in the Company, the Trustee or the Legal Adviser, whether

under this Plan, or under the option agreement and/or share acquisition agreement, or under a power of attorney given to the Company, the Trustee or the Legal Adviser by the employee, to act even after the shares shall have been vested in the employee and the tax paid in respect thereof.

### 3. Shares Subject to Plan

3.1 The shares subject to the Plan shall be the ordinary shares of the Company (hereinafter -- "the shares" or "the shares subject to the Plan"). The maximum of shares subject to the Plan is 3,600 ordinary shares. The Company shall preserve the shares subject to the Plan in its registered capital, but it may in accordance with a resolution of the Board of Directors, from time to time, allot some, or all, of the shares subject to the Plan, or options in respect thereof, to the Trustee so that he may act in accordance with the directions of the Board of Directors. In the event that an option, granted in accordance with the Plan, shall expire for any reason, or shall run out without being fully exercised, or in the event that shares allotted to those entitled shall have been reacquired from them, or the right of those entitled to them shall have been lost, the shares not acquired under the option, or the acquisition of which shall not have been completed, shall be at the disposal of the Plan. The Company shall not increase the maximum number of shares unless the Board of Directors shall so resolve and the matter shall be approved in a general meeting of the Company's shareholders.

3.2 So long as the shares are held by the Trustee, or registered in his name in the Register of Members of the Company, or so long as the share certificates are held by the Trustee or the Legal Adviser, the Trustee alone shall be entitled to receive any notice to which a shareholder is entitled in respect thereof, if he is at all so entitled, and he shall be the one entitled to exercise any right, or require any information or financial, or other, report which shareholders are entitled to receive from the Company, or to participate in any shareholders' meeting, and the employee shall not be entitled to exercise such right as a shareholder or to make any requisition or request from the Trustee or Company in this respect. The Trustee shall cast votes in the general meeting in such a manner that the practical effect is the same as if he shall have abstained from voting. Subject to the above provision the Trustee shall be guided in all matters relating to voting, receipt of information and his activity as shareholder, by the legal opinion and considerations of the Legal Adviser.

### 4. Entitlement to Receive Options and/or Shares and Waiver of Past Agreements

4.1 The Board of Directors shall determine, from time to time, in its exclusive and absolute discretion, who of the Company's employees are entitled to receive options or shares in accordance with the Plan, and the number of shares or options to which each of them is entitled.

The Board of Directors shall determine if the said shares or options shall, or shall not, be within the framework of Section 102 and



the Commissioner's Rules.

- 4.2 By his signing of the agreement, provided for in Clause 6 hereunder, the employee declares and agrees that the Plan and the Agreement shall prevail over any agreement, arrangement and/or understanding, if any, that there has been in the past, whether in writing or orally, between him and the Company, its directors and/or shareholders, and that any past arrangement or undertaking, relating to matters covered by the Plan, made with the employee, or any promise made in the past to him by the Company's shareholders or directors shall be of no effect and null and void and, in all matters relating to the Company's options or shares, there shall apply only the provisions of the Plan or of the option agreement or of the share agreement which shall be signed with him in accordance with the Plan (Clause 6 hereunder). The employee, by signing the option agreement or share agreement, as provided in Clause 6, expressly waives any right he may have had, if at all, against the Company, its shareholders or directors in all matters connected with the Company's options or shares.

5. Allotment of Options and Shares to Trustee

- 5.1 The Board of Directors of the Company shall appoint a trustee for the purpose of this Plan. The trustee shall be granted all the powers, prescribed by the Law, the Commissioner's Rules and the Plan and he shall act in connection with those shares or options, which shall be allotted by resolution of the Board of Directors. The Trustee shall be paid by the Company such fee as shall be fixed between him and the Company.
- 5.2 If the Plan, or part of it, shall be brought within the framework of Section 102 of the Ordinance, the Company and the Trustee shall apply to the Income Tax Commissioner for approval of the Trustee, as provided in Section 102 and the Commissioner's Rules. The Company and the Trustee shall sign the trust instrument, as provided in the Commissioner's Rules, (hereinafter -- "the Trust Instrument") and shall notify the assessment officer, in the office in which the Company's file is conducted, of the allotment plan thirty days at least before it shall be implemented as provided in the Commissioner's Rules.

The form of trust instrument is an integral part of the Plan and is annexed hereto as Appendix B. The form of notice to the assessment officer is annexed hereto, as an integral part of the Plan, as Appendix C. Whenever there is a contradiction between the provisions of the Plan and the Appendices, the provisions of Clause 1.5 above shall apply.

- 5.3 The options shall be granted, and the shares, which are subject to the Plan, shall be allotted to the Trustee, from time to time, in such numbers and at such time or times as the Board of Directors shall consider appropriate, provided always that options shall not be granted, and shares, which are subject to the Plan, shall not be allotted, at a time later than the date in respect of which the Company shall have given an undertaking, if, and to the extent, it shall have given such undertaking, to the

assessment officer or to the employee. Share certificates, issued by the Company in the name of the Trustee, shall be deposited with him and held by him, and the shares, subject to the provisions of any rule of law, shall be registered in his name in the Register of Members of the Company, throughout a minimum period, which shall be fixed by the Board of Directors and which shall not be less than twenty-four months from the date of the commencement of the Plan, as defined in Clause 16 hereunder, or from the date on which the options shall have been granted, or the shares shall have been allotted, to the Trustee, or from the date on which the employee shall have been entitled, for the first time, to exercise the option in regard to each share, whichever is the latest (hereinafter -- "the closed period"). If the employee shall have been granted options, and Section 102 and the Commissioner's Rules shall apply to such grant, there shall, in addition, be taken into account, in calculating the closed period, the period during which the option shall have been in the hands of the Trustee. Subject to the provisions of the Law and the Commissioner's Rules, the Board of Directors is authorised to determine any provision regarding of the closed period.

- 5.4 As a condition of his entitlement to options and/or shares under the Plan the employee shall sign any document which, in the opinion of the Legal Adviser, he has to sign as a condition for the application of Section 102 of the Ordinance and the Commissioner's Rules, and their full implementation and payment of tax due in respect of the grant of the options and allotment of the shares, as provided in this Plan.
- 5.5 All the said documents connected with the options and shares, which, under the Law or under the Plan or by resolution of the Board of Directors, do not have to be held by the Trustee, shall be held by the Legal Adviser, the employee and the Company.
- 5.6 Nothing above provided shall prejudice the power of the Board of Directors to allot options or shares to the Trustee outside the framework of Section 102 and the Commissioner's Rules, to appoint another trustee, who is not the trustee determined by the Company for the purpose of Section 102, or to allot shares or options to employees direct, and not by way of the Trustee, on such conditions as the Board of Directors shall prescribe.

6. Agreement with Employee (Option or Share Acquisition Agreement)

Every employee will be required, unless the Board of Directors shall arrange with him otherwise, to sign an option agreement or share acquisition agreement or other agreement, as shall be decided, from time to time, by the Board of Directors of the Company, in such form as shall be suggested, from time to time, by the Legal Adviser of the Company, and approved by its Board of Directors (hereinafter -- "option agreement" or "share acquisition agreement" or "the agreement").

The agreements to be signed with the employees are not required to be in identical form. The following conditions, unless expressly prescribed otherwise in regard to any particular option, shall apply to every option and, with necessary modifications, the share acquisition agreement:

- 6.1 The period of the option shall be for 10 (ten) years from the date of the commencement of the Plan, as such date is defined in Clause 16 hereunder, and at the termination of this period, unless extended by the Board of Directors, the option shall expire.
- 6.2 The option -- unless Section 102 and the Commissioner's Rules do not apply to it and the Board of Directors have determined otherwise in the agreement with the employee -- shall be issued in the name of the Trustee on behalf of the particular employee for a nil consideration, or at a price prescribed by the Board of Directors, in its absolute discretion, (hereinafter -- "the option price"). The consideration for the shares acquired by exercise of the option shall likewise be determined by the Board of Directors and it can be the market price, or a price which is higher or lower than the market price, of the shares, provided only that it shall not be less than the nominal value of the shares covered by that option (hereinafter -- "exercise of option price").
- 6.3 In addition to the provisions of Clause 6.2, and without prejudice to the same, the option shall be granted, or the share shall be allotted, to the employee, if the Law and the Commissioner's Rules shall apply to the agreement with him, in consideration of the employee agreeing with the Company in writing, or in accordance with the provisions of the agreement, to forego salary.
- 6.4 The exercise of option price, unless otherwise provided in the agreement, shall be paid to the Company by the employee in shekels on one of the following dates, as provided in the option agreement, (I) the date of the exercise of the option, or (II) at the discretion of the Board of Directors, by a deferred payment to be made at the termination of the closed period, or (III) on a date to be fixed from time to time by the Board of Directors at its absolute discretion (calls), or (IV) in accordance with any arrangement prescribed by the Board of Directors. If, in the option agreement, no date shall have been prescribed the exercise of option price shall be paid in its entirety at the time of the exercise of the option.

In every case when an arrangement shall prescribe that payment of the exercise of option price shall be deferred, the deferred payment shall be linked to the Consumer Price Index or to a similar index or to foreign currency, and it may also include interest, as the Board of Directors shall determine.

- 6.5 The option and/or right to the option and/or the shares are personal and, save as provided in this Plan and Section 102 and the Commissioner's Rules (to the extent that these apply), are not capable of being transferred, assigned, pledged, held as a lien, attached or charged in any way voluntarily or by virtue of a rule of law, except devolution under a will or the laws relating to inheritance (see Clause 6.8.5. hereunder) and no power of attorney or instrument of transfer, whether of immediate or future effect, shall be given in respect of them. The option may be exercised only by the Trustee for the employee mentioned in the option agreement. A note or legend of the contents of this Subclause can appear on the face of any document granting the option,

including the option agreement, and also on any share certificate and share acquisition agreement.

- 6.6 The right to exercise the option shall be vested in the employee, but, if Section 102 and the Commissioner's Rules apply to him, or if the Board of Directors so resolves, the right to exercise the option shall be vested in the Trustee, or the shares shall be allotted to the Trustee, in installments and gradually throughout a period of 5 (five) years from the date of the grant of the option, unless a different period or periods shall have been fixed for the employee, or if the provisions of Clause 6.7 hereunder shall apply to him. At the end of each of the periods prescribed in the option agreement for exercise of the option (vesting periods), it shall be possible, from time to time, to exercise the option relating to all the shares allocated to that period, so that in each of the 5 years the Trustee, unless provided otherwise in the agreement with the employee, shall be entitled to exercise the option on behalf of the employee and at his request in respect of one fifth of the amount of shares specified in the agreement as being subject to the option. In addition, throughout each of the periods it shall be possible to exercise the option in respect of all, or some of, the shares allocated to any previous period, in which the option was not exercised in its entirety, provided that, subject to the provisions of Subclause 6.8 hereunder, at the time of the exercise of the option, the employee shall continue to be employed by the Company, or a subsidiary company in its control, without a break from the date of the grant of the option to the date of its exercise. After the termination of the vesting periods, and during the remainder of the option period, the option may, from time to time, be exercised, in respect of all, or some of, the shares not yet taken up and which remain subject to the option. The provisions of this Subclause shall be subject to the conditions of the option agreement, if any, prescribing a minimum number of shares in respect of which the option may be exercised in each notice of exercise, and also the provisions prescribing the number of times the Trustee may send to the Company notices of exercise of the option on behalf of the employee. The Board of Directors may, at any time, shorten the period of the vesting schedule.
- 6.7 The Board of Directors may prescribe that the employees, or some of them, or a particular employee, may be exempted from being subject to allotments by installments, in accordance with the vesting periods (as provided in Clause 6.6) and shall be entitled to receive the options or the shares, through the Trustee, as provided in this Plan, or directly in the name of the employee, immediately on the signing of the agreement or at other times, in accordance with the Company's undertaking or obligation towards them. If employees shall be exempted from being subject to allotment by installments in accordance with the vesting periods (as provided in Clause 6.6), the Board of Directors may prescribe in the agreement with the employee that the Trustee, or subsidiary or associated companies shall have the right to reacquire the shares from that employee at a nominal price, if the employee shall have not observed the conditions prescribed by the Board of Directors or shall have ceased to be

employed by the Company. The Board of Directors shall prescribe additional conditions for this right of reacquisition, including appropriate arrangements in respect of the money to be at the disposal of the Trustee or subsidiary companies or others, for the purposes of reacquisition, and also arrangements regarding rights of the employee to vote, to receive any report or information from the Company and to receive dividends in respect of the shares likely to be so reacquired. The employee shall not be entitled, for so long as the conditions so prescribed by the Board of Managers (including the prescribing of a minimum period of employment as a condition for the lapsing of the right to reacquire) shall have not been complied with, to sell, charge or transfer in any way the shares subject to the right of reacquisition. To secure performance of this obligation the share certificate shall be deposited with the Legal Adviser who shall release the same to the employee only after the employee shall be finally entitled to the shares and these shall no longer be subject to any restrictive condition.

## 6.8 Termination of Employment of Employee

6.8.1 Save for the restrictions hereunder mentioned, in the event of the termination of the employment of the employee by the Company for any reason whatsoever, whether those entitling payment of redundancy pay (compensation for dismissal) or those not so entitling, the Trustee shall have the right, on the instructions of the employee, to exercise the option on behalf of the said employee, as he shall have been able to exercise it at the end of the period of his employment, during a period of 3 (three) months after the conclusion of his employment. If the option shall be in the name of the employee, the employee shall have the right to exercise it as above. For the purpose of this matter conclusion of the employment of the employee shall be the date on which the Company or the employee, as the case may be, gives notice to the other in writing of termination of the ties between them (even if such notice specifies a future date for the termination of such ties, the date of conclusion of employment shall, for the purpose of this matter, be deemed to be the date of the giving of the notice). At the end of the said 3 (three) months the option shall expire. The employee shall notify the Trustee as provided in Clause 7.1 hereunder if he wishes the Trustee to exercise the option for him.

6.8.2 In the event that the termination of the employment of the employee shall be the result, as determined, in its absolute discretion, by the Board of Directors, of a permanent absolute disablement of the employee, or in any other event in which the Board of Directors shall determine, in its absolute discretion, as a proper period for exercising the option a period which is more than the said 3 (three) months, the option shall be exercisable throughout the period of

one year from the conclusion of the employment of the particular employee by the Company, or during such period as prescribed by the Board of Directors, in its absolute discretion, in regard to those shares in respect of which the option was exercisable at the conclusion of the employment.

- 6.8.3 If Section 102 of the Ordinance and the Commissioner's Rules shall apply to the Plan, then, if an employee shall have ceased to be an employee of the Company before the expiry of two years from the date of the entitling allotment, as defined in the Commissioner's Rules, save only if he shall have ceased to work in the Company by reason of his decease or for other special reasons which, to the satisfaction of the Commissioner are not under the employee's control, the exemption contained in Section 102 of the Ordinance shall not apply, in accordance with the Commissioner's Rules, to this employee. In this event the employee shall, at his own cost, resolve with the Income Tax Authorities all questions connected with taxation of the options and/or shares and pay the tax due forthwith, as provided in the Law and the Commissioner's Rules, as a condition precedent to the exercise of the option. Without prejudice to the obligation of the employee under this Clause the Company and/or the Legal Adviser may apply to the Income Tax Authorities and clarify the question of the liability of the employee to income tax. The Trustee shall not be obliged to transfer to the employee the options or shares, or to sell the same on his behalf, before tax shall have been fully paid or before the Trustee shall have received confirmation under the Commissioner's Rules, from the assessment officer that the matter of tax has been resolved.
- 6.8.4 The Board of Directors is authorised, in its absolute discretion, to extend the period for the exercise of the option by an employee or employees for a period which it shall prescribe and it is authorised to make its said agreement conditional on such conditions as it shall find fit.
- 6.8.5 In the event that the employee shall die, while still the employment of the Company, the option shall be exercisable at any time until the end of the period 10 (ten) years from the date of the commencement of the Plan, as this date is defined in Clause 16 hereunder, and in respect of that number of shares in respect of which the employee shall have been able to exercise the option on the date of his death. The right to exercise the option shall be that of those entitled to the option under the will of the employee or in accordance with the law of inheritance (hereinafter -- "his heir or heirs") and after he or they shall have satisfied the Trustee that the rights to the option have passed to him or them.

In the event that the employee shall have died after termination of his employment, but before the expiry of the option, the option shall be exercisable by the Trustee on behalf of the heir or heirs during the same period during which the option shall have been exercisable on the date of the death of the employee, or during one year from the date of the death of the employee, whichever is the longer, and in respect of that number of shares in regard to which the option shall have been exercisable on the date of the termination of the employment of the employee.

6.8.6 Notwithstanding the above provisions, and in accordance with the provisions of Clause 6.1 above, in no event shall the option be exercisable after 10 (ten) years from the date of the commencement of the Plan, as this date is defined in Clause 16 hereunder, unless such time has been extended by the Board of Directors.

6.9 The employee (whether as owner of an option or if the shares shall have been allotted for him to the Trustee) shall have none of the rights given to a shareholder in the Company so long as the option shall not have been exercised and the shares allotted and registered in his name in the books of the Company.

## 7. Exercise of the Option

7.1 An employee, wishing the Trustee to exercise an option on his behalf, shall instruct the Trustee in writing, in the form annexed hereto as Appendix D, or in any other form prescribed in the agreement with the employee. The payment due for the exercise of option price, as prescribed in the agreement and the provisions of Clauses 6.2 and 6.4 above, shall be enclosed with the notice, in the form in which it is to be made, and there shall in addition be annexed all the other documents which the employee is required to sign as a condition of the exercise of the option, as set out in the Plan.

7.2 If Section 102 shall not apply to the option or to the shares to which it relates, or if, in the opinion of the Legal Adviser, it does not apply and the options shall have been granted direct to the employee, the employee shall exercise the option by notice of exercise in a form similar to that in Appendix D, save that in place of the words "the Trustee" shall come the words "the employee". As a condition of the exercise of the option the employee shall pay the tax applicable to him (including any tax payable by the Company in respect of its duty to deduct tax at source), in accordance with the directions of the Legal Adviser and the provisions of the Plan, as a condition of the exercise of the option.

7.3 On receipt, to the satisfaction of the Legal Adviser, of all the documents, confirmations and payments required from the employee as a condition of the exercise of the option under the Plan, the agreement and any rule of law, the Legal Adviser shall give notice of such to the Company, and, in the event that the Trustee is trustee, the Trustee shall send notice to the Company in the form annexed

hereto as Appendix E, or in any other form prescribed in the agreement with the employee. The Company shall allot the shares, which are subject to the option, to the Trustee, shall register the Trustee in the Register of Members of the Company and shall issue to the Trustee the share certificate in the name of the Trustee in respect of these shares, which certificate is to be held by him, all as provided in this Plan, in the Law and in the Commissioner's Rules. If it shall have been provided in the agreement that the Company shall grant the options direct to the employee, and if the tax shall have been paid and all the other preconditions to the exercise of the option complied with, the shares shall be issued in the name of the employee.

- 7.4 If it shall have been provided in the agreement with the employee that he shall receive shares direct, and not options, the conditions of the acquisition of the shares by the employee shall be specified in the agreement with him and the conditions of this Plan shall apply, subject to the provisions of the agreement with the employee, with necessary modifications, to the share acquisition agreement. In any case of a dispute concerning the question of the extent of the applications of the provisions of the Plan to the share acquisition agreement, the Legal Adviser shall decide.

## 8. Transfer of Shares into Employee's Name

- 8.1 Commencing from the termination of the closed period, and provided only that the option shall have been exercised, the shares shall have been allotted to the Trustee and employee shall have paid the full exercise of option price and produced, signed by him, all the documents he shall have been required to produce up to that date, the employee (subject to the provisions of this Plan, the Law and the Commissioner's Rules, as varied from time to time, and provided that the full amount of tax, applicable under the Law and the Commissioner's Rules, shall have been paid and the Trustee shall have received the confirmation of such from the assessment officer, or after the Trustee shall have transferred to the assessment officer, as provided in the Commissioner's Rules, 30% of the consideration on account of tax due, or any other percentage which may be prescribed, from time to time, in the Commissioner's Rules or by any rule of law), shall be entitled to apply to the Trustee for the shares to be transferred into his name, or alternatively that the Trustee shall, subject to the provisions of the Articles of Association of the Company, as they shall be in force from time to time, concerning the approval of the Board of Directors as a condition of any sale of shares, sell some, or all of, the shares in order that there shall be available to the employee the money necessary for payment by him of the tax and other payments for which he is liable under the provisions of the Plan and by law and, in particular under Clause 10. The Legal Adviser shall prescribe the arrangements, including the wording of a written agreement between the employee and the Trustee, to ensure that the tax due shall be paid before the consideration, or the balance of the shares after the sale, shall be transferred to the employee. If the employee shall not have exercised the option, but all the conditions of the agreement with him shall



have been complied with and the closed period shall have ended and all tax due shall have been paid, as confirmed by the assessment officer, the employee may require that the options be transferred from the name of the Trustee into his name.

- 8.2 The right of the employee to receive all, or some of, the shares from the Trustee and to require that they be registered in his name, as above provided, and also his right to require the Trustee to sell shares on his behalf and in his name, for the purpose of financing payments due from him, and also his right to receive the options which shall not have been exercised, are personal rights and may not be transferred, assigned, pledged, serve as a lien, be attached or charged in any other way, voluntarily or by law, save only devolution under a will or in accordance with the laws of inheritance, and no power of attorney or instrument of transfer, whether of immediate or of future effect, shall be given in respect thereof. Any such transfer, directly or indirectly, whether of immediate or of future effect, shall be null and void and the Trustee shall not act in accordance therewith.
- 8.3 If the Company shall offer its shares to the public and/or register them for trading on any stock exchange, whether in Israel or abroad, there shall apply to the employee and the shares, in addition to any condition or other restriction contained in the Plan, all restrictions or obligations imposed by law, whether in Israel or abroad, or by internal directions of the stock exchange or stock exchanges, on which the said shares shall be traded, and also restrictions and obligations, if any, which shall be imposed on the Company or on its shareholders, by agreement between the underwriter or underwriters, or any investment bank of any kind whatsoever, and the Company or between them and the majority of the shareholders (for example, a lock up agreement), such agreement being signed at the exclusive discretion of the Company and which shall, for the purpose of this Plan, also bind the employee, or restrictions which shall be imposed at the demand of any authority, or any agreement which there shall be between that authority and the Company. The said restrictions and obligations, and also any other restriction affecting the shares under the Plan or under the agreement between the employee and the Company, shall hereinafter be called "the restrictions" and the period during which the restrictions apply shall be called "the restriction period". The undertaking of the employee to abide by all the restrictions and obligations under the said agreements or provisions shall be a precondition to his receiving the shares and, without derogating from the provisions of Clause 9 hereunder and the powers of the Legal Adviser as therein set out, the employee shall sign any document or agreement which, in the opinion of the Legal Adviser, shall be necessary in order to secure performance of his said obligations. In the case of any dispute regarding the wording of the agreement, or agreements, and in regard to the scope of the restrictions the Legal Adviser shall decide by virtue of his power under Clause 19 hereunder.
- 8.4 If the employee shall die before the shares, in respect of which the option shall have been exercised, shall be transferred into his

name by the Trustee, the right available to the employee to have the shares registered in his name shall be available to the person or persons who is, or are, the owners of that right under the terms of his will or according to the laws of inheritance, after he, or they, shall have satisfied the Trustee that the said right has indeed passed to him or them.

- 8.5 On every share certificate, issued under the Plan, the Company may inscribe a legend clearly setting out the said restrictions and also any restriction relating to the shares, including restrictions on the transferability of shares which shall be issued in the name of the employee and which, in the opinion of the Legal Adviser, it is necessary, for any reason, so to inscribe a share certificate. At the end of the restriction period it shall be possible, as against surrender of the share certificate to the Company, to receive in its place a new share certificate without such inscribed legend.
- 8.6 If bonus shares shall be allotted in virtue of the shares which shall have been allotted for the employee under this Plan, and registered in the name of the Trustee, they shall be allotted to the Trustee and be registered in his name and shall be regarded, for all purposes, including their being subject to the Plan and to the provisions of Section 102 of the Ordinance and the Commissioner's Rules, as if they were the original shares, in virtue of which they were allotted, so long as the shares shall be registered in the name of the Trustee. By signing the agreement the employee confirms that he expressly agrees to the contents of this Clause and undertakes as required in Rule 4(b)(2) of the Commissioner's Rules.
- 8.7 The transferability of the shares, after they shall have been registered in the name of the employee, for so long as the Company shall not be a public company whose securities are traded on a stock exchange, is restricted as provided in this Plan (including as provided in Clause 21.1 hereunder) and as provided in the Articles of Association of the Company, as these shall be in force from time to time, and any agreement between the Company and the employee.
- 8.8 In the event of differences of opinion regarding the date on which the restriction period shall terminate, they shall be resolved by decision of the Legal Adviser in accordance with his authority as arbitrator under Clause 19 hereunder.

## 9. Additional Documents

- 9.1 Without derogating from the provisions of Clauses 3.2 and 6.9 above and the other provisions of the Plan, and any agreement which shall be signed with the employee, for so long as the shares and/or options shall be registered in the name of the Trustee the Trustee shall be the one authorised and empowered to exercise any right, power or authority attached to, or arising out of, the shares and/or options and to sign any document (including any agreement, including an agreement as to merger of the Company or for the acquisition or sale of its assets, and all ancillary documents, resolution, application, instrument, receipts and the like), affidavit or confirmation in the name of the employee, and on his behalf, regarding

the shares and/or options, or the rights which they represent in the Company, as shall seem necessary or desirable. If, in any matter there shall have been adopted resolutions in the Board of Directors of the Company and/or in its general meeting, the Trustee shall exercise his said powers and authority at his discretion, and after consultation with the Legal Adviser, so as to advance and/or implement the resolution and/or its purposes.

- 9.2 The Company has the right, at any time, to require the employee, whether as a condition of the exercise of the option, or as a condition of the transfer of the options or shares into his name or, if he shall be a shareholder, after the transfer of the shares into his name, or generally, to produce to it any confirmation, affidavit or other document (as set out in Clause 9.1), which the Company, in its opinion, needs under any rule of law, whether it be local or foreign, or any confirmation or consent, including an undertaking by the employee not to sell his shares for any period, required by an underwriter or investment bank or consultant of the Company, for the purposes of any share issue, whether private or public, including any confirmation or consent which the Company has to obtain, if at all, from its employees by virtue of their being shareholders of a certain class, or any confirmation, declaration or other document which the Company shall find necessary or desirable to obtain for the purpose of the Company's Board of Directors dealing more effectively with the raising of capital, whether on a private, or public, share issue, whether in Israel or abroad, for the purposes of merger of the Company with another company, whether the Company shall be the surviving company or not, for the purpose of the reorganisation of the Company, as the Company shall, on consultation with the Legal Adviser, find necessary or desirable. The wording of any document, which the employee shall be required to sign, shall be as determined by the Legal Adviser who shall draft them, in his absolute discretion, provided that in his opinion, in his absolute discretion, the said raising of additional capital, merger or any other said change shall not substantially prejudice the investment of the employee in the Company. Dilution of the employee's shareholdings in the Company, resulting from the raising of any additional capital or merger or the exercise of any options shall not be deemed to prejudice in any way the employee's shareholdings. So long as the shares and/or options shall be registered in the name of the Trustee the Trustee shall be authorised to sign, in the name of the employee, and on his behalf, any such document, as provided in Clause 9.1 above. After the shares shall have been transferred into the name of the employee and, if the employee shall have refused to sign any of the said documents for the Company, the Legal Adviser is empowered and authorised, at his discretion, to sign, at the request of the Company, any of the said documents in the name, and on behalf, of the employee. If resolutions relating to any matter shall have been adopted by the Board of Directors and/or in general meeting, the Legal Adviser shall exercise his said powers, at his discretion, in order to promote and/or implement the resolution and/or its purposes.

- 9.3 To secure performance the above the employee

shall, when signing the agreement provided for in Clause 6 above and/or the power of attorney in Appendix F below, irrevocably empower the Legal Adviser and/or the Trustee as above provided, in view of the fact that the rights of the Company and of the other employees are dependent on the same, to sign the said documents in his name, and the employee shall not make any claim, or raise any contention, against the Legal Adviser or the Trustee in connection with such signature. The employee will authenticate his signature before a notary if so required by the Company so as to give full force to the power of attorney.

The form of irrevocable power of attorney -- unless otherwise provided in the agreement between the Company and the employee -- is annexed hereto as an integral part of the Plan and marked as Appendix F. The said power of attorney shall be interpreted in the broadest possible way, having regard to the provisions of this Plan, its purposes and intent, and in accordance with the instructions of the Legal Adviser and as he shall, in his discretion, determine.

If the Company shall have issued its shares to the public and they shall be traded on a stock exchange, in Israel or abroad, the legal force of this Clause shall lapse on the date of the public issue, as determined by the Legal Adviser, for the purposes of the matter. The lapsing of the legal force of this Clause shall not affect in any way the validity of any document signed as above, by virtue of the provisions of this Clause, prior to the lapsing of the legal force of this Clause.

## 10. Taxation and Other Arrangements Relating to Transfer of Shares to Employee

### 10.1 General

The options which will be granted, and the shares which will be allotted, under this Plan shall be granted and/or allotted within the framework of the relationship of employee-employer. The employee shall bear the full liability for tax, levies, fines and other payments imposed by the Tax Authorities (whether in Israel or abroad) and every obligatory payment, whatever its source, in respect of the options, the shares or a dividend or any other benefit arising thereout and/or obligations which shall be incurred by the employee and/or the Company and/or the Trustee in connection with the Plan (including in connection with a past promise of shares, granting of options, their exercise, allotment of shares, their transfer into the name of the employee, their sale by the employee and/or by the Trustee), including, without derogating from the generality of the above, income tax, stamp duty, employers' tax, capital profits tax, value added tax and payments to National Insurance (some of which do not apply today, but, theoretically, could be applicable in the future and have accordingly been included as examples). The following provisions of this Clause give a general explanation of the tax position in Israel only, but this is without prejudice to the tax obligation in respect of any foreign tax, which shall be fully the responsibility of the employee, as provided in Clause 1.6 above.

### 10.2 Taxation of Employee if Section 102 shall

apply to the Plan

10.2.1 The Company intends to bring the Plan, or some of the shares subject to the Plan, within Section 102 of the Ordinance, which provides special tax arrangements in regard to allotment of shares and granting of options for the acquisition of shares by a company to its employees. Nevertheless, the Company does not undertake so to act and, even if it shall decide to bring the Plan within the framework of Section 102, there is no guarantee that the Income Tax Authorities will agree that Section 102 applies to the Plan, or that, even if they shall so agree, they will not change their minds and will not argue at any time, on any ground, whether connected with the Company or the employee or the agreement between them or the terms of the Plan, or whether not connected with the Company or the employee, that other rules of taxation apply to the Plan or, even if Section 102 shall have applied to the Plan, such application has lapsed because of noncompliance with the conditions contained in the Section or in the Commissioner's Rules, for any reason, including reasons arising from acts or omissions of the Trustee or the Company or the Legal Adviser, or which were caused because, or in consequence, of them. The Company, the Trustee and the Legal Adviser are not, and shall not be, liable to the employee in such matter for any reason whatsoever because, inter alia, as provided in this Plan, the tax liability under the Plan falls fully on the employee.

10.2.2 Generally, under the provisions of Section 102 of the Ordinance and the Commissioner's Rules, the date of liability for tax is the date of the transfer of the shares into the name of the employee, or the date of the sale of the shares by the Trustee or the employee, whichever is the earlier. On that date the employee shall be deemed to have sold his shares for a consideration as defined in Section 88 of the Ordinance. For this purpose the original cost will be deemed to be only the amount which the employee paid in cash at the time of the allotment. The Trustee will have to deduct at source 30% of the said consideration, or any other percentage determined by the assessment officer or any other percentage as fixed from time to time. The manner of calculating the amount of tax shall be as hereinafter specified in this Clause 10, or any manner which shall seem proper to the Trustee, who shall consult the Legal Adviser in the matter. The employee shall not be entitled to the exemption from tax due in accordance with Section 97(c) of the Ordinance and, therefore, inter alia, the provisions of the exemption from tax contained in Income Tax Order (Exemption from Tax on Capital Profit from Sale of Shares), 5742-1981, shall not apply to him. The Commissioner is authorised to enact additional rules and instructions as provided in

Section 102 of the Ordinance. The Company does not give any undertaking that the Plan will enjoy recognition by the Income Tax Authorities or that, even in the event that it shall comply with the present provisions of the Law, there will not be changes in the future in the Law, in Regulations or in Rules which shall be enacted, or as a result of events which shall occur, and that these will not have an effect on the taxation of the employees.

10.3 Taxation of Employee if Sections 2(2) and 3(I) of the Ordinance shall apply to the Plan

If the provisions of Section 102 shall not apply to the Plan, or part of it, whether because the Company shall have decided not to bring it within the framework of the Section or because Section 102 shall not apply to the Plan for whatsoever reason, then the mode of taxation, as the Company understands the same in connection with the options given to the employee, correct to the date of the commencement of the plan, is explained in a general manner in this Clause 10.3:

10.3.1 The position of the Company, in summary, is that the employee, so long as the shares of the Company are not traded on a stock exchange, will not be made liable for tax on the granting of the option. In accordance with the provisions of Section 3(I) of the Ordinance such tax shall become payable on exercise of the option. This position of the Company is not necessarily accepted by the Income Tax Authorities who may well claim that the tax event, even in the case of a private company, is the granting of the option, in accordance with the provisions of Section 2(2) of the Ordinance, or that the question has still not been decided, inter alia, in the conditions in which the option shall have been granted. On the date of the commencement of the Plan the Company does not have an opinion as to what will be the position adopted by the Tax Authorities and what will be the implications of Section 102 and the Commissioner's Rules on that position. The Company has not sought clarifications from the Tax Authorities in any matter relating to this question and the employee shall not have any claim against the Company in regard to the position adopted by the Company.

If the position of the Company shall not be accepted, tax will be payable, in accordance with the provisions of Section 2(2) of the Ordinance, at the time of the granting of the option to the employee. The Tax Authorities will claim from the employee the full amount of tax due on the benefit received by the employee in the form of the option granted to him. The employee shall pay the tax also on the exercise of the option, under Section 3(I) of the Ordinance, as mentioned in Clause 10.3.2. There is no certainty that the tax paid by the employee at the stage of the granting of the option will be taken into account in calculating the tax to be paid by him on the exercise of the option.

- 10.3.2 The tax for which the employee shall be liable, at the time of the exercise of the option, shall be in accordance with Section 3(I) of the Ordinance, namely the liability will arise in respect of income from employment on the difference between the value of the shares at the time of the exercise of the option and the consideration which he shall have actually paid for them, or, as provided in Section 3(I) of the Ordinance, "the price ordinarily paid for that property and the price which that person paid". The rate of tax which shall apply, according to the position of the Company (and, as already stated, there is no guarantee that it will be accepted by the Income Tax Authorities), will be determined according to the value of the shares subject to the tax laws in force at the time of the exercise.
- 10.3.3 At the time of the sale of the shares which were acquired by virtue of the exercise of the option granted in accordance with the plan, the employee will pay Capital Profits Tax under the provisions of Chapter E of the Ordinance. The position of the Company is that, even if the provisions of Section 102 of the Ordinance do not apply, for the purpose of calculating Capital Profits Tax on the sale of the shares the Tax Authorities will have to bring into account the increase in the base arising from the payment of tax under Section 3(I) of the Ordinance and, in the event that tax will be due in respect of the grant of the option under Section 2(2) of the Ordinance, as mentioned in Clause 10.3.1, also the increase in the base arising from the payment of this tax as well, but there is no provision relating to this in the Law and there is no certainty that this is the correct legal position on the date of the commencement of the Plan. Let it further be stated that there is no provision for revaluation of tax payments and/or the exercise of option price and, therefore, the owner of the option is likely to pay tax on inflationary profit.
- 10.3.4 In every case when the shares shall be allotted to the employee at a price which is less, in the opinion of the Tax Authorities, than the market price of the shares, the benefit, which is the difference between the market price of the shares and the price paid by the employee, shall be fully liable to tax. If Section 102 of the Ordinance shall apply to the allotment of shares, then the provisions of that Section will be applicable.
- 10.3.5 There is no certainty that the position of the Company on the question of taxation will be accepted by the Tax Authorities and/or by any other appropriate authority and there is likewise no certainty that the Company will not change its position as a result of legal advice received, based on the position adopted by the

Tax Authorities or decisions of the courts, legislation, or other sources, or because it shall have come to the conclusion that its position is mistaken. The Company cannot foresee how the court will decide in tax matters and the factual questions arising out of the Plan, should these be brought before it for decision, and also what will be the level of liability to tax and every connected expense which shall be imposed on the employee in this eventuality. If the Tax, which shall be imposed on account of the granting of the option and/or its exercise and/or the allotment of the shares and/or the sale of the shares and/or the transfer of the shares into the name of the employee, shall be different from that stated above, the employee shall not be exempted from his obligation to pay all taxes imposed upon him, as provided in Clause 10.1 above, and he shall have no ground to claim against the Company, or any of its directors, employees or shareholders or the Legal Adviser or the Trustee in respect thereof, and he shall indemnify all these against any expense or obligation which shall be imposed, if at all, on them.

#### 10.4 Deduction at Source

Without prejudice to the obligation of the employee to pay all the taxes in connection with the option and/or the shares connected with the option in accordance with the provisions of Subclause 10.1 above, the Company and/or a subsidiary company and/or the Trustee may, in their absolute discretion, and/or are obliged according to law, to deduct at source, at the time of the receipt of the option or at the time of the exercise of the option and/or at the time of the allotment of the shares or the sale of the shares, whether by the employee or by the Trustee, and/or at any other time according to any rule of law, from all payments due to the employee (whether from salary due to the employee or from any payment due from any other source, including moneys originating from a dividend, from the consideration from the sale of shares by the Trustee as mentioned in this Plan) the payments of tax due to the Tax Authorities in connection with the option and/or the shares connected with the option under any rule of law. The deduction at source shall be made by decision of the Company or by the decision of the Trustee according to the provisions of any rule of law, as these shall be interpreted by them in consultation with the Legal Adviser, and the employee shall not be entitled to dispute the decision of the Company and/or the Trustee and/or the Legal Adviser or to raise any claim against them, even if they shall have erred, or been negligent, in their considerations.

#### 10.5 Taxation at the time of Transfer of Shares into Name of Employee

In order to ensure that the tax due shall be paid and that, as far as possible, the Income Tax Authorities shall not make claims against the employee, the Company or the Trustee in respect of the amount of tax due, the Trustee shall, before the shares shall have been transferred into the name of the employee, receive from the assessment officer a confirmation of the payment



of tax and that the shares may be transferred into the name of the employee. The employee shall, by arrangement with the Trustee and the Board of Directors of the Company, and with their prior approval, and without prejudice to the generality of the provisions of Clause 10.7 hereunder, produce to the Trustee, if he shall be so required by the Trustee or the Company or the Legal Adviser, a confirmation from the assessment officer, in a form which shall be acceptable to the Trustee, who shall consult the Legal Adviser in the matter, as to the amount of tax for which he is liable in respect of the options and/or the shares and which must be paid to the assessment officer as a condition for the transfer of the shares into the name of the employee. After the Trustee shall have received from the employee the confirmation of the assessment officer of the amount of tax due, the employee shall transfer to the Trustee such amount of tax due and the Trustee shall remit the same to the assessment officer. Alternatively, on, and in accordance with, the demand of the Trustee, the employee will remit direct to the assessment officer the amount of tax due and shall provide the Trustee with confirmation of payment from the assessment officer in an acceptable form, which shall release the Trustee and the Company from all liability for payment of tax. Alternatively, and at the option of the Trustee, in the case of the sale of the shares by the Trustee on behalf of the employee, the full consideration for the sale of the shares shall be transferred from the purchaser to the employee by way of the Trustee, who shall deduct the tax due, remit the same to the assessment officer and obtain his confirmation of full payment of tax, and the balance of the consideration shall then be transferred to the employee.

It is hereby expressly declared that if the full amount of tax shall not be paid, but only part of it, whether by way of deduction of tax at source or in any other way, the said payment shall be an advance only in respect of the liability for tax and the legal obligation to obtain determination of the full liability, to report to the Tax Authorities and to pay the full amount due is that of the employee.

The employee shall bear all payments, levies, fees and taxes connected with the transfer of the shares into his name, such as stamp duty.

#### 10.6 Taxation at the time of the Sale of Shares by Trustee

If the Trustee shall sell some or all of the shares on behalf of the employee, in a free sale between a willing vendor and a willing purchaser, the Trustee shall deduct from the consideration, which shall have been received, 30% as provided in Section 102(c) of the Ordinance, if Section 102 shall apply, or any other rate which has to be deducted under any rule of law or in accordance with the confirmation of the assessment officer, and, in addition, sums for payment of taxes, levies, fees and obligatory payments of whatsoever nature and also other expenses, which, in the opinion of the Board of Directors or in the opinion of the Trustee, in his absolute discretion, are required under any rule of law, or which shall have been incurred by, or arisen out of, the sale of the shares, deduction of tax and transfer of the consideration to the employee. The Trustee shall be guided, in connection with this sale, by instructions which the Legal Adviser, in his absolute discretion, shall give him and the employee shall not have any grounds of complaint or claim against the Company, the Trustee or the

Legal Adviser in this matter. For the avoidance of doubt, the Trustee shall not be obliged to sell the shares on behalf of the employee before he shall have come to arrangements, as drafted by the Legal Adviser, which will ensure payment of tax, transfer of the consideration by way of the Trustee and performance of all the provisions of the Plan.

If, at the time of the sale of the shares, the shares shall not be traded on a stock exchange, and provided that the Company's Board of Directors shall have approved the sale in accordance with the provisions of the Articles of Association, the employee and the purchaser shall deliver to the Trustee and to the Legal Adviser, in a form determined by the Legal Adviser, affidavits authenticating the price which shall have been fixed for the shares or options, but the Legal Adviser may, in his absolute discretion, exempt the employee and/or the purchaser from the requirement to provide such affidavit. In accordance with the direction of the Legal Adviser the Trustee may require from the employee that the number of shares or options being sold as aforesaid shall be sufficiently large to cover the employee's liability to tax in respect of the shares and/or options and in order to serve as proof that the price fixed indeed reflects the value of the shares. Without prejudice to any other power vested in the Board of Directors, under the Articles of Association of the Company, to decline to approve, for any reason whatsoever, the sale of the employee's shares, the Board of Directors may, in consultation with the Legal Adviser, prescribe various conditions to ensure the proper payment of tax on the sale of the shares by the employee, if the shares shall not be traded on a stock exchange, and the performance of these conditions shall be a condition for the sale of the shares by the employee.

#### 10.7 Confirmation by Assessment Officer -- General

The Board of Directors or the Trustee may apply to the assessment officer, or, in the event of an employee abroad, whether of the Company or of a subsidiary, to the foreign tax authority, at any time, for their confirmation of the level of tax which the Company or the employee or the Trustee are to remit to the Tax Authorities, in the any one of the above events, and their confirmation, in a form acceptable to the Trustee or the Company, that, on remittance of the said sum, there will be no demands of whatsoever kind by the Tax Authorities against the Company, the subsidiary or the Trustee in regard to these shares. The Board of Directors or the Trustee may postpone dealing with any application by the employee to sell shares or to transfer them into his name (or to exercise the option, in the event that Section 102 shall not apply) until receipt of the confirmation of the assessment officer (or foreign tax authority).

If the assessment officer, or any other tax authority, shall not give the Trustee or the Company any appropriate confirmation, the shares shall not be transferred into the name of the employee, notwithstanding the provisions of this Plan.

For the avoidance of doubt, by their signing the agreement under Clause 6 above, the Company and the employee authorise the Trustee and the Legal Adviser, each one separately, to apply in their name, at any time, to the assessment officer or the Income Tax Commission, or to any tax authority abroad, for their confirmation relating to any matter, as they shall see fit, arising out

of this Plan or the granting of the options or their exercise or the allotment of the shares or the transfer of the shares resulting from them, or of the options, into the name of the employee and/or a share acquisition agreement or payment of dividends or any other benefit credited in respect of them.

#### 10.8 Indemnity to Company

Because there exist objective difficulties in estimating the value of the shares in private companies and/or in companies whose shares are not traded on a stock exchange, a situation is possible in which the Tax Authorities will demand an amount which is higher than the amount estimated, the payment of which will be required from the employee. Hence, since the employee alone, as provided in the Plan, is liable for payment of the full tax consequent on his participation in the Plan, he declares and undertakes, by his signing the agreement, that the Company and the Trustee shall not bear any liability and will be indemnified by him against any expense or loss which may be caused to them as a result of any payment of tax by them, including payments because of non-deduction of tax at source, in connection with the granting of the option, its exercise, the allotment of the shares, the sale of the shares or the transfer of the shares into his name, payment of dividends, the options granted under the Plan and/or the shares subject to the options. The employee declares and undertakes with the company, by signing the agreement, to pay to the tax Authorities all the taxes which shall be due from him.

#### 10.9 Exemption from Tax Under Sections 95 and 97(a) of Ordinance and under Charter G Encouragement of Industry (Taxes) Law, 5729-1969

If Section 102 shall apply to the Plan, then, by his signature on the agreement, the employee gives his written confirmation, in accordance with the Commissioner's Rules, that he undertakes not to claim an exemption from tax under Sections 95 and 97(a) of the Ordinance or under Chapter G of the Encouragement of Industry (Taxes) Law, 5729-1969, in respect of the transfer of the shares before the end of the closed period and before the tax applicable shall have been paid. Under the provisions of the Commissioner's Rules the exemption provided in Section 102(b) of the Ordinance shall not apply to shares sold under exemption from tax under Sections 95 and 97(a) of the Ordinance or within the framework of the exemption enjoyed by a sale of shares on the merger of corporations. The employee will likewise confirm in writing his agreement to the provisions of the trust instrument signed between the Company and the Trustee. The form of the employee's confirmation is annexed hereto as Appendix G.

#### 10.10 Future Tax Arrangements

If, in the future, other arrangements shall be introduced (whether by legislation or in other way) under which matters of taxation relating to the employee share ownership and option Plan shall be arranged, in the opinion of the Board of Directors, in its absolute discretion, in a more convenient or efficient manner from the point of view of the Company or its employees, than by the arrangements described above, the Company may apply to the Tax Authorities for the advantages in these arrangements to apply to the Company and/or the employee and/or the shareholders, the options or the shares subject to the options, and the employee shall not be entitled to raise any

demand and/or claim from or against the Company or the Trustee in regard to such application or as a result of it. Nothing above provided shall oblige the Company to examine, to negotiate or to enter into such future arrangements.

#### 10.11 Negotiations/Litigation with Authorities

As a condition of the exercise of the option and/or transfer of the shares into the employee's name, the employee will sign the document, annexed hereto as Appendix H, in which he agrees that, in the event of negotiations and/or litigation between the employee and the Tax Authorities, or any other Government or Administrative authority, including relating to the confirmations required from the Bank of Israel, whether confirmations which are necessary in Israel or abroad, relating to the grant of the option, its exercise, the allotment of the shares, their transfer into the employee's name and/or the sale of the shares subject to the option, the Company, in its absolute discretion, may decide that the negotiations and/or litigation shall be conducted by the Company in the name of the employee, whether the negotiations and/or litigation relate to additional employees or not. The said agreement shall contain a power of attorney to the Company for this purpose.

#### 11. Share Certificate

On receipt of confirmation from the Company that all payments, taxes, conditions, restrictions and documents required from the employee as a condition for the transfer of the shares into his name in accordance with the Plan, have been received, and after the Legal Adviser shall be satisfied that everything has been done and all conditions fulfilled, the Trustee shall deliver, at the direction of the Legal Adviser, to the Secretary of the Company, or to any transfer agent, an instrument of transfer of shares, in the form provided for in the Company's Articles of Association, signed by the Trustee, as transferor, and the employee, as transferee, and shall instruct the Secretary, or transfer agent, to issue a share certificate in the name of the employee in respect of the said shares. On the demand of the employee, the Trustee will instruct the Secretary of the Company to register the employee as the holder of these shares and a member of the Company and the Secretary will register the employee as the shareholder and member of the Company. If the share certificates shall have been deposited with the Company or with the Legal Adviser or the Trustee, outside the framework of Section 102, the share certificates shall be transferred into the name of the employee in accordance with the agreement and on the direction of the Legal Adviser, after all the restrictions affecting the shares shall have been removed. The provisions of this Clause shall apply subject to every instruction or permit to be given, if at all, by the Bank of Israel in respect of the deposit of share certificates with an authorised commercial bank, and the Company, the Trustee and the Legal Adviser shall be empowered to make any application to, or clarify any matter with, the Bank of Israel and they shall comply, notwithstanding any provision in this Plan, with its instructions and the employee shall have no cause of complaint or demand against them in respect thereof.

#### 12. Dividends

12.1 The ordinary shares subject to the Plan shall be entitled to participate, equally with the other ordinary shares, in any dividend in cash which shall be declared and distributed.

12.2 A cash dividend shall be distributed only in regard to those shares which were allotted in

respect of options which were exercised, or shares allotted to the employee, up to the determining date for the purposes of distribution of the dividend, which shall be to the person registered in the Register of Members as the holder of the shares. The employee shall have no cause of complaint against the Company, its directors or shareholders if, for any reason, whether dependent on the Company or on the employee, shares shall not have been allotted to the employee before the determining date.

- 12.3 A notice of the resolution of the Board of Directors of the Company to distribute a dividend shall be sent by registered post or facsimile, or in any other way that will, in the opinion of the Board of Directors, ensure its delivery to the employee, to each of the employees, to whom options shall have been granted and who are entitled to exercise them by the determining date, at least 7 days before the determining date for the distribution of the dividend, or shall be handed to them personally at least 48 hours before the determining date. An employee, who is entitled to request the Trustee to exercise an option to acquire any shares on his behalf by the determining date, may do so, and if he shall have in fact done so by the determining date, the shares allotted in respect of options which have been exercised by the determining date shall be entitled to participate in the distribution of the dividend.
  - 12.4 A dividend in respect of shares registered in the name of the Trustee shall be paid to the Trustee, after lawful deduction of tax, whether at the ordinary, or at a higher, rate, whether it is payable because of the transfer from the Company to the employee or from the Company to the Trustee and from the Trustee to the employee (whether it is payable in accordance the existing law or in accordance with the law, including the Commissioner's Rules, as it shall be in the future). The Trustee shall transfer the dividend to the employees in accordance to instructions which he shall receive from the Company or from the Legal Adviser. Alternatively, the Company may, on the instruction of the Trustee, pay the dividend to the employee after deduction of Income Tax.
  - 12.5 Without derogating from the provisions of Clause 10.4 above, the Company or the Trustee may set off against, and deduct at source from, any dividend, which shall be declared and distributed as above, any sum which the employee owes to the Company or to the Trustee, whether under this Plan or in any other way, and/or any sum which the employee owes to the Income Tax Authorities in respect of the dividend, including tax which shall be payable, if at all, on the transfer of the dividend from the Trustee to the employee, the options, their exercise, the allotment of the shares, the transfer of the shares into the name of the employee or any other matter concerning the shares and/or options.
  - 12.6 In all the above matters the Trustee shall consult the Legal Adviser.
13. Rights and/or Benefits Arising out of Employee-Employer Relationship and Absence of Obligation to Employ
    - 13.1 No income or profit which shall accrue, or ostensibly accrue, to the employee in respect of the Plan shall be brought into account in any way when calculating the entitlement of the employee against the Company, or a subsidiary company in its control, in respect of any social rights or other rights or benefits arising out of the employee-employer relationship. Without prejudice

to the generality of the above, this income shall not be taken into account for the purpose of calculating National Insurance payments, directors' insurance, provident funds, further study fund, redundancy pay, holiday pay etc. If, under any rule of law, the Company shall have to bring into account, in calculating these elements, income or profit accruing substantially or notionally to the employee, the employee shall indemnify the Company against every expense caused to it in this matter.

- 13.2 Nothing provided in this Plan shall be interpreted as requiring the Company, or a subsidiary company in its control, to employ the employee and the relations between the Company and the employee shall be conducted without independently of this Plan. The employee shall have no cause of complaint or claim against the Company in respect of the termination of his employment, if such termination on any date shall deny him an anticipated acquisition of the Company's shares under the agreement between him and the Company and if the termination of his employment by the Company shall cause him damage because of the obligation to make early payment of tax as provided in the Commissioner's Rules.

#### 14. Adjustments for Alteration in Capital Structure

If alterations shall be made in the structure of the Company's capital, including, without derogating from the generality of this provision, alteration in the shares subject to the Plan, or subject to the option granted under the Plan (by way of merger, consolidation, reorganisation, alteration of capital structure, distribution of bonus shares, distribution of non-cash dividend, splitting of shares, dividend on winding up, unification of shares, exchange of shares, alteration of structure of the Company or in any other way), the Board of Directors shall make the appropriate alterations in the options and/or the shares subject to the options or in any other way, so as to reflect such alterations. If such adjustment shall create fractions of shares, such fractions shall be ignored for the purpose of calculating the number of shares subject to a particular option, in accordance with the instructions of the Board of Directors.

All shares originating out of such alteration or adjustment shall be deemed, for all purposes, including their being subject to the conditions of the Plan and the provisions of Section 102 of the Ordinance and the Commissioner's Rules, should the same apply, and the right to reacquisition, as provided in Clause 6.7 above, as if they were the original shares in respect of which the alteration and adjustment shall have been made.

#### 15. Amendment of Plan, Amendment of Existing Options and Substitution thereof

- 15.1 The Board of Directors may, from time to time, alter and/or amend the Plan, including, without prejudice to the generality of this provision, by way of addition, deletion and/or alteration of conditions and/or restrictions, creation of conditions in regard to the right of reacquisition, forfeiture or any other restriction or condition, all in accordance with the resolutions of the Board of Directors. If the Company shall have issued its shares on a stock exchange and the rules of the stock exchange shall require the bringing of the alteration of the Plan before the general meeting for approval, every alteration shall be subject to approval of the general meeting of the Company.

15.2 The Board of Directors may, if, in its view, the Plan as worded is not attaining its purposes, or its purposes are capable of being attained in

a better and more efficient manner, rescind all, or part, of the Plan, alter it and/or substitute for it another incentive scheme, whether of options or of shares or of rights or of other benefits which, in the opinion of the Board of Directors, in its absolute discretion, correctly reflects the balance between attaining the purposes of the Plan on the other interests of the Company and its employees, including taxation considerations. If the Plan shall have been replaced by another incentive scheme, or altered as above provided, the options, which shall have been granted, prior to the replacement of the Plan, shall be exchanged for options, securities and/or rights or other benefits in accordance with the new scheme or, if the options shall not be so exchanged, the provisions of the altered plan shall apply to the agreement between the Company and the employee, as defined in Clause 6 above, and provided that, in the opinion of the Legal Adviser, the rights of the employees shall not be substantially adversely affected thereby. The employees shall cooperate with the Company for the purposes of all matters mentioned in this Clause.

15.3 Any alteration of the Plan, or alteration connected with the Plan, shall bind the employees as if it had been included in the Plan from its very commencement. Every employee, by signing the agreement mentioned in Clause 6 above, undertakes to sign any document which, in the opinion of the Legal Adviser, shall be required in order to give full legal force to an alteration of the Plan, provided that it does not prejudice rights which shall have been vested in the employee. If the employee shall have refused to sign such document, the Board of Directors shall be empowered to sign the same in the name of the employee and the employee hereby authorises the Board of Directors so to do by his signature on the agreement mentioned in Clause 6 and he shall have no cause of complaint and/or claim against the Board of Directors in respect thereof. An employee, with whom an agreement shall have been signed, shall be entitled to receive a copy of the updated Plan on returning the copy of the previous Plan, which was in force in regard to him.

15.4 If the shares of the Company shall be traded on a stock exchange and their price on the stock exchange during a period of 6 months shall be lower than one half of any exercise of option price, the Board of Directors may, with the consent of the employee, and provided that at that time he shall still be an employee of the Company, cancel the option and grant to the employee a new option. The price of the exercise of the new option, fixed in accordance with Clause 6.2 above, shall not be less than the average price of the Company's shares on the stock exchange in the 30 days immediately prior to the date of the granting of the new option.

#### 16. Commencement of Plan Entering into Force

The Plan shall enter into force on a date which shall be determined by the Board of Directors. If the Board of Directors shall decide to bring the Plan within the framework of Section 102 of the Ordinance, shares shall not be allotted to the Trustee on a date which is earlier than 30 days from the date of the notice (mentioned in Section 102 of the Ordinance and the Commissioner's Rules) to the assessment officer of its adoption (hereinafter and hereinbefore -- "the date of the commencement of the Plan"). The Plan shall apply to all the options/shares in respect of which the Company has entered into undertakings with the employees before the date of the commencement of the Plan.

17. Termination, Suspension or Expiry of the Plan

The Board of Directors may, at any time, suspend or terminate the Plan and also provide that this Plan shall apply to employees, to whom the Company has undertaken to give options and/or shares, and provide that a different plan shall apply to new employees. If Plan shall not have been brought to an end before such date, it shall expire after 10 (ten) years from the date of the commencement of the Plan, as this term is defined in Clause 16 above. On the expiry of the Plan no options shall be granted under it and it will no longer be possible to exercise options which shall have been granted under it. Likewise options shall not be allotted under the Plan at a time when it is not in force or after it has been terminated or suspended and if options shall have been granted, they will not be exercisable. Termination or suspension shall not prejudice employees to whom shares shall have been allotted, or options shall have been granted, on a date prior to the termination or suspension of the Plan.

18. Release of Trustee and Legal Adviser from Liability and Indemnity

In no event shall the Trustee or the Legal Adviser be liable to the Company and/or the employee under the Plan and/or to a third party (including, without prejudice to the generality of this provision, The Income Tax Authorities and any Government, or other administrative, authority) or a purchaser of shares from the employee, for any act done, or which shall be done, or for any professional opinion given, or which shall be given, in regard to this Plan, its implementation and anything connected with, or resulting from, the same. The Company and the employee undertake, by their signatures on the option agreement, not to sue the Trustee and the Legal Adviser in any way on any cause of action whatsoever and they expressly agree that, if they shall sue the Trustee or the Legal Adviser, then the Trustee or the Legal Adviser shall be entitled, on the basis of this Clause alone, to apply to the court to dismiss, with costs, the claim against the Trustee or the Legal Adviser. The Company undertakes and agrees that, if a claim shall be instituted against the Trustee or the Legal Adviser by a third party, they shall be entitled, without any objection on its part, to join the Company as a third party to any such proceedings and a judgment against them shall be discharged by it. The Company and the employee undertake to indemnify the Trustee and/or the Legal Adviser against any such liability and/or in respect of any proceedings and/or claim against the Trustee and/or the Legal Adviser by any person or body, including the Tax Authorities, relating to acts or omissions in connection with this Plan.

19. Arbitration

Any dispute or difference of opinion between the Company and the employee regarding and/or in connection with the Plan, shall be exclusively judged and decided by the Legal Adviser as a single arbitrator. The arbitrator shall not be bound by the rules of evidence or by the substantive law and shall not have to give reasons for his decision and he shall be authorised, in his absolute discretion, to make a compromise award. The parties are aware that the Legal Adviser is the legal adviser of the Company and that there is a possibility that, for this reason, or for any other reason arising out of his relations with the Company, he may well find himself in a situation of conflict of interests, but the Legal Adviser alone shall decide if such a situation prevents him from serving as an arbitrator or discharging any other function under the Plan. The Company and the employee, therefore, waive any claim in this matter. If the Legal Adviser shall determine that it is not proper that he should serve as arbitrator in a particular dispute, the said dispute shall be brought before another single arbitrator who



shall be appointed by the Legal Adviser in accordance with an arbitration agreement to be drawn up by the Legal Adviser.

20. Legal Adviser's Fee

The Legal Adviser shall be entitled to a fee for acting under this Plan. The Legal Adviser's fee shall be 1% (one per centum) plus VAT of the value of the shares, which the employee shall receive, as valued for the purposes of the payment of Income Tax, or, if the shares shall be traded on a stock exchange, their stock exchange value. The fee shall be paid to the Legal Adviser by the Company on the transfer of the shares into the name of the employee, or on the date when the employee or the Trustee pay the tax due, whichever is the earlier.

21. Declarations and Undertakings by Employee

By signing the agreement the employee confirms that he knows and accepts:

- 21.1 that the Company's shares are not traded on any stock exchange, that the Company does not have any obligation, towards him or at all, to register its shares or options for trade on a stock exchange or to offer in any way its shares or the shares or options of the employee to the public;
- 21.2 that, in addition to the restrictions which shall apply under the Plan, as above specified, as they shall be from time to time, in regard to the transferability of the shares, which he shall receive as a result of the exercise of the option, there shall also apply, so long as the Company is a private company, or a public company whose shares are not traded on any stock exchange, a general restriction to the effect that the shares shall be transferred only after receipt of the approval of the Board of Directors of the Company, which shall be able to refuse to approve such transfer, in its absolute discretion (except in the case of transfer the shares to a spouse or child or subject to an agreement signed by all the Company's shareholders), and that, in addition to this, there shall apply any other restriction or alteration of any restriction in accordance with the provisions of the Memorandum and Articles of Association of the Company, as these shall be in force from time to time; and that, as a consequence of these restrictions, the employee may well not be able to sell, or transfer in any other way, the shares allotted to him as a result of the exercise of the option or the shares which shall be allotted to him under the Plan; the employee is aware that the Company, so long as it shall be a private company (or a public company whose shares are not traded on a stock exchange), has an interest in its shares not being transferred to any outside person, in particular because of the small number of its shares; the refusal of the Board of Directors to agree to the sale of the shares is likely to put the employee in the position of his shares not being transferred from the Trustee into his name (in the event that Section 102 shall apply) since the employee will not have the means to pay the tax due;
- 21.3 that potential difficulties and/or inability to exercise the option, in whole or in part, may arise because of the restrictions and conditions applying to it, including, inter alia, the possibility that the option may expire as a result of the employee leaving the Company, as provided in the Plan, the same being possible in regard to the shares which shall have been allotted under the Plan;

- 21.4 that, because of difficulties arising out of the provisions relating to tax, the uncertainty inherent in them and the alterations which they undergo from time to time, the employee would be well advised to study the tax laws and provisions relating to the matter and/or consult a professional adviser who is an expert in tax matters relevant to the Plan, the restrictions and the risks involved in the granting of the option and/or exercise of the option and allotment of shares to employees or their transfer from the Trustee into the name of the employee, under Income Tax law and/or any other statute or rule of law, and that any explanation which he shall give, by the Company or on its behalf, concerning the consequences, including the explanation in the Plan itself, do not create any liability on the part of the Company to employee;
- 21.5 that the tax consequences of the grant of the options and/or their exercise and/or the allotment of shares and/or the transfer of the same from the Trustee into the name of the employee may well render the grant of the options and/or their exercise and/or receipt of the shares totally unworthwhile to the employee in particular, so far as the matter relates to Section 102, should the employee leave the Company during the closed period, and that the Company expressly does not assume any obligation in this connection and does not make any declaration regarding the tax consequences connected with the grant of the options and/or their exercise and/or the allotment of the shares and/or their transfer into the name of the employee and the employee, by signing the option agreement and/or exercising the option assumes every risk and every consequence arising thereout;
- 21.6 that the Company is operating in an area in which competition is fierce, technological changes take place quickly and the market for clients is limited and that, therefore, because of the many restrictions in the Plan, if the employee shall have to pay, under the provisions of Clause 6.2, for the options or for their exercise, then his investment in the shares of the Company is a high risk and speculative investment;
- 21.7 that, by his signature on the agreement, the employee confirms and undertakes that he is acquiring the shares for the purpose of investment, and not for the purpose of their distribution, as this term is defined in Securities Act 1933 in the United States of America, and that, if the Company's shares shall be traded in the United States of America, the employee will not sell the shares without first obtaining counsel's opinion that the sale of the shares is not a breach of the said Act or the rules enacted thereunder (including Rule 144) or that it is exempt from the provisions of the said Act;
- 21.8 that, by his signature on the agreement, the employee waives any right of first refusal to acquire shares in the Company, offered for sale by other shareholders, and any right of preemption to acquire shares which the Company is allotting, or shall allot in the future, if such rights exist, or shall exist, under the Articles of Association of the Company, as these shall be in force from time to time.

## 22. Miscellaneous

- 22.1 Any option and/or share, given to employees, is subject to the condition that if, in the opinion of the Legal Adviser, it is necessary, as a

condition of, and/or in connection with, the issue of shares subject to the option and/or the registration of the shares for trading on any stock exchange, that certain prerequisites be satisfied to enable such registration, or that a prospectus be prepared or that the consent and/or approval of any government or administrative authority be obtained, whether in Israel or abroad, or that the agreement of an underwriter or underwriters to the offer of the shares to the public be obtained, then the option, in whole or in part, shall not be exercised and the shares shall not be registered unless such requirements shall be satisfied in conditions acceptable to the Board of Directors. The Company shall be released from any liability for its inability -- because of the absence of any such consent or approval -- or because of its unwillingness to comply with requirements or bear the expenses connected therewith. Nothing contained in the Plan shall oblige the Company to fulfill the above mentioned prerequisites or to obtain the above mentioned consents and agreements or to impose on the Company an obligation to issue shares to the public or to register for trading, in accordance with any securities laws, the options granted under the Plan or the shares issued under the options or the shares allotted to the employee, and a legend recording these restrictions may be endorsed on each share certificate or option agreement.

22.2 The consideration which shall be received from the exercise of the options and/or acquisition of the shares under the plan shall be return capital in the hands of the Company.

22.3 Israeli Law shall apply to the Plan and all documents thereunder, including the agreement, and subject, should the Company's shares be traded in the United States of America, to the United States Securities Acts.

22.4 The Board of Directors may direct that the Plan be translated into English and provide that the English version shall be binding and it may provide that any document connected with the Plan be drawn up in the English language.

## 23. Notices and/or Instructions

No notice and/or instruction under the Plan shall have legal force unless in writing and signed by the party giving the said notice and/or instruction. Any notice or instruction which the Company and/or Board of Directors may, or shall, give shall, unless the provisions of the Plan provide otherwise, be in writing and signed by two of the members of the Board of Directors.