Protalix BioTherapeutics, Inc.
Form 424B5
October 25, 2007

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Registration No. 333-144801
Registration No. 333-146919

PROSPECTUS SUPPLEMENT

(To Prospectus dated September 26, 2007

)

10,000,000 Shares

Common Stock

We are offering 10,000,000 shares of common stock.

Our common stock is traded on the American Stock Exchange, or the AMEX, under the symbol ‘‘PLX.’’ On October 2

Investing in our common stock involves a high degree of risk. You should read and consider carefully the risk factors

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of

	Per Share	Total
Public offering price	$ 5.00	$ 50,000,000
Underwriting discounts and commissions	$ 0.35	$ 3,500,000
Proceeds, before expenses, to us	$ 4.65	

$
46,500,000

The underwriters may also purchase up to an additional 1,500,000 shares of common stock from us at the public offeri

The underwriters are offering the shares of common stock as set forth under ‘‘Underwriting.’’ Delivery of the shares o

Sole Book-Running Manager

UBS Investment Bank

CIBC World Markets

The date of this Prospectus Supplement is October 25, 2007.

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. W

We obtained most of the statistical data, market data and other industry data and forecasts used throughout this prospec

TABLE OF CONTENTS

This prospectus supplement and the accompanying prospectus contain our trademarks and trademarks of our affiliates,

Forward-looking statements

The statements set forth and incorporated by reference in this prospectus supplement and the accompanying prospectus

Examples of the risks and uncertainties include, but are not limited to, the following:

the inherent risks and uncertainties in developing drug platforms and products of the type we are developing;

delays in our preparation and filing of applications for regulatory approval;

delays in the approval or potential rejection of any applications we file with the United States Food and Drug Administ

any lack of progress of our research and development (including the results of clinical trials we are conducting);

obtaining on a timely basis sufficient patient enrollment in our clinical trials;

the impact of development of competing therapies and/or technologies by other companies;

our ability to obtain additional financing required to fund our research programs;

the risk that we will not be able to develop a successful sales and marketing organization in a timely manner, if at all;

our ability to establish and maintain strategic license, collaboration and distribution arrangements and to manage our re

potential product liability risks and risks of securing adequate levels of product liability and clinical trial insurance cov

the availability of reimbursement to patients from health care payors for procedures in which our products are used;

the possibility of infringing a third party’s patents or other intellectual property rights;

the uncertainty of obtaining patents covering our products and processes and successfully enforcing them against third

the possible disruption of our operations due to terrorist activities and armed conflict, including as a result of the disrup

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Forward-looking statements

In addition, companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in advanc

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Prospectus summary

This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospe

Our Business

We are a biopharmaceutical company focused on the development and commercialization of recombinant therapeutic p

Our Lead Product Candidate, prGCD

Our lead product development candidate is prGCD for the treatment of Gaucher disease, which we are developing usin

Other Drug Candidates in Our Pipeline

In addition to prGCD, we are developing an innovative product pipeline using our ProCellEx protein expression systen

product candidates are based on well-understood proteins with known biological mechanisms of action, we believe we

ProCellEx: Our Proprietary Protein Expression System

Our ProCellEx protein expression system consists of a comprehensive set of technologies and capabilities for the devel

Our ProCellEx protein expression system is built on flexible custom-designed bioreactors made of polyethylene and op

We have successfully demonstrated the feasibility of our ProCellEx system by expressing, on an exploratory, research

Competitive Advantages of Our ProCellEx Protein Expression System

We believe that our ProCellEx protein expression system, including our advanced genetic engineering technology and

Ability to penetrate certain patent-protected markets.

Significantly lower capital and production costs.

More effective and potent end product relative to mammalian based systems.

Elimination of the risk of viral transmission or infection by mammalian components.

Broad range of expression capabilities.

Strategic Collaborations

In addition to the product candidates that we are developing internally, we have entered into agreements for additional

Our Strategy

Our goal is to become a leading fully integrated biopharmaceutical company focused on the development and commerc

Obtain regulatory approval for prGCD for the treatment of Gaucher disease.

Develop a pipeline of innovative recombinant therapeutic proteins.

Build a targeted sales and marketing infrastructure.

Establish development and commercialization alliances with corporate partners.

Acquire or in-license new technologies, products or companies.

Leverage strength and experience of our management team and board of directors.

Recent Developments

On October 24, 2007, the AMEX halted trading in our common stock as a result of unauthorized, Israeli press reports r

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The offering

Common stock we are offering

10,000,000 shares

Common stock outstanding immediately following this offering

75,685,318 shares

AMEX symbol

PLX

Use of proceeds

The net proceeds from the securities sold by us will be added to our general corporate funds and may be used for resea

Risk factors

See ‘‘Risk factors’’ beginning on page S-5 of this prospectus supplement for a discussion of factors you should careful

The number of shares of our common stock to be outstanding after this offering is based on the number of shares outsta

5,534,892 shares of common stock available for issuance under our employee stock incentive plan as of September 15,

6,341,618 shares of common stock issuable upon the exercise of outstanding options and warrants as of September 15,

Unless otherwise stated, all information contained in this prospectus supplement assumes that the underwriters do not e

You should rely only on the information incorporated by reference or provided in this prospectus supplement and the a

Risk factors

Investment in our securities involves a high degree of risk. Our business, financial condition or results of operations co

Risks Related to Our Business

We currently have no product revenues and will need to raise additional capital to operate our business, which may not

To date, we have generated no revenues from product sales and only minimal revenues from research and development

We are not currently profitable and may never become profitable which would have a material adverse effect on our bu

We expect to incur substantial losses for the foreseeable future and may never become profitable. We also expect to co

continue to undertake preclinical development and clinical trials for our current and new drug candidates;

seek regulatory approvals for our drug candidates;

implement additional internal systems and infrastructure;

seek to license-in additional technologies to develop; and

hire additional personnel.

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Risk factors

We also expect to continue to experience negative cash flow for the foreseeable future as we fund our operating losses

We have a limited operating history which may limit the ability of investors to make an informed investment decision.

We are a clinical stage biopharmaceutical company. To date, we have not commercialized any of our drug candidates o

continuing to undertake preclinical development and clinical trials;

participating in regulatory approval processes;

formulating and manufacturing products; and

conducting sales and marketing activities.

Our operations have been limited to organizing and staffing our company, acquiring, developing and securing our prop

Our ProCellEx protein expression system is based on our proprietary plant cell-based expression technology which has

Our ProCellEx protein expression system is based on our proprietary plant cell-based expression technology. Our busi

We currently depend heavily on the success of prGCD, our lead product candidate which is in clinical development. A

We have invested a significant portion of our efforts and financial resources in the development of prGCD. Our ability

successful completion of our clinical trials for prGCD;

obtaining marketing approvals from the FDA and other foreign regulatory authorities;

Risk factors

maintaining the cGMP compliance of our manufacturing facility or establishing manufacturing arrangements with thir

the successful audit of our facilities by the FDA and other foreign regulatory authorities;

a continued acceptable safety and efficacy profile of our product candidates following approval; and

other risks described in these Risk Factors.

Any failure to commercialize prGCD or the experience of significant delays in doing so will have a material adverse ef

All of our product candidates other than prGCD are in research stages. If we are unable to develop and commercialize

A key element of our strategy is to develop and commercialize a portfolio of new products in addition to prGCD. We a

the research methodology used may not be successful in identifying potential product candidates;

competitors may develop alternatives that render our product candidates obsolete;

a product candidate may on further study be shown to have harmful side effects or other characteristics that indicate it

a product candidate is not capable of being produced in commercial quantities at an acceptable cost, or at all; or

a product candidate may not be accepted by patients, the medical community or third-party payors.

We may not obtain the necessary U.S. or worldwide regulatory approvals to commercialize our drug candidates in a tir

We will need FDA approval to commercialize our drug candidates in the United States and approvals from foreign reg

The approval process for any drug candidate may also be delayed by changes in government regulation, future legislati

delay commercialization of, and our ability to derive product revenues from, such drug candidate;

require us to perform costly procedures with respect to such drug candidate; or

otherwise diminish any competitive advantages that we may have with respect to such drug candidate.

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Risk factors

Even if we comply with all FDA requests, the FDA may ultimately reject one or more of the NDAs we file in the futur

In foreign jurisdictions, we must receive approval from the appropriate regulatory authorities before we can commercia

Clinical trials are very expensive, time-consuming and difficult to design and implement and may result in unforeseen

Human clinical trials are very expensive and difficult to design and implement, in part because they are subject to rigor

unforeseen safety issues;

determination of dosing issues;

lack of effectiveness during clinical trials;

slower than expected rates of patient recruitment;

inability to monitor patients adequately during or after treatment;

inability or unwillingness of medical investigators and institutional review boards to follow our clinical protocols; and

lack of sufficient funding to finance the clinical trials.

Any failure or delay in commencement or completion of any clinical trials may have a material adverse effect on our b

If the results of our clinical trials do not support our claims relating to any drug candidate or if serious side effects are i

The results of our clinical trials with respect to any drug candidate might not support our claims of safety or efficacy, th

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Risk factors

abandon a drug candidate and may delay development of other drug candidates. Any delay in, or termination of, our cl

We may find it difficult to enroll patients in our clinical trials, which could cause significant delays in the completion o

Each of the diseases or disorders that our product candidates are intended to treat is relatively rare and we expect only a

If physicians, patients, third party payors and others in the medical community do not accept and use our drugs, our abi

Even if the FDA or other foreign regulatory authorities approve any of our drug candidates for commercialization, phys

perceptions by physicians, patients, third party payors and others in the medical community, about the safety and effect

the willingness of the target patient population to try new therapies and of physicians to prescribe these therapies;

the prevalence and severity of any side effects, including any limitations or warnings contained in our product's approv

pharmacological benefit of our products relative to competing products and products under development;

the efficacy and potential advantages relative to competing products and products under development;

relative convenience and ease of administration;

effectiveness of education, marketing and distribution efforts by us and our licensees and distributors, if any;

publicity concerning our products or competing products and treatments;

reimbursement of our products by third party payors; and

the price for our products and competing products.

Because we expect sales of our current drug candidates, if approved, to generate substantially all of our product revenu

Risk factors

Because our clinical trials depend upon third-party researchers, the results of our clinical trials and such research activi

We depend upon independent investigators and collaborators, such as universities and medical institutions, to conduct

Our strategy, in many cases, is to enter into collaboration agreements with third parties to leverage our ProCellEx syste

Our strategy, in many cases, is to enter into collaboration arrangements with pharmaceutical companies to leverage our

The manufacture of our products is an exacting and complex process, and if we or one of our materials suppliers encou

The FDA and foreign regulators require manufacturers to register manufacturing facilities. The FDA and foreign regula

Risk factors

We rely on third parties for final processing of our prGCD candidate, which exposes us to a number of risks that may d

We have no experience in the final filling and freeze drying steps of the drug manufacturing process. We have entered

We have no experience selling, marketing or distributing products and no internal capability to do so.

We currently have no sales, marketing or distribution capabilities and no experience in building a sales force and distri

our inability to recruit and retain adequate numbers of effective sales and marketing personnel;

the inability of sales personnel to obtain access to or persuade adequate numbers of physicians to prescribe our product

the lack of complementary products to be offered by sales personnel, which may put us at a competitive disadvantage r

unforeseen costs and expenses associated with creating and sustaining an independent sales and marketing organizatio

We may not be successful in recruiting the sales and marketing personnel necessary to sell our products and even if we

If the market opportunities for our current product candidates are smaller than we believe they are, then our revenues m

The focus of our current clinical pipeline is on relatively rare disorders with small patient populations, in particular Ga

Risk factors

We may enter into distribution arrangements and marketing alliances for certain products and any failure to successfull

While we intend to build a sales force to market prGCD and other product candidates, we do not anticipate having the

we may be required to relinquish important rights to our products or product candidates;

we may not be able to control the amount and timing of resources that our distributors or collaborators may devote to t

our distributors or collaborators may experience financial difficulties;

our distributors or collaborators may not devote sufficient time to the marketing and sales of our products; and

business combinations or significant changes in a collaborator's business strategy may adversely affect a collaborator's

We may need to enter into additional co-promotion arrangements with third parties where our own sales force is neithe

Developments by competitors may render our products or technologies obsolete or non-competitive which would have

We compete against fully integrated pharmaceutical companies and smaller companies that are collaborating with large

We specifically face competition from companies with approved treatments of Gaucher disease, including Genzyme C

We also face competition from companies that are developing other platforms for the expression of recombinant therap

Risk factors

and produce therapeutic proteins in anticipation of the expiration of certain patent claims covering marketed proteins.

Several biogeneric companies are pursuing the opportunity to develop and commercialize follow-on versions of other c

Most of our competitors, either alone or together with their collaborative partners, operate larger research and developm

developing drugs;

undertaking preclinical testing and human clinical trials;

obtaining FDA and other regulatory approvals of drugs;

formulating and manufacturing drugs; and

launching, marketing and selling drugs.

These organizations also compete with us to attract qualified personnel, acquisitions and joint ventures candidates and

If we fail to adequately protect or enforce our intellectual property rights or secure rights to third party patents, the valu

As of June 30, 2007, we had 44 pending patent applications and four joint pending patent applications, and held license

Our competitive position and future revenues will depend in part on our ability and the ability of our licensors and colla

the degree and range of protection any patents will afford us against competitors and those who infringe upon our paten

if and when patents will issue;

whether or not others will obtain patents claiming aspects similar to those covered by our licensed patents and patent ap

whether we will need to initiate litigation or administrative proceedings, which may be costly, and whether we win or l

Risk factors

We hold, or have license rights to, eight patents. If patent rights covering our products are not sufficiently broad, they m

Furthermore, the life of our patents is limited. The patents we hold relating to our ProCellEx protein expression system

We rely on confidentiality agreements that could be breached and may be difficult to enforce which could have a mater

Our policy is to enter agreements relating to the non-disclosure of confidential information with third parties, including

these agreements may be breached;

these agreements may not provide adequate remedies for the applicable type of breach; or

our trade secrets or proprietary know-how will otherwise become known.

Any breach of our confidentiality agreements or our failure to effectively enforce such agreements would have a mater

If we infringe the rights of third parties we could be prevented from selling products, forced to pay damages and requir

We have not received to date any claims of infringement by any third parties. However, as our drug candidates progres

obtain licenses, which may not be available on commercially reasonable terms, if at all;

redesign our products or processes to avoid infringement;

stop using the subject matter claimed in the patents held by others, which could cause us to lose the use of one or more

defend litigation or administrative proceedings that may be costly whether we win or lose, and which could result in a s

pay damages.

Any costs incurred in connection with such events or the inability to sell our products may have a material adverse effe

If we cannot meet requirements under our license agreements, we could lose the rights to our products, which could ha

We depend on licensing agreements with third parties to maintain the intellectual property rights to certain of our produ

In addition, we are responsible for the cost of filing and prosecuting certain patent applications and maintaining certain

If we in-license drug candidates, we may delay or otherwise adversely affect the development of our existing drug cand

In addition to our own internally developed drug candidates, we proactively seek opportunities to in-license and advanc

If we are unable to successfully manage our growth, there could be a material adverse impact on our business, results o

We have grown rapidly and expect to continue to grow. We expect to hire more employees, particularly in the areas of

If we acquire companies, products or technologies, we may face integration risks and costs associated with those acqui

If we are presented with appropriate opportunities, we may acquire or make investments in complementary companies,

Risk factors

charges if future acquisitions are not as successful as we originally anticipate. In addition, our operating results may su

We depend upon key employees and consultants in a competitive market for skilled personnel. If we are unable to attra

We are highly dependent upon the principal members of our management team, especially our President and Chief Exe

We also depend in part on the continued service of our key scientific personnel and our ability to identify, hire and reta

Our collaborations with outside scientists and consultants may be subject to restriction and change.

We work with chemists, biologists and other scientists at academic and other institutions, and consultants who assist us

Under current U.S. and Israeli law, we may not be able to enforce employees' covenants not to compete and therefore

We have entered into non-competition agreements with all of our employees. These agreements prohibit our employee

Risk factors

of our employees and it may be difficult for us to restrict our competitors from gaining the expertise our former emplo

If product liability claims are brought against us, it may result in reduced demands for our products or damages that ex

The clinical testing, marketing and use of our products exposes us to product liability claims in the event that the use o

Reimbursement may not be available for our product candidates, which could diminish our sales or affect our ability to

Market acceptance and sales of our product candidates will depend on worldwide reimbursement policies. Government

Reforms in the healthcare industry and the uncertainty associated with pharmaceutical pricing, reimbursement and rela

Increasing expenditures for healthcare have been the subject of considerable public attention in the United States. Both

Risk factors

products. For example, the Medicare Prescription Drug Improvement, and Modernization Act of 2003 and the propose

Governments outside the United States tend to impose strict price controls and reimbursement approval policies, which

In some countries, particularly European Union countries, the pricing of prescription pharmaceuticals is subject to gove

Risks Relating to Our Operations in Israel

Potential political, economic and military instability in the State of Israel, where the majority of our senior managemen

Our executive office and operations are located in the State of Israel. Accordingly, political, economic and military con

Although Israel has entered into various agreements with Egypt, Jordan and the Palestinian Authority, there have been

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Risk factors

are in range of rockets that were fired from Lebanon into Israel during the war and suffered minimal damages during c

Our operations may be disrupted by the obligations of our personnel to perform military service which could have a ma

Many of our male employees in Israel, including members of senior management, are obligated to perform up to one m

Because a certain portion of our expenses is incurred in New Israeli Shekels, or NIS, our results of operations may be s

We report our financial statements in U.S. dollars, our functional currency, but we pay a meaningful portion of our exp

The tax benefits available to us require that we meet several conditions and may be terminated or reduced in the future,

We are able to take advantage of tax exemptions and reductions resulting from the ‘‘Approved Enterprise’’ status of ou

The Israeli government grants we have received for certain research and development expenditures restrict our ability t

Our research and development efforts have been financed, in part, through grants that we have received from the Office

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Risk factors

Under the Research Law, the discretionary approval of an OCS committee is required for any transfer of technology de

we may be required to pay the OCS a portion of the consideration we receive upon any sale of such technology to an en

the transfer of manufacturing rights could be conditioned upon an increase in the royalty rate and payment of increased

These restrictions may impair our ability to sell our technology assets or to outsource manufacturing outside of Israel. W

Investors may have difficulties enforcing a U.S. judgment, including judgments based upon the civil liability provision

Most of our directors and officers are not residents of the United States and most of their assets and our assets are locat

Israeli courts might not enforce judgments rendered outside Israel which may make it difficult to collect on judgments

the judgment was rendered by a court which was, according to the laws of the state of the court, competent to render th

the judgment may no longer be appealed;

the obligation imposed by the judgment is enforceable according to the rules relating to the enforceability of judgments

the judgment is executory in the state in which it was given.

Even if these conditions are satisfied, an Israeli court will not enforce a foreign judgment if it was given in a state whos

the judgment was obtained by fraud;

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Risk factors

there is a finding of lack of due process;

the judgment was rendered by a court not competent to render it according to the laws of private international law in Is

the judgment is at variance with another judgment that was given in the same matter between the same parties and that

at the time the action was brought in the foreign court, a suit in the same matter and between the same parties was pend

Risks Related to Investing in Our Common Stock

The market price of our common stock may fluctuate significantly.

The market price of our common stock may fluctuate significantly in response to numerous factors, some of which are

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

developments concerning intellectual property rights and regulatory approvals;

variations in our and our competitors' results of operations;

changes in earnings estimates or recommendations by securities analysts, if our common stock is covered by analysts;

developments in the biotechnology industry; and

general market conditions and other factors, including factors unrelated to our operating performance.

Further, the stock market in general, and the market for biotechnology companies in particular, has recently experience

Future sales of our common stock could reduce our stock price.

Sales by shareholders of substantial amounts of our shares, the issuance of new shares by us or the perception that thes

All liabilities of our company have survived the merger and there may be undisclosed liabilities that could harm our re

Protalix Ltd. and its counsel conducted due diligence on us that was customary and appropriate for the reverse merger t

Risk factors

revealed all our material liabilities then existing or that could be asserted in the future against us relating to our activiti

Trading of our common stock is limited.

Our common stock began trading on the American Stock Exchange in March 2007. To date, the liquidity of our comm

In connection with the merger, substantially all of the former shareholders of Protalix Ltd. entered into lock-up agreem

In the absence of an active public trading market, an investor may be unable to liquidate its investment in our common

Directors, executive officers, principal shareholders and affiliated entities own a significant percentage of our capital st

Our directors, executive officers, principal shareholders and affiliated entities beneficially own, in the aggregate, appro

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act c

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we

Section 404 of the Sarbanes-Oxley Act of 2002 requires annual management assessments of the effectiveness of our in

financial reporting systems are compliant with Section 404, and we may identify deficiencies that we may not be able

If it is determined that we are not in compliance with Section 404, we may be required to implement new internal contr

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses,

There have been other changing laws, regulations and standards relating to corporate governance and public disclosure

We are a holding company with no operations of our own.

We are a holding company with no operations of our own. Accordingly, our ability to conduct our operations, service a

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Use of proceeds

Based on the public offering price of $5.00 per share, we estimate that we will receive total net proceeds from this offe

We will retain broad discretion over the use of the net proceeds of the securities offered by us hereby. The net proceeds

Determination of offering price

There is a material disparity between the offering price of the shares of our common stock being offered under this pro

The public offering price was determined by negotiation by us and the representative of the underwriters. The principal

the recent market prices of, and demand for, publicly traded common stock of generally comparable companies;

the information set forth or incorporated by reference in this prospectus supplement and otherwise available to the repr

our prospects for future earnings and the present state of our development;

the current status of products and product developments by our competitors;

our history and prospects, and the history and prospects of the industry in which we compete;

our past and present financial performance and an assessment of our management;

the current market price of our common stock on the American Stock Exchange;

the general condition of the securities markets at the time of this offering;

the current status of the security situation in Israel; and

other factors deemed relevant by the underwriters and us.

Selected financial data

The selected consolidated financial data below should be read in conjunction with ‘‘Management’s Discussion and Ana

Selected financial data

	Year ended December 31,					Six months ended June 30,	Period from Dec. 27, 1993 through June 30, 2007
	2002	2003	2004	2005	2006		

2006

2007

(in thousands, except share and per share amounts)

(Unaudited)

Consolidated Statement of Operations Data:

Revenues	
—	
$ 250	
$ 430	
$ 150	
—	

—

—

$
830

Cost of revenues

—

51

120

35

—

—

—

206

Gross profit

—

199

310

115

—

—

—

624

Research and development expenses, net

$
375

239

1,920

3,773

$
5,246

$
1,789

$
4,626

17,171

General and administrative expenses

502

603

807

2,131

4,525

1,710

8,490

17,486

Finance expense (income)

(11
)

3

4

(43
)

(344
)

(35
)

(506
)

(874
)

Other income

–

–

–

–

–

–

(6
)

(6
)

Net loss before change in accounting principle		$ 866		$ 646		$ 2,421		$ 5,746		$ 9,427		$ 3,464		$ 12,604

$
33,153

Cumulative effect of change in accounting principle

—

—

(37
)

(37
)

(37
)

Net loss

$
866

$
646

$
2,421

$
5,746

$
9,390

$ 3,427			
		$ 12,604	
			$ 33,116

Net loss per share of common stock, basic and diluted:

Prior to cumulative effect of change in accounting principle	$ 0.05	$ 0.03	$ 0.13	$ 0.31	$ 0.32

$
0.18

$
0.19

Cumulative effect of change in accounting principle

—

—

—

—

*

*

Net loss per share of common stock, basic and diluted(1)	$ 0.05	$ 0.03	$ 0.13	$ 0.31

$
0.32

$
0.18

$
0.19

Weighted average number of shares of common stock used in computing net loss per share of common

18,801,527

18,801,527

18,801,527

18,801,527

29,300,987

18,801,527

65,032,809

Consolidated Balance Sheet Data:

Cash and cash equivalents	$ 215	$ 1,261
		$ 1,477

$
4,741

$
15,378

$
2,003

$
22,489

Other assets

281

464

2,478

2,484

11,610

3,381

5,871

Total assets

496

1,725

3,955

7,225

26,988

5,384

28,360

Current liabilities

343

290

1,246

845

2,268

979

2,699

Liabilities

390

1,431

2,480

1,130

2,704

1,339

3,262

Shareholders’ equity

106

294

1,475

6,095

24,284

4,045

25,098

*
Represents less than $1.

(1)
Reflects the retroactive effects of the impact of our merger with Protalix Ltd. and the resulting exchange of shares of co

(2)
In connection with the merger, we effected a one-for-ten reverse stock split, therefore all share numbers presented in th

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Management’s discussion and analysis of financial condition and results of operations

You should read the following discussion and analysis of our financial condition and results of operations together with

Overview

We are a biopharmaceutical company focused on the development and commercialization of recombinant therapeutic p

Our lead product development candidate is prGCD for the treatment of Gaucher disease, which we are developing usin

In addition to prGCD, we are developing an innovative product pipeline using our ProCellEx protein expression systen

Our business is conducted by our wholly owned subsidiary, Protalix Ltd., which we acquired through a reverse merger

recapitalization and as such the results of operations discussed below are those of Protalix Ltd. Prior to the merger tran

Critical Accounting Policies

Our significant accounting policies are more fully described in Note 1 to each of our consolidated financial statements

The discussion and analysis of our financial condition and results of operations is based on our financial statements, wh

Functional CurRency

The currency of the primary economic environment in which our operations are conducted is the dollar. As a developm

Research and Development Expense

We expect our research and development expense to increase as we continue to develop our product candidates. Resear

internal costs associated with research and development activities;

payments made to third party contract research organizations, contract manufacturers, investigative sites and consultan

manufacturing development costs;

personnel-related expenses, including salaries, benefits, travel, and related costs for the personnel involved in research

activities relating to the advancement of product candidates through preclinical studies and clinical trials; and

facilities and other allocated expenses, which include direct and allocated expenses for rent and maintenance of facilitie

Management’s discussion and analysis of financial condition and results of operations

These costs and expenses are partially funded by grants we received from the Office of the Chief Scientist of the Israel

We have multiple research and development projects ongoing at any one time. We utilize our internal resources, emplo

General and Administrative Expense

General and administrative expense consists primarily of salaries and other related costs, including share-based compen

Financial Expense and Income

Financial Expense and Income consists of the following:

interest earned on our cash and cash equivalents;

interest expense on short term bank credit and loan; and

expense or income resulting from fluctuations of the New Israeli Shekel (NIS), in which a portion of our assets and liab

Share-Based Compensation

The discussion below regarding share-based compensation relates to share-based compensation paid by Protalix Ltd., c

Until December 31, 2005, we accounted for employee share-based compensation in accordance with Accounting Princ

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Management's discussion and analysis of financial condition and results of operations

We apply Emerging Issue Task Force (''EITF'') 96-18, ''Accounting for Equity Instruments That Are Issued to Other

As of January 1, 2006, we adopted SFAS No. 123 (Revised 2004), ''Share-Based Payment'' (''SFAS 123R''), using th

The following table illustrates the pro forma effect on loss and loss per share assuming we had applied the fair value re

	Year Ended December 31,		Period from December 27, 1993 through December 31, 2005
	2004	2005	
	(in thousands, except per share data)		
Net loss as reported	$ (2,421)	$ (5,746	

)

$
(11,122
)

Add: share based employee compensation expense included in the reported net loss

149

509

732

Deduct: share-based employee compensation expense determined under fair value method

(170
)

(539
)

(788
)

Pro forma net loss	$ (2,442)	$ (5,776)	$ (11,178)
Net loss per share of common stock:			
Basic – as reported			

	$	(0.13)
	$	(0.31)
Basic – pro forma		
	$	(0.13)
	$	(0.31)
Diluted – as reported		
	$	(0.13)

$
(0.31
)

Diluted – pro forma

$
(0.13
)

$
(0.31
)

The fair value of options granted to employees during 2005 was $939,000. No options were granted during 2004. The f

2005

2006

Dividend yield

0
%

0%

Expected volatility

54
%

44%

Risk-free interest rate

3.83
%

4.77%

Expected life - in years

5.7

5.9

Protalix Ltd. had multiple classes of stock before the conversion of all preferred shares into ordinary shares in Septemb

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Management’s discussion and analysis of financial condition and results of operations

Under the Probability-Weighted Expected Return Method, the value of the ordinary shares of Protalix Ltd. is estimated

The Probability-Weighted Expected Return Method analysis presents value afforded to shareholders under four possibl

expected pre-money value at the realization date;

standard deviation around the above pre-money value;

expected date of the realization scenario occurring;

standard deviation around the expected realization scenario occurrence date (in days); and

an appropriate risk-adjusted discount rate.

SFAS 123R allows companies to estimate the expected term of the option rather than simply using the contractual term

SAB 107 defines ‘‘plain vanilla share options’’ as those having the following characteristics:

share options are granted at the money;

exercisability is conditional only on performing service through the vesting date;

if an employee terminates service prior to vesting, the employee forfeits the share options;

if an employee terminates service after vesting, the employee has a limited period of time (typically 30-90 days) to exe

share options are nontransferable and nonhedgeable.

All of the outstanding options granted by Protalix Ltd. were granted at an exercise price that was lower than the then sh

In performing the valuation, we assumed an expected 0% dividend yield in the previous years and in the next years. W

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Management’s discussion and analysis of financial condition and results of operations

shares of similar companies. In addition, we examined the standard deviation of shares of similar biotechnology comp

The risk-free interest rate in the table above has been based on the implied yield of U.S. federal reserve zero- coupon g

Results of Operations

Six Months Ended June 30, 2007 Compared to the Six Months Ended June 30, 2006

Research and Development Expenses

Research and development expenses were $5.7 million for the six months ended June 30, 2007, an increase of $3.1 mil

We expect research and development expenses to continue to increase as we enter into a more advanced stage of clinic

General and Administrative Expenses

General and administrative expenses were $8.5 million for the six months ended June 30, 2007, an increase of $6.8 mil

Financial Expenses and Income

Financial income was $506,000 for the six months ended June 30, 2007, an increase of $471,000, compared to $35,000

Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005

Revenues

No revenues were recorded during the year ended December 31, 2006. Revenues were $150,000 for the year ended De

Research and Development Expenses

Research and development expenses were $7.0 million for the year ended December 31, 2006, an increase of $2.3 mill

We expect research and development expenses to continue to increase as we enter into a more advanced stage of clinic

General and Administrative Expenses

General and administrative expenses were $4.5 million for the year ended December 31, 2006, an increase of $2.4 mill

Financial Expenses and Income

Financial income was $344,000 for the year ended December 31, 2006, an increase of $301,000, compared to $43,000

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Revenues

Revenues were $150,000 for the year ended December 31, 2005, a decrease of $280,000, or 65%, from $430,000 for th

Research and Development Expenses

Research and development expenses were $4.7 million for the year ended December 31, 2005, an increase of $2.2 mill

General and Administrative Expenses

General and administrative expenses were $2.1 million for the year ended December 31, 2005, an increase of $1.3 mill

Financial Expenses and Income

Financial income was $43,000 for the year ended December 31, 2005, compared to an expense of $4,000 for the year e

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Management’s discussion and analysis of financial condition and results of operations

Liquidity and Capital Resources

Sources of Liquidity

As a result of our significant research and development expenditures and the lack of any approved products to generate

The following table summarizes our past funding sources:

Security

Year

Number of Shares

Amount(1)

Ordinary Shares

1996-2000

18,801,527
(2)

$
1,100,000

Series A Convertible Preferred Shares

2001

11,635,090

$
2,000,000

Series B Convertible Preferred Shares(3)

2004-2005

7,175,621

$
4,500,000

Series C Convertible Preferred Shares(4)

2005

5,513,422

$
7,700,000

Ordinary Shares(5)

2006

10,637,686

$
16,000,000

(1)
Gross proceeds; does not include proceeds from warrant exercises.

(2)
Includes the issuance of ordinary shares to founders.

(3)