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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

001-33357  
(Commission file number)

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**PROTALIX BIOTHERAPEUTICS, INC.**

(Exact name of registrant as specified in its charter)

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Florida

(State or other jurisdiction  
of incorporation or organization)

2 Snunit Street  
Science Park  
POB 455  
Carmiel, Israel

(Address of principal executive offices)

65-0643773

(I.R.S. Employer  
Identification No.)

20100

(Zip Code)

972-4-988-9488

(Registrant's telephone number, including area code)

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

Title of each class  
Common stock, par value \$0.001 per share

Name of each exchange on which registered  
American Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐  
(Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

On August 1, 2008, approximately 75,930,235 shares of the Registrant's common stock, \$0.001 par value, were outstanding.

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*Except where the context otherwise requires, the terms, “we”, “us”, “our” or “the Company,” refer to the business of Protalix BioTherapeutics, Inc. and its consolidated subsidiaries, and “Protalix” or “Protalix Ltd.” refers to the business of Protalix Ltd., our wholly-owned subsidiary and sole operating unit.*

### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

The statements set forth under the captions “Business,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Risk Factors”, and other statements included elsewhere in this Annual Report on Form 10-Q, which are not historical, constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the expectations, beliefs, intentions or strategies for the future. When used in this report, the terms “anticipate,” “believe,” “estimate,” “expect” and “intend” and words or phrases of similar import, as they relate to our or our subsidiary or our management, are intended to identify forward-looking statements. We intend that all forward-looking statements be subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are only predictions and reflect our views as of the date they are made with respect to future events and financial performance, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, except as may be required under applicable law. Forward-looking statements are subject to many risks and uncertainties that could cause our actual results to differ materially from any future results expressed or implied by the forward-looking statements.

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 Administration, or the FDA, or other regulatory authorities;
- 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 relationships with collaborators, distributors and partners;
- potential product liability risks and risks of securing adequate levels of product liability and clinical trial insurance coverage;
- the availability of reimbursement to patients from health care payors for our drug products, if approved;
- 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 in successfully enforcing them against third parties;
- the possible disruption of our operations due to terrorist activities and armed conflict, including as a result of the disruption of the operations of regulatory authorities, our subsidiary, our manufacturing facilities and our customers, suppliers, distributors, collaborative partners, licensees and clinical trial sites; and
- other risks and uncertainties detailed in Section 1A of this Quarterly Report.

In addition, companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in advanced clinical trials, even after obtaining promising earlier trial results. These and other risks and uncertainties are detailed in Section 1A of our Annual Report on Form 10-K for the year ended December 31, 2007, and described from time to time in our future reports to be filed with the Securities and Exchange Commission. We undertake no obligation to update, and we do not have a policy of updating or revising, these forward-looking statements.

# PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

### **PROTALIX BIOTHERAPEUTICS, INC.** (a development stage company) **CONDENSED CONSOLIDATED BALANCE SHEETS** (U.S. dollars in thousands, except share data)

	<u>June 30, 2008</u> (Unaudited)	<u>December 31, 2007</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 53,360	\$ 61,813
Accounts receivable	1,920	1,354
Total current assets	<u>55,280</u>	<u>63,167</u>
<b>FUNDS IN RESPECT OF EMPLOYEE RIGHTS UPON RETIREMENT</b>	626	464
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>5,914</u>	<u>4,506</u>
Total assets	<u>\$ 61,820</u>	<u>\$ 68,137</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accruals:		
Trade	\$ 1,714	\$ 899
Other	2,626	2,863
Total current liabilities	<u>4,340</u>	<u>3,762</u>
<b>LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT</b>	<u>967</u>	<u>690</u>
Total liabilities	<u>5,307</u>	<u>4,452</u>
<b>SHAREHOLDERS' EQUITY</b>	<u>56,513</u>	<u>63,685</u>
Total liabilities and shareholders' equity	<u>\$ 61,820</u>	<u>\$ 68,137</u>

The accompanying notes are an integral part of the condensed consolidated financial statements.

**PROTALIX BIOTHERAPEUTICS, INC.**  
(a development stage company)  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(U.S. dollars in thousands, except share data)  
(Unaudited)

	Six Months Ended		Three Months Ended		Period from
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007	December 27, 1993* through June 30, 2008
<b>REVENUES</b>					\$ 830
<b>COST OF REVENUES</b>					206
<b>GROSS PROFIT</b>					624
<b>RESEARCH AND DEVELOPMENT EXPENSES (1)</b>	\$ 9,684	\$ 5,707	\$ 4,031	\$ 3,175	41,277
less — grants	(2,515)	(1,081)	(1,149)	(343)	(8,702)
	7,169	4,626	2,882	2,832	32,575
<b>GENERAL AND ADMINISTRATIVE EXPENSES (2)</b>	3,992	8,490	2,016	6,503	24,694
<b>OPERATING LOSS</b>	11,161	13,116	4,898	9,335	56,645
<b>FINANCIAL INCOME — NET</b>	(1,819)	(506)	(669)	(175)	(4,267)
<b>OTHER INCOME</b>		(6)		(6)	(6)
<b>NET LOSS BEFORE CHANGE IN ACCOUNTING PRINCIPLE</b>	9,342	12,604	4,229	9,154	52,372
<b>CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>					(37)
<b>NET LOSS FOR THE PERIOD</b>	\$ 9,342	\$ 12,604	\$ 4,229	\$ 9,154	\$ 52,335
<b>NET LOSS PER SHARE OF COMMON STOCK — BASIC AND DILUTED:</b>	\$ 0.12	\$ 0.19	\$ 0.06	\$ 0.14	
<b>WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK USED IN COMPUTING LOSS PER SHARE:</b>					
Basic and diluted	75,855,594	65,032,809	75,898,295	65,657,181	
(1) Includes share-based compensation	672	1,084	(655)	878	5,347
(2) Includes share-based compensation	1,495	7,001	648	5,756	13,601

\* Incorporation date, see Note 1a.

The accompanying notes are an integral part of the condensed consolidated financial statements.

**PROTALIX BIOTHERAPEUTICS, INC.**  
(a development stage company)  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
(U.S. dollars in thousands, except share data)

	Common Stock (2)	Convertible Preferred Shares	Common Stock	Convertible Preferred Shares	Warrants	Additional paid-in capital	Deficit accumulated during development stage	Total
	Number of shares				Amount			
<b>Balance at December 27, 1993(1)</b>								
<b>Changes during the period from December 27, 1993 through December 31, 2007:</b>								
Common Stock and convertible preferred A, B and C shares and warrants issued for cash (net of issuance costs of \$5,078)	38,856,127	398,227	\$ 39	\$ 1	\$ 1,382	\$ 73,836		\$ 75,258
Exercise of options granted to employees and non-employees	2,780,467	847	3			408		411
Conversion of convertible preferred shares into common stock	24,375,870	(399,074)	24	(1)		(23)		
Change in accounting principle						(37)	\$ 37	
Expiration of warrants					(34)	34		
Merger with a wholly owned subsidiary of the Company (net of issuance cost of \$642)	583,280		1			240		241
Exercise of warrants	9,171,695		9		(1,348)	15,342		14,003
Restricted common stock issued for future services	8,000		*			11		11
Share-based compensation						16,791		16,791
Net loss for the period							(43,030)	(43,030)
<b>Balance at December 31, 2007</b>	<b>75,775,439</b>		<b>76</b>			<b>106,602</b>	<b>(42,993)</b>	<b>63,685</b>
<b>Changes during the six month period ended June 30, 2008 (Unaudited):</b>								
Restricted common stock issued for future services						(5)		(5)
Share-based compensation						2,172		2,172
Exercise (includes Net Exercise) of options granted to employees	154,796		*			3		3
Net loss for the period							(9,342)	(9,342)
<b>Balance at June 30, 2008 (Unaudited)</b>	<b>75,930,235</b>		<b>\$ 76</b>			<b>\$ 108,772</b>	<b>\$ (52,335)</b>	<b>\$ 56,513</b>

(1) Incorporation date, see Note 1a.

(2) Common Stock, \$0.001 par value; Authorized — as of December 31, 2007 and June 30, 2008 - 150,000,000 shares.

\* Represents an amount less than \$1.

**The accompanying notes are an integral part of the condensed consolidated financial statements.**

**PROTALIX BIOTHERAPEUTICS, INC.**  
(a development stage company)  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(U.S. dollars in thousands, except share data)  
(Unaudited)

	<b>Six Months Ended</b>		<b>Period from</b>
	<b>June 30, 2008</b>	<b>June 30, 2007</b>	<b>December 27, 1993*</b>
			<b>through</b>
			<b>June 30, 2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss for the period	\$ (9,342)	\$ (12,604)	\$ (52,335)
Adjustments required to reconcile net loss to net cash used in operating activities:			—
Cumulative effect of change in accounting principle			(37)
Share based compensation	2,167	8,085	18,948
Financial income net (principal differences relate to currency transaction gains/losses)	(916)	47	(1,722)
Depreciation and impairment of fixed assets	582	277	2,521
Changes in accrued liability for employee rights upon retirement	277	127	967
Gain on amounts funded in respect of employee rights upon retirement	(81)	(8)	(185)
Gain on sale of fixed assets		(6)	(6)
Changes in operating assets and liabilities:			
Increase in accounts receivable	(388)	(963)	(1,533)
Increase in accounts payable and accruals	254	156	3,261
Net cash used in operating activities	\$ (7,447)	\$ (4,889)	\$ (30,121)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	\$ (1,904)	\$ (809)	\$ (7,726)
Investment grant received in respect of fixed assets			38
Investment in restricted cash deposit			(47)
Proceeds from sale of property and equipment		10	11
Amounts funded in respect of employee rights upon retirement	(81)	(59)	(612)
Amounts paid in respect of employee rights upon retirement		14	171
Net cash used in investing activities	\$ (1,985)	\$ (844)	\$ (8,165)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Loan and convertible bridge loan received			\$ 2,145
Repayment of loan			(1,000)
Issuance of shares and warrants, net of issuance cost	(56)	\$ 12,910	74,059
Exercise of options and warrants	\$ 3		14,417
Merger with a wholly owned subsidiary of the Company, net of issuance cost		(39)	237
Net cash (used) provided by financing activities	\$ (53)	\$ 12,871	\$ 89,858
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	\$ 1,032	\$ (27)	\$ 1,788
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(8,453)	7,111	53,360
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	61,813	15,378	—
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>\$ 53,360</u>	<u>\$ 22,489</u>	<u>\$ 53,360</u>

The accompanying notes are an integral part of the condensed consolidated financial statements.

**PROTALIX BIOTHERAPEUTICS, INC.**  
(a development stage company)  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(U.S. dollars in thousands, except share data)  
(Unaudited)

(Continued) — 2

	Six Months Ended		Period from
	June 30, 2008	June 30, 2007	December 27, 1993*
			through June 30, 2008
<b>SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash paid during the period for interest			\$ 80
<b>SUPPLEMENTARY INFORMATION ON INVESTING AND FINANCING ACTIVITIES</b>			
<b>NOT INVOLVING CASH FLOWS:</b>			
Conversion of convertible bridge loan into shares			\$ 1,145
Purchase of property and equipment	\$ 752	\$ 451	\$ 752
Issuance cost not yet paid and accruals — other:	\$ 5	\$ 5	\$ 5
Issuance cost paid by a grant of options			\$ 21
Consultants' and director credit balance converted into shares			\$ 80
Merger with a wholly owned subsidiary of the Company			
Issuance cost setoff against accounts payable		\$ 65	

\* Incorporation date, see Note 1a.

The accompanying notes are an integral part of the condensed consolidated financial statements.



**PROTALIX BIOTHERAPEUTICS, INC.**  
(a development stage company)  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(U.S. dollars in thousands, except share data)  
(Unaudited)

**NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES**

**a. General**

**1. Operation**

Protalix BioTherapeutics, Inc. and its wholly-owned subsidiary, Protalix Ltd. (collectively, the “Company”), are biopharmaceutical companies focused on the development and commercialization of recombinant therapeutic proteins based on the Company’s proprietary ProCellEx™ protein expression system (“ProCellEx”). The Company’s lead product development candidate is prGCD for the treatment of Gaucher disease, which the Company is developing using its ProCellEx protein expression system. The Company is currently enrolling and treating patients in a phase III clinical trial of prGCD, and has initiated an extension study in connection with the trial for patients that have completed the trial and chose to continue the treatment.

The Company has been in the development stage since its inception. The Company’s successful completion of its development program and its transition to normal operations is dependent upon the Company’s receipt of necessary regulatory approvals from the United States Food and Drug Administration (“FDA”) prior to selling its products within the United States, and foreign regulatory approvals must be obtained to sell its products internationally. There can be no assurance that the Company’s products will receive regulatory approvals, and a substantial amount of time may pass before the Company achieves a level of sales adequate to support the Company’s operations, if at all. The Company will also incur substantial expenditures in connection with the regulatory approval process and it might need to raise additional capital during the developmental period. Obtaining marketing approval will be directly dependent on the Company’s ability to implement the necessary regulatory steps required to obtain marketing approval in the United States and other countries and the success of the Company’s clinical trials. The Company cannot predict the outcome of these activities.

**2. Liquidity and Financial Resources**

The Company currently does not have sufficient resources to complete the commercialization of any of its proposed products. Based on its current cash resources and commitments, the Company believes it will be able to maintain its current planned development activities and the corresponding level of expenditures for at least the next 24 months, although no assurance can be given that it will not need additional cash prior to such time. If there are unexpected increases in general and administrative expenses, capital expenditures and research and development expenses, the Company may need to seek additional financing during the next 24 months.

**b. General Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial information, Statement of Financial Accounting Standards (“SFAS”) No. 7, “Accounting and Reporting by Development Stage Enterprises”, and Article 10 of Regulation S-X under the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (of a normal recurring nature) considered necessary for a fair statement of the results for the interim periods presented have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full year. These unaudited condensed consolidated financial statements should be read in

**PROTALIX BIOTHERAPEUTICS, INC.**  
(a development stage company)  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(U.S. dollars in thousands, except share data)  
(Unaudited)

**NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES (Continued)**

conjunction with the audited consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2007, filed by the Company with the Securities and Exchange Commission (the “Commission”). The comparative balance sheet at December 31, 2007 has been derived from the audited financial statements at that date, but does not include all of the information and notes required under GAAP for complete financial statements.

**c. Net loss per share**

Basic and diluted loss per share (“LPS”) are computed by dividing net loss by the weighted average number of shares of the Company’s common stock, par value \$.001 per share (the “Common Stock”), outstanding for each period.

Shares of restricted Common Stock and the shares of Common Stock underlying outstanding options and warrants of the Company were not included in the calculation of diluted LPS because the effect would be anti-dilutive.

Diluted LPS does not include options, restricted shares of Common Stock and warrants of the Company in the amount of 12,404,378 and 10,883,292 shares of Common Stock for the six months ended June 30, 2007 and 2008, respectively, and 11,801,505 and 11,181,138 shares of Common Stock for the three months ended June 30, 2007 and 2008, respectively.

**d. Newly issued Accounting Pronouncements**

1. In December 2007, the Financial Accounting Standards Board (the “FASB”) issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS 141(R)”). SFAS 141(R) changes the accounting for business combinations, including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer’s income tax valuation allowance and income tax uncertainties. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Company will be required to adopt SFAS 141(R) on January 1, 2009.
2. In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51” (“SFAS 160”). SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Ownership interests in subsidiaries held by parties other than the parent company of the subsidiary are required to be presented in the consolidated statement of financial position within equity, but separate from the parent company’s equity. SFAS 160 requires that changes in a parent company’s ownership interest while the parent company retains its controlling financial interest in its subsidiary should be accounted for in a manner similar to the accounting treatment of equity transactions. When a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary should be initially measured at fair value, with any gain or loss recognized in earnings. SFAS 160 requires consolidated net income to be reported in amounts that include the amounts attributable to both the parent company and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to both parent companies and the noncontrolling interests.

**PROTALIX BIOTHERAPEUTICS, INC.**  
(a development stage company)  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(U.S. dollars in thousands, except share data)  
(Unaudited)

**NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES (Continued)**

SFAS 160 is effective for fiscal years (including interim periods within those fiscal years) beginning on or after December 15, 2008. Earlier adoption is prohibited. SFAS 160 is required to be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirement which shall be applied retrospectively for all periods presented. The Company is required to adopt SFAS 160 as of January 1, 2009. The Company is currently assessing the impact that SFAS 160 may have on its results of operations and financial position.

3. In December 2007, the FASB ratified EITF Issue No. 07-01, “Accounting for Collaborative Arrangements” (“EITF 07-01”). EITF 07-01 defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-01 also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to these arrangements. EITF 07-01 is effective for fiscal years beginning after December 15, 2008 (January 1, 2009, for the Company). Companies are required to apply EITF 07-01 using a modified version of retrospective transition for those arrangements in place at the effective date. In addition, companies are required to report the effects of the application of EITF 07-01 as a change in accounting principle through retrospective application to all prior periods presented for all arrangements existing as of the effective date, unless it is impracticable to apply the effects of the change retrospectively. The Company is currently assessing the impact that EITF 07-01 may have on its results of operations and financial position.
4. In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS 161”). SFAS 161 is intended to improve financial reporting regarding derivative instruments and hedging activities by requiring enhanced disclosure to enable investors to better understand the effects of such derivative instruments and hedging activities on a company’s financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged (January 1, 2009, for the Company). SFAS 161 also improves transparency regarding the location and amounts of derivative instruments in a company’s financial statements; how derivative instruments and related hedged items are accounted for under Statement of Financial Accounting Standards No. 133 “Accounting for Derivative Instruments and Hedging Activities”; and how derivative instruments and related hedged items affect a company’s financial position, financial performance and cash flows. The Company is currently evaluating the effect SFAS 161 will have on its financial statement presentations.
5. In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles” (“SFAS 162”). The statement is intended to improve financial reporting by identifying a consistent hierarchy for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP). SFAS 162 will go into effect 60 days following the Commission’s approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411 “The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles”. The Company does not expect the adoption of SFAS 162 to have a material impact on its results of operations and financial position.

**PROTALIX BIOTHERAPEUTICS, INC.**  
(a development stage company)  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(U.S. dollars in thousands, except share data)  
(Unaudited)

**NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**e. Reclassifications**

Certain figures in respect of prior years have been reclassified to conform with the current year presentation.

**NOTE 2 — STOCK TRANSACTIONS**

- a. During the three months ended June 30, 2008, the Company issued 154,796 shares of Common Stock in connection with the exercise of 189,460 options by certain officers and employees of the Company. The Company received cash proceeds equal to \$3 in connection with such exercises as 167,440 of such options were exercised on a “net-exercise” basis.
- b. On February 7, 2008, the Company’s board of directors approved the grant of options to purchase 50,000 shares of Common Stock to a newly appointed member of the Company’s board of directors, at an exercise price of \$3.02 per share. The options vest over a four-year period and are exercisable for a 10-year period commencing on the date of grant.

The Company estimated the fair value of the options on the date of the grant using the Black-Scholes option-pricing model to be approximately \$109, based on the following assumptions: dividend yield of 0% for all years; expected volatility of 62.5%; risk-free interest rates of 2.9%; and expected life of 10 years.

- c. On February 7, 2008, the Company’s board of directors approved the grant of options to purchase 1,900,000 shares of Common Stock, in the aggregate, to certain officers and employees of the Company, at an exercise price of \$5.00 per share. The options vest variably over periods of up to five years and are exercisable for a 10-year period commencing on the date of grant.

The Company estimated the fair value of the options on the date of the grant using the Black-Scholes option-pricing model to be approximately \$2,766, based on the following assumptions: dividend yield of 0% for all years; expected volatility of 62.5%; risk-free interest rates of 2.9%; and expected life of six years.

- d. In February 2008, the Company amended the stock option agreements of certain executive officers. As amended, such stock option agreements provide for the full acceleration of the vesting period of unvested options held by such officers immediately upon a change of control. The Company concluded that the amendments do not result in a modification accounting charge against share-based compensation.

**NOTE 3 — COMMITMENTS**

- a. In January 2008, the Company entered into a lease agreement for the expansion of its current facility. The term of the lease is 7.5 years, commencing upon the date the newly-leased space is ready for occupancy by the Company, with three options for additional five-year periods, for a total of 15 additional years. The monthly rental payment is approximately \$25 and is subject to increase based on certain improvements to be performed by the lessor.

**PROTALIX BIOTHERAPEUTICS, INC.**  
(a development stage company)  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(U.S. dollars in thousands, except share data)  
(Unaudited)

**NOTE 3 — COMMITMENTS (Continued)**

- b. During the quarter ended June 30, 2008, the Company entered into contracts with certain third parties in connection with certain clinical services. In accordance with the terms and conditions of such agreements, commencement of the services will begin in the quarter ending September 30, 2008. The aggregate fees payable by the Company during the life of the agreements are equal to approximately \$400.

**NOTE 4 — FAIR VALUE**

On January 1, 2008, the Company adopted the methods of fair value as described in SFAS No. 157 ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosure about fair value measurements to value its financial assets and liabilities. As defined in SFAS No. 157, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The adoption of SFAS 157 did not have a material impact on the Company's results of operations and financial condition as the Company does not have any financial assets and liabilities measured at fair value on a recurring basis subject to the requirements of SFAS 157 except money market funds in the amount of approximately \$43,000 included in cash equivalents and classified as level 1.

**NOTE 5 — SUBSEQUENT EVENT**

During July 2008, the Company entered into contracts with certain third parties in connection with certain clinical services. In accordance with the terms and conditions of such agreements, commencement of the services will begin in the quarter ending September 30, 2008. The aggregate fees payable by the Company during the life of the agreements are equal to approximately \$900.

## Item 2. 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 our condensed financial statements and the consolidated financial statements and the related notes included elsewhere in this Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2007. Some of the information contained in this discussion and analysis, particularly with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. You should read "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2007 for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.*

### Overview

We are a biopharmaceutical company focused on the development and commercialization of recombinant therapeutic proteins based on our proprietary ProCellEx<sup>™</sup> protein expression system. Using our ProCellEx system, we are developing a pipeline of proprietary recombinant therapeutic proteins based on our plant cell-based expression technology that target large, established pharmaceutical markets and that rely upon known biological mechanisms of action. Our initial commercial focus has been on complex therapeutic proteins, including proteins for the treatment of genetic disorders, such as Gaucher disease and Fabry disease, and on female infertility disorders. We believe our ProCellEx protein expression system will enable us to develop proprietary recombinant proteins that are therapeutically equivalent or superior to existing recombinant proteins currently marketed for the same indications. Because we are targeting biologically equivalent versions of highly active, well-tolerated and commercially successful therapeutic proteins, we believe our development process is associated with relatively less risk compared to other biopharmaceutical development processes for completely novel therapeutic proteins.

Our lead product development candidate is prGCD for the treatment of Gaucher disease, which we are developing using our ProCellEx protein expression system. In July 2007, we reached an agreement with the United States Food and Drug Administration, or the FDA, on the final design of our pivotal phase III clinical trial of prGCD, through the FDA's special protocol assessment (SPA) process. We initiated enrollment and treatment of patients in our phase III clinical trial of prGCD in the third quarter of 2007. During third quarter of 2008, we initiated a double-blind, follow-on extension study as part of our phase III clinical trial. prGCD is our proprietary recombinant form of Glucocerebrosidase (GCD), an enzyme naturally found in human cells that is mutated or deficient in patients with Gaucher disease. The current standard of care for Gaucher disease is enzyme replacement therapy, a medical treatment in which the GCD enzyme is injected into patients in whom the enzyme is lacking or dysfunctional. Although Gaucher disease is a relatively rare disease, it represents a large commercial market due to the severity of the symptoms and the chronic nature of the disease. The annual worldwide sales of Cerezyme, an enzyme replacement therapy produced by Genzyme Corporation and currently the only approved enzyme replacement therapy for Gaucher disease, were approximately \$1.1 billion in 2007, and \$624 million for the six months ended June 30, 2008, according to public reports by Genzyme. prGCD is a plant cell expressed version of the GCD enzyme, developed through our ProCellEx protein expression system. prGCD has an amino acid, glycan and three-dimensional structure that is very similar to its naturally-produced counterpart as well as to Cerezyme, the mammalian cell expressed version of the same protein. We believe prGCD may prove more cost-effective than the currently marketed alternative due to the cost benefits of expression through our ProCellEx protein expression system. In addition, based on our laboratory testing, preclinical and clinical results, we believe that prGCD may have the potential for increased potency and efficacy compared to the existing enzyme replacement therapy for Gaucher disease, which may translate into lower dosages and/or less frequent treatments.

In addition to prGCD, we are developing an innovative product pipeline using our ProCellEx protein expression system, including therapeutic protein candidates for the treatment of Fabry disease, a rare, genetic lysosomal disorder in humans, and for female infertility disorders. We are also developing an acetylcholinesterase enzyme-based therapy for biodefense and intoxication treatments. We plan to file an investigational new drug application (IND) with the FDA with respect to at least one additional product by the end of 2008 or early 2009. We believe that we may be able to reduce the development risks and time to market for our product candidates as our product candidates are based on well-understood proteins with known biological mechanisms of actions. We hold the worldwide commercialization rights to our proprietary development candidates and we intend to establish an

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internal, commercial infrastructure and targeted sales force to market prGCD and our other products, if approved, in North America, the European Union and in other significant markets, including Israel.

Our business is conducted by our wholly owned subsidiary, Protalix Ltd., which we acquired through a reverse merger transaction effective December 31, 2006. The merger transaction was treated as a recapitalization for accounting purposes and, as such, the results of operations discussed below are those of Protalix Ltd. Prior to the merger transaction, we had not conducted any operations for several years. Protalix Ltd. was originally incorporated in Israel in December 1993. Since its inception in December 1993, Protalix Ltd. has generated significant losses in connection with its research and development, including the clinical development of prGCD. At June 30, 2008, we had an accumulated deficit of \$52.3 million. Since we do not generate revenue from any of our product candidates, we expect to continue to generate losses in connection with the continued clinical development of prGCD and the research and development activities relating to our technology and other drug candidates. Such research and development activities are budgeted to expand over time and will require further resources if we are to be successful. As a result, we believe that our operating losses are likely to be substantial over the next several years. We will need to obtain additional funds for the commercialization of our lead product, prGCD, and to further develop the research and clinical development of our other programs.

### **Critical Accounting Policies**

Our significant accounting policies are described in Note 1 to our condensed consolidated financial statements appearing at the beginning of this Quarterly Report on Form 10-Q.

### **Results of Operations**

#### ***Three months ended June 30, 2008 compared to the three months ended June 30, 2007***

##### *Research and Development Expenses*

Research and development expenses were \$4.0 million for the three months ended June 30, 2008, an increase of \$856,000, or 27%, from \$3.2 million for the three months ended June 30, 2007. The increase resulted from the increase of \$763,000 in payments to consultants and subcontractors associated with research and development. Such increase is mainly due to the costs incurred by us in connection with our phase III clinical trial of prGCD, which we commenced during the third quarter of 2007. The increase was partially offset by grants of \$1.1 million from the Office of the Chief Scientist, or the OCS, during the three months ended June 30, 2008, an increase of approximately \$806,000 compared to grants equal to \$343,000 received from the OCS during the three months ended June 30, 2007.

We expect research and development expenses to continue to increase as we enter into a more advanced stage of clinical trials for our product candidates, especially with respect to the anticipated continued progress in our phase III clinical trial of prGCD and with the extension study that we initiated in the third quarter of 2008 for patients that have completed such trial and chose to continue the treatment.

##### *General and Administrative Expenses*

General and administrative expenses were \$2.0 million for the three months ended June 30, 2008, a decrease of \$4.5 million, or approximately 69%, from \$6.5 million for the three months ended June 30, 2007. The decrease resulted primarily from a \$5.1 million decrease in share-based compensation resulting from the decrease in the fair value of the common stock underlying the portions of certain outstanding stock options granted to consultants that vested during the three-month period ended June 30, 2008.

##### *Financial Expenses and Income*

Financial income was \$669,000 for the three months ended June 30, 2008, an increase of \$494,000 or approximately 282%, from \$175,000 for the three months ended June 30, 2007. The increase resulted primarily from a higher balance of cash and cash equivalents as of June 30, 2008, which primarily resulted from the interest

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income earned on the proceeds generated from our underwritten public offering in October 2007 and from the devaluation of the Dollar against the New Israeli Shekel, or NIS.

### ***Six months ended June 30, 2008 compared to the six months ended June 30, 2007***

#### *Research and Development Expenses*

Research and development expenses were \$9.7 million for the six months ended June 30, 2008, an increase of \$4.0 million, or 70%, from \$5.7 million for the six months ended June 30, 2007. The increase resulted primarily from the increase of \$3.2 million in salaries for new and existing employees and related consulting and the costs of materials associated with research and development. The increase was partially offset by grants of \$2.5 million from the OCS, during the six months ended June 30, 2008, an increase of approximately \$1.4 million compared to grants equal to \$1.1 million received from the OCS during the six months ended June 30, 2007.

We expect research and development expenses to continue to increase as we enter into a more advanced stage of clinical trials for our product candidates, especially with respect to our phase III clinical trial of prGCD and with the extension study that we initiated in the third quarter of 2008 for patients that have completed such trial and chose to continue the treatment.

#### *General and Administrative Expenses*

General and administrative expenses were \$4.0 million for the six months ended June 30, 2008, a decrease of \$4.5 million, or approximately 53%, from \$8.5 million for the six months ended June 30, 2007. The decrease resulted primarily from a \$5.5 million decrease in share-based compensation resulting from the decrease in the fair value of the shares of common stock underlying the portions of certain outstanding stock options granted to consultants that vested during the six-month period ended June 30, 2008. The decrease was partially set off by the increase of \$455,000 in salaries and related expenses.

#### *Financial Expenses and Income*

Financial income was \$1.8 million for the six months ended June 30, 2008, an increase of \$1.3 million, or approximately 259%, from \$506,000 for the six months ended June 30, 2007. The increase resulted primarily from a higher balance of cash and cash equivalents as of June 30, 2008, which primarily resulted from the interest income earned on the proceeds generated from our underwritten public offering in October 2007 and from the devaluation of the Dollar against the NIS.

### **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 product sales revenue, we have not been profitable and have generated operating losses since our inception. To date, we have funded our operations primarily with proceeds equal to \$31.3 million from the private sale of our shares of common stock and from sales of convertible preferred and ordinary shares of Protalix Ltd., and an additional \$14.4 million in connection with the exercise of warrants issued in connection with the sale of such ordinary shares, through December 31, 2007. In addition, on October 25, 2007, we generated gross proceeds of \$50 million in connection with an underwritten public offering of our common stock. We believe that the funds currently available to us as are sufficient to satisfy our capital needs for the next 24 months.

#### *Cash Flows*

Net cash used in operations was \$7.4 million for the six months ended June 30, 2008. The net loss for the six months ended June 30, 2008 of \$9.3 million was partially offset by \$2.2 million of non-cash share-based compensation. Net cash used in investing activities for the six months ended June 30, 2008 was \$2.0 and consisted primarily of purchases of property and equipment. Net cash used in financing activities for the six months ended



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June 30, 2008 was \$53,000, consisting of expenses paid during such period in connection with the October 2007 underwritten offering.

Net cash used in operations was \$4.9 million for the six months ended June 30, 2007. The net loss for the six months ended June 30, 2007 of \$12.6 million was partially offset by \$8.1 million of non-cash share-based compensation but was increased due to an increase in accounts receivable of \$963,000, mainly due to grants to be received from the OCS. Net cash used in investing activities for the six months ended June 30, 2007 was \$844,000 and consisted primarily of purchases of property and equipment. Net cash provided by financing activities for the six months ended June 30, 2007 was \$12.9 million, consisting of the proceeds from the exercise of certain warrants.

### *Future Funding Requirements*

We expect to incur losses from operations for the foreseeable future. We expect to incur increasing research and development expenses, including expenses related to the hiring of personnel and additional clinical trials. We expect that general and administrative expenses will also increase as we expand our finance and administrative staff, add infrastructure, and incur additional costs related to being a public company in the United States, including the costs of directors' and officers' insurance, investor relations programs and increased professional fees. In addition, we are considering a new manufacturing facility for the manufacture of our product candidates, which would increase our capital expenditures significantly.

We believe that our existing cash and cash equivalents and short-term investments will be sufficient to enable us to fund our operating expenses and capital expenditure requirements for at least for the next 24 months. We have based this estimate on assumptions that are subject to change and may prove to be wrong, and we may be required to use our available capital resources sooner than we currently expect. Because of the numerous risks and uncertainties associated with the development and commercialization of our product candidates, we are unable to estimate the amounts of increased capital outlays and operating expenditures associated with our current and anticipated clinical trials.

Our future capital requirements will depend on many factors, including the progress and results of our clinical trials, the duration and cost of discovery and preclinical development and laboratory testing and clinical trials for our product candidates, the timing and outcome of regulatory review of our product candidates, the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims and other intellectual property rights, the number and development requirements of other product candidates that we pursue and the costs of commercialization activities, including product marketing, sales and distribution.

We will need to finance our future cash needs through public or private equity offerings, debt financings or corporate collaboration and licensing arrangements. We currently do not have any commitments for future external funding. We may need to raise additional funds more quickly if one or more of our assumptions prove to be incorrect or if we choose to expand our product development efforts more rapidly than we presently anticipate. We may also decide to raise additional funds even before we need them if the conditions for raising capital are favorable. The sale of additional equity or debt securities will likely result in dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could also result in covenants that would restrict our operations. Additional equity or debt financing, grants or corporate collaboration and licensing arrangements may not be available on acceptable terms, if at all. If adequate funds are not available, we may be required to delay, reduce the scope of or eliminate our research and development programs, reduce our planned commercialization efforts or obtain funds through arrangements with collaborators or others that may require us to relinquish rights to certain product candidates that we might otherwise seek to develop or commercialize independently.

### **Effects of Inflation and Currency Fluctuations**

Inflation generally affects us by increasing our cost of labor and clinical trial costs. We do not believe that inflation has had a material effect on our results of operations during the six months ended June 30, 2008 or the six months ended June 30, 2007.

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Currency fluctuations could affect us by increased or decreased costs mainly for goods and services acquired outside of Israel. We do not believe currency fluctuations have had a material effect on our results of operations during the six months ended June 30, 2008 or the six months ended June 30, 2007.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements as of each of June 30, 2008 and June 30, 2007.

### **Recently Issued Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board, or the FASB, issued Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations", or SFAS 141(R). SFAS 141(R) changes the accounting for business combinations, including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance and income tax uncertainties. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. We will be required to adopt SFAS 141(R) on January 1, 2009.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51", or SFAS 160. SFAS 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Ownership interests in subsidiaries held by parties other than the parent company of the subsidiary are required to be presented in the consolidated statement of financial position within equity, but separate from the parent company's equity. SFAS 160 requires that changes in a parent company's ownership interest while the parent company retains its controlling financial interest in its subsidiary should be accounted for in a manner similar to the accounting treatment of equity transactions. When a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary should be initially measured at fair value, with any gain or loss recognized in earnings. SFAS 160 requires consolidated net income to be reported in amounts that include the amounts attributable to both the parent company and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to both parent companies and the noncontrolling interests.

SFAS 160 is effective for fiscal years (including interim periods within those fiscal years) beginning on or after December 15, 2008. Earlier adoption is prohibited. Companies are required to apply SFAS 160 prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirement which shall be applied retrospectively for all periods presented. We are required to adopt SFAS 160 as of January 1, 2009. We are currently assessing the impact that SFAS 160 may have on our results of operations and financial position.

In December 2007, the FASB ratified EITF Issue No. 07-01, "Accounting for Collaborative Arrangements", or EITF 07-01. EITF 07-01 defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-01 also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to these arrangements. EITF 07-01 is effective for fiscal years beginning after December 15, 2008 (January 1, 2009, for our company). Companies are required to apply EITF 07-01 using a modified version of retrospective transition for those arrangements in place at the effective date. In addition, companies are required to report the effects of the application of EITF 07-01 as a change in accounting principle through retrospective application to all prior periods presented for all arrangements existing as of the effective date, unless it is impracticable to apply the effects of the change retrospectively. We are currently assessing the impact that EITF 07-01 may have on our results of operations and financial position.

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In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 “Disclosures about Derivative Instruments and Hedging Activities”, or SFAS 161. SFAS 161 is intended to improve financial reporting regarding derivative instruments and hedging activities by requiring enhanced disclosure to enable investors to better understand the effects of such derivative instruments and hedging activities on a company’s financial position, financial performance and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged (January 1, 2009, for our company). SFAS 161 also improves transparency regarding the location and amounts of derivative instruments in a company’s financial statements; how derivative instruments and related hedged items are accounted for under SFAS No. 133 “Accounting for Derivative Instruments and Hedging Activities” and how derivative instruments and related hedged items affect a company’s financial position, financial performance and cash flows. We are currently evaluating the effect SFAS No. 161 will have on our financial statement presentations.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, “The Hierarchy of Generally Accepted Accounting Principles”, or SFAS 162. SFAS 162 is intended to improve financial reporting by identifying a consistent hierarchy for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP). SFAS 162 will go into effect 60 days following the approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411 “The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles” by the Securities and Exchange Commission, or the Commission. We do not expect the adoption of SFAS 162 to have a material impact on our results of operations and financial position.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### **Currency Exchange Risk**

The currency of the primary economic environment in which our operations are conducted is the dollar. We are currently in the development stage with no significant source of revenues; therefore we consider the currency of the primary economic environment to be the currency in which we expend cash. Approximately 50% of our expenses and capital expenditures are incurred in dollars, and a significant source of our financing has been provided in U.S. dollars. Since the dollar is the functional currency, monetary items maintained in currencies other than the dollar are remeasured using the rate of exchange in effect at the balance sheet dates and non-monetary items are remeasured at historical exchange rates. Revenue and expense items are remeasured at the average rate of exchange in effect during the period in which they occur. Foreign currency translation gains or losses are recognized in the statement of operations.

Approximately 35% of our costs, including salaries, expenses and office expenses, are incurred in New Israeli Shekels, the NIS. Inflation in Israel may have the effect of increasing the U.S. dollar cost of our operations in Israel. If the U.S. dollar declines in value in relation to the NIS, it will become more expensive for us to fund our operations in Israel. A revaluation of 1% of the NIS will affect our income before tax by less than 1%. The exchange rate of the U.S. dollar to the NIS, based on exchange rates published by the Bank of Israel, was as follows:

	Six months ended June 30,		Year ended December 31,
	2008	2007	2007
Average rate for period	3.5218	4.1499	4.1081
Rate at period end	3.3520	4.2490	3.8460

To date, we have not engaged in hedging transactions. In the future, we may enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rate of the U.S. dollar against the NIS. These measures, however, may not adequately protect us from material adverse effects due to the impact of inflation in Israel.

## **Interest Rate Risk**

Our exposure to market risk is confined to our cash and cash equivalents. We consider all short term, highly liquid investments, which include short-term deposits with original maturities of three months or less from the date of purchase, that are not restricted as to withdrawal or use and are readily convertible to known amounts of cash, to be cash equivalents. The primary objective of our investment activities is to preserve principal while maximizing the interest income we receive from our investments, without increasing risk. We invest any cash balances primarily in bank deposits and investment grade interest-bearing instruments. We are exposed to market risks resulting from changes in interest rates. We do not use derivative financial instruments to limit exposure to interest rate risk. Our interest gains may decline in the future as a result of changes in the financial markets.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The controls evaluation was conducted under the supervision, and with the participation, of management, including our Chief Executive Officer and Chief Financial Officer. Disclosure controls and procedures are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures are also designed to reasonably assure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based on the controls evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the Commission, and that material information relating to our company and our consolidated subsidiary is made known to management, including the Chief Executive Officer and Chief Financial Officer, particularly during the period when our periodic reports are being prepared.

### **Inherent Limitations on Effectiveness of Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

### **Changes in internal controls**

There were no change in our internal controls over financial reporting (as defined in Rules 13a-15f and 15d-15f under the Exchange Act) that occurred during the period ended June 30, 2008 that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II — OTHER INFORMATION**

### **Item 1. Legal Proceedings**

We are not involved in any material legal proceedings.

### **Item 1A. Risk Factors**

We describe our business risk factors below. This description includes any material changes to and supersedes the description of the risk factors associated with our business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

#### **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 common stock is limited, not only in terms of the number of shares that can be bought and sold at a given price, but also through delays in the timing of transactions and changes in security analyst and media coverage, if at all. These factors may result in lower prices for our common stock than might otherwise be obtained and could also result in a large spread between the bid and ask prices for our common stock.

In connection with the merger, substantially all of the former shareholders of Protalix Ltd. entered into lock-up agreements with respect to their shares of our common stock to satisfy Israeli tax laws and contractual obligations. The lock-up agreements prohibited such former shareholders of Protalix Ltd. from, directly or indirectly, selling or otherwise transferring the shares of our common stock issued to them in connection with the merger during a period commencing upon the closing of the merger and ending on January 1, 2009. However, during such period, each such former Protalix Ltd. shareholder was permitted, under the terms of the lock-up agreements and the tax ruling described below, to sell an aggregate of 10% of each such shareholder's original number of locked-up shares. All permitted sales of locked-up shares that may be made during such time period are cumulative. On June 11, 2008, after completing discussions with the Israeli tax authorities regarding the tax ruling, we approved the early termination of the lock-up agreements for holders of 5% or less of our outstanding shares as of the closing of the merger. The early termination of the lock-up agreements allows an additional 22,929,381 shares of our common stock to become eligible for sale on the public market. However, up to 35,875,319 shares of our common stock and options and warrants to purchase 3,046,052 shares of our common stock, or approximately 51.3% of our outstanding shares of common stock, remain subject to the lock-up agreements until January 1, 2009.

Under applicable Israeli tax law incorporated by reference into the tax ruling obtained by Protalix Ltd. from the Israeli tax authorities in connection with the merger, until January 1, 2009, we must maintain our holding of at least 51% of Protalix Ltd. and our shareholders at the time of the consummation of the merger must maintain, in the aggregate, holdings of at least 51% of our outstanding share capital. This restriction limits, to an extent, the volume of our shares available for public trading.

In the absence of an active public trading market, an investor may be unable to liquidate its investment in our common stock. Trading of a relatively small volume of our common stock may have a greater impact on the trading price of our stock than would be the case if our public float were larger. Further, the limited liquidity could be an indication that the trading price is not reflective of the actual fair market value of our common stock.

#### ***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 these sales may occur in the future, could affect materially and adversely the market price of our common stock. As described herein, substantially all of the former shareholders of Protalix Ltd. (holding, in the aggregate, 65,094,232 shares of our common stock and options and warrants to purchase 3,628,826 shares of our common stock) entered into lock-up agreements with respect to their securities of our company to satisfy Israeli tax laws and contractual obligations. The lock-up agreements prohibit such former shareholders of Protalix Ltd. from, directly or indirectly, selling or otherwise transferring the shares of our common stock issued to them in connection with the merger during a period commencing upon the closing of the merger and ending on January 1,

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2009. However, during such period, each such former Protalix Ltd. shareholder may, under the terms of the lock-up agreements and a tax ruling received by Protalix Ltd. from the Israeli tax authorities in connection with the merger, sell an aggregate of 10% of each such shareholder's original number of locked-up shares. On June 11, 2008, after completing discussions with the Israeli tax authorities regarding the tax ruling, we approved the early termination of the lock-up agreements for holders of 5% or less of our outstanding shares as of the closing of the merger. The early termination of the lock-up agreements allows an additional 22,929,381 shares of our common stock to become eligible for sale on the public market.

In addition, on January 1, 2009, the remaining lock-up agreements entered into in connection with the merger will expire which will allow an additional 35,875,319 shares of our common stock and options and warrants to purchase 3,046,052 shares of our common stock, or approximately 51.3% of our outstanding shares of common stock, to be available for sale on the public market, subject in most cases to the limitations of either Rule 144 or Rule 701 under the Securities Act.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

#### **Unregistered Sales of Equity Securities**

There have been no unregistered sales of equity securities during the quarter ended June 30, 2008, other than the issuance of 154,796 shares of common stock, in the aggregate, in connection with the exercise by certain of our officers and employees of outstanding stock options to purchase 189,460 shares of common stock granted under our 2006 Stock Incentive Plan. We received cash proceeds equal to \$3,000 in connection with such exercises as 167,440 of such options were exercised on a "net-exercise" basis. The shares were issued pursuant to exemptions from registration under Section 4(2) of the Securities Act of 1933.

#### **Use of Proceeds**

The effective date of our first registration statement, filed on Form S-3 under the Securities Act of 1933, which was accompanied by a registration statement on Form S-3 filed pursuant to Rule 462(b) under the Securities Act (Nos. 333-144801 and 333-146919), relating to a public offering of our common stock, was September 26, 2007 and the offering date was October 25, 2007. The sole book-running manager of the offering was UBS Investment Bank and CIBC World Markets (now Oppenheimer) served as the co-manager. In the offering we sold 10,000,000 shares of common stock at a price per share of \$5.00. Our aggregate net proceeds (after underwriting discounts and expenses) amounted to approximately \$46 million. The offering closed on October 30, 2007.

The amount of the underwriting discount paid by us was \$3.5 million and the expenses of the offering, not including the underwriting discount, were approximately \$810,000.

To date, the net proceeds of the offering were invested in accordance with our investment policy in short-term marketable securities. We intend to use the proceeds in the manner set forth in our prospectus of October 25, 2007.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Submission of Matters to a Vote of Security Holders**

None.

### **Item 5. Other Information**

On August 7, 2008, our Board of Directors adopted Amended and Restated Bylaws. The Amended and Restated Bylaws differ from our previous Bylaws in several respects. Our Board of Directors adopted the Amended and Restated Bylaws to modernize the by-laws and provide clarity and consistency with the Florida Business Corporation Act. The primary and substantive changes are as follows:

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The Amended and Restated Bylaws include two advance notice provisions, which apply when a shareholder wishes to present either (i) a proposal relating to the nomination of directors or (ii) a proposal relating to matters other than nominations of directors, otherwise than pursuant to Rule 14a-8 of the proxy rules of the Commission. The provisions require that a shareholder desiring to introduce a proposal, or nominate a director, at a meeting of shareholders, deliver notice to our Secretary not less than 45 days nor more than 75 days prior to the date on which we first mailed its proxy materials for the previous year's annual meeting of shareholders (or, in the absence of proxy materials, mailed its notice of meeting) in order to include a proposal at the annual meeting. The notice must set forth certain information, including a description of the matters proposed to be discussed.

In each of the two advance notice provisions, our Board of Directors added a requirement that any shareholder submitting a shareholder proposal must make certain disclosures regarding any derivative or short positions, profit interests, options, warrants, stock appreciation or similar rights, hedging transactions, and borrowed or loaned shares of our company.

Section 6.1 of the Amended and Restated Bylaws was amended to allow for shares of our stock to be represented in certificated and uncertificated form, which is consistent with the trading rules of the American Stock Exchange.

In the provision regarding amendments to the Amended and Restated Bylaws, our Board of Directors removed the ability of shareholders to specify in any bylaw made by them that such bylaw cannot be altered, amended, or repealed by our Board of Directors.

In addition to these substantive changes, our Board of Directors made several amendments to modernize the bylaws, which include provisions permitting remote communications, expanding indemnification rights of officers and directors, and altering the notice provisions in accordance with the Florida Business Corporation Act to give notice of a shareholder meeting not less than 20 nor more than 60 days in advance of the meeting where the matter to be acted on is a merger or consolidation or a sale, lease, or exchange of all or substantially all of our assets.

### **Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Method of Filing</b>
3.1	Amended and Restated Articles of Incorporation of the Company	Incorporated by reference to the Company's Registration Statement on Form S-4 filed on March 26, 1998, SEC File No. 333-48677
3.2	Article of Amendment to Articles of Incorporation dated June 9, 2006	Incorporated by reference to the Company's Registration Statement on Form 8-A filed on March 9, 2007, SEC File No. 001-33357
3.3	Article of Amendment to Articles of Incorporation dated December 13, 2006	Incorporated by reference to the Company's Registration Statement on Form 8-A filed on March 9, 2007, SEC File No. 001-33357
3.4	Article of Amendment to Articles of Incorporation dated December 26, 2006	Incorporated by reference to the Company's Registration Statement on Form 8-A filed on March 9, 2007, SEC File No. 001-33357
3.5	Article of Amendment to Articles of Incorporation dated February 26, 2007	Incorporated by reference to the Company's Registration Statement on Form 8-A filed on March 9, 2007, SEC File No. 001-33357
3.6	Amended and Restated By-Laws	Filed herewith

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<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Method of Filing</b>
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Certification of Chief Executive Officer	Filed herewith
32.2	18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Certification of Chief Financial Officer	Filed herewith



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PROTALIX BIOTHERAPEUTICS, INC.  
(Registrant)

Date: August 8, 2008

By: /s/ David Aviezer  
David Aviezer, Ph.D.  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: August 8, 2008

By: /s/ Yossi Maimon  
Yossi Maimon  
Chief Financial Officer, Treasurer and Secretary (Principal  
Financial and Accounting Officer)

**AMENDED AND RESTATED BYLAWS  
OF  
PROTALIX BIOTHERAPEUTICS, INC.  
ARTICLE I  
OFFICES**

**Section 1.1 Registered Office.**

The registered office of the corporation in the State of Florida shall be 1201 Hays Street, Tallahassee, Florida 32301.

**Section 1.2 Other Offices.**

The corporation shall also have and maintain an office or principal place of business at 2 Snunit Street, Science Park, PO Box 455, Carmiel Israel 20100, and may also have offices at such other places, both within and without the State of Florida, as the Board of Directors may from time to time determine or the business of the corporation may require.

**Section 1.3 Registered Agent.**

The Board of Directors shall designate a registered agent for service of process on the corporation for the State of Florida and for each state in which the corporation qualifies to do business.

**ARTICLE II  
SHAREHOLDERS' MEETINGS**

**Section 2.1 Place of Meetings.**

(a) Meetings of shareholders may be held at such place, either within or without this State, as may be designated by or in the manner provided in these Bylaws or, if not so designated, as determined by the Board of Directors. The Board of Directors may, in its sole discretion, determine that the meeting shall not be held at any place, but may instead be held solely by means of remote communication as authorized by paragraph (b) of this Section 2.1.

(b) If authorized by the Board of Directors in its sole discretion, and subject to such guidelines and procedures as the Board of Directors may adopt, shareholders and proxyholders not physically present at a meeting of shareholders may, by means of remote communication:

- (1) Participate in a meeting of shareholders; and
-

(2) Be deemed present in person and vote at a meeting of shareholders whether such meeting is to be held at a designated place or solely by means of remote communication, provided that (A) the corporation shall implement reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a shareholder or proxyholder, (B) the corporation shall implement reasonable measures to provide such shareholders and proxyholders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the shareholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with such proceedings, and (C) if any shareholder or proxyholder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the corporation.

For purposes of this Section 2.1, "remote communication" shall include (1) telephone or other voice communications and (2) electronic mail or other form of written or visual electronic communications satisfying the requirements of Section 2.11(b).

#### **Section 2.2 Annual Meetings.**

The annual meetings of the shareholders of the corporation, for the purpose of election of directors and for such other business as may lawfully come before it, shall be held on such date and at such time as may be designated from time to time by the Board of Directors.

#### **Section 2.3 Special Meetings.**

Special Meetings of the shareholders of the corporation may be called, for any purpose or purposes, by the Chairman of the Board or the President or the Board of Directors at any time. Upon written request of any shareholder or shareholders holding in the aggregate not less than 10% of all of the votes entitled to be cast on any issue proposed to be considered at the Special Meeting signed, dated and delivered in person or sent by registered mail to the Chairman of the Board, President or Secretary of the corporation, the Secretary shall call a special meeting of shareholders to be held at the principal office of the corporation or at such place and at such time as the Secretary may fix, such meeting to be held not less than 10 nor more than 60 days after the receipt of such request, and if the Secretary shall neglect or refuse to call such meeting within seven days after the receipt of such request, the shareholder making such request may do so.

#### **Section 2.4 Notice of Meetings.**

(a) Except as otherwise provided by law or the corporation's Articles of Incorporation, as amended, written notice of each meeting of shareholders, specifying the place, if any, date and hour and purpose or purposes of the meeting, and the means of remote communication, if any, by which shareholders and proxyholders may be deemed to be present in person and vote at such meeting shall be given not less than 10 nor more than 60 days before the date of the meeting to each shareholder entitled to vote thereat, directed to his, her or its address as it appears upon the books of the corporation; except that where the matter to be acted on is a merger or consolidation of the corporation or a sale, lease or exchange of all or substantially all of its assets, such notice shall be given not less than 20 nor more than 60 days prior to such meeting.

(b) If at any meeting action is proposed to be taken which, if taken, would entitle shareholders fulfilling the requirements of Section 607.1302 of the Florida Business Corporation Act to an appraisal of the fair value of their shares, the notice of such meeting shall contain a statement of that purpose and to that effect and shall be accompanied by a copy of Sections 607.1301 through 607.1333 of the Florida Business Corporation Act.

(c) When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time, place, if any, thereof, and the means of remote communication, if any, by which shareholders and proxyholders may be deemed to be present in person and vote at such adjourned meeting, are announced at the meeting at which the adjournment is taken unless the adjournment is for more than 30 days, or unless after the adjournment a new record date is fixed for the adjourned meeting, in which event a notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the meeting.

(d) Notice of the time, place and purpose of any meeting of shareholders may be waived in writing, either before or after such meeting, and, to the extent permitted by law, will be waived by any shareholder by his attendance thereat, in person or by proxy. Any shareholder so waiving notice of such meeting shall be bound by the proceedings of any such meeting in all respects as if due notice thereof had been given.

(e) Without limiting the manner by which notice otherwise may be given effectively to shareholders, any notice to shareholders given by the corporation under any provision of the Florida Business Corporation Act, the corporation's Articles of Incorporation, as amended, or these Amended and Restated Bylaws shall be effective if given by a form of electronic transmission consented to by the shareholder to whom the notice is given. Any such consent shall be revocable by the shareholder by written notice to the corporation. Any such consent shall be deemed revoked if (i) the corporation is unable to deliver by electronic transmission two consecutive notices given by the corporation in accordance with such consent and (ii) such inability becomes known to the secretary or an assistant secretary of the corporation or to the transfer agent or other person responsible for the giving of notice; provided, however, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action. Notice given pursuant to this subparagraph (e) shall be deemed given: (1) if by facsimile telecommunication, when directed to a number at which the shareholder has consented to receive notice; (2) if by electronic mail, when directed to an electronic mail address at which the shareholder has consented to receive notice; (3) if by a posting on an electronic network together with separate notice to the shareholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and (4) if by any other form of electronic transmission, when directed to the shareholder. An affidavit of the Secretary or an assistant secretary or of the transfer agent or other agent of the corporation that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be prima facie evidence of the facts stated therein. For purposes of these Amended and Restated Bylaws, "electronic transmission" means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

### **Section 2.5 Quorum and Voting.**

(a) At all meetings of shareholders except where otherwise provided by law, the corporation's Articles of Incorporation or these Amended and Restated Bylaws, the presence, in person or by proxy duly authorized, of the holders of a majority of the outstanding shares of stock entitled to vote shall constitute a quorum for the transaction of business. Shares, the voting of which at said meeting have been enjoined, or which for any reason cannot be lawfully voted at such meeting, shall not be counted to determine a quorum at said meeting. In the absence of a quorum, any meeting of shareholders may be adjourned, from time to time, by vote of the holders of a majority of the shares represented thereat, but no other business shall be transacted at such meeting. At such adjourned meeting at which a quorum is present or represented, any business may be transacted which might have been transacted at the original meeting. The shareholders present at a duly called or convened meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

(b) Except as otherwise provided by law, the corporation's Articles of Incorporation or these Amended and Restated Bylaws, all action taken by the holders of a majority of the voting power represented at any meeting at which a quorum is present shall be valid and binding upon the corporation.

(c) Where a separate vote by a class or classes is required, a majority of the outstanding shares of such class or classes present in person or represented by proxy shall constitute a quorum entitled to take action with respect to that vote on that matter, and the affirmative vote of the majority of shares of such class or classes present in person or represented by proxy at the meeting shall be the act of such class.

### **Section 2.6 Voting Rights.**

(a) Except as otherwise provided by law, only persons in whose names shares entitled to vote stand on the stock records of the corporation on the record date for determining the shareholders entitled to vote at said meeting shall be entitled to vote at such meeting. Shares standing in the names of two or more persons shall be voted or represented in accordance with the determination of the majority of such persons, or, if only one of such persons is present in person or represented by proxy, such person shall have the right to vote such shares and such shares shall be deemed to be represented for the purpose of determining a quorum.

(b) Every person entitled to vote or to execute consents shall have the right to do so either in person or by an agent or agents authorized by a written proxy executed by such person or his duly authorized agent, which proxy shall be filed with the Secretary of the corporation at or before the meeting at which it is to be used. Said proxy so appointed need not be a shareholder. No proxy shall be voted on after eleven (11) months from its date unless the proxy provides for a longer period. Unless and until voted, every proxy shall be revocable at the pleasure of the person who executed it or of his legal representatives or assigns, except in those cases where an irrevocable proxy permitted by statute has been given.

(c) Without limiting the manner in which a shareholder may authorize another person or persons to act for him as proxy pursuant to subsection (b) of this section, the following shall constitute a valid means by which a shareholder may grant such authority:

(1) A shareholder may execute a writing authorizing another person or persons to act for him as proxy. Execution may be accomplished by the shareholder or his authorized officer, director, employee or agent signing such writing or causing his or her signature to be affixed to such writing by any reasonable means including, but not limited to, by facsimile signature.

(2) A shareholder may authorize another person or persons to act for him as proxy by transmitting or authorizing the transmission of a telephone, telegram, cablegram or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided that any such telephone, telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be determined that the telephone, telegram, cablegram or other electronic transmission was authorized by the shareholder. Such authorization can be established by the signature of the shareholder on the proxy, either in writing or by a signature stamp or facsimile signature, or by a number or symbol from which the identity of the shareholder can be determined, or by any other procedure deemed appropriate by the inspectors or other persons making the determination as to due authorization.

(d) Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to subsection (c) of this section may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

#### **Section 2.7 Voting Procedures and Inspectors of Elections.**

(a) The corporation shall, in advance of any meeting of shareholders, appoint one or more inspectors to act at the meeting and make a written report thereof. The corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of shareholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his, her or its ability.

(b) The inspectors shall (i) ascertain the number of shares outstanding and the voting power of each, (ii) determine the shares represented at a meeting and the validity of proxies and ballots, (iii) count all votes and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors and (v) certify their determination of the number of shares represented at the meeting and their count of all votes and ballots. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of the duties of the inspectors.

(c) The date and time of the opening and the closing of the polls for each matter upon which the shareholders will vote at a meeting shall be announced at the meeting. No ballot, proxies or votes, nor any revocations thereof or changes thereto, shall be accepted by the inspectors after the closing of the polls unless a court of competent jurisdiction, upon application by shareholders entitled to vote at said meeting shall determine otherwise.

(d) In determining the validity and counting of proxies and ballots, the inspectors shall be limited to an examination of the proxies, any envelopes submitted with those proxies, any information provided in accordance with the Florida Business Corporation Act, ballots and the regular books and records of the corporation, except that the inspectors may consider other reliable information for the limited purpose of reconciling proxies and ballots submitted by or on behalf of banks, brokers, their nominees or similar persons which represent more votes than the holder of a proxy is authorized by the record owner to cast or more votes than the shareholder holds of record. If the inspectors consider other reliable information for the limited purpose permitted herein, the inspectors at the time they make their certification pursuant to subsection (b)(v) of this section shall specify the precise information considered by them including the person or persons from whom they obtained the information, when the information was obtained, the means by which the information was obtained and the basis for the inspectors' belief that such information is accurate and reliable.

#### **Section 2.8 List of Shareholders.**

The officer who has charge of the stock ledger of the corporation shall prepare and make, or shall cause to be prepared at least 10 days before every meeting of shareholders, a complete list of the shareholders entitled to vote at said meeting showing the address of and the number of shares registered in the name of each shareholder. The corporation need not include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any shareholder for any purpose germane to the meeting for a period of at least 10 days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours at the principal place of business of the corporation. In the event that the corporation determines to make the list available on an electronic network, the corporation may take reasonable steps to ensure that such information is available only to shareholders of the corporation. If the meeting is to be held at a place other than the principal office of the corporation, the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any shareholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any shareholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

#### **Section 2.9 Shareholder Proposals at Annual Meetings.**

At an annual meeting of the shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, otherwise properly brought before the meeting

by or at the direction of the Board of Directors, or otherwise properly brought before the meeting by a shareholder. In addition to any other applicable requirements for business to be properly brought before an annual meeting by a shareholder, whether or not the shareholder is seeking to have a proposal included in the corporation's proxy statement or information statement under any applicable rule of the Securities and Exchange Commission (the "SEC"), including, but not limited to, Regulation 14A or Regulation 14C under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), the shareholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not less than 45 days nor more than 75 days prior to the date on which the corporation first mailed its proxy materials (or, in the absence of proxy materials, its notice of the meeting) for the previous year's annual meeting of shareholders (or the date on which the corporation mails such materials for the current year if during the prior year the corporation did not hold an annual meeting or if the date of the annual meeting was changed more than 30 days from the prior year). A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the shareholder proposing such business, (iii) the class and number of shares of the corporation which are beneficially owned by the shareholder, (iv) any material interest of the shareholder in such business, (v) as to the shareholder giving the notice and any Shareholder Associated Person (as defined below), whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of, or any other agreement, arrangement or understanding (including, but not limited to, any short position or any borrowing or lending of shares of stock) has been made, the effect or intent of which is to mitigate loss or increase profit to or manage the risk or benefit of stock price changes for, or to increase or decrease the voting power of, such shareholder or any such Shareholder Associated Person with respect to any share of stock of the corporation (each, a "Relevant Hedge Transaction"), and (vi) as to the shareholder giving the notice and any Shareholder Associated Person, to the extent not set forth pursuant to the immediately preceding clause, (a) whether and the extent to which such shareholder or Shareholder Associated Person has direct or indirect beneficial ownership of any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the corporation, whether or not such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the corporation or otherwise, or any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the corporation (a "Derivative Instrument"), (b) any rights to dividends on the shares of the corporation owned beneficially by such shareholder that are separated or separable from the underlying shares of the corporation, (c) any proportionate interest in shares of the corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such shareholder is a general partner or, directly or indirectly, beneficially owns an interest in a general partner and (d) any performance-related fees (other than an asset-based fee) that such shareholder is entitled to based on any increase or decrease in the value of shares of the corporation or Derivative Instruments, if any, as of the date of such notice, including without limitation any such interests held by members of such shareholder's immediate family sharing the same household (which information shall be supplemented by such shareholder and beneficial owner, if any, not later



than 10 days after the record date for the meeting to disclose such ownership as of the record date).

For purposes of this Section 2.9 and Section 2.10, “Shareholder Associated Person” of any shareholder shall mean (i) any person controlling or controlled by, directly or indirectly, or acting in concert with, such shareholder, (ii) any beneficial owner of shares of stock of the corporation owned of record or beneficially by such shareholder and (iii) any person controlling, controlled by or under common control with such Shareholder Associated Person.

Notwithstanding anything in these Amended and Restated Bylaws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in Section 2.1 and this Section 2.9; provided, however, that nothing in this Section 2.9 shall be deemed to preclude discussion by any shareholder of any business properly brought before the annual meeting in accordance with said procedure.

The Chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of Section 2.1 and this Section 2.9, and if he should so determine he shall so declare to the meeting, and any such business not properly brought before the meeting shall not be transacted.

Nothing in this Section 2.9 shall affect the right of a shareholder to request inclusion of a proposal in the corporation’s proxy statement or information statement to the extent that such right is provided by an applicable rule of the SEC.

#### **Section 2.10 Nominations of Persons for Election to the Board of Directors.**

In addition to any other applicable requirements, only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the corporation may be made at a meeting of shareholders by or at the direction of the Board of Directors, by any nominating committee or person appointed by the Board of Directors or by any shareholder of the corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 2.10. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the corporation, which shall be the exclusive means for a shareholder to make nominations whether or not the shareholder is seeking to have a proposal included in the corporation’s proxy statement or information statement under an applicable rule of the SEC, including, but not limited to, Regulation 14A or Regulation 14C under the Exchange Act. To be timely, a shareholder’s notice must be delivered to or mailed and received at the principal executive offices of the corporation, not less than 45 days nor more than 75 days prior to the date on which the corporation first mailed its proxy materials (or, in the absence of proxy materials, its notice of the meeting) for the previous year’s annual meeting of shareholders (or the date on which the corporation mails such materials for the current year if during the prior year the corporation did not hold an annual meeting or if the date of the annual meeting was changed more than 30 days from the prior year). Such shareholder’s notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or re-election as a director, (i) the name, age,

business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of the corporation which are beneficially owned by the person, and (iv) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Regulation 14A under the Exchange Act; (b) as to the shareholder giving the notice, (i) the name and record address of the shareholder, and (ii) the class and number of shares of the corporation which are beneficially owned by the shareholder; (c) as to the shareholder giving the notice and any Shareholder Associated Person (as defined in Section 2.9), to the extent not set forth pursuant to the immediately preceding clause, whether and the extent to which any Relevant Hedge Transaction (as defined in Section 2.9) has been entered into, and (d) as to the shareholder giving the notice and any Shareholder Associated Person, (1) whether and the extent to which any Derivative Instrument (as defined in Section 2.9) is directly or indirectly beneficially owned, (2) any rights to dividends on the shares of the corporation owned beneficially by such shareholder that are separated or separable from the underlying shares of the corporation, (3) any proportionate interest in shares of the corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such shareholder is a general partner or, directly or indirectly, beneficially owns an interest in a general partner and (4) any performance-related fees (other than an asset-based fee) that such shareholder is entitled to based on any increase or decrease in the value of shares of the corporation or Derivative Instruments, if any, as of the date of such notice, including without limitation any such interests held by members of such shareholder's immediate family sharing the same household (which information shall be supplemented by such shareholder and beneficial owner, if any, not later than 10 days after the record date for the meeting to disclose such ownership as of the record date). The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as a director of the corporation. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth herein. These provisions shall not apply to nomination of any persons entitled to be separately elected by holders of preferred stock.

The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

#### **Section 2.11 Fixing Record Dates.**

(a) In order that the corporation may determine the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than 60 nor less than 10 days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the date on which the meeting is held. A determination of shareholders of record entitled notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting;

provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

(b) In order that the corporation may determine the shareholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the shareholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than 60 days prior to such action. If no record date is fixed, the record date for determining shareholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

## **ARTICLE III**

### **DIRECTORS**

#### **Section 3.1 Number and Term of Office.**

The number of directors which shall constitute the whole of the Board of Directors shall be fixed from time to time by resolution of the Board of Directors. With the exception of the first Board of Directors, which was elected by the incorporators, and except as provided in Section 3.3 of this Article III, the directors shall be elected by a plurality vote of the shares represented in person or by proxy at the shareholders annual meeting in each year and entitled to vote on the election of directors. Elected directors shall hold office until the next annual meeting and until their successors shall be duly elected and qualified. Directors need not be shareholders. If, for any cause, the Board of Directors shall not have been elected at an annual meeting, they may be elected as soon thereafter as convenient at a special meeting of the shareholders called for that purpose in the manner provided in these Amended and Restated Bylaws.

#### **Section 3.2 Powers.**

The powers of the corporation shall be exercised, its business conducted and its property controlled by or under the direction of the Board of Directors.

#### **Section 3.3 Vacancies.**

Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director, and each director so elected shall hold office for the unexpired portion of the term of the director whose place shall be vacant and until his successor shall have been duly elected and qualified. A vacancy in the Board of Directors shall be deemed to exist under this section in the case of the death, removal or resignation of any director, or if the shareholders fail at any meeting of shareholders at which directors are to be elected (including any meeting referred to in Section 3.4 below) to elect the number of directors then constituting the whole Board.

### **Section 3.4 Resignations and Removals.**

(a) Any director may resign at any time by delivering his resignation to the Secretary in writing or by electronic transmission, such resignation to specify whether it will be effective at a particular time, upon receipt by the Secretary or at the pleasure of the Board of Directors. If no such specification is made it shall be deemed effective at the pleasure of the Board of Directors. When one or more directors shall resign from the Board effective at a future date, a majority of the directors then in office, including those who have so resigned (prior to the resignation being in effect), shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office for the unexpired portion of the term of the director whose place shall be vacated and until his successor shall have been duly elected and qualified.

(b) At a special meeting of shareholders called for the purpose in the manner hereinabove provided, the Board of Directors or any individual director may be removed from office, with or without cause, and a new director or directors elected by a vote of shareholders holding a majority of the outstanding shares entitled to vote at an election of directors.

### **Section 3.5 Meetings.**

(a) The annual meeting of the Board of Directors shall be held immediately after the annual shareholders' meeting and at the place where such meeting is held or at the place announced by the Chairman at such meeting. No notice of an annual meeting of the Board of Directors shall be necessary, and such meeting shall be held for the purpose of electing officers and transacting such other business as may lawfully come before it.

(b) Except as hereinafter otherwise provided, regular meetings of the Board of Directors shall be held in the principal office of the corporation. Regular meetings of the Board of Directors may also be held at any place, within or without the United States, as determined by the Chairman of the Board or by the written consent of all directors.

(c) Special meetings of the Board of Directors may be held at any time and place within or without the State of Florida whenever called by the Chairman of the Board or, if there is no Chairman of the Board, by the Chief Executive Officer, or by any of the directors.

(d) Written notice of the time and place of all regular and special meetings of the Board of Directors shall be delivered personally to each director or sent by telegram or facsimile transmission or other form of electronic transmission at least 48 hours before the start of the meeting, or sent by first class mail at least 120 hours before the start of the meeting. Notice of any meeting may be waived in writing at any time before or after the meeting and will be waived by any director by attendance thereat.

### **Section 3.6 Quorum and Voting.**

(a) A quorum of the Board of Directors shall consist of a majority of the exact number of directors fixed from time to time in accordance with Section 3.1 of Article III of these Bylaws, but not less than one; provided, however, at any meeting whether a quorum be present or otherwise, a majority of the directors present may adjourn from time to time until the time

fixed for the next regular meeting of the Board of Directors, without notice other than by announcement at the meeting.

(b) At each meeting of the Board at which a quorum is present, all questions and business shall be determined by a vote of a majority of the directors present, unless a different vote be required by law, the corporation's Articles of Incorporation or these Amended and Restated Bylaws.

(c) Any member of the Board of Directors, or of any committee thereof, may participate in a meeting by means of conference telephone or other communication equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting.

(d) The transactions of any meeting of the Board of Directors, or any committee thereof, however called or noticed, or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice if a quorum be present and if, either before or after the meeting, each of the directors not present shall sign a written waiver of notice, or a consent to holding such meeting, or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

### **Section 3.7 Action Without Meeting.**

Unless otherwise restricted by the corporation's Articles of Incorporation or these Amended and Restated Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board or of such committee, as the case may be, consent thereto in writing or by electronic transmission, and such writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

### **Section 3.8 Fees and Compensation.**

Directors and members of committees may receive such compensation, if any, for their services, and such reimbursement for expenses, as may be fixed or determined by resolution of the Board of Directors.

### **Section 3.9 Committees.**

(a) **Other Committees:** The Board of Directors may, from time to time, appoint such committees as may be permitted by law. Such other committees appointed by the Board of Directors shall have such powers and perform such duties as may be prescribed by the resolution or resolutions creating such committee.

(b) **Term:** The terms of members of all committees of the Board of Directors shall expire on the date of the next annual meeting of the Board of Directors following their appointment; provided, that they shall continue in office until their successors are appointed. The Board of Directors, subject to the provisions of subsection (a) of this Section 3.9, may at any

time increase or decrease the number of members of a committee or terminate the existence of a committee; provided, that no committee shall consist of less than one member. The membership of a committee member shall terminate on the date of his death or voluntary resignation, but the Board may at any time for any reason remove any individual committee member and the Board may fill any committee vacancy created by death, resignation, removal or increase in the number of members of the committee. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee, and, in addition, in the absence or disqualification of any member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

(c) **Meetings:** Unless the Board of Directors shall otherwise provide, regular meetings of the committees appointed pursuant to this Section 3.9 shall be held at such times and places as are determined by the Board of Directors, or by any such committee, and when notice thereof has been given to each member of such committee, no further notice of such regular meetings need be given thereafter; special meetings of any such committee may be held at the principal office of the corporation required to be maintained pursuant to Section 1.2 of Article I hereof; or at any place which has been designated from time to time by resolution of such committee or by written consent of all members thereof, and may be called by any director who is a member of such committee upon written notice to the members of such committee of the time and place of such special meeting given in the manner provided for the giving of written notice to members of the Board of Directors of the time and place of special meetings of the Board of Directors. Notice of any special meeting of any committee may be waived in writing at any time after the meeting and will be waived by any director by attendance thereat. A majority of the authorized number of members of any such committee shall constitute a quorum for the transaction of business, and the act of a majority of those present at any meeting at which a quorum is present shall be the act of such committee.

## **ARTICLE IV OFFICERS**

### **Section 4.1 Officers Designated.**

The officers of the corporation shall be a President, a Secretary and a Treasurer. The Board of Directors or the President may also appoint a Chairman of the Board, a chief executive officer, chief financial officer, one or more Vice-Presidents, assistant secretaries, assistant treasurers, and such other officers and agents with such powers and duties as the Board of Directors or the President shall deem appropriate or necessary. The order of the seniority of the Vice-Presidents shall be in the order of their nomination unless otherwise determined by the Board of Directors. The Board of Directors may assign such additional titles to one or more of the officers as they shall deem appropriate. Any one person may hold any number of offices of the corporation at any one time unless specifically prohibited therefrom by law. The salaries and other compensation of the officers of the corporation shall be fixed by or in the manner designated by the Board of Directors, or a committee thereof.

#### **Section 4.2 Tenure and Duties of Officers.**

(a) **General:** All officers shall hold office at the pleasure of the Board of Directors and until their successors shall have been duly elected and qualified, unless sooner removed. Any officer elected or appointed by the Board of Directors may be removed at any time by the Board of Directors. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board of Directors. Nothing in these Amended and Restated Bylaws shall be construed as creating any kind of contractual right to employment with the corporation.

(b) **Duties of the Chairman of the Board of Directors:** The Chairman of the Board of Directors (if there be such an officer appointed) when present shall preside at all meetings of the shareholders and the Board of Directors. The Chairman of the Board of Directors shall perform such other duties and have such other powers as the Board of Directors shall designate from time to time.

(c) **Duties of President:** The President shall be the chief executive officer of the corporation in the absence of the Chairman of the Board and shall preside at all meetings of the shareholders and at all meetings of the Board of Directors, unless the Chairman of the Board of Directors has been appointed and is present. The President shall perform such other duties and have such other powers as the Board of Directors shall designate from time to time.

(d) **Duties of Vice-Presidents:** The Vice-Presidents, in the order of their seniority, may assume and perform the duties of the President in the absence or disability of the President or whenever the office of the President is vacant. The Vice-President shall perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time.

(e) **Duties of Secretary:** The Secretary shall attend all meetings of the shareholders and of the Board of Directors and each committee thereof, and shall record all acts and proceedings thereof in the minute book of the corporation, which may be maintained in either paper or electronic form. The Secretary shall give notice, in conformity with these Amended and Restated Bylaws, of all meetings of the shareholders and of all meetings of the Board of Directors and any Committee thereof requiring notice. The Secretary shall perform such other duties and have such other powers as the Board of Directors shall designate from time to time. The President may direct any assistant secretary to assume and perform the duties of the Secretary in the absence or disability of the Secretary, and each assistant secretary shall perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time.

(f) **Duties of Treasurer:** The Treasurer shall keep or cause to be kept the books of account of the corporation in a thorough and proper manner, and shall render statements of the financial affairs of the corporation in such form and as often as required by the Board of Directors or the President. The Treasurer, subject to the order of the Board of Directors, shall have the custody of all funds and securities of the corporation. The Treasurer shall perform all other duties commonly incident to his office and shall perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time. The President may direct any assistant treasurer to assume and perform the duties of the Treasurer in

the absence or disability of the Treasurer, and each assistant treasurer shall perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time.

## **ARTICLE V**

### **EXECUTION OF CORPORATE INSTRUMENTS, AND VOTING OF SECURITIES OWNED BY THE CORPORATION**

#### **Section 5.1 Execution of Corporate Instruments.**

(a) The Board of Directors may in its discretion determine the method and designate the signatory officer or officers, or other person or persons, to execute any corporate instrument or document, or to sign the corporate name without limitation, except where otherwise provided by law, and such execution or signature shall be binding upon the corporation.

(b) Unless otherwise specifically determined by the Board of Directors or otherwise required by law, formal contracts of the corporation, promissory notes, deeds of trust, mortgages and other evidences of indebtedness of the corporation, and other corporate instruments or documents requiring the corporate seal, and certificates of shares of stock owned by the corporation, shall be executed, signed or endorsed by the Chairman of the Board (if there be such an officer appointed) or by the President; such documents may also be executed by any Vice-President and by the Secretary or Treasurer or any assistant secretary or assistant treasurer. All other instruments and documents requiring the corporate signature but not requiring the corporate seal may be executed as aforesaid or in such other manner as may be directed by the Board of Directors.

(c) All checks and drafts drawn on banks or other depositories on funds to the credit of the corporation or in special accounts of the corporation shall be signed by such person or persons as the Board of Directors shall authorize so to do.

(d) Execution of any corporate instrument may be effected in such form, either manual, facsimile or electronic signature, as may be authorized by the Board of Directors.

#### **Section 5.2 Voting of Securities Owned by Corporation.**

All stock and other securities of other corporations owned or held by the corporation for itself or for other parties in any capacity shall be voted, and all proxies with respect thereto shall be executed, by the person authorized so to do by resolution of the Board of Directors or, in the absence of such authorization, by the Chairman of the Board (if there be such an officer appointed), or by the President, or by any Vice-President.



## ARTICLE VI

### SHARES OF STOCK

#### **Section 6.1 Form and Execution of Certificates.**

Shares of stock of the corporation shall be represented by certificates, or shall be uncertificated shares that may be evidenced by a book-entry system maintained by the registrar of such stock, or a combination of both. To the extent that shares are represented by certificates, such certificates shall be in a form approved by the Board of Directors. Each certificate shall be signed in the name of the corporation by (A) the Chairman or Vice Chairman of the Board or the President or a Vice President and (B) the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer, and sealed with the seal of the corporation (which seal may be a facsimile, engraved or printed); provided, however, that where any such certificate is countersigned by a transfer agent other than the corporation or one of its employees, or is registered by a registrar other than the corporation or one of its employees, the signature of the officers of the corporation upon such certificates may be facsimiles, engraved or printed. In case any officer who shall have signed or whose facsimile signature has been placed upon such certificates shall have ceased to be such officer before such certificates shall be issued, they may nevertheless be issued by the corporation with the same effect as if such officer were still in office at the date of their issue.

#### **Section 6.2 Lost Certificates.**

The Board of Directors may direct a new certificate or certificates (or uncertificated shares in lieu of a new certificate) to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost or destroyed. When authorizing such issue of a new certificate or certificates (or uncertificated shares in lieu of a new certificate), the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or his legal representative, to indemnify the corporation in such manner as it shall require and/or to give the corporation a surety bond in such form and amount as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost or destroyed.

#### **Section 6.3 Transfers.**

Subject to any restrictions on transfer and unless otherwise provided by the Board of Directors, shares of stock may be transferred only on the books of the corporation by the surrender to the corporation or its transfer agent of shares in certificated form, properly endorsed or accompanied by a written assignment or power of attorney properly executed, with transfer stamps (if necessary) affixed, or upon proper instructions from the holder of uncertificated shares, in each case with such proof of the authenticity of signature as the corporation or its transfer agent may reasonably require. Except as otherwise provided by applicable law, the corporation shall be entitled to recognize the exclusive right of a person in whose name any share or shares stand on the record of shareholders as the owner of such share or shares for all

purposes, including, without limitation, the rights to receive dividends or other distributions and to vote as such owner, and the corporation may hold any such shareholder of record liable for calls and assessments and the corporation shall not be bound to recognize any equitable or legal claim to or interest in any such share or shares on the part of any other person whether or not it shall have express or other notice thereof. Whenever any transfers of shares shall be made for collateral security and not absolutely, and both the transferor and transferee request the corporation to do so, such fact shall be stated in the entry of the transfer.

#### **Section 6.4 Registered Shareholders.**

The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Florida.

### **ARTICLE VII**

#### **OTHER SECURITIES OF THE CORPORATION**

All bonds, debentures and other corporate securities of the corporation, other than stock certificates, may be signed by the Chairman of the Board (if there be such an officer appointed), or the President or any Vice-President or such other person as may be authorized by the Board of Directors and the corporate seal impressed thereon or a facsimile of such seal imprinted thereon and attested by the signature of the Secretary or an assistant secretary, or the Treasurer or an assistant treasurer; provided, however, that where any such bond, debenture or other corporate security shall be authenticated by the manual signature of a trustee under an indenture pursuant to which such bond, debenture or other corporate security shall be issued, the signature of the persons signing and attesting the corporate seal on such bond, debenture or other corporate security may be the imprinted facsimile of the signatures of such persons. Interest coupons appertaining to any such bond, debenture or other corporate security, authenticated by a trustee as aforesaid, shall be signed by the Treasurer or an assistant treasurer of the corporation, or such other person as may be authorized by the Board of Directors, or bear imprinted thereon the facsimile signature of such person. In case any officer who shall have signed or attested any bond, debenture or other corporate security, or whose facsimile signature shall appear thereon has ceased to be an officer of the corporation before the bond, debenture or other corporate security so signed or attested shall have been delivered, such bond, debenture or other corporate security nevertheless may be adopted by the corporation and issued and delivered as though the person who signed the same or whose facsimile signature shall have been used thereon had not ceased to be such officer of the corporation.

## ARTICLE VIII

### INDEMNIFICATION OF OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS

#### Section 8.1 Right to Indemnification.

Each person who was or is a party or is threatened to be made a party to or is involved (as a party, witness, or otherwise), in any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative (hereinafter a "Proceeding"), by reason of the fact that he, or a person of whom he is the legal representative, is or was a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation or of a partnership, joint venture, trust, or other enterprise, including service with respect to employee benefit plans, whether the basis of the Proceeding is alleged action in an official capacity as a director, officer, employee, or agent or in any other capacity while serving as a director, officer, employee, or agent (hereafter an "Agent"), shall be indemnified and held harmless by the corporation to the fullest extent authorized by the Florida Business Corporation Act, as the same exists or may hereafter be amended or interpreted (but, in the case of any such amendment or interpretation, only to the extent that such amendment or interpretation permits the corporation to provide broader indemnification rights than were permitted prior thereto) against all expenses, liability, and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties, and amounts paid or to be paid in settlement, and any interest, assessments, or other charges imposed thereon, and any federal, state, local, or foreign taxes imposed on any Agent as a result of the actual or deemed receipt of any payments under this Article) reasonably incurred or suffered by such person in connection with investigating, defending, being a witness in, or participating in (including on appeal), or preparing for any of the foregoing in, any Proceeding (hereinafter "Expenses"); provided, however, that except as to actions to enforce indemnification rights pursuant to Section 8.3 of this Article, the corporation shall indemnify any Agent seeking indemnification in connection with a Proceeding (or part thereof) initiated by such person only if the Proceeding (or part thereof) was authorized by the Board of Directors of the corporation. The right to indemnification conferred in this Article shall be a contract right.

#### Section 8.2 Authority to Advance Expenses.

Expenses incurred by an officer or director (acting in his capacity as such) in defending a Proceeding shall be paid by the corporation in advance of the final disposition of such Proceeding; provided, however, that if required by the Florida Business Corporation Act, such Expenses shall be advanced only upon delivery to the corporation of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the corporation as authorized in this Article or otherwise. Expenses incurred by other Agents of the corporation (or by the directors or officers not acting in their capacity as such, including service with respect to employee benefit plans) may be advanced upon such terms and conditions as the Board of Directors deems appropriate. Any obligation to reimburse the corporation for Expense advances shall be unsecured and no interest shall be charged thereon.

### **Section 8.3 Right of Claimant to Bring Suit.**

If a claim under Section 8.1 or 8.2 of this Article is not paid in full by the corporation within 30 days after a written claim has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense (including attorneys' fees) of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending a Proceeding in advance of its final disposition where the required undertaking has been tendered to the corporation) that the claimant has not met the standards of conduct that make it permissible under the Florida Business Corporation Act for the corporation to indemnify the claimant for the amount claimed. The burden of proving such a defense shall be on the corporation. Neither the failure of the corporation (including its Board of Directors, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper under the circumstances because he has met the applicable standard of conduct set forth in the Florida Business Corporation Act, nor an actual determination by the corporation (including its Board of Directors, independent legal counsel, or its shareholders) that the claimant had not met such applicable standard of conduct, shall be a defense to the action or create a presumption that claimant has not met the applicable standard of conduct.

### **Section 8.4 Provisions Nonexclusive.**

The rights conferred on any person by this Article shall not be exclusive of any other rights that such person may have or hereafter acquire under any statute, provision of the corporations' Articles of Incorporation or any agreement, vote of shareholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office. To the extent that any provision of the corporation's Articles of Incorporation or any agreement, or vote of the shareholders or disinterested directors is inconsistent with these Amended and Restated Bylaws, the provision, agreement or vote shall take precedence.

### **Section 8.5 Authority to Insure.**

The corporation may purchase and maintain insurance to protect itself and any Agent against any Expense, whether or not the corporation would have the power to indemnify the Agent against such Expense under applicable law or the provisions of this Article.

### **Section 8.6 Survival of Rights.**

The rights provided by this Article shall continue as to a person who has ceased to be an Agent and shall inure to the benefit of the heirs, executors, and administrators of such a person.

### **Section 8.7 Settlement of Claims.**

The corporation shall not be liable to indemnify any Agent under this Article (a) for any amounts paid in settlement of any action or claim effected without the corporation's written consent, which consent shall not be unreasonably withheld or (b) for any judicial award if the

corporation was not given a reasonable and timely opportunity, at its expense, to participate in the defense of such action.

**Section 8.8 Effect of Amendment.**

Any amendment, repeal, or modification of this Article shall not adversely affect any right or protection of any Agent existing at the time of such amendment, repeal, or modification.

**Section 8.9 Subrogation.**

In the event of payment under this Article, the corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the Agent, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the corporation effectively to bring suit to enforce such rights.

**Section 8.10 No Duplication of Payments.**

The corporation shall not be liable under this Article to make any payment in connection with any claim made against the Agent to the extent the Agent has otherwise actually received payment (under any insurance policy, agreement, vote, or otherwise) of the amounts otherwise indemnifiable hereunder.

**ARTICLE IX**

**FISCAL YEAR**

The fiscal year of the corporation shall begin on the first day in January of each calendar year and end on the last day of each December following.

**ARTICLE X**

**NOTICES**

Whenever, under any provisions of these Amended and Restated Bylaws, notice is required to be given to any shareholder, the same shall be given either (1) in writing, timely and duly deposited in the mail, postage prepaid, and addressed to his last known post office address as shown by the stock record of the corporation or its transfer agent, or (2) by a means of electronic transmission that satisfies the requirements of Section 2.4(e) of these Amended and Restated Bylaws, and has been consented to by the shareholder to whom the notice is given. Any notice required to be given to any director may be given by either of the methods hereinabove stated, except that such notice other than one which is delivered personally, shall be sent to such address or (in the case of electronic communication) such e-mail address, facsimile telephone number or other form of electronic address as such director shall have filed in writing or by electronic communication with the Secretary of the corporation, or, in the absence of such filing, to the last known post office address of such director. If no address of a shareholder or director be known, such notice may be sent to the principal office of the corporation. An affidavit of mailing, executed by a duly authorized and competent employee of the corporation

or its transfer agent appointed with respect to the class of stock affected, specifying the name and address or the names and addresses of the shareholder or shareholders, director or directors, to whom any such notice or notices was or were given, and the time and method of giving the same, shall be conclusive evidence of the statements therein contained. All notices given by mail, as above provided, shall be deemed to have been given as at the time of mailing and all notices given by means of electronic transmission shall be deemed to have been given as at the sending time recorded by the electronic transmission equipment operator transmitting the same. It shall not be necessary that the same method of giving notice be employed in respect of all directors, but one permissible method may be employed in respect of any one or more, and any other permissible method or methods may be employed in respect of any other or others. The period or limitation of time within which any shareholder may exercise any option or right, or enjoy any privilege or benefit, or be required to act, or within which any director may exercise any power or right, or enjoy any privilege, pursuant to any notice sent him in the manner above provided, shall not be affected or extended in any manner by the failure of such a shareholder or such director to receive such notice. Whenever any notice is required to be given under the provisions of the statutes or of the corporation's Articles of Incorporation, or of these Amended and Restated Bylaws, a waiver thereof in writing signed by the person or persons entitled to said notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Whenever notice is required to be given, under any provision of law or of the corporation's Articles of Incorporation or these Amended and Restated Bylaws, to any person with whom communication is unlawful, the giving of such notice to such person shall not be required and there shall be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any action or meeting which shall be taken or held without notice to any such person with whom communication is unlawful shall have the same force and effect as if such notice had been duly given. In the event that the action taken by the corporation is such as to require the filing of a certificate under any provision of the Florida Business Corporation Act, the certificate shall state, if such is the fact and if notice is required, that notice was given to all persons entitled to receive notice except such persons with whom communication is unlawful.

## **ARTICLE XI**

### **AMENDMENTS**

The Board of Directors shall have the authority to repeal, alter or amend these Amended and Restated Bylaws or adopt new Bylaws (including, without limitation, the amendment of any Amended and Restated Bylaws setting forth the number of directors who shall constitute the whole Board of Directors) by unanimous written consent or at any annual, regular, or special meeting by the affirmative vote of a majority of the whole number of directors, subject to the power of the shareholders to change or repeal such Bylaws and provided that the Board of Directors shall not make or alter any Bylaws fixing the qualifications, classifications or term of office of directors.

## CERTIFICATION

I, David Aviezer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Protalix BioTherapeutics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2008

/s/ David Aviezer

David Aviezer, Ph.D.

President and Chief Executive Officer

## CERTIFICATION

I, Yossi Maimon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Protalix BioTherapeutics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2008

/s/ Yossi Maimon

Yossi Maimon  
Chief Financial Officer, Treasurer



**PROTALIX BIOTHERAPEUTICS, INC.**

**CERTIFICATION**

In connection with the quarterly report of Protalix BioTherapeutics, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2008 as filed with the Securities and Exchange Commission (the "Report"), I, David Aviezer, President and Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Date: August 8, 2008

/s/ David Aviezer

David Aviezer, Ph.D.

President and Chief Executive Officer

**PROTALIX BIOTHERAPEUTICS, INC.**

**CERTIFICATION**

In connection with the quarterly report of Protalix BioTherapeutics, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2008 as filed with the Securities and Exchange Commission (the "Report"), I, Yossi Maimon, Vice President and Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for the purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Date: August 8, 2008

/s/ Yossi Maimon

Yossi Maimon

Vice President and Chief Financial Officer