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

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 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)**

# PROTALIX BIOTHERAPEUTICS, INC.

**(Exact name of registrant as specified in its charter)**

| **Florida** | **65-0643773** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **2 Snunit Street<br>Science Park<br>POB 455<br>Carmiel, Israel** | |
| **(Address of principal executive offices)** | **20100<br>(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** | **Name of each exchange on which registered** |
|---|---|
| **Common stock, par value $0.001 per share** | **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, or a non-accelerated filer. See definition of "large accelerated filer" and "accelerated filer" 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 May 1, 2008, approximately 75,883,046 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; and
- 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.

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)

| | March 31, 2008 (Unaudited) | December 31, 2007 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS:** | | |
| Cash and cash equivalents | $ 57,782 | $ 61,813 |
| Accounts receivable | 2,096 | 1,354 |
| Total current assets | 59,878 | 63,167 |
| **FUNDS IN RESPECT OF EMPLOYEE RIGHTS UPON RETIREMENT** | 544 | 464 |
| **PROPERTY AND EQUIPMENT, NET** | 5,404 | 4,506 |
| Total assets | $ 65,826 | $ 68,137 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **CURRENT LIABILITIES:** | | |
| Accounts payable and accruals: | | |
| Trade | $ 1,057 | $ 899 |
| Other | 3,148 | 2,863 |
| Total current liabilities | 4,205 | 3,762 |
| **LIABILITY FOR EMPLOYEE RIGHTS UPON RETIREMENT** | 872 | 690 |
| Total liabilities | 5,077 | 4,452 |
| **SHAREHOLDERS' EQUITY** | 60,749 | 63,685 |
| Total liabilities and shareholders' equity | $ 65,826 | $ 68,137 |

**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)

| | Three Months Ended | | Period from December 27, 1993* through |
|---|---|---|---|
| | March 31, 2008 | March 31, 2007 | March 31, 2008 |
| **REVENUES** | | | $ 830 |
| **COST OF REVENUES** | | | 206 |
| **GROSS PROFIT** | | | 624 |
| **RESEARCH AND DEVELOPMENT EXPENSES (1)** | $ 5,653 | $ 2,532 | 37,246 |
| less – grants | (1,366) | (738) | (7,553) |
| | 4,287 | 1,794 | 29,693 |
| **GENERAL AND ADMINISTRATIVE EXPENSES (2)** | 1,976 | 1,987 | 22,678 |
| **OPERATING LOSS** | 6,263 | 3,781 | 51,747 |
| **FINANCIAL INCOME – NET** | (1,150) | (331) | (3,598) |
| **OTHER INCOME** | | | (6) |
| **NET LOSS BEFORE CHANGE IN ACCOUNTING PRINCIPLE** | 5,113 | 3,450 | 48,143 |
| **CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE** | | | (37) |
| **NET LOSS FOR THE PERIOD** | $ 5,113 | $ 3,450 | $ 48,106 |
| **NET LOSS PER SHARE OF COMMON STOCK – BASIC AND DILUTED:** | $ 0.07 | $ 0.05 | |
| **WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK USED IN COMPUTING LOSS PER COMMON STOCK:** | | | |
| Basic and diluted | 75,811,866 | 64,365,376 | |
| (1) Includes share-based compensation | 1,327 | 206 | 6,002 |
| (2) Includes share-based compensation | 847 | 1,245 | 12,953 |

* 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 | | | | | |
| **Balance at December 27, 1993(1)** | | | | | | | | |
| **Changes during the period from December 27, 1993 through December 31, 2007:** | | | | | | | | |
| 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) |
| **Balance at December 31, 2007** | 75,775,439 | | 76 | | | 106,602 | (42,993) | 63,685 |
| **Changes during the three month period ended March 31, 2008** (Unaudited): | | | | | | | | |
| Restricted common stock issued for future services | | | | | | (6) | | (6) |
| Share-based compensation | | | | | | 2,180 | | 2,180 |
| Exercise (includes Net Exercise) of options granted to employees | 92,459 | | * | | | 3 | | 3 |
| Net loss for the period | | | | | | | (5,113) | (5,113) |
| **Balance at March 31, 2008** (Unaudited) | 75,867,898 | | $ 76 | | | $ 108,779 | $ (48,106) | $ 60,749 |

(1) Incorporation date, see Note 1a.

(2) Common Stock, $0.001 par value; Authorized – as of December 31, 2007 and March 31, 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)

| | Three Months Ended | | Period from December 27, 1993* through |
|---|---|---|---|
| | March 31, 2008 | March 31, 2007 | March 31, 2008 |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net loss for the period | $ (5,113) | $ (3,450) | $ (48,106) |
| Adjustments required to reconcile net loss to net cash used in operating activities: | | — | — |
| Cumulative effect of change in accounting principle | | | (37) |
| Share based compensation | 2,174 | 1,451 | 18,955 |
| Financial income net (principal differences relate to currency exchange rates) | (580) | (43) | (1,386) |
| Depreciation and impairment of fixed assets | 262 | 132 | 2,201 |
| Changes in accrued liability for employee rights upon retirement | 182 | 74 | 872 |
| Gain on amounts funded in respect of employee rights upon retirement | (41) | (5) | (145) |
| Gain on sale of fixed assets | | | (6) |
| Changes in operating assets and liabilities: | | | |
| Increase in accounts receivable | (658) | (886) | (1,803) |
| Increase (decrease) in accounts payable and accruals | (33) | (129) | 2,974 |
| Net cash used in operating activities | $ (3,807) | $ (2,856) | $ (26,481) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of property and equipment | $ (817) | $ (516) | $ (6,639) |
| Investment grant received in respect of fixed assets | | | 38 |
| Investment in restricted cash deposit | | | (47) |
| Proceeds from sale of property and equipment | | 4 | 11 |
| Amounts funded in respect of employee rights upon retirement | (39) | (30) | (570) |
| Amounts paid in respect of employee rights upon retirement | | 8 | 171 |
| Net cash used in investing activities | $ (856) | $ (534) | $ (7,036) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Loan and convertible bridge loan received | | | $ 2,145 |
| Repayment of loan | | | (1,000) |
| Issuance of shares and warrants, net of issuance cost | $ (20) | | 74,095 |
| Exercise of options and warrants | $ 3 | $ 12,910 | 14,417 |
| Merger with a wholly owned subsidiary of the Company, net of issuance cost | | (39) | 237 |
| Net cash provided by financing activities | $ (17) | $ 12,871 | $ 89,894 |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH** | $ 649 | $ 37 | $ 1,405 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (4,031) | 9,518 | 57,782 |
| **BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | 61,813 | 15,378 | — |
| **BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD** | $ 57,782 | $ 24,896 | $ 57,782 |

**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

| | Three Months Ended | | Period from December 27, 1993* through |
|---|---|---|---|
| | March 31, 2008 | March 31, 2007 | March 31, 2008 |
| **SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION:** | | | |
| Cash paid during the period for interest | | | $ 80 |
| **SUPPLEMENTARY INFORMATION ON INVESTING AND FINANCING ACTIVITIES NOT INVOLVING CASH FLOWS:** | | | |
| Conversion of convertible bridge loan into shares | | | $ 1,145 |
| Purchase of property and equipment | $ 1,009 | $ 249 | $ 1,009 |
| Issuance cost not yet paid and accruals – other: | $ 41 | $ 5 | $ 41 |
| 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.**

## NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES

### a. General

#### 1. Operation

Protalix BioTherapeutics, Inc. (the "Company") and its wholly-owned subsidiary, Protalix Ltd. (the "Subsidiary" or "Protalix Ltd."), are biopharmaceutical companies focused on the development and commercialization of recombinant therapeutic proteins based on the Company's proprietary ProCellEx$^{tm}$ 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.

During the period from 2003 to 2005, Protalix Ltd. was a party to a research and development services contract with a pharmaceutical company pursuant to which the Company agreed to provide certain research and development services. The Company earned total revenues of $830 throughout the duration of the contract in consideration for the performance of such services. The contract expired in the first quarter of 2005, and, since that time, the Company has not focused efforts on providing any further research and development services for third parties.

The Company has been in the development stage since its inception (see 2 below). 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. The Merger

On December 31, 2006, the Company (formerly Orthodontix, Inc.) consummated the acquisition of Protalix Ltd., a privately-held Israeli biotechnology company incorporated on December 27, 1993, by the merger (the "Merger") of its wholly owned subsidiary, Protalix Acquisition Co., Ltd., with Protalix Ltd. At and as of the Merger, the former shareholders of Protalix Ltd. received a number of shares of the Company's common stock, par value $.001 per share (the "Common Stock") equal to more than 99% of the outstanding shares of Common Stock. As a result, Protalix Ltd. is now the Company's wholly-owned subsidiary. As of that date, for accounting purposes, the Merger was accounted for as a recapitalization of Protalix Ltd. Accordingly, the historical financial statements of the Company reflect the historical operations and financial statements of Protalix Ltd. before the Merger.

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

All share and per share data provided in these notes to the financial statements have been retroactively restated to reflect the conversion ratio related to the exchange of shares in the Merger (and giving effect to the one-for-ten reverse stock split), unless otherwise stated herein. 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 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 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 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 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 13,008,658 and 10,565,151 shares of Common Stock for the three months ended March 31, 2007 and 2008, respectively.

**d. Newly issued and recently adopted Accounting Pronouncements**

**1.** In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework, provides guidance regarding the methods to be used for measuring fair value and expands the required disclosure regarding fair value measurements.

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

SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company adopted SFAS 157 on January 1, 2008. The adoption did not have any impact on the Company's results of operations and financial position since no other assets or liabilities are recognized or disclosed at fair value.

**2.** In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 is expected to expand the use of fair value accounting but does not affect existing standards that require certain assets or liabilities to be carried at fair value. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company adopted SFAS 159 on January 1, 2008. The adoption did not have any impact on the Company's financial position since the Company did not elect the fair value option for any assets or liabilities under SFAS 159.

**3.** In December 2007, the FASB issued Statement of Financial Accounting Standards 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.

**4.** 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" ("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 its parent company 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. 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.

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

**5.** 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.

**6.** In March 2008, the FASB issued Statement of Financial Accounting Standards 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.

**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 March 31, 2008, the Company issued 92,459 shares of Common Stock in connection with the exercise of 119,233 options by a certain officer and employees of the Company. The aggregate net exercise price was $3.

**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.

**NOTE 2 — STOCK TRANSACTIONS** (Continued):

**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 in varying rates 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**

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.

**NOTE 4 — SUBSEQUENT EVENT**

In April 2008, the Company issued 15,148 shares of Common Stock in connection with the net exercise of options to purchase 15,835 shares of Common Stock by certain employees.

**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$^{tm}$ 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. In the third quarter of 2007, we initiated enrollment and treatment of patients in our phase III clinical trial of prGCD. 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 GCD is replaced in 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, 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 during the second half of 2008. Because these product candidates are based on well-understood proteins with known biological mechanisms of action, we believe we may be able to reduce the development risks and time to market for our product candidates. We hold the worldwide commercialization rights to our proprietary development candidates and we intend to establish an 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 accounting treatment for the merger transaction was a recapitalization 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 March 31, 2008, we had an accumulated deficit of $47.7 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 March 31, 2008 compared to the three months ended March 31, 2007***

*Research and Development Expenses*

Research and development expenses were $4.3 million for the three months ended March 31, 2008, an increase of $2.5 million, or 139%, from $1.8 million for the three months ended March 31, 2007. The increase resulted primarily from the increase of $2.8 million in salaries and materials 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 was commenced during the third quarter of 2007. The increase was partially offset by grants of $1.4 million from the Office of the Chief Scientist, or the OCS, during the three months ended March 31, 2008, an increase of approximately $628,000 compared to grants equal to $738,000 received from the OCS during the three months ended March 31, 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.

*General and Administrative Expenses*

General and administrative expenses were $2.0 million for the three months ended March 31, 2008, and March 31, 2007.

*Financial Expenses and Income*

Financial income was $1.2 million for the three months ended March 31, 2008, an increase of $819,000, compared to $331,000 for the three months ended March 31, 2007. The increase resulted primarily from a higher balance of cash and cash equivalents as of March 31, 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 New Israeli Shekel, or 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 $14.2 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 $3.8 million for the three months ended March 31, 2008. The net loss for the three months ended March 31, 2008 of $5.1 million was partially offset by $2.2 million of non-cash share-based compensation but was increased due to an increase in accounts receivable of $658,000 million, mainly due to grants to be received from the OCS. Net cash used in investing activities for the three months ended March 31, 2008 was $856,000 and consisted primarily of purchases of property and equipment. Net cash used in financing activities for the three months ended March 31, 2008 was $17,000, consisting of expenses paid during such period in connection with the October 2007 underwritten offering.

Net cash used in operations was $2.9 million for the three months ended March 31, 2007. The net loss for the three months ended March 31, 2007 of $3.5 million was partially offset by $1.5 million of non-cash share-based compensation but was increased due to an increase in accounts receivable of $886,000, mainly due to grants to be received from the OCS. Net cash used in investing activities for the three months ended March 31, 2007 was $534,000 and consisted primarily of purchases of property and equipment. Net cash provided by financing activities for the three months ended March 31, 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 that would meet the FDA requirements 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 three months ended March 31, 2008 or the three months ended March 31, 2007.

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 three months ended March 31, 2008 or the three months ended March 31, 2007.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements as of each of March 31, 2008 and March 31, 2007.

**Recently Issued Accounting Pronouncements**

In December 2007, 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 its parent company 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 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. We are currently assessing the impact that EITF 07-01 may have on our results of operations and financial position.

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.

**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:

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| | 2008 | 2007 | 2007 |
| Average rate for period | 3.6234 | 4.2155 | 4.1081 |
| Rate at period end | 3.5530 | 4.1550 | 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 quarter ended March 31, 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**

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007.

**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 March 31, 2008, other than the issuance of 92,459 shares of common stock, in the aggregate, in connection with the exercise by a certain officer and employees of outstanding stock options granted under our 2006 Stock Incentive Plan for aggregate proceeds of approximately $3,000. 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**

At our Annual Meeting of Shareholders held on January 31, 2008, the following matters were voted on by our shareholders: (i) the election of eight directors; and (ii) the approval of the appointment of Kesselman & Kesselman, Certified Public Accountant (Isr.), a member of PricewaterhouseCoopers International Limited, as our independent registered public accounting firm for the fiscal year ending December 31, 2007. The results of such shareholder votes are as follows:

(i) Election of Directors

| | For | Withheld |
|---|---|---|
| Eli Hurvitz | 50,252,375 | 218,325 |
| David Aviezer, Ph.D., MBA | 50,343,780 | 126,920 |
| Yoseph Shaaltiel, Ph.D. | 50,343,780 | 126,920 |
| Alfred Akirov | 50,343,780 | 126,920 |
| Zeev Bronfeld | 50,337,251 | 29,520 |
| Yodfat Harel Gross | 50,343,861 | 126,839 |
| Eyal Sheratzky | 50,345,913 | 124,787 |
| Sharon Toussia-Cohen | 50,337,251 | 133,449 |

(ii) Approval of Kesselman & Kesselman, Certified Public Accountant (Isr.), a member of PricewaterhouseCoopers International Limited, as our Independent Registered Public Accounting Firm

| For | Against | Abstain |
|---|---|---|
| 50,436,839 | 33,047 | 814 |

**Item 5. Other Information**

None.

**Item 6. Exhibits**

| Exhibit Number | Exhibit Description | Method of Filing |
|---|---|---|
| 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 | Bylaws of the Company, as amended | Incorporated by reference to the Company's Registration Statement on Form S-4 filed on March 26, 1998, SEC File No. 333-48677 |
| 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: May 6, 2008

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

Date: May 6, 2008

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

**EXHIBIT 31.1**

**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: May 6, 2008

/s/ David Aviezer
David Aviezer, Ph.D.
President and Chief Executive Officer

**EXHIBIT 31.2**

**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: May 6, 2008

/s/ Yossi Maimon
Yossi Maimon
Chief Financial Officer, Treasurer

**EXHIBIT 32.1**

**PROTALIX BIOTHERAPEUTICS, INC.**

CERTIFICATION

In connection with the quarterly report of Protalix BioTherapeutics, Inc. (the "Company") on Form 10-Q for the period ended March 31, 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: May 6, 2008

/s/ David Aviezer
David Aviezer, Ph.D.
President and Chief Executive Officer

**EXHIBIT 32.2**

**PROTALIX BIOTHERAPEUTICS, INC.**

CERTIFICATION

In connection with the quarterly report of Protalix BioTherapeutics, Inc. (the "Company") on Form 10-Q for the period ended March 31, 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: May 6, 2008

/s/ Yossi Maimon
Yossi Maimon
Vice President and Chief Financial Officer