

Protalix BioTherapeutics, Inc.  
Form 10-Q  
May 09, 2016

**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, 2016**

**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)

Delaware 65-0643773  
(State or other jurisdiction (I.R.S. Employer  
of incorporation or organization) Identification No.)

2 Snunit Street

Science Park

POB 455

20100

Carmiel, Israel  
(Address of principal executive offices) (Zip Code)

+972-4-988-9488

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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):

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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, 2016, approximately 99,808,240 shares of the Registrant's common stock, \$0.001 par value, were outstanding.

FORM 10-Q

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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” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, and other statements included elsewhere in this Quarterly 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, or the Exchange Act, including statements regarding expectations, beliefs, intentions or strategies for the future. When used in this report, the terms “anticipate,” “believe,” “estimate,” “expect,” “can,” “continue,” “could,” “intend,” “may,” “plan,” “potential,” “predict,” “should,” “will,” “would” and words or phrases of similar import, as they relate to our company or our subsidiaries 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 or revise, nor do we have a policy of updating or revising, 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:

failure or delay in the commencement or completion of our preclinical studies and clinical trials, which may be caused by several factors, including: unforeseen safety issues; determination of dosing issues; lack of effectiveness during clinical trials; slower than expected rates of patient recruitment; inability to monitor patients adequately during or after treatment; inability or unwillingness of medical investigators and institutional review boards to follow our clinical protocols; or lack of sufficient funding to finance our clinical trials;

the risk that the results of our clinical trials will not support the applicable claims of safety or efficacy and that our product candidates will not have the desired effects or will have undesirable side effects or other unexpected characteristics;

our dependence on performance by third-party providers of services and supplies, including without limitation, clinical trial services;

risks relating to our ability to finance our research programs;

delays in preparing and filing applications for regulatory approval of our product candidates in the United States, the European Union and elsewhere;

any lack of progress of our research and development activities and our clinical activities with respect to any product candidate;

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

the risk that products that are competitive to our product candidates may be granted orphan drug status in certain territories and, therefore, will be subject to potential marketing and commercialization restrictions;

risks relating to the compliance by Fundação Oswaldo Cruz, or Fiocruz, an arm of the Brazilian Ministry of Health, with its purchase obligations under our supply and technology transfer agreement, which may result in the termination of such agreement which may have a material adverse effect on our company;

risks related to our supply of drug product to Pfizer Inc., or Pfizer, pursuant to our amended and restated exclusive license and supply agreement with Pfizer;

risks related to the commercialization efforts for taliglucerase alfa in Brazil;

- risks related to our supply of drug product to Fiocruz pursuant to our supply arrangement with Fiocruz;

the risk that we will not be able to develop a successful sales and marketing organization for taliglucerase alfa in Brazil, or for any other product candidate, in a timely manner, if at all;

risks relating to our ability to make scheduled payments of the principal of, to pay interest on or to refinance our 2018 convertible notes or any other indebtedness;

- our expectations with respect to the potential commercial value of our product and product candidates;

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

potential product liability risks, and risks of securing adequate levels of product liability and clinical trial insurance coverage;

- 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 our intellectual property rights against third parties;

- risks relating to changes in healthcare laws, rules and regulations in the United States or elsewhere; 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 subsidiaries, our manufacturing facilities and our customers, suppliers, distributors, collaborative partners, licensees and clinical trial sites.

Companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in advanced or late-stage clinical trials, even after obtaining promising earlier trial results or preliminary findings for such clinical trials. Even if favorable testing data is generated from clinical trials of a drug product, the U.S. Food and Drug Administration or foreign regulatory authorities may not accept or approve a marketing application filed by a pharmaceutical or biotechnology company for the drug product.

These forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. These and other risks and uncertainties are detailed under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015, and are described from time to time in the

reports we file with the U.S. Securities and Exchange Commission.



**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements****PROTALIX BIOTHERAPEUTICS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS**

(U.S. dollars in thousands)

(Unaudited)

	March 31, 2016	December 31, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$66,669	\$ 76,374
Other assets	2,945	1,667
Inventories	5,737	5,767
Assets of discontinued operation	918	2,073
Total current assets	76,269	85,881
FUNDS IN RESPECT OF EMPLOYEE RIGHTS UPON RETIREMENT	1,731	1,628
PROPERTY AND EQUIPMENT, NET	9,310	9,744
Total assets	\$87,310	\$ 97,253
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accruals:		
Trade	\$3,890	\$ 3,629
Other	4,757	5,534
Deferred revenues	504	504
Liabilities of discontinued operation	128	1,568
Total current liabilities	9,279	11,235
<b>LONG TERM LIABILITIES:</b>		
Convertible notes	67,906	67,796
Deferred revenues	744	744
Liability for employee rights upon retirement	2,430	2,304

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Promissory note	4,301	4,301
Total long term liabilities	75,381	75,145
Total liabilities	84,660	86,380
COMMITMENTS		
SHAREHOLDERS' EQUITY	2,650	10,873
Total liabilities and shareholders' equity	\$87,310	\$ 97,253

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

**PROTALIX BIOTHERAPEUTICS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(U.S. dollars in thousands, except share and per share data)

(Unaudited)

	Three Months Ended	
	March 31, 2016	March 31, 2015
REVENUES	\$679	\$ 1,692
COST OF REVENUES	(523)	(282)
GROSS PROFIT	156	1,410
RESEARCH AND DEVELOPMENT EXPENSES (1)	(7,334)	(6,100)
Less – grants	1,309	1,128
RESEARCH AND DEVELOPMENT EXPENSES, NET	(6,025)	(4,972)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (2)	(1,995)	(1,822)
OPERATING LOSS	(7,864)	(5,384)
FINANCIAL EXPENSES	(904)	(1,157)
FINANCIAL INCOME	242	28
FINANCIAL EXPENSES – NET	(662)	(1,129)
LOSS FROM CONTINUING OPERATIONS	(8,526)	(6,513)
Income (LOSS) FROM DISCONTINUED OPERATIONS	(72)	541
NET LOSS FOR THE PERIOD	\$(8,598)	\$(5,972)
NET LOSS PER SHARE OF COMMON STOCK – BASIC AND DILUTED		
<b>Loss from continuing operations</b>	\$ (0.09)	\$ (0.07)
<b>Income from discontinued operations</b>	(0.00)	0.01
Net loss per share of common stock	\$(0.09)	\$(0.06)
WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK USED IN COMPUTING LOSS PER SHARE-BASIC AND DILUTED	99,715,625	93,200,739
(1) Includes share-based compensation	238	126
(2) Includes share-based compensation	137	293

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

**PROTALIX BIOTHERAPEUTICS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(CAPITAL DEFICIENCY)**

(U.S. dollars in thousands, except share data)

(Unaudited)

	Common Stock (1) Number of shares	Common Stock	Additional paid-in capital	Accumulated deficit	Total
		Amount			
Balance at December 31, 2014	93,603,819	\$94	\$ 185,633	\$ (241,328 )	\$(55,601)
Changes during the three-month period ended March 31, 2015:					
Share-based compensation related to stock options			202		202
Share-based compensation related to restricted stock award, net of forfeitures of 1,667 shares	(1,667 )		217		217
Net loss from continuing operations				(6,513 )	(6,513 )
Net income from discontinued operations				541	541
Balance at March 31, 2015	93,602,152	94	186,052	(247,300 )	(61,154)
Balance at December 31, 2015	99,800,397	\$100	\$ 194,064	\$ (183,291 )	\$10,873
Changes during the three-month period ended March 31, 2016:					
Share-based compensation related to stock options			327		327
Share-based compensation related to restricted stock award	7,843		48		48
Net loss from continuing operations				(8,526 )	(8,526 )
Net loss from discontinued operations				(72 )	(72 )
Balance at March 31, 2016	99,808,240	100	194,439	(191,889 )	2,650

\* Represents an amount less than \$1.

(1) Common Stock, \$0.001 par value; Authorized – as of March 31, 2016 and 2015 - 150,000,000 shares.

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



**PROTALIX BIOTHERAPEUTICS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(U.S. dollars in thousands)

(Unaudited)

	Three Months Ended	
	March 31, 2016	March 31, 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (8,598 )	\$ (5,972 )
Income (loss) from discontinued operations	(72 )	541
Loss from continuing operations	(8,526 )	(6,513 )
Adjustments required to reconcile net loss to net cash used in operating activities:		
Share based compensation	375	419
Depreciation	516	616
Financial expenses, net (mainly exchange differences)	(130 )	284
Changes in accrued liability for employee rights upon retirement	43	(4 )
Gain on amounts funded in respect of employee rights upon retirement	(1 )	(1 )
Amortization of debt issuance costs and debt discount	110	110
Changes in operating assets and liabilities:		
Increase in deferred revenues		181
Increase in accounts receivable and other assets	(1,215 )	(803 )
Decrease in inventories	30	16
Decrease in accounts payable and accruals (including long term )	(470 )	(472 )
Net cash used in continuing operations	(9,268 )	(6,167 )
Net cash used in discontinued operations	(357 )	(254 )
Net cash used in operating activities	\$ (9,625 )	\$ (6,421 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	\$ (251 )	\$ (99 )
Amounts funded in respect of employee rights upon retirement, net	(42 )	
Net cash used in investing activities	\$ (293 )	\$ (99 )
EFFECT OF EXCHANGE RATE CHANGES ON CASH	\$ 213	\$ (289 )
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,705 )	(6,809 )
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	76,374	54,767
<b>BALANCE OF CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$ 66,669	\$ 47,958

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



**PROTALIX BIOTHERAPEUTICS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(U.S. dollars in thousands)

(Unaudited)

(Continued) - 2

	Three Months Ended	
	March 31, 2016	March 31, 2015
<b>SUPPLEMENTARY INFORMATION ON INVESTING AND FINANCING ACTIVITIES NOT INVOLVING CASH FLOWS:</b>		
Purchase of property and equipment	\$ 320	\$ 194
<b>SUPPLEMENTARY DISCLOSURE ON CASH FLOWS</b>		
Interest paid	\$ 1,553	\$ 1,553

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



**PROTALIX BIOTHERAPEUTICS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**a.**

**General**

Protalix BioTherapeutics, Inc. (collectively with its subsidiaries, the “Company”), and its wholly-owned subsidiaries, Protalix Ltd. and Protalix B.V. (“Subsidiaries”), are biopharmaceutical companies focused on the development and commercialization of recombinant therapeutic proteins based on the Company’s proprietary ProCellEx<sup>®</sup> protein expression system (“ProCellEx”). To date, the Company has successfully developed taliglucerase alfa (marketed under the name Uplyso<sup>™</sup> in Brazil and certain other Latin American countries and Elelyso<sup>™</sup> in the rest of the territories) for the treatment of Gaucher disease that has been approved for marketing in the United States, Brazil, Israel and other markets. The Company has a number of product candidates in varying stages of the clinical development process. The Company’s current strategy is to develop proprietary recombinant proteins that are therapeutically superior to existing recombinant proteins currently marketed for the same indications.

The Company’s product pipeline currently includes, among other candidates:

- (1) PRX-102, or alpha-GAL-A, a therapeutic protein candidate for the treatment of Fabry disease, a rare, genetic lysosomal disorder;
- (2) PRX-106, the Company’s oral antiTNF product candidate which is being developed as an orally-delivered anti inflammatory treatment using plant cells as a natural capsule for the expressed protein; and
- (3) PRX-110, a proprietary plant cell recombinant human Deoxyribonuclease 1, or DNase, under development for the treatment of cystic fibrosis, to be administered by inhalation.

Obtaining marketing approval with respect to any product candidate in any country is directly dependent on the Company’s ability to comply with all regulatory requirements to obtain such approvals. The Company cannot reasonably predict the outcome of these activities.

Since its approval by the U.S. Food and Drug Administration, taliglucerase alfa has been marketed mainly in the United States by Pfizer Inc. (“Pfizer”), as provided in the exclusive license and supply agreement by and between Protalix Ltd. and Pfizer, which is referred to herein as the Pfizer Agreement. In October 2015, the Company entered into an Amended and Restated Exclusive License and Supply Agreement (the “Amended Pfizer Agreement”) which amends and restates the Pfizer Agreement in its entirety. Pursuant to the Amended Pfizer Agreement, the Company sold to Pfizer its share in the collaboration created under the Pfizer Agreement for the commercialization of Elelyso in exchange for a cash payment equal to \$36.0 million. As part of the sale, the Company agreed to transfer its rights to Elelyso in Israel to Pfizer while gaining full rights to it in Brazil. Under the Pfizer Agreement, Pfizer and the Company shared revenues and expenses for the development and commercialization of Elelyso on a 60%/40% basis globally, excluding Israel and Brazil. Under the Amended Pfizer Agreement, Pfizer is entitled to all of the revenues, and responsible for 100% of expenses globally for Elelyso, excluding Brazil where the Company is responsible for all expenses and retains all revenues.

On June 18, 2013, the Company entered into a Supply and Technology Transfer Agreement (the “Brazil Agreement”) with Fundação Oswaldo Cruz (“Fiocruz”), an arm of the Brazilian Ministry of Health for taliglucerase alfa.

**PROTALIX BIOTHERAPEUTICS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES** (continued):

Fiocruz's purchases of Uplyso to date have been significantly below certain agreed upon purchase milestones and, accordingly, the Company has the right to terminate the Brazil Agreement. Notwithstanding the low purchase amounts, the Company is, at this time, continuing to supply Uplyso to Fiocruz under the Brazil Agreement, and patients continue to be treated with Uplyso in Brazil. The Company is discussing with Fiocruz potential actions that Fiocruz may take to comply with its purchase obligations and, based on such discussions, the Company will determine what it believes to be the course of action that is in the best interest of the Company.

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 12 months, although no assurance can be given that it will not need additional funds prior to such time. If there are unexpected increases in general and administrative expenses or research and development expenses, the Company may need to seek additional financing.

**b. Basis of presentation**

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for annual 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, 2015, filed by the Company with the U.S. Securities and Exchange Commission. The comparative balance sheet at December 31, 2015 has been derived from the audited financial statements at that date.

**c. Net earnings (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 \$0.001 per share (the “Common Stock”) outstanding for each period.

Diluted LPS is calculated in continuing operations. The calculation of diluted LPS does not include 19,380,543 and 19,648,577 shares of Common Stock underlying outstanding options and restricted shares of Common Stock and shares issuable upon conversion of the convertible notes (issued in September 2013) for the three months ended March 31, 2015 and 2016, respectively, because the effect would be anti-dilutive.

**PROTALIX BIOTHERAPEUTICS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 2 - INVENTORIES**

Inventory at March 31, 2016 and December 31, 2015 consisted of the following:

	March 31, 2016	December 31, 2015
	<i>(U.S. dollars in thousands)</i>	
Raw materials	\$ 1,635	\$ 1,180
Finished goods	4,102	4,587
Total inventory	\$ 5,737	\$ 5,767

**NOTE 3 – FAIR VALUE MEASUREMENT**

The Company measures fair value and discloses fair value measurements for financial assets and liabilities. Fair value is based on the price that would be received from the sale of an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The accounting standard establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

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.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers counterparty credit risk in its assessment of fair value.

The fair value of the financial instruments included in the working capital of the Company is usually identical or close to their carrying value.

The fair value of the convertible notes as of March 31, 2016 is approximately \$46 million based on a level 2 measurement.

#### **NOTE 4 – DISCONTINUED OPERATIONS**

The Company accounted for the termination of the Pfizer Agreement and the sale of the license as a discontinued operation, in accordance with ASU No. 2014-08. The following assets and liabilities associated with the Company's discontinued operations, have been segregated and classified as assets and liabilities of discontinued operations, as appropriate, in the consolidated balance sheets as of December 31, 2015 and March 31, 2016, respectively:

**PROTALIX BIOTHERAPEUTICS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE 4 – DISCONTINUED OPERATIONS** (continued):

	March 31, 2016	December 31, 2015
	<i>(U.S. dollars in thousands)</i>	
<b>CURRENT ASSETS:</b>		
Accounts receivable - Trade	\$ 918	\$ 1,993
Inventories		80
Total current assets of discontinued operation	918	2,073
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accruals:		
Other	\$ 128	\$ 1,568
Total current liabilities of discontinued operation	\$ 128	\$ 1,568

The following summarizes financial information related to the Company's discontinued operations in the Company's consolidated statements of operations for the fiscal quarters ended March 31, 2015 and March 31, 2016:

	Three Months ended March 31,	
	2016	2015
	<i>(U.S. dollars in thousands)</i>	
REVENUES	\$ 209	\$ 2,700
COMPANY'S SHARE IN COLLABORATION AGREEMENT		705
COST OF REVENUES	(206 )	(2,118 )
GROSS PROFIT	3	1,287
RESEARCH AND DEVELOPMENT EXPENSES		(662 )
Less –reimbursements		7
RESEARCH AND DEVELOPMENT EXPENSES, NET		(655 )
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	(75 )	(91 )
NET INCOME (LOSS) FOR THE YEAR FROM DISCONTINUED OPERATIONS	\$ (72 )	\$ 541

## 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 financial statements and the consolidated financial statements and the related notes included elsewhere in this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2015. 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, 2015 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, or ProCellEx. We developed our first commercial drug product, Elelyso<sup>™</sup>, using our ProCellEx system and we are now focused on utilizing the system to develop a pipeline of proprietary, clinically superior versions of recombinant therapeutic proteins that primarily target large, established pharmaceutical markets and that in most cases rely upon known biological mechanisms of action. With our experience to date, we believe ProCellEx will enable us to develop additional proprietary recombinant proteins that are therapeutically superior to existing recombinant proteins currently marketed for the same indications. We are now also applying the unique properties of our ProCellEx system for the oral delivery of therapeutic proteins.

On May 1, 2012, the U.S. Food and Drug Administration, or the FDA, approved for sale our first commercial product, taliglucerase alfa for injection, an enzyme replacement therapy, or ERT, for the long-term treatment of adult patients with a confirmed diagnosis of type 1 Gaucher disease. Subsequently, taliglucerase alfa was approved for marketing by the regulatory authorities of other countries. Taliglucerase alfa is being marketed under the name Uplyso<sup>™</sup> in Brazil and certain other Latin American countries, and as Elelyso in all other territories.

Since its approval by the FDA, taliglucerase alfa has been marketed mainly in the United States by Pfizer, as provided in the exclusive license and supply agreement by and between Protalix Ltd., our wholly-owned subsidiary, and Pfizer, which we refer to as the Pfizer Agreement. In October 2015, we entered into an Amended and Restated Exclusive License and Supply Agreement, or the Amended Pfizer Agreement, which amends and restates the Pfizer Agreement in its entirety. Pursuant to the Amended Pfizer Agreement, we sold to Pfizer our share in the collaboration created under the initial Pfizer Agreement for the commercialization of Elelyso in exchange for a cash payment equal to \$36.0 million. As part of the sale, we agreed to transfer our rights to Elelyso in Israel to Pfizer, while gaining full rights to Elelyso in Brazil. We will continue to manufacture drug substance for Pfizer, subject to certain terms and conditions. Under the initial Pfizer Agreement, Pfizer shared revenues and expenses for the development and commercialization



of Elelyso with us on a 60%/40% basis globally, excluding Israel and Brazil. Under the Amended Pfizer Agreement, Pfizer is responsible for 100% of expenses, and entitled to all revenues globally for Elelyso, excluding Brazil, where we are responsible for all expenses and retain all revenues.

For the first 10-year period after the execution of the Amended Pfizer Agreement, we have agreed to sell drug substance to Pfizer for the production of Elelyso, and Pfizer maintains the right to extend the supply period for up to two additional 30-month periods subject to certain terms and conditions. Any failure to comply with our supply commitments may subject us to substantial financial penalties, which will have a material adverse effect on our business, results of operations and financial condition. The Amended Pfizer Agreement also includes customary provisions regarding cooperation for regulatory matters, patent enforcement, termination, indemnification and insurance requirements.

On June 18, 2013, we entered into a Supply and Technology Transfer Agreement, or the Brazil Agreement, with Fiocruz, an arm of the Brazilian Ministry of Health, for taliglucerase alfa.

Fiocruz's purchases of Uplyso to date have been significantly below certain agreed upon purchase milestones and, accordingly, we have the right to terminate the Brazil Agreement. Notwithstanding the low purchase amounts, we are, at this time, continuing to supply Uplyso to Fiocruz under the Brazil Agreement, and patients continue to be treated with Uplyso in Brazil. We are discussing with Fiocruz potential actions that Fiocruz may take to comply with its purchase obligations and, based on such discussions, we will determine what we believe to be the course of action that is in the best interest of our company.

We are developing an innovative product pipeline using our ProCellEx protein expression system. Our product pipeline currently includes, among other candidates:

(1) PRX-102, or alpha-GAL-A, a therapeutic protein candidate for the treatment of Fabry disease, a rare, genetic lysosomal disorder in humans, currently in an ongoing phase I/II clinical trial. We expect to commence phase III clinical trials of PRX-102 during the first half of 2016 shortly after we finalize the ongoing special protocol assessment (SPA) process with the FDA in connection with our proposed protocol for the trial.

(2) PRX-110, a proprietary plant cell recombinant human Deoxyribonuclease 1, or AIR DNase<sup>TM</sup>, under development for the treatment of cystic fibrosis, to be administered by inhalation. We have commenced a phase I clinical trial of AIR DNase in healthy volunteers and intend to initiate a proof of concept efficacy study in patients in mid year, 2016.

(3) OPRX-106, our oral antiTNF product candidate which is being developed as an orally-delivered anti-inflammatory treatment using plant cells as a natural capsule for the expressed protein. We concluded the phase I clinical trial, which demonstrated that the drug was safe and well tolerated, showing biological activity in the gut and inducement of regulatory T cells. We expect to initiate a proof of concept efficacy study in Ulcerative Colitis in mid-year, 2016.

Except for the rights to commercialize taliglucerase alfa worldwide (other than Brazil), which we licensed to Pfizer, we hold the worldwide commercialization rights to all of our proprietary development candidates. In addition, we continuously evaluate potential strategic marketing partnerships as well as collaboration programs with biotechnology and pharmaceutical companies and academic research institutes.

### **Critical Accounting Policies**

Our significant accounting policies are more fully described in Note 1 to our consolidated financial statements appearing in this Quarterly Report. There have not been any changes to our significant accounting policies since the

Annual Report on Form 10-K for the year ended December 31, 2015.

The discussion and analysis of our financial condition and results of operations is based on our financial statements, which we prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues and expenses during the reporting periods. On an ongoing basis, we evaluate such estimates and judgments, including those described in greater detail below. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

### **Discontinued Operations**

Pursuant to the Amended Pfizer Agreement, we sold to Pfizer our share in the collaboration created under the initial Pfizer Agreement for the commercialization of Elelyso. As part of the sale, we agreed to transfer our rights to Elelyso in Israel to Pfizer while gaining full rights to Elelyso in Brazil. Under the Amended Pfizer Agreement, Pfizer is responsible for 100% of expenses, and entitled to all of the revenues, globally, for Elelyso, excluding Brazil where we are responsible for all expenses and retain all revenues. The Amended Pfizer Agreement eliminates Pfizer's entitlement to annual payments of up to \$12.5 million in relation to commercialization of Elelyso in Brazil. For further details please see notes 1 and 4 to the financial statements.

## Results of Operations

### *Three months ended March 31, 2016 compared to the three months ended March 31, 2015*

#### *Revenues*

We recorded revenues of \$679,000 during the three months ended March 31, 2016, a decrease of \$1.0 million, or 60%, from revenues of \$1.7 million for the three months ended March 31, 2015. The decrease resulted primarily from a decrease in the amount of products sold in Brazil.

#### *Cost of Revenues*

Cost of revenues was \$523,000 for the three months ended March 31, 2016, an increase of \$241,000, or 85%, from cost of revenues of \$282,000 for the three months ended March 31, 2015.

#### *Research and Development Expenses, Net*

Research and development expenses were \$6.0 million for the three months ended March 31, 2016, an increase of \$1.0 million, or 21%, from \$5.0 million for the three months ended March 31, 2015. The increase resulted primarily from an increase of \$495,000 in materials used in our development programs.

We expect research and development expenses for our various development programs to continue to be our primary expense.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses were \$2.0 million for the three months ended March 31, 2016, an increase of \$173,000, or 9%, from \$1.8 million for the three months ended March 31, 2015.

### *Financial Expenses and Income*

Financial expenses net were \$662,000 for the three months ended March 31, 2016 compared to financial expenses net of \$1.1 million for the three months ended March 31, 2015. Financial expenses is composed primarily from interest expense of \$776,000 for each three-month period for the 4.5% convertible notes described below.

## **Liquidity and Capital Resources**

### *Sources of Liquidity*

As a result of our significant research and development expenditures which supersedes our product sales revenue, we have not been profitable and have generated operating losses from our continuing operations since our inception. To date, we have funded our operations primarily with proceeds equal to \$31.3 million from the sale of shares of convertible preferred and ordinary shares of Protalix Ltd., and an additional \$14.1 million in connection with the exercise of warrants issued in connection with the sale of such shares, through December 31, 2008. In addition, on October 25, 2007, we generated gross proceeds of \$50 million in connection with an underwritten public offering of our common stock and on each of March 23, 2011 and February 22, 2012, we generated gross proceeds of \$22.0 million and \$27.2 million, respectively, in connection with underwritten public offerings of our common stock.

In addition to the foregoing, on September 18, 2013, we completed a private placement of \$69.0 million in aggregate principal amount of 4.50% convertible notes due 2018, or the Notes, including \$9.0 million aggregate principal amount of Notes related to the offering's initial purchaser's over-allotment option, which was exercised in full.

Pfizer paid Protalix Ltd. \$60.0 million as an upfront payment in connection with the execution of the Pfizer Agreement and subsequently paid to Protalix Ltd. an additional \$5.0 million upon Protalix Ltd.'s meeting a certain milestone. Protalix Ltd. also received a milestone payment of \$25.0 in connection with the FDA's approval of taliglucerase alfa in May 2012. Pfizer has also paid Protalix Ltd. \$8.3 million in connection with the successful achievement of certain milestones under a clinical development agreement between Pfizer and Protalix Ltd. In connection with the execution of the Amended Pfizer Agreement, we received a \$36.0 million payment from Pfizer, and Pfizer purchased 5,649,079 shares of our common stock for \$10.0 million.

We believe that our existing cash and cash equivalents will be sufficient for at least 12 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.

#### *Cash Flows*

Net cash used in operations was \$9.6 million for the three months ended March 31, 2016. The net loss for the three months ended March 31, 2016 of \$8.6 million was further increased by an increase of \$1.2 million in accounts receivable and a decrease of \$470,000 in accounts payable, but was partially offset by depreciation expenses of \$516,000. Net cash used in investing activities for the three months ended March 31, 2016 was \$293,000 and consisted primarily of purchases of property and equipment.

Net cash used in operations was \$6.4 million for the three months ended March 31, 2015. The net loss for the three months ended March 31, 2015 of \$6.0 million was further increased by an increase of \$803,000 in accounts receivable, but was partially offset by depreciation expenses of \$616,000. Net cash used in investing activities for the three months ended March 31, 2015 was \$99,000 and consisted primarily of purchases of property and equipment.

#### *Future Funding Requirements*

We expect to continue to incur significant expenditures in the near future, including significant research and development expenses related primarily to the clinical trials of PRX-102 and the advancement of our other product candidates into anticipated later stage clinical trials.

Our future capital requirements will depend on many factors, including our progress in commercializing Uplyso in Brazil, 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 may need to finance our future cash needs through corporate collaboration, licensing or similar arrangements, public or private equity offerings or debt financings. 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. Any 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, 2016 and March 31, 2015.

Currency fluctuations could affect us through increased or decreased acquisition costs for certain goods and services. We do not believe currency fluctuations have had a material effect on our results of operations during the three months ended March 31, 2016 and March 31, 2015.

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

We have no off-balance sheet arrangements as of each of March 31, 2016 and March 31, 2015.

### **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 U.S. dollar. We consider the currency of the primary economic environment to be the currency in which we generate revenues and expend cash. Most of our revenues are denominated in U.S. dollars, approximately 50% of our expenses and capital expenditures are incurred in U.S. 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.

A portion of our costs, including salaries, expenses and office expenses, are incurred in 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 devaluation 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:

	<b>Three months ended</b>			Year ended
	<b>March 31,</b>			December 31,
	2016	2015	2015	
Average rate for period	3.909	3.946	3.887	
Rate at period end	3.766	3.980	3.902	

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 changes to 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, 2016 that have materially affected, or that are 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 to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

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

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

There were no unregistered sales of equity securities during the three months ended March 31, 2016.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosure

Not applicable.

## Item 5. Other Information

We have scheduled our 2016 Annual Meeting of Shareholders for August 7, 2016 and have fixed June 24, 2016 as the record date for shareholders entitled to receive notice of, and to vote at, the 2016 Annual Meeting of Shareholders. The final location and time of the meeting will be announced in the proxy statement we will file and distribute in connection with the meeting.

In order for a proposal to be considered timely, we must receive it on or prior to June 24, 2016 at our principal executive offices at 2 Snunit Street, Science Park, P.O. Box 455, Carmiel 20100, Israel. Proposals should be directed to the attention of the Secretary.

We plan to file with the Commission, and mail to our shareholders, a proxy statement in connection with the 2016 Annual Meeting of Shareholders, and we advise our shareholders to read the proxy statement relating to the 2016 Annual Meeting of Shareholders when it becomes available, as it will contain important information. Shareholders may obtain a free copy of the proxy statement and any other relevant documents (when available) that we file with the Commission via the Commission's web site at [www.sec.gov](http://www.sec.gov). The proxy statement and these other documents, when available, may also be obtained free of charge from us by directing a request to 2 Snunit Street, Science Park, P.O. Box 455, Carmiel 20100, Israel, Attention: Secretary.

We, our directors and our named executive officers may be deemed to be participants in the solicitation of the shareholders in connection with the 2016 Annual Meeting of Shareholders. Shareholders will be able to obtain information regarding the names, affiliations and interests of such individuals in our Annual Report on Form 10-K for the year ended December 31, 2015, as amended, and in the other filings we make with the Commission.

## Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		File Form Number	Exhibit	Date	
3.1	Certificate of Incorporation of the Company	8-K 333-48677	3.1	April 1, 2016	
3.2	Bylaws of the Company	8-K 001-33357	3.2	April 1, 2016	
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the				X

Sarbanes-Oxley Act of 2002

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	X
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	X

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	X
101.INS	XBRL INSTANCE FILE	X
101.SCH	XBRL SHEMA FILE	X
101.CAL	XBRL CALCULATION FILE	X
101.DEF	XBRL DEFINITION FILE	X
101.LAB	XBRL LABEL FILE	X
101.PRE	XBRL PRESENTATION FILE	X

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 9, 2016 By: /s/ Moshe Manor  
Moshe Manor

President and Chief Executive Officer

(Principal Executive Officer)

Date: May 9, 2016 By: /s/ Yossi Maimon  
Yossi Maimon

Chief Financial Officer, Treasurer and Secretary

(Principal Financial and Accounting Officer)