

- injury to our reputation;
- inability to continue to develop a drug candidate or technology;
- withdrawal of clinical trial volunteers; and
- loss of revenues.

Consequently, a product liability claim or product recall may result in material losses.

Risks Related to Our Financial Condition

Our current cash, cash equivalents and bank deposits may not be adequate to support our operations for the length of time that we have estimated. If we are unable to obtain additional funds on terms favorable to us, or at all, we may not be able to continue our operations.

We expect to use, rather than generate, funds from operations for the foreseeable future. Based on our current business plan and forecast, we believe that our current cash, cash equivalents and bank deposits provide us with sufficient resources to fund our operations through July 2009; however, the actual amount of funds that we will need will depend on many factors, some of which are beyond our control. These factors include:

- the progress in successfully meeting the closing conditions for the agreement with Bio-Gal Ltd., including a financing;
- the progress of our planned research activities;
- the accuracy of our financial forecasts;
- the number and scope of our planned development programs;
- our ability to establish and maintain current and new licensing or acquisition arrangements;
- our ability to achieve our milestones under our licensing arrangements;
- the costs involved in enforcing patent claims and other intellectual property rights; and
- the costs and timing of regulatory approvals.

We do believe, however, that we will likely seek additional capital during the next couple of months through a planned rights offering and / or public or private equity offerings or debt financings. We have made no determination at this time as to the amount or method of any such financing. The global capital markets have been experiencing extreme volatility and disruption for more than twelve months. In recent months, the volatility and disruption have reached unprecedented levels. Given recent particularly adverse market conditions for small biotechnology companies, additional financing may not be available to us when we need it. We may also be forced to delay raising capital or bear an unattractive cost of capital. If we are unable to obtain additional funds on terms favorable to us or at all, we may be required to cease or reduce our operating activities or sell or license to third parties some or all of our technology. If we raise additional funds by selling ordinary shares, ADRs, or other securities, the ownership interests of our shareholders will be diluted. If we need to raise additional funds through the sale or license of our drug candidates or technology, we may be unable to do so on terms favorable to us or at all. If we are not able to raise capital in a timely manner, there is a material risk regarding our ability to continue as a going concern.

It is possible that we may be subject to taxation in the US, which could significantly increase our tax liability in the US for which we may not be able to apply the net losses accumulated in Israel.

We have had a "permanent establishment" in the United States, or US, which began in 2005, due to the residency of the former Chairman of our Board of Directors and our Chief Executive Officer in the US, as well as other less significant contacts that we have with the US. This may continue in 2009 as well. As a result, any income attributable to such US permanent establishment would be subject to US corporate income tax in the same manner as if we were a US corporation. If this is the case, we may not be able to utilize any of the accumulated Israeli loss carryforwards reflected on our balance sheet as of December 31, 2008 since these losses were not attributable to the US permanent establishment. However, we would be able to utilize losses attributable to the US permanent establishment to offset such US taxable income. As of December 31, 2008, we estimate that these US net operating loss carryforwards are approximately \$22.6 million. These losses can be carried forward to offset future US taxable income, subject to limitation in the case of shifts in ownership of XTL, e.g. a planned offering or capital raise, resulting in more than 50 percentage point change over a three year lookback period, and expiring through 2028. US corporate tax rates are higher than those to which we are subject in the State of Israel, and if we are subject to US corporate tax, it would have a material adverse effect on our results of operations.

Our subsidiary's Lease Agreement with Suga Development with respect to its former offices in Valley Cottage, New York could obligate that subsidiary to pay the remaining lease payments even though they have delivered notice of termination and mitigation to the landlord.

On April 6, 2009, our wholly-owned subsidiary, XTL Biopharmaceuticals, Inc., delivered a termination notice to Suga Development, L.L.C., with respect to the leasing of approximately 33,200 sq. ft. located at 711 Executive Boulevard, Suite Q, Valley Cottage, New York 10989. We believe that the notice provided a clear indication of the termination of XTL Biopharmaceuticals, Inc.'s obligations under the lease, effective as of the date of the notice. In addition, XTL Biopharmaceuticals, Inc. informed Suga Development that upon receipt of the notice, they should use their best effort to re-rent the premises and to mitigate any damages. There can be no assurance that the landlord will not dispute the termination of the lease, and attempt to hold XTL Biopharmaceuticals, Inc. responsible for the full amount of all future unpaid lease payments, approximately \$335,000.

Risks Related to Our Intellectual Property

If we are unable to adequately protect our intellectual property, third parties may be able to use our technology, which could adversely affect our ability to compete in the market.

Our commercial success will depend in part on our ability and the ability of our licensors to obtain and maintain patent protection on our drug products and technologies and successfully defend these patents and technologies against third-party challenges. As part of our business strategy, our policy is to actively file patent applications in the US and internationally to cover methods of use, new chemical compounds, pharmaceutical compositions and dosing of the compounds and composition and improvements in each of these. See "Item 4. Information on the Company - Business Overview - Intellectual Property and Patents," below regarding our patent position with regard to our product candidates. Because of the extensive time required for development, testing and regulatory review of a potential product, it is possible that before we commercialize any of our products, any related patent may expire or remain in existence for only a short period following commercialization, thus reducing any advantage of the patent.

The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions. No consistent policy regarding the breadth of claims allowed in biotechnology patents has emerged to date. Accordingly, the patents we use may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. Furthermore, others may independently develop similar or alternative technologies or design around our patented technologies. The patents we use may be challenged or invalidated or may fail to provide us with any competitive advantage.

Generally, patent applications in the US are maintained in secrecy for a period of 18 months or more. Since publication of discoveries in the scientific or patent literature often lag behind actual discoveries, we are not certain that we were the first to make the inventions covered by each of our pending patent applications or that we were the first to file those patent applications. We cannot predict the breadth of claims allowed in biotechnology and pharmaceutical patents, or their enforceability. Third parties or competitors may challenge or circumvent our patents or patent applications, if issued. If our competitors prepare and file patent applications in the US that claim compounds or technology also claimed by us, we may choose to participate in interference proceedings declared by the United States Patent and Trademark Office to determine priority of invention, which could result in substantial cost, even if the eventual outcome is favorable to us. While we have the right to defend patent rights related to the licensed drug candidates and technologies, we are not obligated to do so. In the event that we decide to defend our licensed patent rights, we will be obligated to cover all of the expenses associated with that effort.

We also rely on trade secrets to protect technology where we believe patent protection is not appropriate or obtainable. Trade secrets are difficult to protect. While we require our employees, collaborators and consultants to enter into confidentiality agreements, this may not be sufficient to adequately protect our trade secrets or other proprietary information. In addition, we share ownership and publication rights to data relating to some of our drug candidates and technologies with our research collaborators and scientific advisors. If we cannot maintain the confidentiality of this information, our ability to receive patent protection or protect our proprietary information will be at risk.

Specifically, we plan to pursue patent protection in the US and in certain foreign countries relating to our development and commercialization of Recombinant Erythropoietin ("rHuEPO") for the prolongation of multiple myeloma patients' survival and improvement of their quality of life. A main use patent (United States Patent 6,579,525 "Pharmaceutical Compositions Comprising Erythropoietin for Treatment of Cancer") was submitted by Mor Research Applications Ltd., an Israeli corporation and Yeda Research and Development Company Ltd., an Israeli corporation, in April 1998 and PCT was filed in April 1999. The patent was granted in the United States, Europe, Israel and Hong Kong. Patent applications are pending in Canada and Japan. Currently, under the license agreement which we are acquiring from Bio-Gal Ltd., we will have exclusive worldwide rights to the above patent for the use of Recombinant Erythropoietin ("rHuEPO") in multiple myeloma. See "Item 4. Information on the Company - Business Overview - Intellectual Property and Patents." However, we cannot guarantee the scope of protection of any issued patents, or that such patents will survive a validity or enforceability challenge, or that any pending patent applications will issue as patents.

Litigation or third-party claims of intellectual property infringement could require us to spend substantial time and money defending such claims and adversely affect our ability to develop and commercialize our products.

Third parties may assert that we are using their proprietary technology without authorization. In addition, third parties may have or obtain patents in the future and claim that our products infringe their patents. If we are required to defend against patent suits brought by third parties, or if we sue third parties to protect our patent rights, we may be required to pay substantial litigation costs, and our management's attention may be diverted from operating our business. In addition, any legal action against our licensors or us that seeks damages or an injunction of our commercial activities relating to the affected products could subject us to monetary liability and require our licensors or us to obtain a license to continue to use the affected technologies. We cannot predict whether our licensors or we would prevail in any of these types of actions or that any required license would be made available on commercially acceptable terms, if at all. In addition, any legal action against us that seeks damages or an injunction relating to the affected activities could subject us to monetary liability and/or require us to discontinue the affected technologies or obtain a license to continue use thereof.

In addition, there can be no assurance that our patents or patent applications or those licensed to us will not become involved in opposition or revocation proceedings instituted by third parties. If such proceedings were initiated against one or more of our patents, or those licensed to us, the defense of such rights could involve substantial costs and the outcome could not be predicted.

Competitors or potential competitors may have filed applications for, may have been granted patents for, or may obtain additional patents and proprietary rights that may relate to compounds or technologies competitive with ours. If patents are granted to other parties that contain claims having a scope that is interpreted to cover any of our products (including the manufacture thereof), there can be no assurance that we will be able to obtain licenses to such patents at reasonable cost, if at all, or be able to develop or obtain alternative technology.

Risks Related to Our Ordinary Shares and ADRs

Our ADRs are traded in small volumes, limiting your ability to sell your ADRs that represent ordinary shares at a desirable price, if at all.

The trading volume of our ADRs has historically been low. Even if the trading volume of our ADRs increases, we can give no assurance that it will be maintained or will result in a desirable stock price. As a result of this low trading volume, it may be difficult to identify buyers to whom you can sell your ADRs in desirable volume and you may be unable to sell your ADRs at an established market price, at a price that is favorable to you, or at all. A low volume market also limits your ability to sell large blocks of our ADRs at a desirable or stable price at any one time. You should be prepared to own our ordinary shares and ADRs indefinitely.

Our stock price can be volatile, which increases the risk of litigation and may result in a significant decline in the value of your investment.

The trading price of the ADRs representing our ordinary shares is likely to be highly volatile and subject to wide fluctuations in price in response to various factors, many of which are beyond our control. These factors include:

- developments concerning our drug candidates;
- announcements of technological innovations by us or our competitors;
- introductions or announcements of new products by us or our competitors;
- announcements by us of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in financial estimates by securities analysts;
- actual or anticipated variations in interim operating results and near-term working capital;
- expiration or termination of licenses, research contracts or other collaboration agreements;

- conditions or trends in the regulatory climate and the biotechnology and pharmaceutical industries;
- delisting from the Nasdaq Stock Market
- changes in the market valuations of similar companies; and
- additions or departures of key personnel.

In addition, equity markets in general, and the market for biotechnology and life sciences companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies traded in those markets. These broad market and industry factors may materially affect the market price of our ordinary shares or ADRs, regardless of our development and operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted against that company. Such litigation, if instituted against us, could cause us to incur substantial costs to defend such claims and divert management's attention and resources even if we prevail in the litigation, all of which could seriously harm our business.

Future issuances or sales of our ordinary shares could depress the market for our ordinary shares and ADRs.

Future issuances of a substantial number of our ordinary shares, or the perception by the market that those issuances could occur, could cause the market price of our ordinary shares or ADRs to decline or could make it more difficult for us to raise funds through the sale of equity in the future. We believe that our cash, cash equivalents and bank deposits as of December 31, 2008 provide us with sufficient resources to fund our operations through July 2009; however, prior to the end of that period it will be necessary for us to return to the capital markets through the sale of ADRs or ordinary shares.

Also, if we successfully close the Bio-Gal Ltd. transaction or make one or more significant acquisitions in which the consideration includes ordinary shares or other securities, your portion of shareholders' equity in us may be significantly diluted. In addition, pursuant to a license agreement with VivoQuest, Inc., or VivoQuest, a privately held biotechnology company based in the US, we licensed (in all fields of use) certain intellectual property and technology related to VivoQuest's HCV program. Pursuant to the license agreement, we may elect to issue up to an additional \$34.6 million in ordinary shares to VivoQuest in lieu of cash upon achievement of certain milestones. Additionally, pursuant to the Bio Gal Ltd. agreement, we may issue 100.4 million ordinary shares par value NIS 0.10 (equivalent to 500.2 million ordinary shares par value NIS 0.02) upon a successful Phase 2 program. In the future, we may also enter into additional arrangements with other third-parties permitting us to issue ordinary shares in lieu of certain cash payments.

Concentration of ownership of our ordinary shares among our principal stockholders may prevent new investors from influencing significant corporate decisions.

Following the planned closing of the Bio-Gal Ltd. transaction, Bio-Gal Ltd.'s stockholders and their affiliates will hold approximately 49% of our then outstanding ordinary shares. As a result, these persons, acting together, may have the ability to significantly influence the outcome of all matters submitted to our stockholders for approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, such persons, acting together, may have the ability to effectively control our management and affairs. Accordingly, this concentration of ownership may depress the market price of our ADRs or ordinary shares.

Our ordinary shares and ADRs trade on more than one market, and this may result in price variations and regulatory compliance issues.

ADRs representing our ordinary shares are quoted on the NASDAQ Capital Market and our ordinary shares are traded on the Tel Aviv Stock Exchange, or TASE. Trading in our securities on these markets is made in different currencies and at different times, including as a result of different time zones, different trading days and different public holidays in the US and Israel. Consequently, the effective trading prices of our shares on these two markets may differ. Any decrease in the trading price of our securities on one of these markets could cause a decrease in the trading price of our securities on the other market.

Were we to be delisted from the Nasdaq Stock Market, we may then be required to follow the full rules and regulations of the Tel Aviv Stock Exchange. This would include the need to file regulatory documents in both Hebrew and English, the need to use International Financial Reporting Standards, and the need to comply with the rules and regulations of the United States Securities and Exchange Commission and the Tel Aviv Stock Exchange.

We are currently not in compliance with NASDAQ rules for continued listing on the NASDAQ Capital Market and are at risk of being delisted, which may subject us to the SEC's penny stock rules and decrease the liquidity of our ADRs and ordinary shares.

On January 27, 2009, we received a Staff Determination Letter from The Nasdaq Stock Market, or Nasdaq, notifying us that the staff of Nasdaq's Listing Qualifications Department determined, using its discretionary authority under Nasdaq Marketplace Rule 4300, that our ADRs would be delisted from Nasdaq. The letter further stated that Nasdaq would suspend trading on our ADRs at the opening of trading on February 5, 2009, unless we appealed Nasdaq's delisting determination. Nasdaq's determination to delist our ADRs was based on Nasdaq's belief that the Company is a public shell, and that we do not meet the stockholder's equity requirement or any of its alternatives. On February 3, 2009, we appealed the determination by the Nasdaq Listing Qualification Staff to delist our ADRs from the Nasdaq Capital Market. On March 19, 2009, we participated in an oral hearing before the Nasdaq Hearings Panel (the "Panel"). Nasdaq's delisting action has been stayed, pending a final written determination by the Panel following the hearing. At the hearing, the Company presented its plan to remedy its "public shell" determination and for future compliance with all other applicable Nasdaq listing requirements.

We intend to continue to work with Nasdaq to try to find an acceptable manner in which our ADRs can remain listed on the NASDAQ Capital Market. However, we cannot provide assurance that we will be successful in that effort, or that in the future we will continue to meet the listing requirements of the NASDAQ Capital Market, including, without limitation, bid price, stockholders' equity and/or market value of listed securities minimum requirements. Additionally, our efforts to continue to meet the listing requirements may be limited by current market conditions, including volatility in the market.

If we are delisted from The NASDAQ Stock Market, our ADRs may be traded over-the-counter on the OTC Bulletin Board or the "pink sheets." These alternative markets, however, are generally considered to be less efficient than, and not as broad as, the NASDAQ Capital Market. Many OTC stocks trade less frequently and in smaller volumes than securities traded on the NASDAQ markets, which could have a material adverse effect on the liquidity of our ADRs.

If our ADRs are delisted from the NASDAQ Stock Market, there may be a limited market for our ADRs, trading in our ADRs may become more difficult and our ADR price could decrease even further. In addition, if our ADRs are delisted, our ability to raise additional capital may be impaired.

In addition, our ADRs may become subject to penny stock rules. The SEC generally defines "penny stock" as an equity security that has a market price of less than \$5.00 per share, subject to certain exceptions. We presently qualify for an exemption from the penny stock rules, as our ADRs are quoted on the NASDAQ Stock Market. However, if we were delisted, our ADRs would become subject to the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell our securities. If our ADRs were considered penny stock, the ability of broker-dealers to sell our ADRs and the ability of our shareholders to sell their ADRs in the secondary market would be limited and, as a result, the market liquidity for our ADRs would be adversely affected. We cannot assure you that trading in our securities will not be subject to these or other regulations in the future.

Holders of our ordinary shares or ADRs who are US citizens or residents may be required to pay additional income taxes.

There is a risk that we will be classified as a passive foreign investment company, or PFIC, for certain tax years. If we are classified as a PFIC, a US holder of our ordinary shares or ADRs representing our ordinary shares will be subject to special federal income tax rules that determine the amount of federal income tax imposed on income derived with respect to the PFIC shares. We will be a PFIC if either 75% or more of our gross income in a tax year is passive income or the average percentage of our assets (by value) that produce or are held for the production of passive income in a tax year is at least 50%. The risk that we will be classified as a PFIC arises because cash balances, even if held as working capital, are considered to be assets that produce passive income. Therefore, any determination of PFIC status will depend upon the sources of our income and the relative values of passive and non-passive assets, including goodwill. A determination as to a corporation's status as a PFIC must be made annually. We believe that we were likely not a PFIC for the taxable year ended December 31, 2008. However, we believe that we were a PFIC for the taxable years ended December 31, 2006 and 2007. Although such a determination is fundamentally factual in nature and generally cannot be made until the close of the applicable taxable year, based on our current operations, we believe that we may be classified as a PFIC in the 2009 taxable year and possibly in subsequent years. Although we may not be a PFIC in any one year, the PFIC taint remains with respect to those years in which we were or are a PFIC and the special PFIC taxation regime will continue to apply.

In view of the complexity of the issues regarding our treatment as a PFIC, US shareholders are urged to consult their own tax advisors for guidance as to our status as a PFIC. For further discussion of tax consequences of being a PFIC, see "US Federal Income Tax Considerations - Tax Consequences If We Are A Passive Foreign Investment Company," below.

Provisions of Israeli corporate law may delay, prevent or affect a potential acquisition of all or a significant portion of our shares or assets and thereby depressing the price of our ordinary shares.

We are incorporated in the State of Israel. Israeli corporate law regulates acquisitions of shares through tender offers. It requires special approvals for transactions involving significant shareholders and regulates other matters that may be relevant to these types of transactions. These provisions of Israeli law may delay or prevent an acquisition, or make it less desirable to a potential acquirer and therefore depress the price of our shares. Further, Israeli tax considerations may make potential transactions undesirable to us or to some of our shareholders.

Israeli corporate law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of such acquisition, the purchaser would become a 25% or greater shareholder of the company. This rule does not apply if there is already another 25% or greater shareholder of the company. Similarly, Israeli corporate law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser's shareholdings would entitle the purchaser to over 45% of the shares in the company, unless there is a shareholder with 45% or more of the shares in the company. These requirements do not apply if, in general, the acquisition (1) was made in a private placement that received the approval of the company's shareholders; (2) was from a 25% or greater shareholder of the company which resulted in the purchaser becoming a 25% or greater shareholder of the company, or (3) was from a 45% or greater shareholder of the company which resulted in the acquirer becoming a 45% or greater shareholder of the company. These rules do not apply if the acquisition is made by way of a merger. Regulations promulgated under Israeli corporate law provide that these tender offer requirements do not apply to companies whose shares are listed for trading outside of Israel if, according to the law in the country in which the shares are traded, including the rules and regulations of the stock exchange or which the shares are traded, either:

- there is a limitation on acquisition of any level of control of the company; or
- the acquisition of any level of control requires the purchaser to do so by means of a tender offer to the public.

Finally, in general, Israeli tax law treats specified acquisitions less favorably than does US tax law. See "Item 10. Additional Information - Taxation - Israeli Tax Considerations," below.

Our ADR holders are not shareholders and do not have shareholder rights.

The Bank of New York, as depository, executes and delivers our ADRs on our behalf. Each ADR is a certificate evidencing a specific number of ADSs. Our ADR holders will not be treated as shareholders and do not have the rights of shareholders. The depository will be the holder of the shares underlying our ADRs. Holders of our ADRs will have ADR holder rights. A deposit agreement among us, the depository and our ADR holders, and the beneficial owners of ADRs, sets out ADR holder rights as well as the rights and obligations of the depository. New York law governs the deposit agreement and the ADRs. Our shareholders have shareholder rights. Israeli law and our Articles of Association, or Articles, govern shareholder rights. Our ADR holders do not have the same voting rights as our shareholders. Shareholders are entitled to our notices of general meetings and to attend and vote at our general meetings of shareholders. At a general meeting, every shareholder present (in person or by proxy, attorney or representative) and entitled to vote has one vote on a show of hands. Every shareholder present (in person or by proxy, attorney or representative) and entitled to vote has one vote per fully paid ordinary share on a poll. This is subject to any other rights or restrictions which may be attached to any shares. Our ADR holders may instruct the depository to vote the ordinary shares underlying their ADRs, but only if we ask the depository to ask for their instructions. If we do not ask the depository to ask for the instructions, our ADR holders are not entitled to receive our notices of general meeting or instruct the depository how to vote. Our ADR holders will not be entitled to attend and vote at a general meeting unless they withdraw the ordinary shares from the depository. However, our ADR holders may not know about the meeting enough in advance to withdraw the ordinary shares. If we ask for our ADR holders' instructions, the depository will notify our ADR holders of the upcoming vote and arrange to deliver our voting materials and form of notice to them. The depository will try, as far as is practical, subject to the provisions of the deposit agreement, to vote the shares as our ADR holders instruct. The depository will not vote or attempt to exercise the right to vote other than in accordance with the instructions of the ADR holders. We cannot assure our ADR holders that they will receive the voting materials in time to ensure that they can instruct the depository to vote their shares. In addition, there may be other circumstances in which our ADR holders may not be able to exercise voting rights.

Our ADR holders do not have the same rights to receive dividends or other distributions as our shareholders. Subject to any special rights or restrictions attached to a share, the directors may determine that a dividend will be payable on a share and fix the amount, the time for payment and the method for payment (although we have never declared or paid any cash dividends on our ordinary stock and we do not anticipate paying any cash dividends in the foreseeable future). Dividends may be paid on shares of one class but not another and at different rates for different classes. Dividends and other distributions payable to our shareholders with respect to our ordinary shares generally will be payable directly to them. Any dividends or distributions payable with respect to ordinary shares will be paid to the depository, which has agreed to pay to our ADR holders the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting its fees and expenses. Our ADR holders will receive these distributions in proportion to the number of shares their ADRs represent. In addition, there may be certain circumstances in which the depository may not pay to our ADR holders amounts distributed by us as a dividend or distribution. See the risk factor "– There are circumstances where it may be unlawful or impractical to make distributions to the holders of our ADRs," below.

There are circumstances where it may be unlawful or impractical to make distributions to the holders of our ADRs.

The deposit agreement with the depository allows the depository to distribute foreign currency only to those ADR holders to whom it is possible to do so. If a distribution is payable by us in New Israeli Shekels, the depository will hold the foreign currency it cannot convert for the account of the ADR holders who have not been paid. It will not invest the foreign currency and it will not be liable for any interest. If the exchange rates fluctuate during a time when the depository cannot convert the foreign currency, our ADR holders may lose some of the value of the distribution.

The depository is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADR holders. This means that our ADR holders may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for the depository to make such distributions available to them.

Risks Relating to Operations in Israel

Conditions in the Middle East and in Israel may harm our operations.

Our headquarters and some of our planned clinical sites and suppliers are located in Israel. Political, economic and military conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, as well as incidents of civil unrest, military conflicts and terrorist actions. There has been a significant increase in violence since September 2000, which has continued with varying levels of severity through to the present. This state of hostility has caused security and economic problems for Israel. To date, we do not believe that the political and security situation has had a material adverse impact on our business, but we cannot give any assurance that this will continue to be the case. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could adversely affect our operations and could make it more difficult for us to raise capital.

Our commercial insurance does not cover losses that may occur as a result of events associated with the security situation in the Middle East. Although the Israeli government currently covers the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained. Any losses or damages incurred by us could have a material adverse effect on our business. Any armed conflicts or political instability in the region would likely negatively affect business conditions and could harm our results of operations.

Further, in the past, the State of Israel and Israeli companies have been subjected to an economic boycott. Several countries still restrict business with the State of Israel and with Israeli companies. These restrictive laws and policies may have an adverse impact on our operating results, financial condition or the expansion of our business.

Our results of operations may be adversely affected by inflation and foreign currency fluctuations.

We have generated all of our revenues and hold most of our cash, cash equivalents, bank deposits and marketable securities in US dollars. In the past, a substantial amount of our operating expenses were in US dollars (approximately 96% in 2008), and we incurred a portion of our expenses in New Israeli Shekels and in certain other local currencies. In addition, we also pay for some of our services and supplies in the local currencies of our suppliers. As a result, we are exposed to the risk that the US dollar will be devalued against the New Israeli Shekel or other currencies, and as result our financial results could be harmed if we are unable to guard against currency fluctuations in Israel or other countries in which services and supplies are obtained in the future. Accordingly, we may in the future enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rates of currencies. These measures, however, may not adequately protect us from the adverse effects of inflation in Israel. In addition, we are exposed to the risk that the rate of inflation in Israel will exceed the rate of devaluation of the New Israeli Shekel in relation to the dollar or that the timing of any devaluation may lag behind inflation in Israel.

It may be difficult to enforce a US judgment against us, our officers or our directors or to assert US securities law claims in Israel.

Service of process upon us, since we are incorporated in Israel, and upon our directors and officers and our Israeli auditors, some of whom reside outside the US, may be difficult to obtain within the US. In addition, because substantially all of our assets and some of our directors and officers are located outside the US, any judgment obtained in the US against us or any of our directors and officers may not be collectible within the US. There is a doubt as to the enforceability of civil liabilities under the Securities Act or the Exchange Act pursuant to original actions instituted in Israel. Subject to particular time limitations and provided certain conditions are met, executory judgments of a US court for monetary damages in civil matters may be enforced by an Israeli court. For more information regarding the enforceability of civil liabilities against us, our directors and our executive officers, see "Item 10. Additional Information - Memorandum and Articles of Association - Enforceability of Civil Liabilities," below.