Eaton Vance Tax-Managed Diversified Equity Income Fund
Form N-CSRS
June 26, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form N-CSR
CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES
Investment Company Act File Number: 811-21832
Eaton Vance Tax-Managed Diversified Equity Income Fund
(Exact Name of registrant as Specified in Charter)
Two International Place, Boston, Massachusetts 02110
(Address of Principal Executive Offices)
Maureen A. Gemma
Two International Place, Boston, Massachusetts 02110
(Name and Address of Agent for Services)
(617) 482-8260
(registrant s Telephone Number)
October 31
Date of Fiscal Year End
April 30, 2009
Date of Reporting Period

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IMPORTANT NOTICES REGARDING DISTRIBUTIONS, DELIVERY OF SHAREHOLDER DOCUMENTS, PORTFOLIO HOLDINGS, AND PROXY VOTING

Managed Distribution Plan. On March 10, 2009, the Fund received authorization from the Securities and Exchange Commission to distribute long-term capital gains to shareholders more frequently than once per year. In this connection, the Board of Trustees formally approved the implementation of a Managed Distribution Plan (MDP) to make quarterly cash distributions to common shareholders, stated in terms of a fixed amount per common share.

The Fund intends to pay quarterly cash dividends during February, May, August and November equal to $0.4625 per share. You should not draw any conclusions about the Fund s investment performance from the amount of these distributions or from the terms of the MDP. The MDP will be subject to regular periodic review by the Fund s Board of Trustees.

With each distribution, the Fund will issue a notice to shareholders and an accompanying press release which will provide detailed information required by the Fund s exemptive order. The Fund s Board of Trustees may amend or terminate the MDP at any time without prior notice to Fund shareholders; however, at this time there are no reasonably foreseeable circumstances that might cause the termination of the MDP.

Delivery of Shareholder Documents. The Securities and Exchange Commission (the SEC) permits funds to deliver only one copy of shareholder documents, including prospectuses, proxy statements and shareholder reports, to fund investors with multiple accounts at the same residential or post office box address. This practice is often called householding and it helps eliminate duplicate mailings to shareholders.

Eaton Vance, or your financial adviser, may household the mailing of your documents indefinitely unless you instruct Eaton Vance, or your financial adviser, otherwise.

If you would prefer that your Eaton Vance documents not be householded, please contact Eaton Vance at 1-800-262-1122, or contact your financial adviser.

Your instructions that householding not apply to delivery of your Eaton Vance documents will be effective within 30 days of receipt by Eaton Vance or your financial adviser.

Portfolio Holdings. Each Eaton Vance Fund and its underlying Portfolio (if applicable) will file a schedule of its portfolio holdings on Form N-Q with the SEC for the first and third quarters of each fiscal year. The Form N-Q will be available on the Eaton Vance website www.eatonvance.com, by calling Eaton Vance at 1-800-262-1122 or in the EDGAR database on the Securities and Exchange Commission s website at www.sec.gov. Form N-Q may also be reviewed and copied at the SEC s public reference room in Washington, D.C. (call 1-800-732-0330 for information on the operation of the public reference room).

Proxy Voting. From time to time, funds are required to vote proxies related to the securities held by the funds. The Eaton Vance Funds or their underlying portfolios (if applicable) vote proxies according to a set of policies and procedures approved by the Funds and Portfolios Boards. You may obtain a description of these policies and procedures and information on how the Funds or Portfolios voted proxies relating to portfolio securities during the most recent 12 month period ended June 30, without charge, upon request, by calling 1-800-262-1122. This description is also available on the SEC s website at www. sec.gov.

Please refer to the inside back cover of this report for an important notice about the privacy policies adopted by the Eaton Vance organization.

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Eaton Vance Tax-Managed Diversified Equity Income Fund **as of April 30, 2009**

INVESTMENT UPDATE

Economic and Market Conditions

Michael A. Allison, CFA
Eaton Vance Management
Co-Portfolio Manager
Walter A. Row, CFA
Eaton Vance Management
Co-Portfolio Manager
Ronald M. Egalka
Rampart Investment Management
Co-Portfolio Manager

U.S. and European stocks rallied in the later stages of the six-month period that ended April 30, 2009. After the worst January in history and a dismal February, the battered equity markets, as measured by the Standard & Poor s 500 Index (S&P 500) and the FTSE Eurotop 100 Index, exhibited renewed life in March and April. Much of the momentum was spurred by global efforts to help banks eliminate illiquid assets and revive credit. However, the rally was not enough to prevent stocks from posting negative returns for the six-month period overall, as the S&P 500 fell 8.52% and the FTSE Eurotop 100 Index lost a more modest 1.75%.

Growth stocks soundly outperformed value stocks for the period, reversing the trend of 2008. As investors grew less risk-averse against a more positive economic backdrop, they migrated from the traditional value sectors of financials and consumer staples to such growth areas as information technology and consumer discretionary. On the capitalization spectrum, mid-cap stocks outperformed the large- and small-cap segments of the market during the six-month period.

The U.S. economy, as measured by gross domestic product (GDP), continued to contract during the period, declining 6.3% (annualized) in the fourth quarter of 2008 and 5.7% (annualized) in the first quarter of 2009, according to the U.S. Department of Commerce. Most of the major GDP components contributed to the decline, but a sharp downturn in consumer spending was particularly influential.

Past performance is no guarantee of future results. Returns are historical and are calculated by determining the percentage change in net asset value or share price (as applicable) with all distributions reinvested. The Fund s performance at share price will differ from its results at NAV. Although share price performance generally reflects investment results over time, during shorter periods, returns at share price can also be affected by factors such as changing perceptions about the Fund, market conditions, fluctuations in supply and demand for the Fund s shares, or changes in Fund distributions. The Fund has no current intention to utilize leverage, but may do so in the future through borrowings and/or other permitted methods. Investment return and principal value will fluctuate so that shares, when sold, may be worth more or less than their original cost. Performance is for the stated time period only; due to market volatility, the Fund s current performance may be lower or higher than the quoted return. For performance as of the most recent month end, please refer to www.eatonvance.com.

Management Discussion

The Fund is a closed-end fund and trades on the New York Stock Exchange (NYSE) under the symbol ETY. At net asset value (NAV), the Fund outperformed the S&P 500 Index, the CBOE S&P 500 BuyWrite Index, the FTSE Eurotop 100 Index and its Lipper peer group average for the six months that ended April 30, 2009.

The Fund outperformed a blended index consisting of an 80% weighting in the S&P 500 Index and a 20% weighting in the FTSE Eurotop 100 Index (reflecting the Fund s composition) at NAV for the six months ended April 30, 2009. (It is important to remember that the blended index does not include the hedging characteristics that are utilized by the Fund in the execution of its covered call option writing strategy.)

Relative to the blended index, the equity portion of the Fund had positive contributions to performance from an overweighted allocation in information technology stocks and security selection in the industrials sector during the six-month period. Stock selection in the energy and health care sectors detracted from relative performance, as did an underweighting in financials.

Eaton Vance Tax-Managed Diversified Equity Income Fund Total Return Performance 10/31/08 4/30/09

NYSE Symbol		**ETY**
At Net Asset Value (NAV)		-0.78%
At Share Price		-0.91%
S&P 500 Index[1]		-8.52%
CBOE S&P 500 BuyWrite Index (BXM)[1]		-6.10%
FTSE Eurotop 100 Index[1]		-1.75%
Lipper Options Arbitrage/Options Strategies Funds Average[1]		-3.06%
Premium/(Discount) to NAV (4/30/09)		-8.16%
Total Distributions per share		$0.925
Distribution Rate[2]	*At NAV*	15.89%
	At Share Price	17.31%

See page 3 for more performance information.

1 It is not possible to invest directly in an Index or a Lipper Classification. The Indices total returns do not reflect commissions or expenses that would have been incurred if an investor individually purchased or sold the securities represented in the Indices. The return for the FTSE Eurotop 100 Index is calculated in U.S. dollars. The Lipper total return is the average total return,

at net asset value, of the funds that are in the same Lipper Classification as the Fund.

[2] The Distribution Rate is based on the Fund s most recent quarterly distribution per share (annualized) divided by the Fund s NAV or share price at the end of the period. The Fund s quarterly distributions may be comprised of ordinary income, net realized capital gains and return of capital.

Fund shares are not insured by the FDIC and are not deposits or other obligations of, or guaranteed by, any depository institution. Shares are subject to investment risks, including possible loss of principal invested.

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Eaton Vance Tax-Managed Diversified Equity Income Fund **as of April 30, 2009**

INVESTMENT UPDATE

At April 30, 2009, the Fund had written call options on approximately 50% of its equity holdings. The Fund seeks current earnings in large part from option premiums, which can vary with investors expectation of the future volatility (implied volatility) of the underlying asset. The six-month period witnessed initial high levels of implied volatility and a more moderate trend by the end of the period, in concert with the high level of actual volatility in the equity markets. The Fund was able to monetize some of this volatility in the form of higher premiums during the period, which provided a positive benefit to the Fund.

The Fund s primary investment objective is to provide current income and gains, with a secondary objective of capital appreciation. In pursuing its investment objectives, the Fund evaluates returns on an after-tax basis, seeking to minimize and defer shareholder federal income taxes. Under normal market conditions, the Fund s investment program consists primarily of owning a diversified portfolio of common stocks. The Fund seeks to earn high levels of tax-advantaged income and gains by emphasizing investments in stocks that pay dividends that qualify for favorable federal income tax treatment and by writing (selling) stock index call options with respect to a portion of its common stock portfolio value.

The views expressed throughout this report are those of the portfolio managers and are current only through the end of the period of the report as stated on the cover. These views are subject to change at any time based upon market or other conditions, and the investment adviser disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a fund are based on many factors, may not be relied on as an indication of trading intent on behalf of any Eaton Vance fund. Portfolio information provided in the report may not be representative of the Fund s current or future investments and may change due to active management.

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Eaton Vance Tax-Managed Diversified Equity Income Fund **as of April 30, 2009**

FUND PERFORMANCE

Performance

NYSE Symbol:	**ETY**
Average Annual Total Returns (at share price, New York Stock Exchange)	
Six Months	-0.91%
One Year	-24.64
Life of Fund (11/30/06)	-11.55
Average Annual Total Returns (at net asset value)	
Six Months	-0.78%
One Year	-24.54
Life of Fund (11/30/06)	-8.38

Past performance is no guarantee of future results. Returns are historical and are calculated by determining the percentage change in net asset value or share price (as applicable) with all distributions reinvested. The Fund s performance at share price will differ from its results at NAV. Although share price performance generally reflects investment results over time, during shorter periods, returns at share price can also be affected by factors such as changing perceptions about the Fund, market conditions, fluctuations in supply and demand for the Fund s shares, or changes in Fund distributions. The Fund has no current intention to utilize leverage, but may do so in the future through borrowings and/or other permitted methods. Investment return and principal value will fluctuate so that shares, when sold, may be worth more or less than their original cost. Performance is for the stated time period only; due to market volatility, the Fund s current performance may be lower or higher than the quoted return. For performance as of the most recent month end, please refer to www.eatonvance.com.

Fund Composition

Top Ten Holdings[1]

By total investments

Exxon Mobil Corp.	3.1%
International Business Machines Corp.	2.5
Cisco Systems, Inc.	2.0
Hewlett-Packard Co.	1.9
Microsoft Corp.	1.9
JPMorgan Chase & Co.	1.9
QUALCOMM, Inc.	1.8
Goldcorp, Inc.	1.7
Philip Morris International, Inc.	1.7
Nestle SA	1.6

[1] Top Ten Holdings represented 20.1% of the Fund s total investments as of 4/30/09. The Top Ten

Holdings are presented without the offsetting effect of the Fund s written option positions at 4/30/09. Excludes cash equivalents.

Common Stock Sector Weightings[2]

By total investments

[2] Reflects the Fund s total investments as of 4/30/09. Common Stock Sector Weightings are presented without the offsetting effect of the Fund s written option positions at 4/30/09. Excludes cash equivalents.

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Eaton Vance Tax-Managed Diversified Equity Income Fund as of April 30, 2009

PORTFOLIO OF INVESTMENTS (Unaudited)

Common Stocks 98.3%

Security	Shares	Value
Aerospace & Defense 3.8%		
General Dynamics Corp.	362,188	$ 18,714,254
Lockheed Martin Corp.	214,540	16,847,826
Raytheon Co.	298,740	13,512,010
United Technologies Corp.	336,152	16,417,664
		$ 65,491,754
Automobiles 0.5%		
DaimlerChrysler AG	221,041	$ 7,924,347
		$ 7,924,347
Beverages 2.9%		
Coca-Cola Co. (The)	418,283	$ 18,007,083
Diageo PLC	583,624	6,962,485
PepsiCo, Inc.	515,673	25,659,889
		$ 50,629,457
Biotechnology 3.1%		
Amgen, Inc.[1]	236,712	$ 11,473,431

Biogen Idec, Inc.[1]	211,998		10,247,983
Celgene Corp.[1]	115,895		4,951,034
Genzyme Corp.[1]	331,555		17,681,828
Gilead Sciences, Inc.[1]	204,805		9,380,069
		$	**53,734,345**

Capital Markets 3.9%

Credit Suisse Group	230,756	$	9,017,144
Deutsche Bank AG	66,639		3,553,672
Goldman Sachs Group, Inc.	193,363		24,847,146
Invesco, Ltd.	508,607		7,486,695
Northern Trust Corp.	228,177		12,403,702
State Street Corp.	301,317		10,283,949
		$	**67,592,308**

Commercial Banks 2.7%

Banco Santander Central Hispano SA	585,659	$	5,633,417
Canadian Imperial Bank of Commerce	198,503		8,894,919
HSBC Holdings PLC	1,665,135		11,841,505
PNC Financial Services Group, Inc.	211,694		8,404,252
Wells Fargo & Co.	603,808		12,082,198
		$	**46,856,291**

Commercial Services & Supplies 0.8%

Waste Management, Inc.	498,002	$	13,281,713
		$	**13,281,713**

Communications Equipment 4.0%

Cisco Systems, Inc.(1)	1,812,593	$	35,019,297
Nokia Oyj ADR	300,000		4,242,000
QUALCOMM, Inc.	734,207		31,071,640
		$	**70,332,937**

Computers & Peripherals 5.9%

Apple, Inc.(1)	194,590	$	24,485,260
Hewlett-Packard Co.	959,803		34,533,712
International Business Machines Corp.	431,798		44,565,872
		$	**103,584,844**

Consumer Finance 0.2%

Discover Financial Services	425,464	$	3,459,022
		$	**3,459,022**

Diversified Financial Services 1.9%

JPMorgan Chase & Co.	997,650	$	32,922,450
		$	**32,922,450**

Diversified Telecommunication Services 3.0%

AT&T, Inc.	821,020	$	21,034,532
BCE, Inc.	500,000		10,700,000
Verizon Communications, Inc.	691,682		20,985,632
		$	**52,720,164**

Electric Utilities 2.5%			
American Electric Power Co., Inc.	392,701	$	10,359,452
E.ON AG	564,258		19,081,485
FirstEnergy Corp.	235,932		9,649,619
Iberdrola SA	538,537		4,275,230
		$	**43,365,786**

Electrical Equipment 2.1%			
ABB, Ltd.[1]	279,564	$	3,957,604
Emerson Electric Co.	609,703		20,754,290
Vestas Wind Systems A/S[1]	184,627		11,984,414
		$	**36,696,308**

See notes to financial statements

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Eaton Vance Tax-Managed Diversified Equity Income Fund as of April 30, 2009

PORTFOLIO OF INVESTMENTS (Unaudited) CONT D

Security	Shares	Value
Energy Equipment & Services 0.8%		
Diamond Offshore Drilling, Inc.	205,096	$ 14,851,001
		$ 14,851,001
Food & Staples Retailing 3.4%		
Carrefour SA	129,657	$ 5,257,200
CVS Caremark Corp.	624,937	19,860,498
Kroger Co. (The)	204,381	4,418,717
Tesco PLC	1,025,388	5,080,600
Wal-Mart Stores, Inc.	491,145	24,753,708
		$ 59,370,723
Food Products 2.8%		
Nestle SA	861,427	$ 28,079,705
Nestle SA ADR	319,837	10,378,711
Unilever NV	566,760	11,214,715
		$ 49,673,131
Health Care Equipment & Supplies 2.3%		
Baxter International, Inc.	218,713	$ 10,607,581

Becton, Dickinson & Co.	93,781	5,671,875

Our Audit Committee operates under a formal charter that governs its duties and conduct. A current copy of the Audit Committee Charter is available on our website at http://www.protalix.com.

All members of the Audit Committee are independent from our executive officers and management.

Our independent registered public accounting firm reports directly to the Audit Committee.

Our Audit Committee meets with management and representatives of our registered public accounting firm prior to the filing of officers certifications with the SEC to receive information concerning, among other things, effectiveness of the design or operation of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002.

Our Audit Committee has adopted a Policy for Reporting Questionable Accounting and Auditing Practices and Policy Prohibiting Retaliation against Reporting Employees to enable confidential and anonymous reporting of improper activities to the Audit Committee.

Messrs. Bar-Shalev and Akirov qualify as audit committee financial experts under the applicable rules of the SEC. In making the determination as to these individuals status as audit committee financial experts, our Board of Directors determined they have accounting and related financial management expertise within the meaning of the aforementioned rules, as well as the listing standards of the NYSE Amex.

Compensation Committee

The Compensation Committee is currently comprised of Messrs. Bar-Shalev and Akirov and Ms. Harel Gross. Mr. Sheratzky served as a member of the Compensation Committee for part of 2008 and Mr. Toussia-Cohen, who resigned from our Board of Directors in May 2009, was a member of the Compensation Committee until the effective date of his resignation. The Compensation Committee reviews and approves the compensation of executive officers and key employees and administers our stock incentive plan. A current copy of the Compensation Committee Charter is available on our website at http://www.protalix.com.

Nominating Committee

The Nominating Committee, currently comprised of Messrs. Bar-Shalev and Akirov and Ms. Harel Gross, is responsible for assisting our Board of Directors in selecting nominees for election to the Board of Directors and monitoring the composition of the Board of Directors. Mr. Bronfeld and Sheratzky served as a member of the Nominating Committee for part of 2008 and Mr. Toussia-Cohen resigned from the Board of Directors, and consequently the Nomination Committee, in May 2009. A current copy of the Nominating Committee Charter is available on our website at http://www.protalix.com. In considering potential new directors, the Nominating Committee will review individuals from various disciplines and backgrounds, and consider the following qualifications: broad experience in business, finance or administration; familiarity with national business matters; familiarity with our industry; independence; and prominence and reputation. After making such a review, the Nominating Committee submits the nomination to the full Board of Directors for approval.

The Nominating Committee will consider any nominees submitted by shareholders of record at the time of any such nomination in compliance with applicable rules of the SEC and our Amended and Restated By-Laws, or the By-Laws. The Nominating Committee will determine whether any shareholder nominee meets the qualifications for candidacy described above and in the Nominating Committee Charter. Shareholders nominations for election at the 2010 Annual Meeting of Shareholders must be submitted in writing to Yossi Maimon, Corporate Secretary, not less than 45 days nor more than 75 days prior to the date on which we first mailed this proxy statement. Such written notice must include the following information: (i) name, age, business address and residence address of the nominee, (ii) the principal occupation or employment of the nominee, (iii) the class and number of shares of our company beneficially owned by the nominee and (iv) any other information relating to the nominee that would be required to be disclosed in solicitations for proxies for elections of directors pursuant to Regulation 14A of the Exchange Act. The written notice must also include the following information with respect to each shareholder delivering such notice: (i) the name and record address of such shareholder and (ii) the class and number of shares of our company beneficially owned by the shareholder. Lastly, the written notice must include certain information relating to any derivative or hedging transactions by the shareholder delivering such notice and its Shareholder Associated Persons, as defined in our By-Laws, and other arrangements with other parties regarding our securities, as presented in detail in our By-Laws. Shareholders can mail any such recommendations, including the criteria outlined above, to Yossi Maimon, Corporate Secretary, Protalix BioTherapeutics, Inc., 2 Snunit Street, Science Park, POB 455, Carmiel, Israel 20100.

During the year ended December 31, 2008, there were six meetings of our Board of Directors, six meetings of the Audit Committee, one meeting of the Compensation Committee and one meeting of the Nominating Committee. Our non-management directors hold meetings separate from management at least twice per year. All directors attended at least 75% of the aggregate number of meetings of the Board of Directors and the committees of the Board of Directors on which they served.

Under the rules of the NYSE Amex, a director of our company will only qualify as an independent director if, among other things, in the opinion of our Board of Directors, that person does not have a material relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Board of Directors has determined that none of the directors has a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is an independent director as defined under rules of the NYSE Amex. In addition, the Board of Directors has determined that all members of the Audit Committee meet the independence requirements set forth in Rule 10A-3 under the Exchange Act.

Contacting the Board of Directors

Shareholders who wish to communicate with the Board of Directors may do so by mailing any such communications to Yossi Maimon, Corporate Secretary, Protalix BioTherapeutics, Inc., 2 Snunit Street, Science Park, POB 455, Carmiel, Israel 20100. All communications are distributed to the Board of Directors, as appropriate, depending upon the facts and circumstances outlined in the communications received. For example, if any complaints regarding accounting and/or auditing matters are received, they may be forwarded by our Corporate Secretary to the Audit Committee for review.

Policy Governing Director Attendance at Annual Meetings of Shareholders

We have no formal policy regarding attendance by our directors at annual shareholders meetings, although we encourage such attendance and anticipate most of our directors will attend these meetings.

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Messrs. Hurvitz, Bronfeld, Bar-Shalev, Sheratzky, Akirov, Toussia-Cohen, Aviezer and Shaaltiel, and Ms. Harel Gross, attended our 2008 annual meeting of shareholders.

Compensation of Directors

The following table sets forth information with respect to compensation of our non-employee directors during fiscal year 2008. The fees to our current directors were paid by Protalix Ltd. Prior to January 1, 2007, Protalix Ltd. compensated only certain of its directors, which compensation was limited to the granting of options under its employee stock option plan.

Name	Fees Earned or Paid in Cash ($)	Stock Award ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Eli Hurvitz(1)	33,000		936,116				969,116
Alfred Akirov	33,000						33,000
Amos Bar-Shalev(2)	15,125						15,125
Zeev Bronfeld	33,000						33,000
Yodfat Harel Gross	33,000						33,000
Roger D. Kornberg(3)	29,590						29,590
Eyal Sheratzky	33,000						33,000
Sharon Toussia-Cohen(4)	33,000						33,000

(1) Represents amounts paid to Pontifax Management Company, Ltd. pursuant to a management consulting agreement.

(2) Mr. Bar-Shalev was reappointed to our Board of Directors on July 14, 2008.

(3) Dr. Kornberg was appointed to our Board of Directors on February 7, 2008.

(4) Mr. Toussia-Cohen resigned from our Board of Directors in May 2009.

Our Board of Directors will review director compensation annually and adjust it according to then current market conditions and corporate governance guidelines.

Compensation Committee Interlocks and Insider Participation

Our Compensation Committee currently consists of Messrs. Bar-Shalev and Akirov, and Ms. Harel Gross, who were appointed to the Committee as of May 6, 2008. In addition, until May 6, 2008, Mr. Toussia-Cohen served on our Compensation Committee. No member of our Compensation Committee or any executive officer of our company or of Protalix Ltd. has a relationship that would constitute an interlocking relationship with executive officers or directors of another entity. No Compensation Committee member is or was an officer or employee of ours or of Protalix Ltd. Further, none of our executive officers serves on the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee.

MANAGEMENT

Our executive officers, their ages and positions as of September 15, 2009, are as follows:

Name	Age	Position
David Aviezer, Ph.D., MBA	44	President, Chief Executive Officer and Director
Yoseph Shaaltiel, Ph.D.	56	Executive VP, Research and Development and Director
Einat Brill Almon, Ph.D.	50	Vice President, Product Development
Yossi Maimon, CPA	39	Chief Financial Officer, Treasurer and Secretary

Biographical information follows for the executive officers named in the above chart who do not also serve as our directors.

Einat Brill Almon, Ph.D. Dr. Almon joined Protalix Ltd. in December 2004 as its Vice President, Product Development and became our Vice President, Product Development on December 31, 2006. Dr. Almon has many years of experience in the management of life science projects and companies, including biotechnology and agrobiotech, with direct experience in clinical, device and scientific software development, as well as a strong background and work experience in Intellectual Property. Prior to joining Protalix Ltd., from 2001 to 2004, she served as Director of R&D and IP of Biogenics Ltd., a company that developed an autologous platform for tissue based protein drug delivery. Biogenics, based in Israel, is a wholly-owned subsidiary of Medgenics Inc. Dr. Almon has trained as a biotechnology patent agent at leading IP firms in Israel. Dr. Almon holds a Ph.D. and an M.Sc. in molecular biology of cancer research from the Weizmann Institute of Science, a B.Sc. from the Hebrew University and has carried out Post-Doctoral research at the Hebrew University in the area of plant molecular biology.

Yossi Maimon, CPA. Mr. Maimon joined Protalix Ltd. on October 15, 2006 as its Chief Financial Officer and became our Vice President and Chief Financial Officer on December 31, 2006. Prior to joining Protalix, from 2002 to 2006, he served as the chief financial officer of Colbar LifeScience Ltd., a biomaterial company focusing on aesthetics, where he led all of the corporate finance activities, fund raisings and legal aspects of Colbar including the sale of Colbar to Johnson and Johnson. Mr. Maimon has a B.A. in accounting from the City University of New York and an M.B.A. from Tel Aviv University, and he is a Certified Public Accountant in the United States (New York State) and Israel.

Family Relationships

There are no family relationships among directors or executive officers of our company.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that includes provisions ranging from restrictions on gifts to conflicts of interest. All of our employees and directors are bound by this Code of Business Conduct and Ethics. Violations of our Code of Business Conduct and Ethics may be reported to the Audit Committee.

The Code of Business Conduct and Ethics includes provisions applicable to all of our employees, including senior financial officers and members of our Board of Directors and is posted on our website (www.protalix.com). We intend to post amendments to or waivers from any such Code of Business Conduct and Ethics.

Compensation Discussion and Analysis

The primary goals of the Compensation Committee of our Board of Directors with respect to executive compensation are to attract and retain the most talented and dedicated executives possible, to tie annual and long-term cash and stock incentives to achievement of specified performance objectives, and to align executives   incentives with shareholder value creation. To achieve these goals, the

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Compensation Committee intends to implement and maintain compensation plans that tie a portion of executives overall compensation to key strategic goals such as developments in our clinical path, the establishment of key strategic collaborations, the build-up of our pipeline and the strengthening of our financial position. The Compensation Committee evaluates individual executive performance with a goal of setting compensation at levels the committee believes are comparable with executives in other companies of similar size and stage of development operating in the biotechnology industry while taking into account our relative performance and our own strategic goals.

Elements of Compensation

Executive compensation consists of following elements:

Base Salary. Base salaries for our executives are established based on the scope of their responsibilities taking into account competitive market compensation paid by other companies for similar positions. Generally, we believe that executive base salaries should be targeted near the median of the range of salaries for executives in similar positions with similar responsibilities at comparable companies. Base salaries are usually reviewed annually, and adjusted from time to time to realign salaries with market levels after taking into account individual responsibilities, performance and experience. The review for 2008 took place in February 2009. The base salaries of our executive officers are set forth in Employment Arrangements.

In February 2009, our Board of Directors, acting upon the resolution of a majority of our independent directors, resolved to maintain for 2009 the monthly salaries of our Chief Executive Officer, our Executive Vice President, Research and Development, our Vice President, Product Development, and our Vice President and Chief Financial Officer, at the same level of 2008.

Annual Bonus. The Compensation Committee has the authority to award discretionary annual bonuses to our executive officers. It has not established a formal bonus plan. These awards are intended to compensate officers for achieving financial, clinical and operational goals and for achieving individual annual performance objectives. These objectives vary depending on the individual executive, but relate generally to strategic factors such as developments in our clinical path, the establishment of key strategic collaborations, the build-up of our pipeline and to financial factors such as raising capital.

For each year, the Compensation Committee will select, in its discretion, the executive officers of our company or our subsidiary who are eligible to receive bonuses. Any bonus granted by the Compensation Committee will generally be paid in the first quarter following completion of a given year. Similar to bonuses paid in the past, the actual amount of discretionary bonus will be determined following a review of each executive s individual performance and contribution to our goals. The Compensation Committee has not fixed a minimum or maximum payout for any officer s annual discretionary bonus, unless specified in an executive s employment agreement.

Pursuant to each officer s employment agreement, the executive officer is eligible for a discretionary annual bonus. The Compensation Committee determines the discretionary annual bonus to be paid to our executive officers, and the discretionary bonus to be awarded to certain officers in 2008 for performance in 2008. The actual amount of the discretionary bonus to be paid to each executive officer is determined following a review of the executive s individual performance and contribution to our strategic goals conducted during the first quarter of each fiscal year. The Compensation Committee has not fixed a minimum or a maximum amount for any officer s annual discretionary bonus.

In February 2009, our Board of Directors, acting upon the resolution of a majority of our independent directors, awarded approximately $29,000 to our Vice President, Product Development for her performance during the year

2008. It was further agreed that discussion regarding all other Named Executives bonuses for their performances during the year 2008 will be deferred to January 2010.

Options. Our 2006 Stock Option Plan authorizes us to grant options to purchase shares of common stock to our employees, directors and consultants. Our Compensation Committee is the administrator of the stock option plan. Stock option grants are generally made at the commencement

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of employment and following a significant change in job responsibilities or to meet other special retention or performance objectives. The Compensation Committee reviews and approves stock option awards to executive officers based upon a review of competitive compensation data, its assessment of individual performance, a review of each executive s existing long-term incentives, and retention considerations. The exercise price of stock options granted under the 2006 Stock Incentive Plan must be equal to at least 100% of the fair market value of our common stock on the date of grant; however, in certain circumstances, grants may be made at a lower price to Israeli grantees who are residents of the State of Israel.

In February 2009, our Board of Directors, acting upon the resolution of a majority of our independent directors, granted stock options to our Chief Executive Officer, our Executive Vice President, Research and Development, our Vice President, Product Development, and our Vice President and Chief Financial Officer. The number of shares of common stock underlying the option grants was 100,000, 50,000, 50,000 and 50,000, respectively. The options have an exercise price of $2.65 per share and are vested immediately upon the achievement of certain milestones. The grants of stock options to such officers were in recognition their ongoing efforts in achieving our milestones regarding clinical developments, research and development, financial developments and other factors during 2008, and partially as compensation for the lack of annual bonuses or increase in base salary during 2008.

Severance and Change in Control Benefits. Pursuant to the employments agreements entered into with each of our executive officers, the executive officer is entitled to be insured by Protalix Ltd. under a Manager s Policy in lieu of severance. The intention of such Manager s Policies is to provide the officers with severance protection of one month s salary for each year of employment. In addition, the stock option agreements provide for the acceleration of the vesting periods of options in the event of a termination without cause following a change in control of our company. In addition, stock option agreements with each of our named executive officers, as amended, provide that all of the outstanding options of each named executive officer are subject to accelerated vesting immediately upon a change in control of our company.

Other Compensation. Consistent with our compensation philosophy, we intend to continue to maintain our current benefits for our executive officers; however, the Compensation Committee in its discretion may revise, amend, or add to the officer s executive benefits if it deems it advisable. As an additional benefit to all of our Named Executive Officers and for most of our employees, we generally contribute to certain funds amounts equaling a total of approximately 15% of their gross salaries for certain pension and other savings plans for the benefit of the Named Executive Officers. However, the Compensation Committee determined to reduce our contributions in 2009 for the benefit of each respective Named Executive Officer to such pension and other savings plans by approximately 50% due to the economic conditions in Israel and worldwide. In addition, in accordance with customary practice in Israel, our executives agreements require us to contribute towards their vocational studies, and to provide annual recreational allowances, a company car and a company phone. We believe these benefits are currently equivalent with median competitive levels for comparable companies.

Executive Compensation. We refer to the Summary Compensation Table set forth below for information regarding the compensation earned during the fiscal year ended December 31, 2008 by our Chief Executive Officer, our Executive Vice President, Research and Development, our Vice President, Product Development, Vice President and Chief Financial Officer and our Vice President of Operations. There are no other executive officers for 2008 whose total compensation exceeded $100,000 during that fiscal year other than those set forth below. We refer to our Chief Executive Officer, our Executive Vice President, Research and Development, our Vice President, Product Development and Vice President and Chief Financial Officer as our Named Executive Officers.

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Compensation Committee Report

The above report of the Compensation Committee does not constitute soliciting material and shall not be deemed filed or incorporated by reference into any other filing by us under the Securities Act of 1933 or the Securities Exchange Act of 1934.

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis set forth below with our management. Based on this review and discussion, the Compensation Committee has recommended to our Board of Directors that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K and our annual proxy statement on Schedule 14A.

Respectfully submitted on February 26, 2009, by the members of the Compensation Committee of the Board of Directors.

Yodfat Harel Gross
Eyal Sheratzky
Amos Bar-Shalev

Summary Compensation Table

The following table sets forth a summary for the fiscal years ended December 31, 2008 and 2007 respectively, of the cash and non-cash compensation awarded, paid or accrued by Protalix Ltd. to our Named Executive Officers. There were no restricted stock awards, long-term incentive plan payouts or other compensation paid during fiscal years 2008 and 2007 by Protalix Ltd. to the Named Executive Officers, except as set forth below. The Named Executive Officers are employees of our subsidiary, Protalix Ltd. All currency amounts are expressed in U.S. dollars.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Award(s) ($)	Option Award(s) ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)(1)	Total ($)
David Aviezer, Ph.D., MBA	2008	486,305			565,394			93,224	1,144,923
President and CEO	2007	341,074	239,210		351,343			67,990	999,617
Yoseph Shaaltiel, Ph.D.	2008	226,652			163,328			54,704	444,684
Executive Vice President	2007	177,297	50,000		2,420			47,339	277,056
Einat Brill Almon, Ph.D.	2008	195,559	28,932		253,862			51,223	529,576
VP, Product Development	2007	153,254	65,171		94,482			42,282	355,189
Yossi Maimon, CPA	2008	203,097	30,659		238,194			83,808	555,758
Chief Financial Officer	2007	156,444	77,223		247,815			41,975	523,457
Iftah Katz(2)	2008	131,524			1,323,587			35,215	1,490,326
Vice President of Operations	2007	114,087			2,254,567			36,117	2,404,771

(1) Includes employer contributions to pension and/or insurance plans and other miscellaneous payments.

(2) Iftah Katz joined our company as our Vice President of Operations on February 28, 2007 and ceased to be employed by our company on May 6, 2008.

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The following table summarizes the grant of awards made to the Named Executive Officers during 2008 as of December 31, 2008.

GRANTS OF PLAN-BASED AWARDS

Name (a)	Grant Date (b)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Threshold ($) (c)	Target ($) (d)	Maximum ($) (e)	Estimated Future Payouts Under Equity Incentive Plan Awards Threshold ($) (f)	Target ($) (g)	Maximum ($) (h)	All Other Stock Awards: Number of Shares of Stock or Units (#) (i)	All other Option Awards: Number of Securities Underlying Options (#)(1) (j)	Exercise or Base Price of Option Awards ($/Sh)(2) (k)	Grant Date Fair Value of Stock and Option Awards ($)(3) (l)
David Aviezer									600,000	$ 5.0	873,711
Yoseph Shaaltiel									263,728	$ 5.0	384,073
Einat Brill Almon									311,272	$ 5.0	453,270
Yossi Maimon									175,000	$ 5.0	384,037

(1) Represents outstanding options at December 31, 2008.

(2) Represents the range of the exercise price of the stock options.

(3) Represents the fair value as recorded on the grant date of the stock options.

(4) Iftah Katz ceased to be employed by our company on May 6, 2008.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information with respect to the Named Executive Officers concerning equity awards as of December 31, 2008.

Option Awards	Stock Awards	
Equity	Equity Incentive Plan	Equity Incentive Plan Awards:

Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
David Aviezer	807,858			0.120	8/1/2013				
	610,810	366,486		0.972	9/10/2016				
	66,668	533,332		5.00	2/7/2018				
Yoseph Shaaltiel	244,324			0.001	6/30/2011				
	29,304	234,424		5.00	2/7/2018				
Einat Brill Almon	251,593			0.399	5/23/2006				
	85,514	146,594		0.972	8/13/2016				
	34,584	276,688		5.00	2/7/2018				
Yossi Maimon	262,558	271,238		0.972	9/19/2016				
	19,444	155,556		5.00	2/7/2018				
Iftah Katz(1)	76,631	127,720		4.33	5/30/2017				

(1) Iftah Katz ceased to be employed by our company on May 6, 2008.

Option exercises during 2008 and vested stock awards for Named Executive Officers as of December 31, 2008 were as follows:

OPTION EXERCISES AND STOCK VESTED

	Option Awards		Stock Awards	
Name (a)	**Number of Shares Acquired on Exercise (#) (b)**	**Value Received on Exercise ($) (c)**	**Number of Shares Acquired on Vesting (#) (d)**	**Value Received on Vesting ($) (e)**
David Aviezer				
Yossi Maimon(1)	86,176			
Yoseph Shaaltiel				
Einat Brill Almon	48,370			
Iftah Katz(2)				

(1) Options were exercised through net exercise with no cash received by our company in connection with the exercise.

(2) Iftah Katz ceased to be employed by our company on May 6, 2008.

Potential Payments upon Termination or Change-in-Control

We do not provide any change in control benefits to our executive officers except that their stock option agreements, as amended, provide that all of the outstanding options of each named executive officer are subject to accelerated vesting immediately upon a change in control of our company.

Employment Arrangements

David Aviezer, Ph.D., MBA. Dr. Aviezer originally served as Protalix Ltd. s Chief Executive Officer on a consultancy basis pursuant to a Consulting Services Agreement between Protalix Ltd. and Agenda Biotechnology Ltd., a company wholly-owned by Dr. Aviezer. On September 11, 2006, Protalix Ltd. entered into an employment agreement with Dr. Aviezer pursuant to which he agreed to be employed as Protalix Ltd. s President and Chief Executive Officer, which agreement supersedes the Consultancy Services Agreement. Dr. Aviezer currently serves as our President and Chief Executive Officer. Dr. Aviezer s current monthly base salary is NIS 136,000 (approximately $35,830) and he is entitled to an annual bonus at the Board s discretion. The monthly salary is subject to cost of living adjustments from time to time. Dr. Aviezer is eligible to receive a substantial bonus in the event of certain public offerings or acquisition transactions, which bonus shall be at the discretion of the Board, and certain specified bonuses in the event Protalix achieves certain specified milestones. In connection with the employment agreement and, in addition to other options already held by Dr. Aviezer, we granted to Dr. Aviezer options to purchase 16,000 ordinary shares of Protalix Ltd. at an exercise price equal to $59.40 per share, which we assumed as options to purchase 977,297 shares of our common stock at $0.97 per share. Such options vest quarterly retroactively from June 1, 2006, over a four-year period. In 2008 we granted to Dr. Aviezer an option to purchase 600,000 shares of our common stock at an exercise price equal to $5.00 per share. The option vests variably over a five-year period that commenced on

January 1, 2008. In 2009, we granted to Dr. Aviezer an option to purchase 100,000 shares of our common stock at an exercise price equal to $2.65 per share. The option vests immediately upon the achievement of certain clinical and operational performance milestones, which milestones must be achieved within one year of the date of grant or the options will be forfeited. Dr. Aviezer s employment agreement is terminable by either party on 90 days written notice for any reason and we may terminate the agreement for cause without notice. Dr. Aviezer is entitled to be insured by Protalix Ltd. under a Manager s Policy in lieu of severance, company contributions towards vocational studies, annual recreational allowances, a company car and a company phone. Dr. Aviezer is entitled to 24 working days of vacation. All stock options that have not vested as of the date of termination shall be deemed to have expired.

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Yoseph Shaaltiel, Ph.D. Dr. Shaaltiel founded Protalix Ltd. in 1993 and currently serves as our Executive Vice President, Research and Development. Dr. Shaaltiel entered into an employment agreement with Protalix Ltd. on September 1, 2001. Pursuant to the employment agreement, his current monthly base salary is NIS 60,500 (approximately $15,940) per month. The employment agreement is terminable by Protalix Ltd. on 90 days written notice for any reason and we may terminate the agreement for cause without notice. In 2008, we granted to Dr. Shaaltiel an option to purchase 263,728 shares of our common stock at an exercise price equal to $5.00 per share. The option vests variably over a five-year period that commenced on January 1, 2008. In 2009, we granted to Dr. Shaaltiel an option to purchase 50,000 shares of our common stock at an exercise price equal to $2.65 per share. The option vests immediately upon the achievement of certain clinical and operational performance milestones, which milestones must be achieved within one year of the date of grant or the options will be forfeited. Dr. Shaaltiel is entitled to be insured by Protalix Ltd. under a Manager s Policy in lieu of severance, company contributions towards vocational studies, annual recreational allowances, a company car and a company phone. Dr. Shaaltiel is entitled to 24 working days of vacation.

Einat Brill Almon, Ph.D. Dr. Brill Almon joined Protalix Ltd. on December 19, 2004 as its Vice President, Product Development, pursuant to an employment agreement effective on December 19, 2004 by and between Protalix Ltd. and Dr. Brill Almon, and currently serves as our Senior Vice President, Product Development. Pursuant to the employment agreement, her current monthly base salary is NIS 55,000 per month (approximately $14,490). She is also entitled to certain specified bonuses in the event that Protalix achieves certain specified clinical development milestones within specified timelines. In connection with the employment agreement, Protalix agreed to grant to Dr. Brill Almon options to purchase 7,919 ordinary shares of Protalix Ltd. at exercise prices equal to $24.36 and $59.40 per share, which we assumed as options to purchase 483,701 shares of our common stock at $0.40 and $0.97 per share. The options vest over four years. In addition, in 2008, we granted to Dr. Brill Almon an option to purchase 311,272 shares of our common stock at an exercise price equal to $5.00 per share. The option vests variably over a five-year period that commenced on January 1, 2008. In 2009, we granted to Dr. Brill Almon an option to purchase 50,000 shares of our common stock at an exercise price equal to $2.65 per share. The option vests immediately upon the achievement of certain clinical and operational performance milestones, which milestones must be achieved within one year of the date of grant or the options will be forfeited. The employment agreement is terminable by either party on 60 days written notice for any reason and we may terminate the agreement for cause without notice. Dr. Brill Almon is entitled to be insured by Protalix Ltd. under a Manager s Policy in lieu of severance, company contributions towards vocational studies, annual recreational allowances, a company car and a company phone at up to NIS 1,000 per month. Dr. Brill Almon is entitled to 22 working days of vacation. All stock options that have not vested as of the date of termination shall be deemed to have expired.

Yossi Maimon, CPA. Mr. Maimon joined Protalix Ltd. as its Chief Financial Officer pursuant to an employment agreement effective as of October 15, 2006 by and between Protalix Ltd. and Mr. Maimon and currently serves as our Chief Financial Officer. Pursuant to the employment agreement, his current monthly base salary is NIS 55,000 (approximately $14,490) and Mr. Maimon is entitled to an annual discretionary bonus and additional discretionary bonuses in the event Protalix achieves significant financial milestones, subject to the Board s sole discretion. The monthly salary is subject to cost of living adjustments from time to time. In connection with the employment agreement, Protalix agreed to grant to Mr. Maimon options to purchase 10,150 ordinary shares of Protalix Ltd. at an exercise price equal to $59.40 per share, which we assumed as options to purchase 619,972 shares of our common stock at $0.97 per share. The first 25% of such options shall vest on the first anniversary of the grant date and the remainder shall vest quarterly in 12 equal increments. In addition, in 2008, we granted to Mr. Maimon an option to purchase 175,000 shares of our common stock at an exercise price equal to $5.00 per share. The option vests variably over a five-year period that commenced on January 1, 2008. In 2009, we granted to Mr. Maimon an option to purchase 50,000 shares of our common stock at an exercise price equal to $2.65 per share. The option vests immediately upon the achievement of certain clinical and operational performance milestones, which milestones must be achieved within one year of the date of grant or the options will be forfeited. The employment agreement is terminable by either

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party on 60 days written notice for any reason and we may terminate the agreement for cause without notice. Mr. Maimon is entitled to be insured by Protalix Ltd. under a Manager s Policy in lieu of severance, company contributions towards vocational studies, annual recreational allowances, a company car and a company phone. Mr. Maimon is entitled to 24 working days of vacation. All stock options that have not vested as of the date of termination shall be deemed to have expired.

2006 Stock Incentive Plan

Our Board of Directors and a majority of our stockholders approved our 2006 Stock Incentive Plan on December 14, 2006 and cancelled our 1998 stock option plan (no options were outstanding under the 1998 plan at that time). We have reserved 9,741,655 shares of our common stock for issuance, in the aggregate, under the 2006 Stock Incentive Plan, subject to adjustment for a stock split or any future stock dividend or other similar change in our common stock or our capital structure. As of September 15, 2009, options to acquire 1,432,223 shares of common stock remain available to be granted under our 2006 Stock Incentive Plan.

Our 2006 Stock Incentive Plan provides for the grant of stock options, restricted stock, restricted stock units, stock appreciation rights and dividend equivalent rights, collectively referred to as awards. Stock options granted under the 2006 Stock Incentive Plan may be either incentive stock options under the provisions of Section 422 of the Internal Revenue Code, or non-qualified stock options. Incentive stock options may be granted only to employees. Awards other than incentive stock options may be granted to employees, directors and consultants. The 2006 Stock Incentive Plan is also in compliance with the provisions of the Israeli Income Tax Ordinance New Version, 1961 (including as amended pursuant to Amendment 132 thereto) and is intended to enable us to grant awards to grantees who are Israeli residents as follows: (i) awards to employees pursuant to Section 102 of the Tax Ordinance (definition refers only to employees, office holders and directors of our company or a related entity excluding those who are considered Controlling Shareholders pursuant to the Tax Ordinance); and (ii) awards to non-employees pursuant to Section 3(I) of the Tax Ordinance. In accordance with the terms and conditions imposed by the Tax Ordinance, grantees who receive awards under the 2006 Stock Incentive Plan may be afforded certain tax benefits in Israel as described below.

Our Board of Directors or the Compensation Committee, referred to as the plan administrator, will administer our 2006 Stock Incentive Plan, including selecting the grantees, determining the number of shares to be subject to each award, determining the exercise or purchase price of each award, and determining the vesting and exercise periods of each award.

The exercise price of stock options granted under the 2006 Stock Incentive Plan must be equal to at least 100% of the fair market value of our common stock on the date of grant; however, in certain circumstances, grants may be made at a lower price to Israeli grantees who are residents of the State of Israel. If, however, incentive stock options are granted to an employee who owns stock possessing more than 10% of the voting power of all classes of our stock or the stock of any parent or subsidiary of our company, the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date and the maximum term of these incentive stock options must not exceed five years. The maximum term of all other awards must not exceed 10 years. The plan administrator will determine the exercise or purchase price (if any) of all other awards granted under the 2006 Stock Incentive Plan.

Under the 2006 Stock Incentive Plan, incentive stock options and options to Israeli grantees may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised during the lifetime of the participant only by the participant. Other awards shall be transferable by will or by the laws of descent or distribution and to the extent and in the manner authorized by the plan administrator by gift or pursuant to a domestic relations order to members of the participant s immediate family. The 2006 Stock Incentive Plan permits the designation of beneficiaries by holders of awards, including incentive stock options.

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In the event the service of a participant in the 2006 Stock Incentive Plan is terminated for any reason other than cause, disability or death, the participant may exercise awards that were vested as of the termination date for a period ending upon the earlier of 12 months or the expiration date of the awards unless otherwise determined by the plan administrator.

In the event of a corporate transaction or a change of control, all awards will terminate unless assumed by the successor corporation. Unless otherwise provided in a participant s award agreement, in the event of a corporate transaction for the portion of each award that is assumed or replaced, then such award will automatically become fully vested and exercisable immediately upon termination of a participant s service if the participant is terminated by the successor company or us without cause within 12 months after the corporate transaction. For the portion of each award that is not assumed or replaced, such portion of the award will automatically become fully vested and exercisable immediately prior to the effective date of the corporate transaction so long as the participant s service has not been terminated prior to such date.

In the event of a change in control, except as otherwise provided in a participant s award agreement, following a change in control (other than a change in control that also is a corporate transaction) and upon the termination of a participant s service without cause within 12 months after a change in control, each award of such participant that is outstanding at such time will automatically become fully vested and exercisable immediately upon the participant s termination.

Under our 2006 Stock Incentive Plan, a corporate transaction is generally defined as:

a merger or consolidation in which we are not the surviving entity, except for the principal purpose of changing our company s state of incorporation;

the sale, transfer or other disposition of all or substantially all of our assets;

the complete liquidation or dissolution of our company;

any reverse merger in which we are the surviving entity but our shares of common stock outstanding immediately prior to such merger are converted or exchanged by virtue of the merger into other property, whether in the form of securities, cash or otherwise, or in which securities possessing more than forty percent (40%) of the total combined voting power of our outstanding securities are transferred to a person or persons different from those who held such securities immediately prior to such merger; or

acquisition in a single or series of related transactions by any person or related group of persons of beneficial ownership of securities possessing more than fifty percent (50%) of the total combined voting power of our outstanding securities but excluding any such transaction or series of related transactions that the plan administrator determines not to be a corporate transaction (provided however that the plan administrator shall have no discretion in connection with a corporate transaction for the purchase of all or substantially all of our shares unless the principal purpose of such transaction is changing our company s state of incorporation).

Under our 2006 Stock Incentive Plan, a change of control is defined as:

the direct or indirect acquisition by any person or related group of persons of beneficial ownership of securities possessing more than fifty percent (50%) of the total combined voting power of our outstanding securities pursuant to a tender or exchange offer made directly to our shareholders and which a majority of the members of our board (who have generally been on our board for at least 12 months) who are not affiliates or associates of the offeror do not recommend shareholders accept the offer; or

a change in the composition of our board over a period of 12 months or less, such that a majority of our board members ceases, by reason of one or more contested elections for board membership, to be comprised of individuals who were previously directors of our company.

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Unless terminated sooner, the 2006 Stock Incentive Plan will automatically terminate in 2016. Our Board of Directors has the authority to amend, suspend or terminate our 2006 Stock Incentive Plan. No amendment, suspension or termination of the 2006 Stock Incentive Plan shall adversely affect any rights under awards already granted to a participant. To the extent necessary to comply with applicable provisions of federal securities laws, state corporate and securities laws, the Internal Revenue Code, the rules of any applicable stock exchange or national market system, and the rules of any non-U.S. jurisdiction applicable to awards granted to residents therein (including the Tax Ordinance), we shall obtain shareholder approval of any such amendment to the 2006 Stock Incentive Plan in such a manner and to such a degree as required.

Impact of Israeli Tax Law

The awards granted to employees pursuant to Section 102 of the Tax Ordinance under the 2006 Stock Incentive Plan may be designated by us as approved options under the capital gains alternative, or as approved options under the ordinary income tax alternative.

To qualify for these benefits, certain requirements must be met, including registration of the options in the name of a trustee. Each option, and any shares of common stock acquired upon the exercise of the option, must be held by the trustee for a period commencing on the date of grant and deposit into trust with the trustee and ending 24 months thereafter.

Under the terms of the capital gains alternative, we may not deduct expenses pertaining to the options for tax purposes.

Under the 2006 Stock Incentive Plan, we may also grant to employees options pursuant to Section 102(c) of the Tax Ordinance that are not required to be held in trust by a trustee. This alternative, while facilitating immediate exercise of vested options and sale of the underlying shares, will subject the optionee to the marginal income tax rate of up to 50% as well as payments to the National Insurance Institute and health tax on the date of the sale of the shares or options. Under the 2006 Stock Incentive Plan, we may also grant to non-employees options pursuant to Section 3(I) of the Tax Ordinance. Under that section, the income tax on the benefit arising to the optionee upon the exercise of options and the issuance of common stock is generally due at the time of exercise of the options.

These options shall be further subject to the terms of the tax ruling that has been obtained by Protalix Ltd. from the Israeli tax authorities in connection with the merger. Under the tax ruling, the options issued by us in connection with the assumption of Section 102 options previously issued by Protalix Ltd. under the capital gains alternative shall be issued to a trustee, shall be designated under the capital gains alternative and the issuance date of the original options shall be deemed the issuance date for the assumed options for the calculation of the respective holding period.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On March 17, 2005, Protalix Ltd. entered into a Management Services Agreement with Pontifax Management Company, Ltd. in connection with the purchase of Protalix Ltd. s Series B Preferred Shares by the Pontifax Funds. Pursuant to the Management Services Agreement, Mr. Hurvitz serves as a member of our Board of Directors. Further, Protalix Ltd. agreed not to designate a permanent chairman of the Board of Directors until Pontifax Management Company chose to nominate Mr. Hurvitz as the Chairman of the Board in 2006. In consideration for Mr. Hurvitz s services, Protalix Ltd. was required to pay Pontifax Management Company a fee equal to $3,000 per month plus required taxes on such payment. In addition, in connection with the execution of the Management Services Agreement, Protalix Ltd. issued to Pontifax options to purchase a number of its Series B Preferred Shares equal to 3.5% of the then outstanding share capital with an exercise price equal to the par value of the shares. Lastly, upon the appointment of Mr. Hurvitz as Chairman of the Board of Directors, Protalix Ltd. issued to Pontifax additional warrants for Series B Preferred Shares equal to 3.76% of the then outstanding share capital of Protalix Ltd. On December 31, 2006, in connection with the merger of Protalix Ltd. with our wholly-owned subsidiary, we assumed the Management Services Agreement and all options granted under the Management Services Agreement have been converted into options to purchase 3,384,502 shares of our common stock. Under the terms of the assumed Management Services Agreement, we are obligated only to use our best efforts to nominate Mr. Hurvitz for election to our Board of Directors, which remains subject to the review and approval of the Nominating Committee of the Board of Directors and the entire Board of Directors, as applicable. For 2009, the fee payable under this agreement will be $33,000, which is the same fee payable to the other non-executive directors.

On September 14, 2006, Protalix Ltd. entered into a collaboration and licensing agreement with Teva for the development and manufacture of two proteins using ProCellEx. Mr. Hurvitz, the Chairman of our Board of Directors, is the Chairman of Teva s Board of Directors, and Phillip Frost M.D., a former director and a major shareholder of our company, is the Vice Chairman of Teva s Board of Directors and Professor Roger D. Kornberg, a member of our board of directors also serves as a member of the board of directors of Teva. Pursuant to the agreement, we will collaborate on the research and development of two proteins using ProCellEx^{tm}, our proprietary protein expression system. Protalix Ltd. has granted to Teva an exclusive license to commercialize the products developed under the collaboration in return for royalty and milestone payments payable upon the achievement of certain pre-defined goals. Protalix Ltd. will retain certain exclusive manufacturing rights with respect to the active pharmaceutical ingredient of the proteins following the first commercial sale of a licensed product under the agreement and other rights thereafter.

All related party transactions are reviewed and approved by the Audit Committee, as required by the Audit Committee Charter.

AUDIT COMMITTEE REPORT

The information contained in this report shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filings with the Securities and Exchange Commission, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates it by reference into a document filed under the Securities Act of 1933, as amended, or Securities Exchange Act of 1934, as amended.

The Audit Committee of our Board of Directors operates under a written charter adopted by our Board of Directors, and currently consists of Amos Bar-Shalev, Yodfat Harel Gross and Alfred Akirov. Mr. Toussia-Cohen served as a member of the Audit Committee prior to his resignation from our Board of Directors in May 2009. All members of the committee fall under the independence requirements contemplated by Rule 10A-3 under the Exchange Act.

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As described more fully in its charter, the Audit Committee provides oversight of the quality and integrity of our consolidated financial statements, internal controls and financial reporting process, and our process to manage business and financial risks and compliance with legal, ethical and regulatory requirements. In addition, the audit committee interacts directly with and evaluates the qualifications, independence and performance of the independent auditors, Kesselman & Kesselman, and is responsible for the appointment, compensation, retention and oversight of the work of the auditors.

Management is responsible for the preparation, presentation and integrity of the consolidated financial statements, and evaluation of and assessment of the effectiveness of our internal control over financial reporting. The independent auditors are responsible for performing an independent audit of the consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board. The Audit Committee s responsibility is to monitor and oversee these processes.

The Audit Committee has reviewed and discussed the audited consolidated financial statements with our Board of Directors and management. Management has represented to the audit committee that our consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles. The Audit Committee discussed with Kesselman & Kesselman the matters required to be discussed by Statement of Auditing Standards No. 61, *Communications with Audit Committees*. In addition, the independent auditors provided the Audit Committee with the written disclosures and letter required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, and the Audit Committee has discussed with Kesselman & Kesselman that firm s independence from our company.

Based on the review and discussions of the audited consolidated financial statements and discussions with management and Kesselman & Kesselman, the Audit Committee recommended to Board of Directors that the audited consolidated financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 for filing with the SEC.

Respectfully submitted,

Members of the Protalix BioTherapeutics, Inc.
Audit Committee

Amos Bar-Shalev
Yodfat Harel Gross
Alfred Akirov

Our Board of Directors recommends that shareholders vote FOR the election or re-election of all director nominees named in this Proposal 1: Election of Directors.

PROPOSAL 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our Board of Directors, upon the recommendation of its Audit Committee, has ratified the selection of Kesselman & Kesselman to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2009. The Audit Committee of our Board of Directors is solely responsible for selecting our independent public accountants. Although shareholder approval is not required to appoint Kesselman & Kesselman as our independent public accountants, we believe that submitting the appointment of Kesselman & Kesselman to our shareholders for ratification is a matter of good corporate governance. If our shareholders do not ratify the appointment, then the appointment will be reconsidered by the Audit Committee. Even if the appointment is ratified, the Audit Committee may engage a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interest of our company and our shareholders. The proxy will be voted as specified, and if no specification is made, the proxy will be cast FOR this proposal.

During our fiscal year ended December 31, 2008, there were no disagreements with Kesselman & Kesselman on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which if not resolve to their satisfaction would have caused them to make reference to the subject matter of the disagreements in connection with their opinion.

The audit report of Kesselman & Kesselman on our consolidated financial statements for the years ended December 31, 2008, 2007 and 2006 did not contain any adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles.

The Audit Committee will consider whether the provision of any other services by Kesselman & Kesselman is compatible with maintaining the independence of Kesselman & Kesselman. The Audit Committee has concluded that Kesselman & Kesselman is independent.

Representatives of Kesselman & Kesselman will be present at the annual meeting and available to answer shareholders questions.

Our Board of Directors recommends that shareholders vote FOR the ratification of the appointment of Kesselman & Kesselman for the fiscal year ending December 31, 2009.

The following table sets forth fees billed to us by our independent registered public accounting firm during the fiscal years ended December 31, 2008 and 2007 for: (i) services rendered for the audit of our annual financial statements and the review of our quarterly financial statements; (ii) services by our independent registered public accounting firm that are reasonably related to the performance of the audit or review of our financial statements and that are not reported as Audit Fees; (iii) services rendered in connection with tax compliance, tax advice and tax planning; and (iv) all other fees for services rendered.

	Year Ended December 31,	
	2008	**2007**
Audit Fees	$ 249,000	$ 393,000
Audit Related Fees	$ 49,000	$ 77,000
Tax Fees	$ 76,000	$ 76,000
All Other Fees		$ 70,000

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

Prior to entering into the engagement letter with our independent registered accountants, our Audit Committee approved the 2008 audit fees. For fiscal year 2009, our Audit Committee has approved fees for certain services to be rendered by the independent registered accountants.

SHAREHOLDER PROPOSALS

All shareholder proposals intended to be presented at our 2010 Annual Meeting of Shareholders must be submitted in writing to Yossi Maimon, Corporate Secretary, Protalix BioTherapeutics, Inc., 2 Snunit Street, Science Park, P.O. Box 455, Carmiel, Israel 20100 and received by us no later than June 4, 2010, and must comply in all other respects with applicable rules and regulations of the SEC relating to such inclusion. Such notice must include, with respect to each matter the shareholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the shareholder proposing such business, (iii) the class and number of shares of our company which are beneficially owned by the shareholder and (iv) any material interest of the shareholder in such business. In addition, the notice must include certain information relating to any derivative or hedging transactions by the shareholder delivering such notice and its Shareholder Associated Persons, as defined in our By-Laws, and other arrangements with other parties regarding our securities, as presented in detail in our By-Laws.

Any such proposal submitted with respect to our 2010 Annual Meeting of Shareholders which is submitted outside the requirements of Rule 14a-8 under the Exchange Act will be considered timely if we receive written notice of that proposal not less than 45 days nor more than 75 days prior to the date in 2010 on which we first mailed this proxy statement in 2009; however, if the date of the annual meeting is changed by more than 30 days from the date of the prior year s annual meeting, the notice will be considered untimely if it is not received at least 90 days prior to the newly announced date that we will mail our proxy statement.

ANNUAL REPORT TO SHAREHOLDERS

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed with the SEC, which provides additional information about us, will be distributed to all shareholders entitled to vote along with the proxy materials. **Additional copies of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 are available on the Internet at http://www.sec.gov and http://www.protalix.com and are also available in paper form without charge upon written request to Investor Relations, Protalix BioTherapeutics, Inc., 2 Snunit Street, Science Park, P.O. Box 455, Carmiel, Israel 20100**. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and information on the website other than the proxy statement, are not part of our proxy soliciting materials.

HOUSEHOLDING OF PROXY MATERIALS

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more shareholders sharing the same address by delivering a single proxy statement addressed to those shareholders. This process, which is commonly referred to as householding, potentially means extra convenience for shareholders and cost savings for companies.

This year, a number of brokers with account holders who are shareholders of our company will be householding our proxy materials. A single proxy statement may be delivered to multiple shareholders sharing an address unless contrary instructions have been received from the affected shareholders. Once a shareholder has received notice from its broker that it will be householding communications to such shareholder s address, householding will continue until such shareholder is notified otherwise or until such shareholder notifies its broker or us that it no longer wishes to participate in householding. If, at any time, a shareholder no longer wishes to participate in householding and would prefer to receive a separate proxy statement and annual report in the future such shareholder may (1) notify its broker or (2) direct its written request to: Yossi Maimon, Corporate Secretary, Protalix BioTherapeutics, Inc., 2 Snunit Street, Science Park, P.O. Box 455, Carmiel, Israel 20100, +972 (4) 988-9488, ext. 143. Shareholders who currently receive multiple copies of the proxy statement at

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their address and would like to request householding of their communications should contact their broker. In addition, we will promptly deliver, upon written or oral request to the address or telephone number above, a separate copy of the annual report and proxy statement to such shareholders at a shared address to which a single copy of the documents was delivered.

OTHER MATTERS

Our Board of Directors knows of no other business to be acted upon at the annual meeting. However, if any other business properly comes before the Annual Meeting of Shareholders, it is the intension of the persons named in the enclosed proxy to vote on such matters in accordance with their best judgment.

The prompt return of your proxy is appreciated and will be helpful in obtaining the necessary vote. Therefore, whether or not you expect to attend the annual meeting please sign the proxy and return it in the enclosed envelope or vote by internet or telephone.

BY ORDER OF THE BOARD OF DIRECTORS,

Yossi Maimon
Vice President and Chief Financial Officer and
Corporate Secretary

Carmiel, Israel
September 17, 2009

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PROTALIX BIOTHERAPEUTICS, INC.
2 Snunit Street
Science Park
POB 455
Carmiel, Israel 20100

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

As an alternative to completing this form, you may enter your vote instruction by telephone at 1-800-PROXIES, or via the Internet at WWW.VOTEPROXY.COM and follow the simple instructions. Use the Company Number and Account Number shown on your proxy card.

The undersigned hereby appoints David Aviezer and Yossi Maimon as proxies, each with full power of substitution, to represent and vote as designated on the reverse side, all the shares of Common Stock of Protalix BioTherapeutics, Inc. held of record by the undersigned on September 15, 2009, at the Annual Meeting of Shareholders to be held at the Sheraton Tel Aviv, 115 HaYarkon Street, Tel Aviv, Israel on November 9, 2009, or any adjournment or postponement thereof.

(Continued and to be signed on the reverse side)

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ANNUAL MEETING OF SHAREHOLDERS OF
PROTALIX BIOTHERAPEUTICS, INC.
November 9, 2009
NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:

The Notice of Meeting, proxy statement and proxy card
are available at http://www.amstock.com/ProxyServices/ViewMaterial.asp?CoNumber=15105

Please sign, date and mail
your proxy card in the
envelope provided as soon
as possible.

ê Please detach along perforated line and mail in the envelope provided. ê

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THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE NOMINEES FOR DIRECTOR LISTED IN PROPOSAL 1 AND FOR PROPOSAL 2.
PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x

1. Election of Directors:

o **FOR ALL NOMINEES**

o **WITHHOLD AUTHORITY FOR ALL NOMINEES**

o **FOR ALL EXCEPT**
(See instructions below)

NOMINEES:
- ¡ Eli Hurvitz
- ¡ David Aviezer, Ph.D.
- ¡ Yoseph Shaaltiel, Ph.D.
- ¡ Alfred Akirov
- ¡ Amos Bar-Shalev
- ¡ Zeev Bronfeld
- ¡ Yodfat Harel Gross
- ¡ Roger D. Kornberg, Ph.D.
- ¡ Eyal Sheratzky

	FOR	AGAINST	ABSTAIN
2. To ratify the appointment of Kesselman & Kesselman, Certified Public Accountant (Isr.), a member of PricewaterhouseCoopers International Limited, a registered public accounting firm for the fiscal year ending December 31, 2009.	o	o	o

3. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting.

INSTRUCTIONS: To withhold authority to vote for any individual nominee(s), mark **FOR ALL EXCEPT** and fill in the circle next to each nominee you wish to withhold, as shown here: =

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method. o

Signature of Shareholder	Date:	Signature of Shareholder	Date:

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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