

ORAMED PHARMACEUTICALS INC.  
Form 424B3  
August 30, 2012

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Prospectus Supplement No. 2  
(to Prospectus dated February 24, 2012)

Filed pursuant to Rule 424(b)(3)  
File Numbers 333-164288, 333- 173058,  
333-175216

ORAMED PHARMACEUTICALS, INC.

This Prospectus Supplement No. 2 supplements our Prospectus dated February 24, 2012 , as previously supplemented by that Prospectus Supplement No. 1 dated April 5, 2012 (collectively, the "Prospectus").

This Prospectus Supplement No. 2 contains our Quarterly Report on Form 10-Q for the quarterly period ended May 31, 2012 that we filed with the Securities and Exchange Commission on July 12, 2012 and our Current Report on Form 8-K that was filed with the Securities and Exchange Commission on August 28, 2012. This Prospectus Supplement No. 2 is not complete without, and may not be delivered or used except in connection with, the Prospectus. This Prospectus Supplement No. 2 is qualified by reference to the Prospectus except to the extent that the information in this Prospectus Supplement No. 2 updates and supersedes the information contained in the Prospectus, including any supplements or amendments thereto.

The shares that are the subject of the Prospectus have been registered to permit their resale to the public by the selling stockholders named in the Prospectus. We are not selling any shares of common stock in this offering and therefore will not receive any proceeds from this offering, except upon the exercise of warrants or options.

Pursuant to Rule 429 under the Securities Act of 1933, as amended, our Prospectus, dated February 24, 2012, filed with the Securities and Exchange Commission on February 28, 2012, as supplemented by Prospectus Supplement No. 1 and this Prospectus Supplement No. 2, is a combined prospectus and relates to shares registered under Registration Statement Nos. 333-164288, 333-173058 and 333-175216.

Our common stock is quoted on the OTC Bulletin Board, or the OTCBB, under the symbol "ORMP.OB". On August 29, 2012, the last reported bid price per share of our common stock as quoted on the OTCBB was \$0.32 per share.

See the "Risk Factors" section beginning on page 6 of the Prospectus for a discussion of certain risks that you should consider before investing in our securities.

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus Supplement is August 30, 2012

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 31, 2012

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

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

Commission file number: 000-50298

ORAMED PHARMACEUTICALS INC.  
(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or Other Jurisdiction of (IRS Employer Identification  
Incorporation or Organization) No.)

98-0376008

Hi-Tech Park 2/5 Givat Ram  
PO Box 39098  
Jerusalem, Israel  
(Address of Principal  
Executive Offices)

91390  
(Zip Code)

+ 972-2-566-0001

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of July 11, 2012 there were 70,453,583 shares of the issuer's Common Stock, \$.001 par value, outstanding.

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ORAMED PHARMACEUTICALS INC.

FORM 10-Q

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PART I – FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

ORAMED PHARMACEUTICALS INC.

(A development stage company)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MAY 31, 2012

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ORAMED PHARMACEUTICALS INC.  
(A development stage company)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MAY 31, 2012

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ORAMED PHARMACEUTICALS INC.  
(A development stage company)  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)  
U.S. dollars

	May 31, 2012	August 31, 2011
<b>A s s e t s</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$1,299,865	\$1,513,365
Short term deposits	500,005	1,801,400
Marketable securities	357,323	384,565
Restricted cash	16,000	16,000
Accounts receivable - other	135,399	542,891
Prepaid expenses	21,044	1,670
Related parties	1,723	-
Grants receivable from the Chief Scientist	127,126	24,191
<b>T o t a l c u r r e n t a s s e t s</b>	<b>2,458,485</b>	<b>4,284,082</b>
<b>LONG TERM DEPOSITS AND INVESTMENT</b>	<b>9,164</b>	<b>10,186</b>
<b>AMOUNTS FUNDED IN RESPECT OF EMPLOYEE RIGHTS UPON RETIREMENT</b>	<b>4,503</b>	<b>14,293</b>
<b>PROPERTY AND EQUIPMENT, net</b>	<b>2,121</b>	<b>17,376</b>
<b>T o t a l a s s e t s</b>	<b>\$2,474,273</b>	<b>\$4,325,937</b>
<b>Liabilities and stockholders' equity</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$308,605	\$375,538
Related parties	-	18,502
Account payable with former shareholder	47,252	47,252
<b>T o t a l c u r r e n t l i a b i l i t i e s</b>	<b>355,857</b>	<b>441,292</b>
<b>LONG TERM LIABILITIES:</b>		
Employee rights upon retirement	8,777	22,675
Provision for uncertain tax position	138,054	138,054
	146,831	160,729
<b>COMMITMENTS (note 2)</b>		
<b>T o t a l l i a b i l i t i e s</b>	<b>502,688</b>	<b>602,021</b>
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock of \$ 0.001 par value - authorized: 200,000,000 shares at May 31, 2012 and August 31, 2011; issued and outstanding: 70,403,583 shares at May 31, 2012 and 70,104,583 at August 31, 2011	70,403	70,104
Additional paid-in capital	18,446,871	18,201,111
Other accumulated comprehensive income	15,869	-
Deficit accumulated during the development stage	(16,561,558)	(14,547,299)
<b>T o t a l s t o c k h o l d e r s ' e q u i t y</b>	<b>1,971,585</b>	<b>3,723,916</b>
<b>T o t a l l i a b i l i t i e s a n d s t o c k h o l d e r s ' e q u i t y</b>	<b>\$2,474,273</b>	<b>\$4,325,937</b>

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

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ORAMED PHARMACEUTICALS INC.  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)  
U.S. dollars

	Nine months ended		Three months ended		Period from April 12, 2002 (inception) through May 31, 2012
	May 31, 2012	May 31, 2011	May 31, 2012	May 31, 2011	
RESEARCH AND DEVELOPMENT EXPENSES	\$ 1,144,415	\$ 869,166	\$ 249,752	\$ 241,350	\$8,996,264
IMPAIRMENT OF INVESTMENT	-	-	-	-	434,876
GENERAL AND ADMINISTRATIVE EXPENSES	802,273	971,143	290,668	350,127	7,760,656
OPERATING LOSS	1,946,688	1,840,309	540,420	591,477	17,191,796
FINANCIAL INCOME	(14,834 )	(32,632 )	(306 )	(22,587 )	(208,866 )
FINANCIAL EXPENSES	39,294	13,532	10,251	6,744	220,551
GAIN ON SALE OF INVESTMENT	-	(1,033,004 )	-	(1,033,004 )	(1,033,004 )
IMPAIRMENT OF AVAILABLE- FOR-SALE SECURITIES	43,111	-	-	-	240,523
LOSS (INCOME) BEFORE TAXES ON INCOME	2,014,259	788,205	550,365	(457,370 )	16,411,000
TAXES ON INCOME	-	-	-	-	150,558
NET LOSS (INCOME) FOR THE PERIOD	\$ 2,014,259	\$ 788,205	\$ 550,365	\$ (457,370 )	\$16,561,558
BASIC AND DILUTED LOSS (INCOME) PER COMMON SHARE	\$ 0.03	\$ 0.01	\$ 0.01	\$ (0.01 )	
WEIGHTED AVERAGE NUMBER OF SHARES USED IN COMPUTATION OF LOSS (INCOME) PER SHARE:					
Basic	70,199,090	63,278,472	70,397,799	69,049,995	
Diluted	70,199,090	63,278,472	70,397,799	72,410,339	

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



ORAMED PHARMACEUTICALS INC.  
(A development stage company)  
CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(UNAUDITED)  
U.S. dollars

	Common Stock Shares	Stock \$	Additional paid-in capital	Other Comprehensive Income	Deficit accumulated during the development stage	Total stockholders' equity
BALANCE AS OF APRIL 12, 2002 (inception)	34,828,200	\$34,828	\$18,872	-	-	\$53,700
CHANGES DURING THE PERIOD FROM APRIL 12, 2002 THROUGH AUGUST 31, 2010 :						
SHARES CANCELLED	(19,800,000)	(19,800 )	19,800	-	-	-
SHARES ISSUED FOR INVESTMENT IN ISTI-NJ	1,144,410	1,144	433,732	-	-	434,876
SHARES ISSUED FOR OFFERING COSTS	1,752,941	1,753	(1,753 )	-	-	-
SHARES AND WARRANTS ISSUED FOR CASH- NET OF ISSUANCE EXPENSES	37,359,230	37,359	7,870,422	-	-	7,907,781
SHARES ISSUED FOR SERVICES	1,730,540	1,731	819,606	-	-	821,337
CONTRIBUTIONS TO PAID IN CAPITAL	-	-	18,991	-	-	18,991
RECEIPTS ON ACCOUNT OF SHARES AND WARRANTS	-	-	6,061	-	-	6,061
SHARES ISSUED FOR CONVERSION OF CONVERTIBLE NOTE	550,000	550	274,450	-	-	275,000
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO EMPLOYEES AND DIRECTORS	-	-	3,554,921	-	-	3,554,921
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO CONSULTANTS	-	-	615,882	-	-	615,882
DISCOUNT ON CONVERTIBLE NOTE RELATED TO	-	-	108,000	-	-	108,000

BENEFICIAL CONVERSION FEATURE OTHER COMPREHENSIVE LOSS	-	-	-	-	(16 )	(16 )
IMPUTED INTEREST	-	-	19,777	-	-	19,777
NET LOSS	-	-	-	-	(12,986,038)	(12,986,038)
BALANCE AS OF AUGUST 31, 2010	57,565,321	57,565	13,758,761	-	(12,986,054)	830,272
SHARES ISSUED FOR SERVICES RENDERED	730,636	731	226,838	-	-	227,569
SHARES AND WARRANTS ISSUED FOR CASH	11,808,626	11,808	3,682,404	-	-	3,694,212
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO EMPLOYEES AND DIRECTORS	-	-	502,593	-	-	502,593
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO CONSULTANTS	-	-	26,733	-	-	26,733
IMPUTED INTEREST	-	-	3,782	-	-	3,782
NET LOSS	-	-	-	-	(1,561,245 )	(1,561,245 )
BALANCE AS OF AUGUST 31, 2011	70,104,583	70,104	18,201,111	-	(14,547,299)	3,723,916
SHARES ISSUED FOR SERVICES	299,000	299	91,561	-	-	91,860
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO EMPLOYEES AND DIRECTORS	-	-	80,492	-	-	80,492
STOCK BASED COMPENSATION RELATED TO OPTIONS GRANTED TO CONSULTANTS	-	-	73,707	-	-	73,707
UNREALIZED GAIN FROM AVAILABLE-FOR-SALE SECURITIES	-	-	-	15,869	-	15,869
NET LOSS	-	-	-	-	(2,014,259 )	(2,014,259 )
BALANCE AS OF MAY 31, 2012	70,403,583	\$70,403	\$18,446,871	15,869	\$(16,561,558)	\$1,971,585



## ORAMED PHARMACEUTICALS INC.

(A development stage company)

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

U.S. dollars

	Nine months ended		Period from
	May 31,	2011	April 12,
	2012	2011	2002
			(inception
			date) through
			May 31,
			2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$(2,014,259)	\$(788,205)	\$(16,561,558)
Adjustments required to reconcile net loss to net cash used in operating activities:			
Depreciation	17,384	22,840	123,491
Amortization of debt discount	-	-	108,000
Exchange differences	(1)	(6,120)	(2,669)
Stock based compensation	154,199	436,746	4,854,328
Common stock issued for services	91,860	227,569	1,139,956
Gain on sale of investment	-	(1,033,004)	(1,033,004)
Impairment of investment	-	-	434,876
Impairment of available for sales securities	43,111	-	240,523
Imputed interest	-	2,837	23,559
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(166,540)	(47,594)	(284,482)
Restricted cash	-	8	(16,000)
Accounts payable and accrued expenses	(85,435)	(98,775)	308,605
Liability of employee rights upon retirement	419	-	23,094
Provision for uncertain tax position	-	-	138,054
Total net cash used in operating activities	(1,959,262)	(1,283,698)	(10,503,227)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	(2,129)	(1,475)	(125,612)
Acquisition of short-term investments	(500,000)	(1,690,952)	(5,928,382)
Funds in respect of employee rights upon retirement	(2,109)	-	(16,402)
Proceeds from sale of investment in Entera	450,000	-	450,000
Proceeds from sale of Short term investments	1,800,000	-	5,428,000
Lease deposits	-	2,407	(7,509)
Total net cash derived from (used in) investing activities	1,745,762	(1,690,020)	(199,905)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of common stock and warrants - net of issuance expenses	-	3,694,212	11,655,693
Receipts on account of shares issuances	-	-	6,061
Proceeds from convertible notes	-	-	275,000
Proceeds from short term note payable	-	-	120,000

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Payments of short term note payable	-	-	(120,000 )
Shareholder advances	-	-	66,243
Net cash provided by financing activities	-	3,694,212	12,002,997
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(213,500 )</b>	<b>720,494</b>	<b>1,299,865</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>1,513,365</b>	<b>1,199,638</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$1,299,865</b>	<b>\$1,920,132</b>	<b>\$1,299,865</b>
Non cash investing and financing activities:			
Shares issued for offering costs			\$1,753
Contribution to paid in capital			\$18,991
Discount on convertible note related to beneficial conversion feature			\$108,000

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

ORAMED PHARMACEUTICALS, Inc.  
(A development stage company)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

a. General:

1. Oramed Pharmaceuticals, Inc. (the "Company") was incorporated on April 12, 2002, under the laws of the State of Nevada. From incorporation until March 3, 2006, the Company was an exploration stage company engaged in the acquisition and exploration of mineral properties. On February 17, 2006, the Company entered into an agreement (the "First Agreement") with Hadasit Medical Services and Development Ltd. ("Hadasit") to acquire a provisional patent related to a method of preparing insulin so that it may be taken orally to be used in the treatment of individuals with diabetes. The Company has been in the development stage since its formation and has not yet realized any revenues from its planned operations. On March 11, 2011, Oramed was reincorporated from the State of Nevada to the State of Delaware.

On May 14, 2007, the Company incorporated a wholly-owned subsidiary in Israel, Oramed Ltd., which is engaged in research and development. Unless the context indicates otherwise, the term "Group" refers to Oramed Pharmaceuticals Inc. and its Israeli subsidiary, Oramed Ltd. (the "Subsidiary").

The Group is engaged in research and development in the biotechnology field and is considered a development stage company in accordance with Accounting Standard Codification ("ASC") No. 915, "Development Stage Entities".

2. The accompanying unaudited condensed consolidated financial statements as of May 31, 2012 and for the nine months then ended, have been prepared in accordance with accounting principles generally accepted in the United States relating to the preparation of financial statements for interim periods. Accordingly, they do not include all the information and footnotes required for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included. The accounting principles applied in the preparation of the condensed statements are consistent with those applied in the preparation of the annual financial statements, however the condensed statements do not include all the information and explanations required for the annual financial statements. Operating results for the nine months ended May 31, 2012, are not necessarily indicative of the results that may be expected for the year ending August 31, 2012.



ORAMED PHARMACEUTICALS, Inc.

(A development stage company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

3. Going concern considerations

The accompanying unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has net losses for the period from inception (April 12, 2002) through May 31, 2012 of \$16,561,558 as well as negative cash flow from operating activities. Presently, the Company does not have sufficient cash resources to meet its liquidity requirements in the twelve months following May 31, 2012. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management is in the process of evaluating various financing alternatives as the Company will need to finance future research and development activities and general and administrative expenses through fund raising in the public or private equity markets. Although there is no assurance that the Company will be successful with those initiatives, management believes that it will be able to secure the necessary financing as a result of ongoing financing discussions with third party investors and existing stockholders, as well as ongoing funding from the Office of the Chief Scientist of the Ministry of Industry, Trade and Labor of Israel ("OCS").

These condensed consolidated financial statements do not include any adjustments that may be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent on its ability to obtain additional financing as may be required and ultimately to attain profitability.

b. Newly issued and recently adopted Accounting Pronouncements

1. In May 2011, the Financial Accounting Standard Board ("FASB") issued an accounting update that amends ASC No. 820, "Fair Value Measurement" regarding fair value measurements and disclosure requirements. The amendments are effective during interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. The Company adopted the accounting update beginning in the third quarter of fiscal year 2012. As applicable to the Company, the adoption of the new guidance did not have any material impact on the consolidated financial statements.

2. In June 2011, the FASB issued an update to ASC No. 220, "Presentation of Comprehensive Income," which eliminates the option to present other comprehensive income and its components in the statement of shareholders' equity. The Company can elect to present the items of net income and other comprehensive income in a single continuous statement of comprehensive income or in two separate, but consecutive, statements. Under either method the statement would need to be presented with equal prominence as the other primary financial statements. The amended guidance, which must be applied retroactively, is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with earlier adoption permitted. In December 2011, the FASB issued another update on the topic, which deferred the effective date pertaining only to the presentation of reclassification adjustments on the face of the financial statements. The accounting update will be applicable to the Company beginning in the first quarter of fiscal year 2013. The adoption of the new guidance is not expected to have a material impact on the consolidated financial statements.

ORAMED PHARMACEUTICALS, Inc.

(A development stage company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - COMMITMENTS:

a. Under the terms of the First Agreement with Hadasit (note 1a(1) above), the Company retained Hadasit to provide consulting and clinical trial services. As remuneration for the services provided under the agreement, Hadasit is entitled to \$200,000. The primary researcher for Hadasit is Dr. Miriam Kidron, a director and officer of the Company. The funds paid to Hadasit under the agreement are deposited by Hadasit into a research fund managed by Dr. Kidron. Pursuant to the general policy of Hadasit with respect to its research funds, Dr. Kidron receives from Hadasit a management fee in the rate of 10% of all the funds deposited into this research fund. The total amount paid to Dr. Kidron out of this fund was \$10,214.

On January 7, 2009, the Company entered into a second agreement with Hadasit (the "Second Agreement") which confirms that Hadasit has conveyed, transferred and assigned all of its ownership rights in the patents acquired under the First Agreement to the Company, and certain other patents filed by the Company after the First Agreement as a result of the collaboration between the Company and Hadasit.

On July 8, 2009 the Company entered into a third agreement with Hadasit, Prof. Itamar Raz and Dr. Miriam Kidron ("the Third Agreement"), to retain consulting and clinical trial services from Hadasit. According to the Third Agreement, Hadasit was entitled to total consideration of \$400,000 to be paid by Oramed. \$200,000 of this amount was agreed in the terms of the First Agreement, and the remaining of \$200,000 was paid in accordance with the actual progress of the study. The total amount was paid through May 31, 2011.

On September 11, 2011, the Company entered into a fourth agreement with Hadasit, Dr. Miriam Kidron and Dr. Daniel Schurr (the "Fourth Agreement"), to retain consulting and clinical trial services. According to the Fourth Agreement, Hadasit will be entitled to consideration of \$200,000 to be paid by the Company, none of which was recognized or paid through May 31, 2012.

b. On March 18, 2012, the Subsidiary entered into a lease agreement for its office facilities in Israel. The lease agreement is for a period of 57 months commencing January 1, 2012. The monthly lease payment will be NIS 3,400 in 2012, NIS 4,225 in 2013 and NIS 5,610 from 2014 onwards, and will be linked to the increase in the Israeli consumer price index (as of May 31, 2012, the monthly payment in the Company's functional currency is \$876, the future annual lease payments under the agreement will be \$13,064 - \$17,346).

As security for its obligation under the lease agreements the Subsidiary provided a bank guarantee in an amount equal to three monthly lease payments, valid until November 30, 2016.

ORAMED PHARMACEUTICALS, Inc.

(A development stage company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - COMMITMENTS (continued):

c. On April 21, 2009, the Subsidiary entered into a consulting service agreement with ADRES Advanced Regulatory Services Ltd. ("ADRES") (the "Original Agreement") pursuant to which ADRES will provide consulting services relating to quality assurance and regulatory processes and procedures in order to assist the Subsidiary in submission of a U.S. Investigational New Drug ("IND") according to the U.S. Food and Drug Administration (the "FDA") regulations. In consideration for the services provided under the agreement, ADRES will be entitled to total cash compensation of \$211,000, of which the amount of \$110,000 will be paid as a monthly fixed fee of \$10,000 each month for 11 months commencing May 2009, and the remaining \$101,000 will be paid based on achievement of certain milestones. \$160,000 of the total amount was paid through November 30, 2011, \$50,000 of which was paid for completing the first three milestones.

On February 26, 2012, the parties entered into an amendment agreement, according to which the Subsidiary paid the remaining \$51,000 of the Original Agreement upon execution of the amendment agreement. In addition, beginning March 1, 2012 and until submission of the IND, the Subsidiary will pay ADRES a monthly fee of approximately \$3,600. The Company recognized the \$51,000 as an expense in the second quarter of 2012.

d. On February 10, 2010, the Subsidiary entered into an agreement with Vetgenerics Research G. Ziv Ltd., a clinical research organization, to conduct a toxicology trial on its oral insulin capsules. The total cost estimated for the studies is €107,100 (\$132,938) of which €89,293 (\$110,835) was paid through May 31, 2012.

e. On February 15, 2011, the Subsidiary entered into a consulting agreement with a third party (the "Consultant") for a period of five years, pursuant to which the Consultant will provide consultation on scientific and clinical matters. The Consultant is entitled to a fixed monthly fee of \$8,000, royalties of 8% of the net royalties actually received by the Subsidiary in respect of the patent that was sold to Entera on February 22, 2011 and an option to purchase up to 250,000 shares of common stock, par value \$0.001 per share, of the Company at an exercise price of \$0.50 per share. The option vest in five annual installments commencing February 16, 2012 and expire on February 16, 2021. The initial fair value of the option on the date of grant was \$71,495, using the Black Scholes option-pricing model and was based on the following assumptions: dividend yield of 0% for all years; expected volatility of 113.80%; risk-free interest rates of 3.42%; and the remaining expected term of 10 years. The fair value of the options granted is remeasured at each balance sheet reporting date and is recognized over the related service period using the straight-line method.

ORAMED PHARMACEUTICALS, Inc.

(A development stage company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - COMMITMENTS (continued):

- f. On May 13, 2011, the Company entered into a consulting agreement with a third party (the "Consultant") for a period of 12 months, pursuant to which the Consultant will provide investor relations services and will be entitled to a cash monthly fee of \$4,000, that may be increased up to \$10,000 upon the completion of a \$5,000,000 capital raise by the Company. In addition, the Consultant received a warrant to purchase up to 32,000 shares of the Company. The warrant has a term of five years and an exercise price of \$0.50 per Share and will vest in 12 installments in the period from October 2011 to May 2016. The Company records expenses in respect of this warrant during the term of the services.
- g. On June 22, 2011, the Subsidiary issued a purchase order to SAFC Pharma for producing one of its oral capsule ingredients in the amount of \$600,000, \$170,000 of which was recognized through May 31, 2012.
- h. On August 15, 2011, the Company entered into a consulting agreement with a third party for a period of nine months, pursuant to which such consultant provided investor relations services and received a monthly cash fee of \$4,000, and an additional \$3,000 in the first month. In addition, the Advisor was issued 249,000 shares of the Company's common stock in three equal installments over the engagement period, commencing November 2011. See also note 4.
- i. On December 12, 2011, the Subsidiary entered into a Supply Agreement with Swiss Caps AG ("Swiss Caps"), according to which, Swiss Caps will manufacture insulin capsules for a total consideration of CHF 395,000 (approximately \$424,000) of which CHF 340,000 (approximately \$365,000) was paid and recognized through May 31, 2012.
- j. On February 15, 2012, the Company entered into an advisory agreement with a third party for a period of one year, pursuant to which such third party will provide investors relations services and will be entitled to a share based compensation as follows: 300,000 shares of common stock of the Company will be issued in six installments over the engagement period, commencing February 15, 2012, and a warrant to purchase 750,000 shares of common stock of the Company. The warrant has a term of five years and an exercise price of \$0.50 per share and will vest in 12 monthly installments over the term of the agreement. As to an amendment to the agreement and issuance of shares, see also note 6.

k. Grants from Bio-Jerusalem

The Subsidiary is committed to pay royalties to Bio-Jerusalem fund on proceeds from future sales at a rate of 4% and up to 100% of the amount of the grant received by the Company (Israeli CPI linked) at the total amount of \$52,733. As of May 31, 2012, the Subsidiary had not yet realized any revenues and did not incur any royalty liability.

For the nine month period ended May 31, 2012, there were no grants received from the Bio-Jerusalem fund.

ORAMED PHARMACEUTICALS, Inc.

(A development stage company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 - COMMITMENTS (continued):

1. Grants from the OCS

The Subsidiary is committed to pay royalties to the Government of Israel on proceeds from sales of products in the research and development of which the Government participates by way of grants.

At the time the grants were received, successful development of the related products was not assured. In case of failure of a product that was partly financed as above, the Subsidiary is not obligated to pay any such royalties.

Under the terms of the Subsidiary's funding from the Israeli Government, royalties of 3%-3.5% are payable on sales of products developed from a project so funded, up to 100% of the amount of the grant received by the Subsidiary (dollar linked) with the addition of annual interest at a rate based on LIBOR.

As of May 31, 2012, the Subsidiary had not yet realized any revenues from such product and did not incur any royalty liability. The total amount that was actually received through May 31, 2012 was \$1,238,740.

For the nine month period ended May 31, 2012, the research and development expenses are presented net of OCS grants, in the total amount of \$260,993.

NOTE 3 - FAIR VALUE:

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

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

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

## ORAMED PHARMACEUTICALS, Inc.

(A development stage company)

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## NOTE 3 - FAIR VALUE (continued):

Marketable securities consist wholly of equity securities of D.N.A Biomedical Solutions Ltd. which were received in March 2011 as part of the consideration for selling the Company's equity method investee Entera. Those securities are classified as available-for-sale and are recorded at fair value. The D.N.A Shares are listed on the Tel Aviv Stock Exchange ("TASE") and their tradability was restricted for a period of 6 months from the closing date of the transaction according to TASE policy with regards to private placements. Until September 30, 2011, the fair value of the restricted securities was measured based on the quoted prices of the otherwise identical unrestricted securities, adjusted for the effect of the restriction by applying a proper discount. The discount was determined with reference to other similar restricted instruments. Similar securities, with no restriction on tradability, are quoted on an active market. As of October 1, 2011, the securities are not restricted and the fair value of the securities is measured based on the quoted prices of the securities on an active market.

Transfers in and/or out of Level 3 are recognized in the beginning of the reporting period.

Financial items carried at fair value as of May 31, 2012 and August 31, 2011 are classified in the tables below in one of the three categories described above:

	Fair value measurements at reporting date using			Total
	Level 1	Level 2	Level 3	
Marketable securities:				
May 31, 2012	\$ 357,323	-	-	\$ 357,323
August 31, 2011	-	-	\$ 384,565	\$ 384,565

The following table summarizes the activity for those financial assets where fair value measurements are estimated utilizing Level 3 inputs:

	Nine months ended May 31, 2012 Unaudited
Carrying value at the beginning of the period	\$ 384,565
Reclassification to level 1	(384,565 )
Carrying value at the end of the period	-

During the year ended August 31, 2011, the Company recorded, initially, the decline in the fair value of its available-for-sale marketable securities, in the amount of \$197,412, to equity, as other comprehensive loss, then, in the fourth quarter of 2011, as a result of a substantial and prolonged decrease in the market value of the security reclassified such unrealized loss to earnings, to reflect the other than temporary impairment of these securities.

During the second quarter of fiscal 2012 an additional other-than-temporary impairment was recognized due to the continuous decline in the fair value of the security. Subsequent increase in the fair value during the third quarter of fiscal 2012 has been carried to other comprehensive income.

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ORAMED PHARMACEUTICALS, Inc.

(A development stage company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 - STOCK HOLDERS' EQUITY:

On each of December 12, 2011, March 14, 2012 and May 15, 2012, the Company issued 83,000 shares of its common stock to an advisor as remuneration for services provided. The fair value of the shares of common stock at the dates of grant was \$24,900, \$26,560 and \$24,900, respectively. See also note 2h.

On March 14, 2012, the Company issued 50,000 shares of its common stock to an advisor as remuneration for services provided. The fair value of the shares at the date of grant was \$15,500. See also note 2j.

NOTE 5 - EARNINGS PER SHARE:

Basic earnings per share is computed by dividing net loss attributable to the Company by the weighted average number of ordinary shares outstanding during the period.

During the nine month period ended May 31, 2011 and the three and nine-month periods ended May 31, 2012, the Company reported net losses; therefore, no common stock equivalents were included in the computation of diluted net loss per share for these periods, since such inclusion would have been antidilutive.

In computing diluted earnings per share for the three months ended May 31, 2011, basic earnings per share was adjusted to take into account the potential dilution that could occur upon: (i) the exercise of options granted under employee stock compensation plans using the treasury stock method; and (ii) the conversion of the remaining convertible warrants by adding the weighted average number of shares issuable upon assumed conversion of the options and warrants.

The net income and the weighted average number of shares used in the computation of basic and diluted earnings per share for the three months ended May 31, 2011 are as follows:

	Three months ended May 31, 2011
Net income used for the computation of basic and diluted earnings per share	\$ 457,370
Weighted average number of shares used in the computation of basic earnings per share	69,049,995
Add:	
Additional shares from the assumed exercise of warrants	3,360,644
Weighted average number of shares used in the computation of diluted earnings per share	72,410,339

NOTE 6 - SUBSEQUENT EVENTS:

On July 3, 2012, the Company and a third party entered into an amendment to the agreement that is described in note 2j, according to which, the original agreement will be extended until July 3, 2013 (unless terminated earlier by one of



the parties), and a new payment schedule was determined for the remainder of the share based compensation described in the said note until the end of the new term of the agreement. The Company records expenses in respect of this warrant during the term of the services.

On July 5, 2012, the Company issued 50,000 shares of its common stock, to that third party as remuneration for services provided. The fair value of the shares at the date of grant was \$15,000.

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## ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with the financial statements and the related notes included elsewhere herein and in our condensed consolidated financial statements, accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended August 31, 2011.

This Quarterly Report on Form 10-Q (including the section regarding Management's Discussion and Analysis of Financial Condition and Results of Operations) contains forward-looking statements regarding our business, clinical trials, financial condition, expenditures, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not deemed to represent an all-inclusive means of identifying forward-looking statements as denoted in this Quarterly Report on Form 10-Q. Additionally, statements concerning future matters are forward-looking statements.

Although forward-looking statements in this Quarterly Report on Form 10-Q reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed under "Item 1A – Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended August 31, 2011, and filed with the Securities and Exchange Commission or the SEC or Commission, on November 29, 2011, as well as those discussed elsewhere in our annual report and in this Quarterly Report on Form 10-Q. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by law, we undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Quarterly Report on Form 10-Q. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this Quarterly Report on Form 10-Q which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

As used in this Quarterly Report on Form 10-Q, the terms "we", "us", "our", the "Company", and "Oramed" mean Oramed Pharmaceuticals Inc. and our subsidiary, Oramed Ltd., unless otherwise indicated.

All dollar amounts refer to U.S. dollars unless otherwise indicated.

### Overview of Operations

We are a pharmaceutical company engaged in the research and development of innovative pharmaceutical solutions, including an orally ingestible insulin capsule or tablet to be used for the treatment of individuals with diabetes, use of orally ingestible capsules, tablets or pills for delivery of other polypeptides.

### Recent Business Developments

On September 11, 2011, we entered into a fourth agreement with Hadasit Medical Services and Development Ltd., or Hadasit, Dr. Miriam Kidron and Dr. Daniel Schurr, or the Fourth Agreement, to facilitate clinical trials and provide other services. According to the Fourth Agreement, Hadasit will be entitled to a lump sum consideration of \$200,000 to be paid in accordance with the actual progress of the study, none of which was recognized or paid through May 31, 2012.

On December 12, 2011, we entered into a supply agreement with Swiss Caps AG, or Swiss Caps, according to the which, Swiss Caps will manufacture insulin capsules for total consideration of CHF 395,000 (approximately \$424,000).

On January 10, 2012, we announced the filing of a provisional patent application with the U.S. Patent and Trademark Office for a combination therapy of our lead compound, ORMD0801 in combination with our oral exenatide formulation, ORMD0901.

On January 24, 2012 and May 16, 2012, we announced the issuance of patents by the Australian and Israeli Patent Offices that cover a part of our technology which allows for the oral delivery of peptides.

On February 1, 2012, we filed a provisional patent application with the U.S. Patent and Trademark Office for the composition of a key ingredient of our oral capsules.

On February 26, 2012, we entered into an amendment agreement with ADRES Advanced Regulatory Services Ltd., or ADRES, according to which we paid the remaining \$51,000 of the original agreement with ADRES upon execution of the amendment agreement. In addition, beginning March 1, 2012 and until submission of the IND, we will pay ADRES a monthly fee of approximately \$3,600.

In May 2012, Oramed Ltd. was awarded a grant amounting to a total net amount of New Israeli Shekels, or NIS, 2 million (approximately \$540,000) from the Office of the Chief Scientist of the Ministry of Industry, Trade and Labor of Israel, or OCS, which was designated to support further research and development and clinical studies of our oral insulin capsule and oral GLP-1 analog from December 2011 to December 2012.

On May 29, 2012, we announced the issuance of a patent by the New Zealand Patent Office that covers oral exenatide compositions made using our technology.

### Short Term Business Strategy

We plan to conduct further research and development on the technology covered by the patent application “Methods and Composition for Oral Administration of Proteins”, which we acquired from Hadasit in 2008 and which is pending in the United States., Canada, Europe and other jurisdictions, as well as the other patents we have filed in various jurisdictions since then. Through our research and development efforts, we are seeking to develop an oral dosage form that will withstand the harsh chemical environment of the stomach and intestines and will be effective in delivering active insulin for the treatment of diabetes. The enzymes and vehicles that are added to the insulin in the formulation process must not modify the insulin chemically or biologically, and the dosage form must be safe to ingest. We plan to continue to conduct clinical trials to show the effectiveness of our technology. We intend to conduct the clinical trials necessary to file an Investigational New Drug, or IND, application with the U.S. Food and Drug Administration, or FDA. Additional clinical trials are planned in Israel in order to substantiate our results. We also plan to conduct further research and development by deploying our proprietary drug delivery technology for the delivery of other polypeptides in addition to insulin, and to develop other innovative pharmaceutical products.



## Long Term Business Strategy

If our oral insulin capsule or other drug delivery solutions show significant promise in clinical trials, we plan to ultimately seek a strategic commercial partner, or partners, with extensive experience in the development, commercialization, and marketing of insulin applications and/or other orally digestible drugs. We anticipate such partner or partners would be responsible for, or substantially support, late stage clinical trials (Phase 3) to increase the likelihood of obtaining regulatory approvals and registrations in the appropriate markets in a timely manner. We further anticipate that such partner, or partners, would also be responsible for sales and marketing of our oral insulin capsule in these markets. Such planned strategic partnership, or partnerships, may provide a marketing and sales infrastructure for our products as well as financial and operational support for global clinical trials, post marketing studies, label expansions and other regulatory requirements concerning future clinical development in the United States and elsewhere. Any future strategic partner, or partners, may also provide capital and expertise that would enable the partnership to develop new oral dosage form for other polypeptides. While our strategy is to partner with an appropriate party, no assurance can be given that any third party would be interested in partnering with us. Under certain circumstances, we may determine to develop one or more of our oral dosage form on our own, either world-wide or in select territories.

## Other Planned Strategic Activities

In addition to developing our own oral dosage form drug portfolio, we are, on an on-going basis, considering in-licensing and other means of obtaining additional technologies to complement and/or expand our current product portfolio. Our goal is to create a well-balanced product portfolio that will enhance and complement our existing drug portfolio.

## Product Development

### Orally Ingestible Insulin

During fiscal year 2007 we conducted several clinical studies of our orally ingestible insulin. The studies were intended to assess both the safety/tolerability and absorption properties of our proprietary oral insulin. Based on the pharmacokinetic and pharmacologic outcomes of these trials, we decided to continue the development of our oral insulin product.

In November 2007, we successfully completed animal studies in preparation for the Phase 1B clinical trial of our oral insulin capsule (ORMD0801). In January 2008, we commenced the non-FDA approved Phase 1B clinical trials with our oral insulin capsule, in healthy human volunteers with the intent of dose optimization. In March 2008, we successfully completed our Phase 1B clinical trials.

In April 2008, we commenced a non-FDA approved Phase 2A study to evaluate the safety and efficacy of our oral insulin capsule in type 2 diabetic volunteers at Hadassah Medical Center in Jerusalem. In August 2008, we announced the successful results of this trial.

In July 2008 we were granted approval by the Institutional Review Board Committee of Hadassah Medical Center in Jerusalem to conduct a non-FDA approved Phase 2A study to evaluate the safety and efficacy of our oral insulin capsule on type 1 diabetic volunteers. In September 2008, we announced the beginning of this trial. In July 2009 we reported positive results from this trial.

In April 2009, we entered into a consulting service agreement with ADRES (which was amended in February 2012), pursuant to which ADRES will provide services for the purpose of filing an IND application with the FDA for a Phase 2 study according to the FDA requirements. The FDA approval process and, if approved, registration for commercial use as an oral drug can take several years.

In May 2009, we commenced a non-FDA approved Phase 2B study in South Africa to evaluate the safety, tolerability and efficacy of our oral insulin capsule on type 2 diabetic volunteers. In May 2010, we reported that the capsule was found to be well tolerated and exhibited a positive safety profile. No cumulative adverse effects were reported throughout this first study of extended exposure to the capsule.

In February 2010, we entered into agreements with Vetgenerics Research G. Ziv Ltd., a clinical research organization, to conduct a toxicology trial on our oral insulin capsules. In March 2011, we reported that we successfully completed the resulting comprehensive toxicity study for our oral insulin capsule. The study was completed under conditions prescribed by the FDA Good Laboratory Practices regulations.

In September 2010, we reported the successful results of an exploratory clinical trial testing the effectiveness of our oral insulin capsule in type 1 diabetes patients suffering from uncontrolled diabetes. Unstable or labile diabetes is characterized by recurrent, unpredictable and dramatic blood glucose swings often linked with irregular hyperglycemia and sometimes serious hypoglycemia affecting type 1 diabetes patients. This newly completed exploratory study was a proof of concept study for defining a novel indication for ORMD0801. We believe the encouraging results justify further clinical development of ORMD0801 capsule application toward management of uncontrolled diabetes.

We intend to file an IND application with the FDA for Phase 2 clinical studies of our orally ingested insulin during the fourth calendar quarter of 2012. If we do not receive comments from the FDA on our IND application within 30 days from submission, we intend to immediately commence an FDA approved Phase 2 study to evaluate the safety, tolerability and efficacy of our oral insulin capsule on type 2 diabetic volunteers.

In January 2012, we filed a provisional patent application with the U.S. Patent and Trademark Office for a combination therapy of our lead compound, ORMD0801, in combination with our oral GLP-1 analog formulation, ORMD0901. In February 2012, we filed a provisional patent application with the U.S. Patent and Trademark Office for the composition of a key ingredient of our oral capsules. We also hold two patents issued by the Australian and Israeli Patent Offices that cover part of our technology which allows for the oral delivery of peptides.

In February 2012, we filed a provisional patent application with the U.S. Patent and Trademark Office for the composition of a key ingredient of our oral capsules.

## GLP-1 Analog

In September 2008 we announced the launch of pre-clinical trials of ORMD0901, an analog for GLP-1, a gastrointestinal hormone. The pre-clinical trials include animal studies which suggest that the GLP-1 analog (exenatide-4) when combined with Oramed's absorption promoters is absorbed through the gastrointestinal tract and retains its biological activity.

Glucagon-like peptide-1 (GLP-1) is an incretin hormone - a type of gastrointestinal hormone that stimulates the secretion of insulin from the pancreas. The incretin concept was hypothesized when it was noted that glucose ingested by mouth (oral) stimulated two to three times more insulin release than the same amount of glucose administered intravenously. In addition to stimulating insulin release, GLP-1 was found to suppress glucagon release (hormone involved in regulation of glucose) from the pancreas, slow gastric emptying to reduce the rate of absorption of nutrients into the blood stream, and increase satiety. Other important beneficial attributes of GLP-1 are its effects of increasing the number of beta cells (cells that manufacture and release insulin) in the pancreas and, possibly, protection of the heart.

In September 2009, we received approval from the Institutional Review Board in Israel, or IRB, to commence human clinical trials of an oral GLP-1 analog. The approval was granted after successful pre-clinical results were reported. The trials are being conducted on healthy volunteers at Hadassah University Medical Center in Jerusalem. Oramed's first-in-humans clinical trial is testing the safety and efficacy of ORMD0901, an encapsulated oral GLP-1 analog formulation. The study monitored the responses of healthy males to a single dose delivered 60 minutes before a glucose load and was completed in December 2009. ORMD0901 was well tolerated by all subjects and demonstrated physiological activity, as extrapolated from ensuing subject insulin levels when compared to those observed after treatment with placebo.

In June 2012, we presented an abstract, which reported on the impact of our oral insulin capsule ORMD0801 delivered in combination with our oral exenatide capsule ORMD0901. The work that was presented assessed the safety and effectiveness of a combination of oral insulin and oral exenatide treatments delivered to pigs prior to food intake. The drug combination resulted in significantly improved blood glucose regulation when compared to administration of each drug separately.

## Raw Materials

Our oral insulin capsule is currently manufactured by Swiss Caps pursuant to a supply agreement.

In May 2010, our wholly-owned Israeli subsidiary, Oramed Ltd., entered into an agreement with SAFC Pharma, or SAFC, to develop a process to produce one of our oral capsule ingredients and in June, 2011, Oramed Ltd. issued a purchase order to SAFC for producing the ingredient.

In July 2010, Oramed Ltd. entered into a manufacturing supply agreement, or the MSA, with Sanofi-Aventis Deutschland GMBH, or Sanofi-Aventis. According to the MSA, Sanofi-Aventis will supply Oramed Ltd. with specified quantities of recombinant human insulin to be used for clinical trials in the United States.

We purchase the raw materials required for the manufacturing of the capsule from third parties, under separate agreements. We generally depend upon a limited number of suppliers for the raw materials. Although alternative sources of supply for these materials are generally available, we could incur significant costs and disruptions in changing suppliers. The termination of our relationships with our suppliers or the failure of these suppliers to meet our requirements for raw materials on a timely and cost-effective basis could materially adversely affect our business, prospects, financial condition and results of operations.





## Patents and Licenses

We maintain a proactive intellectual property strategy which includes patent filings in multiple jurisdictions, including the United States and other commercially significant markets. We hold 36 patent applications currently pending, with respect to various compositions, methods of production and oral administration of proteins and exenatide. Expiration dates for pending, if granted, patents will fall between 2026 and 2032.

In January 2012, we filed a provisional patent application with the U.S. Patent and Trademark Office for a combination therapy of our lead compound, ORMD0801 in combination with our oral GLP-1 analog formulation, ORMD0901. We also hold three patents issued by the Australian, Israeli and New Zealand Patent Offices that cover a part of our technology which allows for the oral delivery of peptides.

In February 2012, we filed a provisional patent application with the U.S. Patent and Trademark Office for the composition of a key ingredient of our oral capsules.

We hold one patent issued by the New Zealand Patent Office that covers part of our technology with respect to oral exenatide compositions.

Consistent with our strategy to seek protection in key markets worldwide, we have been and will continue to pursue the patent applications and corresponding foreign counterparts of such applications. We believe that our success will depend on our ability to obtain patent protection for our intellectual property.

Our patent strategy is as follows:

- Aggressively protect all current and future technological developments to assure strong and broad protection by filing patents and/or continuations in part as appropriate,
- Protect technological developments at various levels, in a complementary manner, including the base technology, as well as specific applications of the technology, and
- Establish comprehensive coverage in the United States and in all relevant foreign markets in anticipation of future commercialization opportunities.

We also rely on trade secrets and unpatentable know-how that we seek to protect, in part, by confidentiality agreements. Our policy is to require our employees, consultants, contractors, manufacturers, outside scientific collaborators and sponsored researchers, members of our board of directors, technical review board and other advisors to execute confidentiality agreements upon the commencement of employment or consulting relationships with us. These agreements provide that all confidential information developed or made known to the individual during the course of the individual's relationship with us is to be kept confidential and not disclosed to third parties except in specific limited circumstances. We also require signed confidentiality or material transfer agreements from any company that is to receive our confidential information. In the case of employees, consultants and contractors, the agreements provide that all inventions conceived by the individual while rendering services to us shall be assigned to us as the exclusive property of our Company. There can be no assurance, however, that all persons who we desire to sign such agreements will sign, or if they do, that these agreements will not be breached, that we would have adequate remedies for any breach, or that our trade secrets or unpatentable know-how will not otherwise become known or be independently developed by competitors.



#### Partnerships and Collaborative Arrangements

We believe that working together with strategic partners will expedite product formulation, production and approval.

In February 2006, we entered into an agreement with Hadasit to facilitate clinical trials and provide other services.

In January 2008, we entered into an additional agreement with Hadasit to acquire the patent application “Methods and Composition for Oral Administration of Proteins”.

During April 2008, Oramed Ltd entered into a five year master services agreement with SAFC, an operating division of Sigma-Aldrich, Inc., a leading developer, manufacturer and distributor of chemicals and biochemicals, pursuant to which SAFC is providing services for individual projects, which may include strategic planning, expert consultation, clinical trial services, statistical programming and analysis, data processing, data management, regulatory, clerical, project management, central laboratory services, pre-clinical services, pharmaceutical sciences services, and other research and development services.

In April 2009, Oramed Ltd. entered into a consulting service agreement with ADRES pursuant to which ADRES will provide services for the purpose of filing an IND application with the FDA for a Phase 2 study in accordance with FDA requirements. In February 2012, we entered into an amendment agreement with ADRES, according to which we paid the remaining \$51,000 of the original agreement upon execution of the amendment agreement. In addition, beginning March 1, 2012 and until submission of the IND, we will pay ADRES a monthly fee of approximately \$3,600.

In July 2009, we entered into an additional agreement with Hadasit to facilitate additional clinical trials to be performed at Hadassah Medical Center in Jerusalem.

In February 2010, Oramed Ltd entered into agreements with Vetgenerics Research G. Ziv Ltd., a clinical research organization, to conduct a toxicology trial on our oral insulin capsules.

In May 2010, Oramed Ltd entered into an additional agreement with SAFC to develop a process to produce one of our oral capsule ingredients.

In July 2010, Oramed Ltd. entered into the MSA with Sanofi-Aventis. Pursuant to the MSA, Sanofi-Aventis will supply Oramed Ltd. with specified quantities of recombinant human insulin to be used for clinical trials in the United States.

In May 2011, we entered into a consulting agreement with a third party for a period of 12 months, pursuant to which such consultant provided investor relations services and received a monthly cash fee of \$4,000. In addition, the consultant received a warrant to purchase up to 32,000 shares of our common stock. The warrant has a term of five years and an exercise price of \$0.50 per share and will vest in 12 installments during the period from October 2011 to May 2016.

In August 2011, we entered into a consulting agreement with a third party for a period of nine months, pursuant to which such consultant provided investor relations services and received a monthly cash fee of \$4,000, and an additional \$3,000 in the first month. In addition, the consultant was issued 249,000 shares of our common stock in three installments over the engagement period, commencing November 2011.

In September 2011, we entered into the Fourth Agreement to facilitate clinical trials and provide other services. According to the Fourth Agreement, Hadasit will be entitled to a lump sum consideration of \$200,000 that will be paid in accordance with the actual progress of the study.

In December 2011, we entered into a supply agreement according to which Swiss Caps will manufacture insulin capsules for total consideration of CHF 395,000 (approximately \$424,000).

In February 2012, we entered into an advisory agreement with a third party advisor for a period of one year, pursuant to which the advisor will provide investor relations services and will be entitled to share based compensation as follows: 300,000 shares of our common stock will be issued in six installments over the engagement period, commencing as of February 15, 2012, and a warrant to purchase 750,000 shares of our common stock. The warrant has a term of five years and an exercise price of \$0.50 per share and will vest in 12 monthly installments over the term of the agreement. 50,000 of the shares were issued and 250,000 warrants were vested by May 31, 2012. On July 3, 2012, we entered into an amendment to the agreement, according to which the original agreement was extended until July 3, 2013 (unless terminated earlier by one of the parties), and a new payment schedule was determined for the remainder of the share based compensation described above until the end of the new term of the agreement.

#### Out-Licensed Technology

In June 2010, our subsidiary, Oramed Ltd., entered into a joint venture agreement with D.N.A Biomedical Solutions Ltd. (formerly Laser Detect Systems Ltd), an Israeli company listed on the Tel Aviv Stock Exchange, or D.N.A, for the establishment of a new company to be called Entera Bio Ltd., or Entera.

Under the terms of a license agreement that was entered into between Oramed and Entera in August 2010, we out-licensed technology to Entera, on an exclusive basis, for the development of oral delivery drugs for certain indications to be agreed upon between the parties. The out-licensed technology differs from our main delivery technology that is used for oral insulin and GLP-1 analog and is subject to different patent applications. Entera's initial development effort is for an oral formulation for the treatment of osteoporosis. The license was royalty-free unless our ownership interest in Entera decreased to 30% or less of its outstanding share capital, in which case royalties would have been payable with respect to revenues derived from certain indications. Under certain circumstances, Entera may have received ownership of the licensed technology, in which case we would have received a license back on the same terms.

D.N.A initially invested \$600,000 in Entera, and Entera was initially owned in equal parts by Oramed and D.N.A. Entera's Chief Executive Officer, Dr. Phillip Schwartz, was granted options to purchase ordinary shares of Entera, reflecting 9.9% of Entera's share capital, upon full exercise.

In March 2011, we consummated a transaction with D.N.A, whereby we sold to D.N.A 47% of Entera's outstanding share capital on an undiluted basis. As consideration for the Entera shares, we received a promissory note issued by D.N.A in the principal amount of \$450,000, with an annual interest rate of 0.45%, to be paid within four months after closing, and 8,404,667 ordinary shares of D.N.A, having an aggregate market value of approximately \$581,977 as of March 31, 2011. The promissory note was secured by a personal guarantee of the D.N.A majority shareholders and its term was extended in August 2011. D.N.A paid off the promissory note in November 2011. The ordinary shares of D.N.A were restricted for six months from the closing. In addition, D.N.A invested \$250,000 in our private placement investment round, which closed in March 2011, for which it received 781,250 shares of our common stock and five-year warrants to purchase 273,438 shares of common stock at an exercise price of \$0.50 per share.

As part of the transaction with D.N.A, we entered into a patent transfer agreement (to replace the original license agreement upon closing) pursuant to which Oramed assigned to Entera all of its right, title and interest in and to the patent application that it had licensed to Entera in August 2010. Under this agreement, Oramed Ltd. is entitled to receive from Entera royalties of 3% of Entera's net revenues (as defined in the agreement) and a license back of that patent application for use in respect of diabetes and influenza.

In March 2011, Oramed, Entera and D.N.A terminated the joint venture agreement entered into in June 2010 in connection with the formation of Entera.

In September 2011, Entera reported successful Phase 1 clinical trial results. We believe the Phase 1 data supports the continued development of Entera's oral osteoporosis drug. The Phase 1 clinical trial consisted of twelve healthy patients and was conducted at the Hadassah Medical Center in Jerusalem. No adverse events were reported.

#### Results of Operations

#### Going concern assumption

The financial statements appearing elsewhere in this quarterly report have been prepared assuming that we will continue as a going concern. We have net losses for the period from inception (April 12, 2002) through May 31, 2012 of \$16,561,558, as well as negative cash flow from operating activities. Based upon our existing spending commitments, estimated at \$5.1 million for the twelve months following May 31, 2012, and our cash availability, we do not have sufficient cash resources to meet our liquidity requirements through May 31, 2013. Accordingly, these factors raise substantial doubt about our ability to continue as a going concern. Management is in the process of evaluating various financing alternatives, as we will need to finance future research and development activities and general and administrative expenses through fund raising in the public or private equity markets. Although there is no assurance that we will be successful with those initiatives, management believes that it will be able to secure the necessary financing as a result of ongoing financing discussions with third party investors and existing stockholders, as well as ongoing funding from the OCS.

The condensed consolidated financial statements do not include any adjustments that may be necessary should we be unable to continue as a going concern. Our continuation as a going concern is dependent on our ability to obtain additional financing as may be required and ultimately to attain profitability.

#### Critical accounting policies

Our significant accounting policies are more fully described in the notes to our consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended August 31, 2011. We believe that the accounting policies below are critical for one to fully understand and evaluate our financial condition and results of operations.

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

**Marketable securities:** Consist of equity securities classified as available-for-sale and are recorded at fair value. Until September 30, 2011, the fair value of the restricted securities was measured based on the quoted prices of the otherwise identical unrestricted securities, adjusted for the effect of the restriction by applying a proper discount. The discount was determined with reference to other similar restricted instruments. Similar securities, with no restriction on tradability, are quoted on an active market. As of October 1, 2011, the securities are not restricted and the fair value of the securities is measured based on the quoted prices of the securities on an active market. Changes in fair value, net of taxes, are reflected in other comprehensive income (loss).

Factors considered in determining whether a loss is temporary include the extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the investee based on our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. The loss is recorded as a charge to earnings.

**Valuation of options and warrants:** We grant options to purchase shares of our common stock to employees and consultants and issue warrants in connection with some of our financings and to certain other consultants.

We account for share-based payments in accordance with the guidance that requires awards classified as equity awards be accounted for using the grant-date fair value method. The fair value of share-based payment transactions is recognized as an expense over the requisite service period, net of estimated forfeitures. We estimate forfeitures based on historical experience and anticipated future conditions.

We elected to recognize compensation cost for an award with only service conditions that has a graded vesting schedule using the accelerated method based on the multiple-option award approach.

When stock options are granted as consideration for services provided by consultants and other non-employees, the transaction is accounted for based on the fair value of the consideration received or the fair value of the stock options issued, whichever is more reliably measurable, pursuant to the guidance. The fair value of the options granted is measured on each reporting date, and the gains (losses) are recorded to earnings over the related service period using the straight-line method.

Taxes on income: Deferred taxes are determined utilizing the asset and liability method based on the estimated future tax effects of differences between the financial accounting and tax bases of assets and liabilities under the applicable tax laws. Deferred tax balances are computed using the tax rates expected to be in effect when those differences reverse. A valuation allowance in respect of deferred tax assets is provided if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. We have provided a full valuation allowance with respect to our deferred tax assets.

Regarding our subsidiary, Oramed Ltd., relevant accounting guidance prohibits the recognition of deferred tax liabilities or assets that arise from differences between the financial reporting and tax bases of assets and liabilities that are measured from the local currency into dollars using historical exchange rates, and that result from changes in exchange rates or indexing for tax purposes. Consequently, the abovementioned differences were not reflected in the computation of deferred tax assets and liabilities.

Comparison of nine and three month periods ended May 31, 2012 and 2011

The following table summarizes certain statements of operations data for the Company for the nine month and three month periods ended May 31, 2012 and 2011:

Operating Data:	Nine months ended May 31,		Three months ended May 31,	
	2012	2011	2012	2011
Research and development costs	\$1,407,878	\$1,146,808	\$456,177	\$310,318
Less: Government grants	(263,463 )	(277,642 )	(206,425 )	(68,968 )
Research and development costs, net	1,144,415	869,166	249,752	241,350
General and administrative expenses	802,273	971,143	290,668	350,127
Gain on sale of investment	-	(1,033,004)	-	(1,033,004)
Impairment of available for sale securities	43,111	-	-	-
Financial expense (income), net	24,460	(19,100 )	9,945	(15,843 )
Net loss (income) for the period	\$2,014,259	\$788,205	\$550,365	\$(457,370 )

## Research and development expenses

Research and development expenses include costs directly attributable to the conduct of research and development programs, including the cost of salaries, payroll taxes, employee benefits, costs of registered patents materials, supplies, the cost of services provided by outside contractors, including services related to our clinical trials, clinical trial expenses, the full cost of manufacturing drug for use in research, preclinical development. All costs associated with research and development are expensed as incurred.

Clinical trial costs are a significant component of research and development expenses and include costs associated with third-party contractors. We outsource a substantial portion of our clinical trial activities, utilizing external entities such as contract research organizations, or CROs, independent clinical investigators, and other third-party service providers to assist us with the execution of our clinical studies.

Clinical activities which relate principally to clinical sites and other administrative functions to manage our clinical trials are performed primarily by CROs. CROs typically perform most of the start-up activities for our trials, including document preparation, site identification, screening and preparation, pre-study visits, training, and program management.

Clinical trial and pre-clinical trial expenses include regulatory and scientific consultants' compensation and fees, research expenses, purchase of materials, cost of manufacturing of the oral insulin capsules, payments for patient recruitment and treatment, costs related to the maintenance of our registered patents, costs related to the filings of patent applications, as well as salaries and related expenses of research and development staff.

In August 2009, Oramed Ltd. was awarded a government grant amounting to a total net amount of NIS 3.1 million (approximately \$813,000), from the OCS. This grant was used for research and development expenses for the period of February 2009 to June 2010. The funds were used by us to support further research and development and clinical study of our oral insulin capsule and oral GLP-1-analog. In December 2010, Oramed Ltd. was awarded another grant amounting to a total net amount of NIS 2.9 million (approximately \$807,000) from the OCS, which was designated for research and development expenses for the period of July 2010 to November 2011. In May 2012, Oramed Ltd. was awarded another grant amounting to a total net amount of NIS 2 million (approximately \$540,000) from the OCS, which was designated for research and development expenses for the period of December 2011 to December 2012. We used the funds to support further research and development and clinical study of our oral insulin capsule and oral GLP-1-analog. The two grants are subject to repayment according to the terms determined by the OCS and applicable law. See "--Government Grants" below. In December 2011, Oramed Ltd. applied for a third grant. The application is currently being assessed by the OCS committees.

During the nine months ended May 31, 2012, net research and development expenses totaled \$1,144,415, compared to \$869,166 for the nine months ended May 31, 2011. The increase is attributed to the preparation for the FDA approved Phase 2 study that will follow the expected IND filing in the fourth calendar quarter of 2012, that caused an increase of \$414,000. The increase in development expenses was partially offset by a decrease in stock based compensation costs due to amortization of options granted in the prior period. The research and development costs include stock based compensation costs, which during the nine months ended May 31, 2012 totaled \$53,111 as compared to \$210,847 during the nine months ended May 31, 2011.



The increase in research and development expenses during the three months ended May 31, 2012, as compared to the three months ended May 31, 2011 is attributable to the same reasons mentioned above.

#### Government Grants

In the nine and three months ended May 31, 2012, we recognized research and development grants in an amount of \$263,463 and \$206,425, respectively and in the nine and three months ended May 31, 2011, we recognized research and development grants in an amount of \$277,642 and \$68,968, respectively. As of May 31, 2012, we had no contingent liabilities to the OCS.

#### Grants from Bio-Jerusalem

We are committed to pay royalties to Bio-Jerusalem fund on proceeds from future sales at a rate of 4% and up to 100% of the amount of the grant received by the Company (Israeli CPI linked) in the total amount of \$52,733. As of May 31, 2012, we had not yet realized any revenues and did not incur any royalty liability.

For the nine months period ended May 31, 2012, there were no grants received from the Bio-Jerusalem fund and in the nine months period ended May 31, 2011, we received \$20,950 from said fund.

#### General and administrative expenses

General and administrative expenses include the salaries and related expenses of our management, consulting costs, legal and professional fees, traveling, business development costs, insurance expenses and other general costs.

For the nine months ended May 31, 2012, general and administrative expenses totaled \$802,273 compared to \$971,143 for the nine months ended May 31, 2011. Costs incurred related to general and administrative activities during the nine months ended May 31, 2012, reflect a decrease in professional fee expenses of net \$43,000 as well as stock options granted to employees and consultants. The decrease in general and administrative expenses was partially offset by an increase in investor relations costs, most of which were paid with share based compensation. During the nine months ended May 31, 2012, as part of our general and administrative expenses, we incurred \$101,088 related to stock options granted to employees and consultants, as compared to \$225,899 during the nine months ended May 31, 2011.

The increase in general and administrative expenses during the three months ended May 31, 2012 as compared to the three months ended May 31, 2011, is attributable to the same reasons mentioned above.

#### Financial income/expense, net

In the nine and three months ended May 31, 2012 we incurred losses from exchange rate difference as well as bank charges that were partially offset by interest income on available cash and cash equivalents. In the nine and three months ended May 31, 2011, we received higher amount of interest income on available cash and cash equivalents which was offset by bank charges.

## Liquidity and Capital Resources

From inception through May 31, 2012, we incurred losses in an aggregate amount of \$16,561,558. We have financed our operations through the private placements of equity and debt financing, raising a total of \$11,655,693, net of transaction costs. We will seek to obtain additional financing through similar sources. As of May 31, 2012, we had \$1,299,865 of available cash as well as \$500,005 in short term interest bearing investments. We anticipate that we will require approximately \$5.1 million to finance our activities during the twelve months following May 31, 2012.

Management is in the process of evaluating various financing alternatives as we will need to finance future research and development activities and general and administrative expenses through fund raising in the public or private equity markets. Although there is no assurance that we will be successful with those initiatives, management believes that it will be able to secure the necessary financing as a result of ongoing financing discussions with third party investors and existing stockholders as well as through additional funding from the OCS.

During the nine month period ended May 31, 2012, cash and cash equivalents decreased by \$213,500 from the \$1,513,365 reported as of August 31, 2011, which is due to the reasons described below. Cash balances decreased in the three months ended May 31, 2012 for the reasons presented below.

Operating activities used cash of \$1,959,262 in the nine months ended May 31, 2012. Cash used for operating activities in the nine months ended May 31, 2012 primarily consisted of net loss partially offset by stock based compensation adjustments.

During the nine months period ended May 31, 2012 we received approximately \$158,672 from the OCS towards our research and development expenses. The OCS has supported our activity in the past three years.

In the nine month period ended May 31, 2012, we issued a total of 299,000 shares of common stock to third parties for services rendered. The value of those shares of common stock was \$91,860.

Investing activities provided cash of \$1,745,762 in the nine months ended May 31, 2012. Cash provided by investing activities consisted primarily of proceeds from short-term bank deposits and proceeds from sale of our investment in Entera.

There were no financing activities during the nine months ended May 31, 2012.

During fiscal years 2010 and 2011 we issued a total of 927,387 shares of common stock to various third party vendors for services rendered. The aggregate value of those shares was approximately \$290,529.

(a) **SHARES AVAILABLE FOR GRANT.** In the event of any change in the number of shares of Stock outstanding by reason of any stock dividend or split, recapitalization, merger, consolidation, combination or exchange of shares or similar corporate change, the maximum aggregate number of shares of Stock with respect to which the Board may grant Awards shall be appropriately adjusted. In the event of any change in the number of shares of Stock outstanding by reason of any other event or transaction, the Board may, but need not, make such adjustments in the number and class of shares of Stock with respect to which Awards may be granted as the Board may deem appropriate.

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(b) **OUTSTANDING AWARDS – INCREASE OR DECREASE IN ISSUED SHARES WITHOUT CONSIDERATION.** Subject to any required action by the shareholders of the Company, in the event of any increase or decrease in the number of issued shares of Stock resulting from a subdivision or consolidation of shares of Stock or the payment of a stock dividend (but only on the shares of Stock), or any other increase or decrease in the number of such shares effected without receipt or payment of consideration by the Company, the Board shall proportionally adjust the number of shares of Stock subject to each outstanding Award and the exercise price per share of Stock of each such Award.

(c) **OUTSTANDING AWARDS – CERTAIN MERGERS.** Subject to any required action by the shareholders of the Company, in the event that the Company shall be the surviving corporation in any merger or consolidation (except a merger or consolidation as a result of which the holders of shares of Stock receive securities of another corporation), each Award outstanding on the date of such merger or consolidation shall pertain to and apply to the securities which a holder of the number of shares of Stock subject to such Award would have received in such merger or consolidation.

(d) **OUTSTANDING AWARDS – CERTAIN OTHER TRANSACTIONS.** In the event of (i) a dissolution or liquidation of the Company, (ii) a sale of all or substantially all of the Company's assets, (iii) a merger or consolidation involving the Company in which the Company is not the surviving corporation or (iv) a merger or consolidation involving the Company in which the Company is the surviving corporation but the holders of shares of Stock receive securities of another corporation and/or other property, including cash, the Board shall, in its absolute discretion, have the power to cancel, effective immediately prior to the occurrence of such event, each Award outstanding immediately prior to such event (whether or not then exercisable), and, in full consideration of such cancellation, pay to the Participant to whom such Award was granted an amount in cash, for each share of Stock subject to such Award, respectively, equal to the excess of (A) the value, as determined by the Board in its absolute discretion, of the property (including cash) received by the holder of a share of Stock as a result of such event over (B) the exercise price (if any) of such Award.

(e) **OUTSTANDING AWARDS – OTHER CHANGES.** In the event of any other change in the capitalization of the Company or corporate change other than those specifically referred to in this Article, the Board may, in its absolute discretion, make such adjustments in the number and class of shares subject to Awards outstanding on the date on which such change occurs and in the per share exercise price of each Award as the Board may consider appropriate to prevent dilution or enlargement of rights.

(f) **NO ADDITIONAL SHAREHOLDER APPROVAL REQUIRED IN CERTAIN CASES.** Except to the extent required by applicable law or stock exchange rules, no adjustment in the number of shares subject to outstanding Awards, and no adjustment in the number of shares available for grant under this Plan, shall require additional shareholder approval, and all such future adjustments shall be deemed approved by the approval of this Plan, to the extent that such adjustment, whether automatic or discretionary, is proportional to and accompanies an equivalent adjustment in the number of shares held by the Company's shareholders.

(g) **NO OTHER RIGHTS.** Except as expressly provided in the Plan, no Participant shall have any rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend, any increase or decrease in the number of shares of stock of any class or any dissolution, liquidation, merger, or consolidation of the Company or any other corporation. Except as expressly provided in the Plan, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Stock subject to an Award or the exercise price of any Award.

ARTICLE 12  
AMENDMENT, MODIFICATION, AND TERMINATION

12.1 AMENDMENT, MODIFICATION, AND TERMINATION. At any time and from time to time, the Board may terminate, amend or modify the Plan; provided, however, that the Board shall not, without the approval of stockholders, make any amendment which would (i) increase the maximum number of shares of Stock for which Awards may be granted under the Plan, (ii) extend the term of the Plan, or (iii) amend the requirements as to the employees eligible to receive Awards; and further provided that no other amendment shall be made without shareholder approval to the extent shareholder approval is necessary to comply with any applicable law, regulations or stock exchange rule.

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12.2 AWARDS PREVIOUSLY GRANTED. Except as otherwise provided in the Plan, including without limitation, the provisions of Section 10.8 and Article 11, no termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant.

### ARTICLE 13 GENERAL PROVISIONS

13.1 NO RIGHTS TO AWARDS. No employee or other person shall have any claim to be granted any Award under the Plan, and neither the Company nor the Board is obligated to treat Participants and other persons uniformly.

13.2 NO STOCKHOLDERS RIGHTS. No Award gives the Participant any of the rights of a stockholder of the Company unless and until shares of Stock are in fact issued to such person in connection with such Award. If stockholder approval of the Plan (or an amendment to the Plan) is required by applicable law, regulation or stock exchange rule, Awards may be granted under the Plan prior to such stockholder approval, provided these Awards are subject to the Company receiving the requisite stockholder approval and no shares of Stock can be issued under these Awards (e.g., a Participant cannot exercise an Option) until after the requisite stockholder approval has been obtained.

13.3 WITHHOLDING. The Company shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state, and local taxes required by law to be withheld with respect to any taxable event arising as a result of this Plan. A Participant may elect to have the Company withhold from those shares of Stock that would otherwise be received upon the settlement of any Award, a number of shares having a Fair Market Value equal to the minimum statutory amount necessary to satisfy the Company's applicable federal, state, local and foreign income and employment tax withholding obligations.

13.4 NO RIGHT TO DIRECTOR STATUS. Neither the Plan, nor the granting of an Award hereunder, nor any other action taken pursuant to the Plan, shall constitute or be evidence of any agreement or undertaking, express or implied, that the Company retain an Eligible Director for any period of time, or at any particular rate of compensation, or with any other benefits whatsoever.

13.5 INDEMNIFICATION. To the extent allowable under applicable law, each member of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act under the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her provided he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Articles of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

13.6 FRACTIONAL SHARES. No fractional shares of stock shall be issued and the Board shall determine, in its discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding up or down as appropriate.

13.7 GOVERNMENT AND OTHER REGULATIONS. The obligation of the Company to make payment of awards in Stock or otherwise shall be subject to all applicable laws, rules, and regulations, and to such approvals by government agencies as may be required. The Company shall be under no obligation to register under the Securities Act of 1933, as amended, any of the shares of Stock paid under the Plan. If the shares paid under the Plan may in

certain circumstances be exempt from registration under the Securities Act of 1933, as amended, the Company may restrict the transfer of such shares in such manner as it deems advisable to ensure the availability of any such exemption.

13.8 REPRICINGS. Notwithstanding anything in the Plan to the contrary, the Board may not reprice Options, nor may the Board amend the Plan to permit repricing of Options, unless the stockholders of the Company provide prior approval for such repricing. The term “repricing” shall have the meaning given that term in Section 303A(8) of the New York Stock Exchange Listed Company Manual, as in effect from time to time.

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13.9        **GOVERNING LAW.** The Plan and the terms of all Awards shall be construed in accordance with and governed by the laws of the State of New Jersey without regard to rules of choice of law or conflict of laws, except to the extent such laws may be pre-empted by the federal laws of the United States of America.

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BLONDER TONGUE LABORATORIES, INC.

One Jake Brown Road

Old Bridge, NJ 08857

PROXY CARD FOR ANNUAL MEETING OF STOCKHOLDERS

MAY 21, 2014

THIS PROXY IS BEING SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The Undersigned hereby appoints James A. Luksch and Robert J. Pallé, Jr., and either of them (with full power to act alone), as Proxies of the undersigned, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated on this Proxy Card, all shares of Common Stock of Blonder Tongue Laboratories, Inc. (the "Company") held of record by the undersigned on the record date of March 31, 2014, at the Annual Meeting of Stockholders to be held on May 21, 2014 and at any postponements or adjournments thereof, all as in accordance with the Notice of Annual Meeting of Stockholders and Proxy Statement furnished with this Proxy.

(Continued and to be signed on the reverse side)

ANNUAL MEETING OF STOCKHOLDERS OF  
BLONDER TONGUE LABORATORIES, INC.

May 21, 2014

GO GREEN

e-Consent makes it easy to go paperless. With e-Consent, you can quickly access your proxy material, statements and other eligible documents online, while reducing costs, clutter and paper waste. Enroll today via [www.amstock.com](http://www.amstock.com) to enjoy online access.

Important Notice Regarding the Availability of Proxy Materials  
for the Stockholder Meeting to be Held on May 21, 2014

The proxy statement and annual report to shareholders are available at:  
<http://www.astproxyportal.com/ast/07796>

Please sign, date and mail  
your Proxy Card in the  
envelope provided as soon  
as possible.

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

20330303000000000000 7 052114

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR ALL NOMINEES" FOR THE ELECTION OF DIRECTORS AND "FOR" PROPOSALS 2, 3 AND 4. PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE:

x

<p>1. Election of three Class I Directors to hold office until the 2017 Annual Meeting of Stockholders and until qualified successor directors have been elected or until their resignation or removal.</p>	<p>2. Proposal to approve the o amendment and restatement of our 2005 Employee Equity Incentive Plan.</p>	<p>FOR o</p>	<p>AGAINST o</p>	<p>ABSTAIN o</p>
<p>oFOR ALL NOMINEES</p>	<p>3. Proposal to approve the o amendment and restatement of our 2005 Director Equity Incentive Plan.</p>	<p>FOR o</p>	<p>AGAINST o</p>	<p>ABSTAIN o</p>
<p>oWITHHOLD AUTHORITY FOR ALL NOMINEES</p>	<p>4. Proposal to ratify the appointment of Marcum LLP as the independent registered public accountants for the fiscal</p>	<p>FOR o</p>	<p>AGAINST o</p>	<p>ABSTAIN o</p>
<p>oFOR ALL EXCEPT</p>				

NOMINEES:

- o Anthony J. Bruno
- o James A. Luksch
- o Steven L. Shea

(See Instructions below)

year ending December 31, 2014.

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: 1

In their discretion, the Proxies are authorized to vote upon such other matters as may properly come before the meeting and at any postponements or adjournments thereof.

This proxy when properly executed will be voted in the manner directed by the stockholder. If no direction is made on this Proxy Card, this Proxy will be voted FOR the election of all nominees to serve as Class I Directors and FOR proposals 2, 3 and 4. On all other matters which may properly come before the meeting, the shares represented by this proxy will be voted by the Proxies in accordance with the instructions of the Board of Directors

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.

Signature of Stockholder

Date:

Signature of Stockholder

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.

