

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS  
PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES AND EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2000

or

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 000-30929

KERYX BIOPHARMACEUTICALS, INC.

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

DELAWARE

13-4087132

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer  
Identification No.)

Kiryat Mada 5  
Har Hotzvim, Jerusalem, Israel

91326

-----  
(Address of principal executive offices)

-----  
(Zip Code)

Registrant's telephone number, including area code: +972-2-541-2700

Securities registered pursuant to Section 12(b) of the Act:

NONE

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Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, PAR VALUE \$.001 PER SHARE

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 if disclosure of delinquent filers pursuant to Item  
405 of Regulation S-K is not contained herein, and will not be contained, to the  
best of registrant's knowledge, in the definitive proxy statement incorporated  
by reference in Part III of this Annual Report on Form 10-K or any amendment to

this Annual Report on Form 10-K. |\_|

As of March 21, 2001, the aggregate market value of the Common Stock held by non-affiliates of the registrant was \$88,241,083. Such aggregate market value was computed by reference to the closing sale price of the Common Stock as reported on the National Market segment of The Nasdaq Stock Market on such date. For purposes of making this calculation only, the registrant has defined affiliates as including all directors, executive officers and 10% stockholders of the Company.

As of March 21, 2001, there were 19,614,644 shares of the registrant's Common Stock outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

As stated in Part III of this Annual Report on Form 10-K, portions of the registrant's definitive proxy statement for the registrant's 2001 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K.

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This Form 10-K contains trademarks and trade names of Keryx Biopharmaceuticals, Inc., including our name and logo, and the KinAce mark. This Form 10-K may also include trademarks and trade names of other companies.

## PART I

## ITEM 1. BUSINESS.

## Overview

We use data discovered through the mapping of the human genome to generate drug candidates that target the regulation of protein kinases. Protein kinases play a key role in the way cells communicate. We believe that our approach to drug design allows us to discover more drug candidates in less time and with lower levels of toxicity than our competitors. Our KinAce platform has produced 13 lead compounds, 8 of which have already produced positive results in animal (in vivo) tests. In addition to developing drug candidates with our KinAce platform, we have an exclusive license to sulodexide (KRX-101) in North America, Japan and other important markets, and are developing it for the treatment of a kidney disease known as diabetic nephropathy. To date, none of our drug candidates has received approval for sale in any market.

## Our Strategy

We intend to:

- o advance KRX-101 into clinical trials for diabetic nephropathy and pursue its use to treat additional diseases;
- o complete pre-clinical development of KRX-123 for hormone-resistant prostate cancer and file an application to enter clinical trials in Israel for this drug candidate in 2001;
- o use our KinAce platform to generate new drug candidates for a variety of conditions, such as cancer and metabolic, cardiovascular, immunological and neurological diseases;
- o develop our drug candidates internally or license them to others based on an assessment of clinical and financial resources; and
- o further develop and expand our existing relationships with corporate collaborators and initiate new relationships for the development, marketing and distribution of our drug candidates.

## Corporate Information

We were incorporated as a Delaware corporation in October 1998. Although we started operating our business in November 1999, many of our principal technologies and drug candidates were developed by our predecessor company, Partec Ltd., and its subsidiaries during the period January 1997 to November 1999. Consequently, in this report, "we", "us" and "our" refer to Keryx Biopharmaceuticals, Inc., its predecessor company and their respective subsidiaries unless the context requires otherwise. Our registered office is at

1013 Centre Road, Wilmington, Delaware 19805. Our executive offices are located at Kiryat Mada 5, Har Hotzvim, Jerusalem 91236 Israel. Our telephone number is +972-2-541-2700. Our e-mail address is info@keryxbiopharm.com.

KRX-101

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## Overview

We have obtained a license to develop sulodexide (KRX-101) to treat diabetic nephropathy and other conditions. Sulodexide is a drug that has been sold in Europe for many years by our licensor for other medical conditions and has a well-established safety profile. After having filed an application with the FDA to begin clinical trials of KRX-101 to treat nephropathy in Type II diabetics, we received approval to submit a protocol for a pivotal Phase III clinical trial. We hope to begin enrollment for the Phase III clinical trial immediately following FDA approval of the trial protocol we intend to file.

There are an estimated 10.3 million diagnosed diabetics in the United States, of whom approximately 90% have been diagnosed with Type II diabetes. Type II diabetes results from the body's inability to properly use insulin as distinguished from Type I diabetes, which results from the body's inability to manufacture insulin. The American Diabetes Association, or ADA, estimates that between 10 and 20% of diagnosed Type II diabetics have nephropathy. These figures imply that between one and two million diagnosed Type II diabetics in the United States have nephropathy. Accordingly, we believe the potential annual market for KRX-101 for the treatment of diabetic nephropathy is in excess of \$1.0 billion.

## Scientific Background

Diabetes often damages the intricate system of delicate capillary loops (glomeruli) in the human kidney. As these loops lose their structural integrity, their ability to selectively filter the blood's contents diminishes and protein, chiefly albumin, is lost into the urine, resulting in diabetic nephropathy. The presence of albumin in urine, known as albuminuria, causes direct damage to other crucial kidney structures. This damage may eventually result in kidney failure, which can be treated only by dialysis or kidney transplantation.

KRX-101 repairs and maintains glomerular membranes, thus reducing protein leakage, and directly inhibits the inflammation and scarring of structures within the kidney. We believe these beneficial effects may delay or prevent kidney failure resulting from diabetic nephropathy.

## Development Status

There have been more than 20 studies published in leading medical journals assessing the safety of KRX-101 in humans. KRX-101 has been administered to more than 3,000 patients in clinical trials conducted in Europe for the treatment of certain diabetic and non-diabetic conditions and, to our knowledge, has not demonstrated any significant side effects for those uses.

Captopril, a type of drug known as an ACE inhibitor, was approved by the FDA for Type I diabetes with macroalbuminuria, a condition in which large amounts of protein is inappropriately excreted by the kidneys. However, the FDA has not approved the use of ACE inhibitors for Type II diabetic nephropathy, as clinical trials have not conclusively demonstrated the beneficial effects of ACE inhibitors in this patient population. In the absence of approved drugs for Type II diabetic nephropathy, the ADA has recommended the use of ACE inhibitors for Type II diabetic nephropathy. ACE inhibitors, however, are not as effective for nephropathy of Type II diabetes as they are for nephropathy of Type I diabetes. In addition, patients with Type II diabetes experience more frequent side effects from ACE inhibitors than the general population.

The licensor of KRX-101 conducted the DiNAS study (diabetic nephropathy and sulodexide) in 200 patients in Europe between 1996 and 1999. The trial was a four-month dose response trial that showed a clear relationship between dosage levels and reduction in albuminuria. This trial also demonstrated a reduction in albuminuria in patients with Type II diabetes being treated with ACE inhibitors. In June 2000, we filed an Investigational New Drug application, or IND, with the FDA for permission to conduct a clinical trial for Type II diabetic nephropathy. This application contains data from the 200-person clinical trial for this condition conducted by the licensor. On the basis of this data and the IND we submitted in June 2000, the FDA invited us to submit a protocol for a pivotal Phase III clinical trial. The ultimate clinical timeline, and consequent cost, for further development of KRX-101 will depend on the FDA's acceptance of the protocol we intend to file or, alternatively, on any requests the FDA might have to alter such protocol.

#### Additional Indications

We believe KRX-101 has significant potential to treat other diseases. These conditions include, but are not limited to, pre-eclampsia, a complication of pregnancy involving a sudden rise in blood pressure; and diabetic retinopathy, a disorder of the retina associated with diabetes. We received patent protection for the use of KRX-101 for the treatment of retinopathy in the United States last year.

#### KinAce Drug Discovery Platform

##### Overview

We believe our KinAce platform represents one of the first practical uses of the genomics database to systematically generate drug candidates that target protein kinases. We use computers to analyze genomic data that then enables us to create compounds that aim to regulate kinases.

Protein kinases play a key role in the way cells communicate. When protein kinases give an inappropriate signal, the result is often a disease or other unwanted medical condition. Our KinAce platform uses a computer program to identify unique regulatory regions within each kinase. Once this unique regulatory region is identified, we can duplicate it to form the basis of a compound that can potentially inhibit or stimulate the activity of that kinase. By targeting these specific portions of protein kinases, our approach has produced 13 lead drug compounds. Eight of these compounds have already produced positive results in in vivo tests. It has taken us an average of approximately four months to develop a drug candidate from concept to in vivo testing.

We expect to file an application to enter human clinical trials in Israel for our first KinAce compound, KRX-123 for hormone-resistant prostate cancer, in 2001. We will conduct these trials according to FDA good clinical practice, or GCP, guidelines. We believe hormone-resistant prostate cancer, for which there is currently no curative treatment, represents a potential annual market in excess of \$450 million. We are developing our other KinAce compounds through a combination of in-house efforts and research and development agreements with others.

#### Scientific Background

Cells within the human body, like those within all living organisms, communicate with each other to coordinate their growth and differentiation. The primary mechanism by which cells communicate is a messenger system comprising the transmission of biochemical signals. These "signals" are soluble molecules that are secreted by cells. In general, signals from outside a cell come into contact with a

receptor on the cell surface and are then "transduced" across the cell membrane. Once a signal enters the cell, it is relayed as a message inside the cell. Protein kinases function as these cellular messengers.

Scientists have estimated that over 1,100 distinct protein kinases exist in the human genome. Protein kinases control a variety of functions carried out by cells and may contribute to disease if they are "turned on" when they should be "turned off," or "turned off" when they should be "turned on." For example, in certain cancers, the excess activity of protein kinases allows uncontrolled cell division. "Turning off" these protein kinases may provide one method of halting the growth of malignancies. Conversely, increasing protein kinase activity when it is not sufficient may improve other unwanted medical conditions.

We use our KinAce platform technology to develop small compounds designed to inhibit or stimulate the activity of a precise region of a specific kinase. Each small compound mimics the precise region unique to the target kinase.

#### Advantages of the KinAce Approach

We believe that our KinAce platform has the following advantages over traditional drug discovery methods:

- o Increased hit rate. Our KinAce platform targets highly specific kinase regions, and once identified it is less complicated to ascertain precisely which compound will have the desired biological effect on that region. Accordingly, we are able to focus our efforts on only ten to twenty compounds for testing per kinase target.
- o Reduced time to discovery. Our approach enables us to generate compounds in an average time from concept to in vivo testing of approximately four months. The industry standard ranges from two to four years.
- o Reduced toxicity. We believe the increased specificity of our drug candidates should result in less toxicity. Our drug candidates are designed to regulate a region unique to a particular kinase and cause biological changes that are specific to the functions of that kinase alone. Other drug discovery methods target a region that is common to many kinases and consequently are more likely to also cause biological changes in healthy cells. Toxicity may occur when the treatment has a negative impact on the functions of healthy cells as well as on the targeted site.
- o Greater versatility. We believe that our ability to stimulate, as well as inhibit, protein kinases makes our drug candidates more versatile in the treatment of diseases and conditions. Compounds of our competitors typically aim only to inhibit kinase activity.

#### Product Development Pipeline

The following table outlines the drug candidates we have generated to date using our KinAce platform:

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Programs	Compound	Indication	Status
-----	-----	-----	-----
Oncology	KRX-123	HRPC	Pre-clinical
	KRX-120	Neuroblastoma	In-vitro
	KRX-324	Breast Cancer	In-vitro
	KRX-131	Chemo-Induced Hair Loss	In-vivo
Metabolism	KRX-613	Diabetes	In-vitro

	KRX-683	Type II Diabetes & Obesity	In-vivo
Immunology			
	KRX-211	Septic Shock	In-vivo
	KRX-252	Auto-immune disease	In-vivo
Tissue Remodeling			
	KRX-167	Bone Growth	In vivo
	KRX-168	Anti-Fibrotics/Anti-Adhesion	In vivo
Other			
	KRX-341	Ischemic Heart Disease	In vivo
	KRX-411	Neurogenerative Disease	In vitro
	KRX-291	Sunless Tanning	In vitro

What follows is a discussion of selected compounds being developed in our various KinAce programs.

#### Oncology

##### KRX-123--Hormone-Resistant Prostate Cancer

Our most advanced KinAce drug candidate is KRX-123 for the treatment of hormone-resistant prostate cancer, referred to as HRPC, a currently incurable condition with a potential annual market size in excess of \$450 million. Some Src protein kinases, a family of protein kinases that are often over-expressed in many cancers, are over-expressed in HRPC. We believe that by regulating these protein kinases we can treat HRPC. We have generated in vitro and in vivo data showing that HRPC can be treated through the regulation of a specific Src protein kinase. We also have observed significant regression in hormone-resistant prostate tumors during pre-clinical testing when compared to control groups. While conducting extensive in-vivo testing, we discovered what we believe is a significantly more efficacious version of the KRX-123 compound than the compound we initially intended to use in the Phase I/II clinical trial we projected to begin in the first half of 2001. As a result of the additional pre-clinical work needed to optimize this discovery, we now anticipate that enrollment in the Phase I/II clinical trial will commence during the second half of 2001.

The application we plan to file in 2001 with the Israeli Ministry of Health will be for a clinical trial for HRPC to be conducted in accordance with FDA GCP guidelines. In addition, we intend to file an IND with the FDA by the end of 2001. Due to the rapidly fatal nature of HRPC and the absence of any FDA approved curative treatment for this condition, we believe we can attain FDA fast track review status for our IND. If we obtain marketing approval for KRX-123, we intend to develop it to treat hormone-sensitive, or earlier stage, prostate cancers.

#### Metabolism

##### KRX-613--Diabetes

Diabetes is among the most prevalent chronic diseases in the world and represents the fourth most common reason for patient contact with a physician in the United States. It is a major cause of disability and mortality. Historically, the mainstay of treatment of Type I diabetic patients and many Type II diabetic patients has been insulin. We believe the market size for insulin worldwide is in excess of \$2 billion. Insulin is expensive to synthesize and must be administered by injection. As a result, many companies are searching for alternatives to insulin therapy for the treatment of diabetes.

Insulin acts by binding to a specific receptor on the cell surface. This receptor contains a protein kinase known as Insulin Receptor Kinase (IRK). When insulin binds to the receptor, IRK transduces a signal in the cell that results

in an increase in glucose uptake. We believe KRX-613 stimulates the activity of IRK without requiring insulin. In vitro tests have shown that the application of KRX-613 leads to glucose uptake comparable to levels achieved with insulin.

This compound is undergoing testing by Novo Nordisk, the second largest purveyor of insulin products in the world. Following our evaluation of the results of these tests, we intend either to license KRX-613 or to continue to develop it internally through pre-clinical and Phase I clinical trials.

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#### KRX-683

Type II diabetes is a result of defective energy metabolism. Epidemiological evidence strongly suggests that there is a nutritional component associated with this form of diabetes. (People who are obese have an increased incidence of Type II diabetes, a condition known as diabetic obesity syndrome).

We have identified a specific kinase that we believe to be involved with glucose metabolism. We believe that upregulation of this protein kinase in persons afflicted with Type II diabetes causes a decreased metabolic rate with resultant insulin resistance and hyperglycemia. We have tested KRX-683, an inhibitor of this kinase, in in-vivo tests. These tests have shown an immediate dramatic drop in serum glucose levels upon administration of KRX-683, with such lower levels being maintained even after we ceased to administer KRX-683. We believe that the maintenance of lower glucose levels even after discontinuation of KRX-683 is quite significant as it provides evidence that KRX-683 may have long-lasting effects on metabolic regulation.

The efficacy of KRX-683 is currently being tested in other models of diabetes. Also underway is extensive pre-clinical testing to determine appropriate dosing, potential toxicities, and side effects. We also plan to investigate other indications for this agent including its use in other metabolic diseases.

#### Immunology

##### KRX-211--Septic Shock

There are an estimated 500,000 cases of septic shock in the United States each year. Septic shock is a life-threatening reaction to a severe infection, for which there is currently no FDA-approved treatment. During septic shock, bacteria produce toxins that cause a cascade of events resulting in extremely low blood pressure and subsequent multiple organ failure. The mortality rate for those with septic shock is approximately 50%.

We have designed KRX-211 to inhibit JAK3, a protein kinase that has been implicated in septic shock. We have demonstrated the effectiveness of KRX-211 in an in vivo model of septic shock. One hour after symptoms of septic shock arose, half of the test group was injected with KRX-211, and a control group was injected with a placebo solution. After 48 hours, 80% of the test group treated with KRX-211 survived, while none in the control group remained alive.

Last year, the NIH selected KRX-211 to undergo extensive in vivo testing in preparation for clinical trials. These tests, involving more than 1,000 animals, began in early March, 2001, and are anticipated to last up to 12 months. Further pre-clinical and clinical testing for septic shock will be very expensive. Therefore, we intend to fully support the ongoing NIH testing, and following the successful conclusion of such testing, we intend to license KRX-211 to a partner with the resources to clinically develop this compound.

#### Tissue Remodeling

##### KRX-167--Bone Growth Stimulant

There is a growing need to accelerate bone healing following medical

procedures that affect bone structure. These procedures include joint replacements, bone grafts, spinal fusion and dental implants.

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The number of such procedures performed annually in the United States is estimated to exceed 500,000. We estimate that a similar number of procedures are performed outside the United States each year.

Bone morphogenic proteins, referred to as BMPs, are involved in the regulation of the growth and differentiation of cartilage and bone. We designed KRX-167 to promote bone growth by stimulating BMP receptor protein kinases. We have tested KRX-167 in an in vivo fracture model. In these trials, bones treated with KRX-167 have consistently shown evidence of enhanced bone formation and increased relative bone density when compared to the control groups.

Two pharmaceutical companies that have a focus on tissue remodeling programs, in general, and bone growth compounds, in particular, are currently evaluating this compound. Provided that the evaluation is successful, we intend either to license KRX-167 to one of these companies or to continue to develop it internally through pre-clinical and Phase I trials.

#### Bioinformatics and Functional Genomics

The power of the Keryx's KinAce technology is its widespread applicability. The technology allows for the targeting of virtually any protein kinase utilizing proprietary algorithms and rapidly developing candidate drugs to modulate these kinases in order to treat disease. To fully exploit the power of the technology, Keryx is developing a strong functional genomics and bioinformatics program. The goals of the program are to identify novel kinase sequences, discover their biological function and thereby validate them as potential targets for therapeutic interventions using KinAce-based drug candidates. The possibility of identifying nearly all human kinases has been made possible by the recent publication of the entire sequence of the human genome. Utilizing our powerful KinAce technology, we now have the possibility of discovering kinase function and therapeutics.

We intend to focus our functional genomics program in two areas. The first will be a disease-based approach in which gene arrays and/or literature searches are utilized to discover potential new kinase-disease interactions. We will then use this information to discover new kinase-based therapeutic interventions. The sequence-based approach will rely on bioinformatics to discover unknown kinases. We will use our KinAce algorithm to analyze the sequences of these unknown kinases and will be develop kinase modulators based upon the results of such analysis. We hope to use the information to be gathered to extend the intellectual property assets of Keryx, and provide significant shareholder value.

#### COMPETITION

##### KRX-101

ACE inhibitors are the current standard of care recommended by the ADA to treat diabetic nephropathy. ACE inhibitors are marketed by a number of companies. However, ACE inhibitors are not FDA-approved for, or as effective in, nephropathy of Type II diabetes as they are for nephropathy of Type I diabetes. Preliminary clinical evidence suggests that KRX-101 may be additive with ACE inhibitors for nephropathy of both Type I and Type II diabetes by reducing albuminuria further than ACE therapy alone.

Other companies are developing drugs designed to treat diabetic complications, including Exocell, Inc., which has one compound aimed at nephropathy in a Phase III clinical trial. In addition, if the FDA

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accepts the reduction of albumin excretion as the endpoint for KRX-101 clinical trials, other drug companies may be encouraged to submit drug candidates based on this endpoint.

#### KinAce Platform

Several biotechnology and pharmaceutical companies are active in the field of signal transduction, including Sugen, Inc. (a subsidiary of Pharmacia-Upjohn), Ariad Pharmaceuticals Inc., Tularik, Inc., Ligand Pharmaceuticals Inc. and ICOS Corporation. In addition, Vertex Pharmaceuticals, Inc. and Novartis Pharma AG announced in 2000 a major alliance to discover eight kinase inhibitors.

Generally, our competitors target common, non-specific regions within protein kinases to identify lead compounds. This drug discovery method generates a large number of compounds that must be tested by high throughput screening before a drug candidate is found. We believe that our targeted approach to drug discovery gives us a significant advantage over our competitors by allowing us to generate more drug candidates in less time and with potentially lower toxicities.

In addition, a significant number of products are in clinical development for HRPC. These products adopt a variety of therapeutic approaches and may compete with KRX-123 in the future.

#### INTELLECTUAL PROPERTY

##### General

Patents and other proprietary rights are very important to the development of our business. We will be able to protect our proprietary technologies from unauthorized use by third parties only to the extent that our proprietary rights are covered by valid and enforceable patents or are effectively maintained as trade secrets. It is our intention to seek and maintain patent protection for our drug candidates and our proprietary technologies.

##### KRX-101

Pursuant to our license for KRX-101, we have obtained rights to twelve families of patents and applications. These include at least 47 patents issued in various countries, of which ten are issued in the United States. The licensed patent families cover the use of KRX-101 to treat diabetic nephropathy and retinopathy, the use of related compounds to treat diabetic nephropathy, neuropathy and retinopathy, and processes for making diverse heparin derivatives. The licensed patent families also cover multiple processes for making a wide variety of heparin derivatives. These patents and applications are being maintained throughout the territories in which they were filed. In addition, as part of our effort to expand the indications and patent coverage for KRX-101, we have filed two new patent applications for novel indications for KRX-101 and one new patent application addressing novel formulations and dosage levels of KRX-101 in the treatment of diabetic nephropathy. The key KRX-101 related patents and applications, if issued, expire at various times between 2012 and 2020. We believe that we will have sufficient time to commercially exploit the inventions covered by these patents during their effective lives.

##### KinAce Platform

We have an exclusive license to one recently-issued United States patent and four families of patent applications associated with our KinAce platform, which have been filed in various countries, including the United States, countries of the European Union, Japan, Canada, Australia and China. The issued patent and the applications identify and claim large classes of peptides that modulate the activity of protein kinases, which encompass our lead drug candidates. In addition, the applications describe a wide variety of therapeutic uses for these

classes of peptides, including the treatment of various cancers, diabetes, septic shock, multiple sclerosis and inflammatory bowel disease. The applications also identify and claim specific portions of these protein kinases upon which the selection of peptide drug candidates is based. The technology of the recently issued U.S. patent provides a direct pathway from gene sequence data to potential drug candidates--an approach that we believe represents a new and extraordinarily efficient paradigm for drug discovery. We intend to continue to file patent applications to cover additional members of protein kinase families, specific drug candidates and additional therapeutic indications as they are developed. The KinAce-related patent and patent applications, if such issue, will expire at various times between 2017 and 2020. We believe that we will have sufficient time to commercially exploit the inventions covered by these applications during their effective lives.

#### Other Intellectual Property Rights

In April 2000, we applied to register the names "Keryx" and "KinAce" as trademarks with the U.S. Patent and Trademark Office. In addition, we depend upon trade secrets, know-how and continuing technological advances to develop and maintain our competitive position. To maintain the confidentiality of trade secrets and proprietary information, we require our employees, scientific advisors, consultants and collaborators, upon commencement of a relationship with us, to execute confidentiality agreements and, in the case of parties other than our research and development collaborators, to agree to assign their inventions to us. These agreements are designed to protect our proprietary information and to grant us ownership of technologies that are developed in connection with their relationship with us. These agreements may not, however, provide protection for our trade secrets in the event of unauthorized disclosure of such information.

#### Agreements

##### KRX-101

License Agreement. Our license with Alfa Wassermann SpA grants us the exclusive rights to KRX-101 for diabetic nephropathy, diabetic retinopathy and diabetic neuropathy in the United States, Canada, Japan, Australia, New Zealand, South Africa and Israel, and entitles Alfa Wassermann to annual royalties of up to \$900,000 and fixed milestone payments of up to \$2,950,000. To date, we have paid \$400,000 in annual royalties and milestone payments. The license includes rights to at least 46 patents that have been registered in these countries, and rights in additional patent applications, and grants us exclusive, worldwide ownership of any novel indication for KRX-101 that we develop. Under the license, we must use our reasonable best efforts to commercialize and market KRX-101. Alfa Wassermann must pay us a royalty to the extent that it or its sub-licensees receive revenues from products that incorporate information or know-how developed by us. Alfa Wassermann must share a portion of the costs of data or intellectual property developed by us that it decides to utilize. Unless terminated for reason of breach or other customary termination provisions, the license terminates upon the later of the expiration of all underlying patent rights or ten years from the first commercial sale of KRX-101 by us. The most recent patent application was filed in June 2000, and, if granted, will expire in June 2020, subject to any extensions that may be granted.

Manufacturing Agreements. We have two manufacturing agreements for the production of KRX-101. Opocrin S.p.A., a manufacturer of bulk biological products, has agreed to manufacture and supply our raw requirements for sulodexide until 2009. Our agreement with Opocrin may be terminated by us or them on 180 days' notice for any reason. Pharmaceuticals International, Inc., a manufacturer of medicinal gelcaps, has agreed to produce the KRX-101 gelcaps necessary for the proposed clinical trial. Until the agreed-upon manufacturing is completed, this agreement may be terminated only by us. Both Opocrin and Pharmaceuticals International maintain cGMP-certified manufacturing facilities that will be used for the manufacture of KRX-101.

## KinAce Platform

License Agreement. Pursuant to a license with Children's Medical Center Corporation, referred to as CMCC, we have the exclusive right to commercialize the KinAce platform and practice the claims contained in four patent applications owned by CMCC. The license gives us the right to develop, produce, manufacture, market and sublicense products based on CMCC's patents and patent applications, any subsequently issued patents and future patent applications. Unless terminated for breach or other customary termination provisions, the license terminates upon the later of November 2014 or the expiration of the last patent covered by the license. The most recent patent application was filed in December 2000 and, if granted, will expire in December 2020, subject to the granting of any extensions.

Under the license, we must use our reasonable best efforts to commercialize and market one or more products based upon the signal transduction technology. The license contains certain financing and development milestones. To date, we have met all of our milestones under this agreement. According to the remaining development milestones, we must file an IND application for a licensed product with the FDA (or a foreign equivalent) by June 2003, and we must file a New Drug Application, or NDA, with the FDA (or a foreign equivalent) within six years from our first filing of an IND application. If we fail to meet any of the development milestones that remain to be fulfilled, the license could be terminated, which would materially harm our business. Should CMCC reasonably believe that we failed to meet any of the development milestones that remain to be fulfilled because we did not devote diligent efforts and adequate resources, the license could be terminated, which would materially harm our business.

Sponsored Research Agreement. Currently, our KinAce research program is being conducted pursuant to a research agreement with Yissum Research Development Company of the Hebrew University of Jerusalem, referred to in this Report as Yissum. We also entered into a consulting agreement with Professor Shmuel Ben-Sasson, the head of the laboratory in which the KinAce research is being conducted. Under the consulting agreement, Professor Ben-Sasson must provide consulting services to us to develop the KinAce platform. The consulting agreement may be terminated by him or us on 180 days' notice for any reason. We issued to Professor Ben-Sasson 402,768 shares of our common stock in connection with his consulting agreement. Under the research agreement, we must pay quarterly fees to Yissum totaling \$466,000 per year. To date, we have made \$582,500 in quarterly payments to Yissum in connection with this agreement. The research agreement expires in November 2001, although it may be extended by mutual agreement for additional periods of 180 days. We may terminate the research agreement and cease making payments to Yissum should Professor Ben-Sasson fail to meet any milestones contained in that agreement. In general, the milestones are project-specific and require Professor Ben-Sasson to meet enumerated product development timetables. The loss of Professor Ben-Sasson's services as a result of the termination of either the research agreement or the consulting agreement would disrupt and delay our KinAce research program.

## SALES AND MARKETING

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We do not intend to build our own sales force. Instead, we intend to market any future products through corporate partnerships with leading biotechnology or pharmaceutical companies. By contracting with corporate partners for the manufacturing, marketing and distribution of products, we hope to limit our exposure to capital-intensive activities beyond our expertise and concentrate on developing new compounds and technologies.

## EMPLOYEES

We have 36 employees, 12 of whom hold M.D. or Ph.D. degrees and 14 of whom

hold other advanced degrees. In addition, we have 16 persons working under sponsored research or consulting agreements. Of these 51 persons, 40 are working in research and development, and 11 are working in administration and finance. None of our employees is represented by a collective bargaining agreement, nor have we ever experienced a work stoppage. We consider our relations with our employees and consultants to be good.

#### RESEARCH AND DEVELOPMENT

Company-sponsored research and development expenses totaled \$1,407,000 in 1998, \$6,923,000 in 1999 and \$6,686,000 in 2000.

#### GOVERNMENT REGULATION

Numerous governmental authorities in the United States, Israel and other countries regulate the manufacture and marketing of our drug candidates and our ongoing research and development activities. None of our drug candidates has been approved for sale in any market. Before marketing in the United States, any drug developed by us must undergo rigorous pre-clinical testing and clinical trials and an extensive regulatory approval process implemented by the FDA under the Federal Food, Drug, and Cosmetic Act. The FDA regulates, among other things, the development, testing, approval, manufacture, record keeping, labeling, storage, advertising, promotion, sale and distribution of biopharmaceutical products.

The regulatory review and approval process is lengthy, expensive and uncertain. We will have to submit extensive pre-clinical and clinical data and supporting information to the FDA for each indication or use to establish a drug candidate's safety and efficacy before we can secure FDA approval. The approval process takes many years, requires the expenditure of substantial resources, involves post-marketing surveillance, and may involve ongoing requirements for post-marketing studies. Before commencing clinical trials in humans, we must submit to, and receive approval from, the FDA of an IND. We expect to rely on some of our collaborative partners to file INDs and generally direct the regulatory approval process for some of our drug candidates.

The FDA permits expedited development, evaluation, and marketing of new therapies intended to treat persons with serious or life-threatening conditions for which there is an unmet medical need under its Fast Track Drug Development Program. A sponsor can apply for fast track designation at the time of submission of an IND, or at any time prior to receiving marketing approval of the New Drug Application, or NDA. To receive fast track designation, an applicant must demonstrate:

- o that the drug is intended to treat a serious or life-threatening condition;
- o that the drug is intended to treat a serious aspect of the condition; and

- o that the drug has the potential to address unmet medical needs, and this potential is being evaluated in the planned drug development program.

The FDA generally responds to a request for fast track designation within 60 calendar days of receipt of the request. Over the course of drug development, a product in a fast track development program must continue to meet the criteria for fast track designation. Sponsors of products in fast track drug development programs must be in regular contact with the reviewing division of the FDA to ensure that the evidence necessary to support marketing approval will be developed and presented in a format conducive to an efficient review.

Sponsors of products in fast track drug development programs ordinarily are eligible for priority review and may be permitted to submit portions of an NDA

to the FDA for review before the complete application is submitted. Sponsors of drugs designated as "fast track" also may seek approval under the accelerated approval regulations, which permit the FDA to grant accelerated approval based on a determination that the effect on a surrogate endpoint is reasonably likely to predict clinical benefit. A surrogate endpoint is defined as a laboratory or physical sign that is used in therapeutic trials as a substitute for a clinically meaningful endpoint and the surrogate is expected to predict the effect of the therapy. Requirements for submitting "substantial evidence" to demonstrate effectiveness and for payment of user fees must still be met under accelerated approval regulations. Further, where an accelerated approval is based on a surrogate endpoint, postmarket studies ordinarily will be required to verify the drug's clinical benefit and the relationship of the surrogate endpoint to clinical benefit.

Before receiving FDA approval to market a product, we must demonstrate that the product is safe and effective on the patient population that will be treated. If the FDA grants approval, this approval will be limited to those disease states and conditions for which the product is effective, as demonstrated through clinical studies. The FDA prohibits marketing or promoting a drug for an unapproved indication or use. Clinical testing must meet requirements for institutional review board oversight, informed consent and good clinical practices, and must be conducted under FDA oversight. Upon approval, a product may be marketed only in those dosage forms and for those indications approved in the NDA. However, pursuant to recent US federal court decisions, drug marketers may, in some limited circumstances, distribute peer-reviewed materials concerning uses for an approved drug other than those uses approved by the FDA.

Clinical trials are conducted in sequential phases. In Phase I, the drug is administered to a small group of humans, either healthy volunteers or patients, to test for safety, dosage tolerance, absorption, metabolism, excretion, and clinical pharmacology. In Phase II, a slightly larger number of patients are studied to assess the efficacy of the product, to ascertain dose tolerance and the optimal dose range, and to gather additional data relating to safety and potential adverse events. In Phase III, studies establish safety and efficacy in an expanded patient population. The FDA can require Phase IV post-marketing studies.

The length of time necessary to complete clinical trials varies significantly and may be difficult to predict. Clinical results are frequently susceptible to varying interpretations that may delay, limit or prevent regulatory approvals. Additional factors that can cause delay or termination of our clinical trials, or that may increase the costs of these trials, include:

- o slow patient enrollment due to the nature of the clinical trial plan, the proximity of patients to clinical sites, the eligibility criteria for participation in the study or other factors;

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- o inadequately trained or insufficient personnel at the study site to assist in overseeing and monitoring clinical trials; or delays in approvals from a study site's review board;
- o longer treatment time required to demonstrate effectiveness or determine the appropriate product dose;
- o insufficient supplies of the drug candidate;
- o adverse medical events or side effects in treated patients; and
- o ineffectiveness of the drug candidate.

Any drug is likely to produce some toxicity or undesirable side effects in animals and in humans when administered at sufficiently high doses and/or for a sufficiently long time. Unacceptable toxicity or side effects may occur at any

dose level at any time in the course of studies in animals designed to identify unacceptable effects of a drug candidate, known as toxicological studies, or clinical trials of drug candidates. The appearance of any unacceptable toxicity or side effect could cause us or regulatory authorities to interrupt, limit, delay or abort the development of any of our drug candidates and could ultimately prevent approval by the FDA or foreign regulatory authorities for any or all targeted indications.

We must submit and receive approval of an NDA and pay user fees prior to commercial marketing of the drug. As part of the approval process, the FDA must inspect and approve each manufacturing facility. Among the conditions of approval is the requirement that a manufacturer's quality control and manufacturing procedures conform to current good manufacturing practices, or cGMP. Manufacturers must expend time, money and effort to ensure compliance with cGMP, and the FDA conducts periodic inspections to certify compliance. Violations may result in restrictions on the product or manufacturer, including costly recalls or withdrawal of the product from the market. It may be difficult for our manufacturers or us to comply with the applicable cGMP and other FDA regulatory requirements. If we or our contract manufacturers fail to comply, then the FDA will not allow us to market products that have been affected by our failure.

Should we wish to market our products outside the United States, we must receive marketing authorization from the appropriate regulatory authorities. The requirements governing the conduct of clinical trials, marketing authorization, pricing and reimbursement vary widely from country to country. At present, foreign marketing authorizations are applied for at a national level, although within the European Union, or EU, registration procedures are available to companies wishing to market a product in more than one EU member state. If the regulatory authority is satisfied that adequate evidence of safety, quality and efficacy has been presented, a marketing authorization will be granted. This foreign regulatory approval process involves all of the risks associated with FDA approval discussed above.

#### FORWARD-LOOKING STATEMENTS

Some of the statements in this Form 10-K and the Exhibits contain forward-looking statements within Section 21E of the Securities Exchange Act of 1934, as amended. When used in this Form 10-K and the Exhibits, the words "anticipate," "believe," "estimate," "may," "expect," and similar

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expressions are generally intended to identify forward-looking statements. These forward-looking statements include, statements about our:

- o expectations for increases in operating expenses;
- o expectations for increases in research and development and general and administrative expenses in order to develop new products and manufacture commercial quantities of products;
- o expectations for the development, manufacturing, and approval of new products;
- o expectations for incurring additional capital expenditures to expand our research and development capabilities;
- o expectations for generating revenue or becoming profitable on a sustained basis;
- o ability to enter into additional marketing agreements and the ability of our existing marketing partners to commercialize products incorporating our technologies;
- o estimate of the sufficiency of our existing cash and cash

equivalents and investments to finance our operating and capital requirements; expected losses; and

- o expectations for future capital requirements.

Our actual results could differ materially from those results expressed in, or implied by, these forward-looking statements. Potential risks and uncertainties that could affect our actual results include those discussed below under the heading "Risk Factors".

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance, or achievements. We do not assume responsibility for the accuracy and completeness of the forward-looking statements.

We do not intend to update any of the forward-looking statements after the date of this Form 10-K to conform them to actual results.

#### RISK FACTORS

You should carefully consider the following risks and uncertainties. If any of the following occurs, our business, financial condition, or operating results could be materially harmed. This could cause the trading price of our common stock to decline, and you may lose all or part of your investment.

#### RISKS RELATED TO OUR BUSINESS

WE HAVE A LIMITED OPERATING HISTORY AND HAVE INCURRED OPERATING LOSSES SINCE OUR INCEPTION. WE EXPECT TO INCUR LOSSES IN THE FUTURE, AND WE MAY NEVER BECOME PROFITABLE.

We have a limited operating history. You should consider our prospects in light of the risks and difficulties frequently encountered by early stage companies. In addition, we have incurred operating losses since our inception and expect to incur operating losses for the foreseeable future. As of December 31, 2000, we had an accumulated deficit of approximately \$23.9 million. We expect to expand our research and development efforts significantly, which will result in increasing losses. We

may continue to incur substantial operating losses even if we begin to generate revenues from our drug candidates or technologies.

We have not yet commercialized any products or technologies, and we cannot be sure that we will ever be able to do so. Even if we commercialize one or more of our drug candidates or technologies, we may not become profitable. Our ability to achieve profitability depends on a number of factors, including our ability to complete our development efforts, to obtain regulatory approval for our drug candidates and to successfully commercialize our drug candidates and technologies.

OUR DRUG DISCOVERY METHODS ARE UNPROVEN AND MAY NOT LEAD TO COMMERCIALY VIABLE DRUGS.

There is limited scientific understanding of protein kinase regulation and its role in complex diseases. Our drug discovery efforts are focused on a number of protein kinases whose functions have not yet been fully identified. As a result, the safety and effectiveness of our KinAce drug candidates have not yet been established, and our research and development activities may not result in commercially viable products. In addition, because the compounds we develop with our KinAce platform are made up of small peptides, we may be unable to produce drugs that can be taken orally. If we are unable to formulate an effective way to deliver our KinAce compounds, we may be unable to market these drug candidates. To date, we believe that only one product based on protein kinase regulation, in Japan, has been commercialized.

OUR DRUG CANDIDATES ARE IN EARLY STAGES OF DEVELOPMENT AND MAY NEVER RECEIVE NECESSARY REGULATORY APPROVALS.

Our drug candidates are in early stages of development. We have not received regulatory approval for clinical trials for any of these drug candidates. We will need to conduct significant additional research and human testing before we can apply for product approval with the FDA, or with regulatory authorities of other countries. Pre-clinical testing and clinical development are long, expensive and uncertain processes. Satisfaction of regulatory requirements typically depends on the nature, complexity and novelty of the product and requires the expenditure of substantial resources. Data obtained from pre-clinical and clinical tests can be interpreted in different ways, which could delay, limit or prevent regulatory approval. It may take us many years to complete the testing of our drug candidates, and failure can occur at any stage of this process. Negative or inconclusive results or medical events during a clinical trial could cause us to delay or terminate our development efforts.

Clinical trials also have a high risk of failure. A number of companies in the pharmaceutical industry, including biotechnology companies, have suffered significant setbacks in advanced clinical trials, even after achieving promising results in earlier trials. If we experience delays in the testing or approval process or if we need to perform more or larger clinical trials than originally planned, our financial results and the commercial prospects for our drug candidates may be impaired. For example, as a result of discovering a version of our KRX-123 drug candidate potentially more efficacious than the compound we initially intended to use in the Phase I/II clinical trial, we will need to obtain additional pre-clinical data before we can submit our application to conduct clinical trials for KRX-123 in Israel. In addition, we have limited experience in conducting and managing the clinical trials necessary to obtain regulatory approval in the United States and abroad and, accordingly, may encounter unforeseen problems and delays in the approval process.

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IF WE ARE UNABLE TO SUCCESSFULLY BEGIN OR COMPLETE OUR CLINICAL TRIALS OF KRX-101, OUR ABILITY TO ACHIEVE OUR CURRENT BUSINESS STRATEGY WILL BE ADVERSELY AFFECTED.

Recently we received approval from the FDA to submit a protocol for a pivotal Phase III clinical trial for our KRX-101 drug candidate for the treatment of a complication of Type II diabetes known as diabetic nephropathy (a type of kidney disease). The ultimate clinical timeline, and consequent cost, for further development of KRX-101 will depend, in part, on the FDA's acceptance of the protocol we will file or, alternatively, on any requests the FDA might have to alter such protocol. We cannot be certain whether the FDA will accept the protocol we will present. If we do not receive approval to conduct clinical trials for KRX-101, or if approval is delayed, we will be unable to carry out our present business strategy. Even if the FDA accepts our protocol, it may require us to expand the size and/or scope of the clinical trial, which could increase the cost and time required to complete the clinical trial. Accordingly, we may not be able to complete the clinical trial within an acceptable time frame, if at all.

How quickly we complete clinical trials is dependent in part upon the rate of enrollment of patients. Patient enrollment is a function of many factors, including the size of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the study and the existence of competitive clinical trials. If we experience delays in patient enrollment, we may incur additional costs and delay our development program for KRX-101.

BECAUSE WE LICENSE OUR PRIMARY PROPRIETARY TECHNOLOGIES, TERMINATION OF THESE AGREEMENTS WOULD PREVENT US FROM DEVELOPING OUR LEAD DRUG CANDIDATES.

We do not own the proprietary technologies underlying KRX-101 and our KinAce platform. We have licensed these technologies from others. These license

agreements require us to meet development and/or financing milestones. In addition, under these agreements we must pay royalties on sales of products resulting from licensed technologies and pay the patent filing, prosecution and maintenance costs related to the licenses. If we do not meet our obligations in a timely manner or otherwise breach the terms of our agreements, our licensors could terminate the agreements, and we would lose the rights to KRX-101 and our KinAce technology.

BECAUSE WE RELY ON A SPONSORED RESEARCH AGREEMENT WITH A THIRD PARTY, TERMINATION OF THIS AGREEMENT WOULD DELAY THE DEVELOPMENT OF OUR DRUG CANDIDATES.

Our own laboratory facilities will not be completed before October 2001. We therefore depend on Yissum Research Development Company of the Hebrew University of Jerusalem, referred to in this report as Yissum, to provide us with physical facilities for our KinAce project. Under our research agreement, we must pay quarterly research fees and make other payments to Yissum. This agreement expires in November 2001. If we fail to make these payments, Yissum could terminate the research agreement. If the agreement is terminated and we are unable to quickly replace Yissum with another suitable laboratory facility, our research would be delayed and we may be unable to complete development of or commercialize our drug candidates as planned or at all.

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IF WE ARE UNABLE TO ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY, THIRD PARTIES MAY BE ABLE TO USE OUR TECHNOLOGY, WHICH COULD ADVERSELY AFFECT OUR ABILITY TO COMPETE IN THE MARKET.

Our commercial success will depend in part on our ability and the ability of our licensors to obtain and maintain patent protection on our drug products and technologies and successfully defend these patents and technologies against third-party challenges. The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions. No consistent policy regarding the breadth of claims allowed in biotechnology patents has emerged to date. Accordingly, the patents we use may not be sufficiently broad to prevent others from practicing our technologies or from developing competing products. Furthermore, others may independently develop similar or alternative technologies or design around our patented technologies. The patents we use may be challenged, invalidated or fail to provide us with any competitive advantage.

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

LITIGATION OR THIRD-PARTY CLAIMS OF INTELLECTUAL PROPERTY INFRINGEMENT COULD REQUIRE US TO SPEND SUBSTANTIAL TIME AND MONEY AND ADVERSELY AFFECT OUR ABILITY TO DEVELOP AND COMMERCIALIZE PRODUCTS.

Third parties may assert that we are using their proprietary technology without authorization. In addition, third parties may have or obtain patents in the future and claim that our technologies infringe their patents. If we are required to defend against patent suits brought by third parties, or if we sue to protect our patent rights, we may be required to pay substantial litigation costs, and our management's attention may be diverted from operating our business. In addition, any legal action against our licensors or us that seeks damages or an injunction of our commercial activities relating to the affected technologies could subject us to monetary liability and require our licensors or

us to obtain a license to continue to use the affected technologies. We cannot predict whether our licensors or we would prevail in any of these types of actions or that any required license would be made available on commercially acceptable terms, if at all.

IF WE LOSE OUR KEY PERSONNEL OR ARE UNABLE TO ATTRACT AND RETAIN ADDITIONAL PERSONNEL, OUR OPERATIONS WOULD BE DISRUPTED AND OUR BUSINESS WOULD BE HARMED.

We have 36 employees and 16 persons working under sponsored research agreements or consulting agreements. To successfully develop our drug candidates, we must be able to attract and retain highly skilled scientists and clinical development personnel. In addition, if we lose the services of our current personnel, in particular, Dr. Morris Laster, our Chief Executive Officer, or Professor Shmuel Ben-Sasson, the Scientific Founder of our KinAce project, our ability to continue to develop our lead drug candidates will be materially impaired. We have purchased a \$2.0 million keyman life insurance policy covering each of Dr. Laster and Dr. Ben-Sasson. This amount may not be sufficient to compensate us for the loss of either of their services. We have employment agreements with some of our key

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executives and a consulting agreement with Dr. Ben-Sasson; however, these agreements would not prevent any of them from terminating their employment with us.

IF WE DO NOT ESTABLISH DRUG DEVELOPMENT, MANUFACTURING AND MARKETING ARRANGEMENTS WITH THIRD PARTIES, WE MAY BE UNABLE TO COMMERCIALIZE OUR TECHNOLOGIES INTO PRODUCTS.

A key part of our strategy is to establish drug development collaboration arrangements with third parties and enter into manufacturing and marketing arrangements with third parties. We are a young company and do not possess these capabilities on our own. We must successfully contract with third parties to:

- o assist us in developing, testing, obtaining regulatory approval for and commercializing some of our compounds and technologies;
- o manufacture our drug candidates; and
- o market and distribute our drug candidates.

If we are unable to successfully contract with third parties for these services, or if existing arrangements for these services are terminated, whether or not through our actions, we may have to delay, scale back or end one or more of our drug development programs.

IF OUR COMPETITORS DEVELOP AND MARKET PRODUCTS THAT ARE MORE EFFECTIVE THAN OURS, OUR COMMERCIAL OPPORTUNITY MAY BE REDUCED OR ELIMINATED.

Our commercial opportunity will be reduced or eliminated if our competitors develop and market products that are more effective, have fewer side effects or are less expensive than our drug candidates. Other companies have products or drug candidates in various stages of pre-clinical or clinical development to treat diseases for which we are seeking to discover and develop drug candidates. Some of these potential competing drugs are further advanced in development than our drug candidates and may be commercialized earlier. Even if we are successful in developing effective drugs, our products may not compete successfully with products produced by our competitors.

Our competitors include pharmaceutical companies and biotechnology companies, as well as universities and public and private research institutions. In addition, companies active in different but related fields represent substantial competition for us. Many of our competitors have significantly greater capital resources, larger research and development staffs and facilities and greater experience in drug development, regulation, manufacturing and marketing than we

do. These organizations also compete with us to recruit qualified personnel, attract partners for joint ventures or other collaborations, and license technologies that are competitive with ours. As a result, our competitors may be able to more easily develop technologies and products that would render our technologies or our drug candidates obsolete or noncompetitive.

BECAUSE OUR PRINCIPAL OPERATIONS ARE LOCATED IN ISRAEL, ANY SIGNIFICANT POLITICAL, ECONOMIC OR MILITARY INSTABILITY IN THE REGION COULD MATERIALLY DISRUPT OUR BUSINESS.

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Although we are incorporated in the State of Delaware, we maintain our principal offices and our research and development activities in the State of Israel. Currently, almost all of our personnel are located in Israel. Our business may be disrupted by political, economic and military conditions affecting Israel and other risks that are inherent in international business. These include:

- o political and economic instability;
- o the difficulty of administering business abroad;
- o the need to comply with export laws, tariff regulations and regulatory requirements;
- o currency fluctuations; and
- o the obligation of male residents of Israel, including some of our employees, to perform annual military reserve duty and possibly to be called to active duty under emergency circumstances.

IF WE ARE UNABLE TO OBTAIN ADDITIONAL FUNDS ON TERMS FAVORABLE TO US, OR AT ALL, OUR BUSINESS WOULD BE HARMED.

Based on our current plans, we believe our existing cash, cash equivalents and investments will be sufficient to fund our operating expenses and capital requirements until at least mid-2002. However, the actual amount of funds that we will need prior to or after that date will be determined by many factors, some of which are beyond our control. As a result, we may need funds sooner than we currently anticipate. These factors include:

- o the progress of our research activities;
- o the number and scope of our research programs;
- o the progress of our pre-clinical and clinical development activities;
- o the progress of the development efforts of parties with whom we have entered into research and development agreements;
- o our ability to establish and maintain current and new research and development and licensing arrangements;
- o our ability to achieve our milestones under licensing arrangements;
- o the costs involved in enforcing patent claims and other intellectual property rights; and
- o the costs and timing of regulatory approvals.

If our capital resources are insufficient to meet future capital requirements, we will have to raise additional funds. If we are unable to obtain additional funds on terms favorable to us, we may be required to cease or reduce our operating activities or sell or license to third parties some or all of our

technology. If we raise additional funds by selling additional shares of our capital stock, the ownership

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interests of our stockholders will be diluted. If we raise additional funds through the sale or license of our technology, we may be unable to do so on terms favorable to us.

CONCENTRATION OF OWNERSHIP OF OUR COMMON STOCK AMONG OUR EXISTING EXECUTIVE OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS MAY PREVENT NEW INVESTORS FROM INFLUENCING SIGNIFICANT CORPORATE DECISIONS.

As of December 31, 2000, our executive officers, directors and principal stockholders (including their affiliates) beneficially own, in the aggregate, approximately 45% of our outstanding common stock, including, for this purpose, vested options and warrants held by our executive officers and directors. As a result, these persons, acting together, will have the ability to effectively determine the outcome of all matters submitted to our stockholders for approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, such persons, acting together, will have the ability to effectively control our management and affairs. Accordingly, this concentration of ownership may harm the market price of our common stock by discouraging a potential acquiror from attempting to acquire our company.

OUR STOCK PRICE COULD BE VOLATILE AND YOUR INVESTMENT COULD DECLINE IN VALUE.

The trading price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in price in response to various factors, many of which are beyond our control, including:

- o developments concerning our drug candidates;
- o announcements of technological innovations by us or our competitors;
- o new products introduced or announced by us or our competitors;
- o changes in financial estimates by securities analysts;
- o actual or anticipated variations in quarterly operating results;
- o expiration or termination of licenses, research contracts or other collaboration agreements;
- o conditions or trends in the regulatory climate and the biotechnology, pharmaceutical and genomics industries;
- o changes in the market valuations of similar companies; and
- o additions or departures of key personnel.

Sales of substantial amounts our common stock in the public market could also seriously harm prevailing market prices for our common stock. For example, 7,379,653 shares will be eligible for sale upon the expiration of lock-up agreements on August 2, 2001.

In addition, equity markets in general, and the market for biotechnology and life sciences companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies traded in those markets. These broad

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market and industry factors may materially affect the market price of our common stock, regardless of our development and operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted against that company. Such litigation, if instituted against us, could cause us to incur substantial costs and divert management's attention and resources, which could seriously harm our business.

ANTI-TAKEOVER PROVISIONS IN OUR CHARTER DOCUMENTS AND DELAWARE LAW COULD MAKE A THIRD-PARTY ACQUISITION OF US DIFFICULT. THIS COULD LIMIT THE PRICE INVESTORS MIGHT BE WILLING TO PAY IN THE FUTURE FOR OUR COMMON STOCK.

Provisions in our certificate of incorporation and bylaws could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, or control us. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock. Our certificate of incorporation allows us to issue preferred stock with rights senior to those of the common stock without any further vote or action by the stockholders and our bylaws eliminate the right of stockholders to call a special meeting of stockholders, which could make it more difficult for stockholders to effect certain corporate actions. These provisions could also have the effect of delaying or preventing a change in control. The issuance of preferred stock could decrease the amount of earnings and assets available for distribution to the holders of our common stock or could adversely affect the rights and powers, including voting rights, of such holders. In certain circumstances, such issuance could have the effect of decreasing the market price of our common stock.

#### ITEM 2. PROPERTIES.

Our current facility consists of 3,600 square feet of leased space in Jerusalem's primary high technology park, Har Hotzvim. We recently signed a lease for new space in another location in Har Hotzvim. The new facility will consist of approximately 19,000 square feet of space on two floors. It will provide space for our administrative functions and will house a 14,400 square foot on-site laboratory devoted to bioinformatics, drug discovery and drug compound formulation. We expect the new facility to be completed during the fourth quarter of 2001. Meanwhile, through our sponsored research agreements, we maintain two research and development facilities at the Hebrew University of Jerusalem, staffed by our research personnel and equipped with advanced scientific equipment. We believe that our current Har Hotzvim facility and the Hebrew University space will be sufficient for our needs until the new facility is ready. Although we anticipate that the new facility will be sufficient for our needs for the next several years, we are confident that additional space will be available for future expansion as necessary.

Our facility in the United States will house personnel responsible for coordinating our financial, business development and investor relations functions. Clinical trials will also be coordinated from this location.

#### ITEM 3. LEGAL PROCEEDINGS.

We are not a party to any legal or arbitration proceedings, nor are we aware of any that are pending or threatened, that may have, or have had in the previous twelve months, a significant effect on our financial position.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

We did not submit any matters to a vote of security holders during the fourth quarter of 2000.

### PART II

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our common stock is listed on the Nasdaq National Market under the symbol KERX. We commenced trading on the Nasdaq National Market on July 28, 2000. The following table sets forth the high and low closing sale prices of our common stock for the periods indicated.

COMMON STOCK PRICE		
	HIGH	LOW
YEAR ENDED DECEMBER 31, 2000		
Third Quarter	\$13.9375	\$10.1875
Fourth Quarter	\$16.5625	\$ 9.2500

As of December 31, 2000 there were 93 record holders of our common stock. We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings to fund the development and growth of our business. Therefore, we do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors.

#### Use of Proceeds

We received net proceeds (after deducting underwriting discounts and commissions and offering expenses) of \$46.3 million from the sale of 5,200,000 shares of common stock in our initial public offering in July 2000. We have used and intend to continue using the net proceeds of this offering as follows:

- o approximately \$11.8 million to fund clinical trials for KRX-101 for diabetic nephropathy;
- o approximately \$2.7 million to fund clinical trials for KRX-123 for hormone-resistant prostate cancer;
- o approximately \$14.8 million to fund expansion of our KinAce platform and to further develop the compounds we have generated with it; and
- o approximately \$17.0 million to use as working capital and for general corporate purposes.

The timing and amounts of our actual expenditures will depend on several factors, including the timing of our entry into collaboration agreements, the progress of our clinical trials, the progress of our research and development programs, the results of other pre-clinical and clinical studies and the timing and costs of regulatory approvals.

Until we use the net proceeds, we intend to invest the funds in short-term, investment-grade, interest-bearing instruments.

#### ITEM 6. SELECTED FINANCIAL DATA.

The following Statement of Operations Data for the years ended December 31, 2000, 1999, 1998 and 1997 and the Balance Sheet Data as of December 31, 2000, 1999, 1998 and 1997, are derived from our consolidated financial statements that have been audited by KPMG Somekh Chaikin, a member of KPMG International, independent public accountants. The financial data set forth below should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations, and the financial statements and notes included elsewhere in this Form 10-K.

Years Ended December 31, ----- (in thousands, except per share data)	2000 ----	1999 ----	1998 ----	1997 ----
Statements of Operations Data:				
Management fees from related party	\$ --	\$ --	\$ 66	\$ 233
Expenses				
Research and development expenses	6,686	6,923	1,407	569
General and administrative expenses	5,900	1,813	1,011	525
	-----	-----	-----	-----
Total operating expenses	12,586	8,736	2,418	1,094
	-----	-----	-----	-----
Operating loss	(12,586)	(8,736)	(2,351)	(861)
Interest income (expenses), net	1,317	(257)	(157)	(11)
	-----	-----	-----	-----
Net loss before income tax	\$ (11,269)	\$ (8,993)	\$ (2,509)	\$ (872)
Net loss	\$ (11,489)	\$ (9,003)	\$ (2,539)	\$ (882)
	=====	=====	=====	=====
Basic and diluted loss per common share	\$ (0.89)	\$ (1.11)	\$ (0.31)	\$ (10.11)
	=====	=====	=====	=====

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As of December 31, ----- (in thousands)	2000 ----	1999 ----	1998 ----	1997 ----
Balance Sheet Data:				
Cash and cash equivalents, interest receivable and investments	\$ 48,900	\$ 4,127	\$ 128	\$ 647
Working Capital	37,908	3,984	(157)	35
Total Assets	50,264	4,948	620	832
Long-term obligations	305	118	527	1,028
Total stockholders' equity	48,867	4,436	(241)	(882)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with our financial statements and related notes included in this Form 10-K.

OVERVIEW

We were incorporated as a Delaware corporation in October 1998. We commenced operations in November 1999, following our acquisition of substantially all of the assets and certain liabilities of Partec Ltd., our predecessor company that began its operations in January of 1997. Since commencing operations, our activities have been primarily devoted to developing our technologies, raising capital, purchasing assets and recruiting personnel. We are a development stage company and have no product sales to date. Our major sources of working capital have been proceeds from various private placements of equity securities and, more recently, our initial public offering of 5,200,000 common shares at \$10 per

share. We have a 100% wholly owned subsidiary, Keryx (Israel) Limited, which engages in research and development activities and administrative functions in Israel.

Research and development expenses consist primarily of salaries and related personnel costs, fees paid to consultants and outside service providers for laboratory development and other expenses relating to the design, development, testing, and enhancement of our product candidates. We expense our research and development costs as they are incurred.

General and administrative expenses consist primarily of salaries and related expenses for executive, finance and other administrative personnel, recruitment expenses, professional fees and other corporate expenses, including business development and general legal activities.

Our results of operations include non-cash compensation expense as a result of the grants of stock and stock options. Compensation expense for options granted to employees represents the difference between the intrinsic value of our common stock and the exercise price of the options at the date of grant. We account for stock-based employee and director compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and FASB issued Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" and comply with the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Compensation for options granted to consultants has been determined in accordance with SFAS No. 123, as the fair value of the equity instruments issued, and according to the guidelines set forth in EITF 96-18, "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling,

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Goods or Services" and EITF 00-18 "Accounting by a Grantee for an Equity Instrument to be Received in Conjunction with Providing Goods and Services." APB Opinion No. 25 has been applied in accounting for fixed and milestone-based stock options to employees and directors as allowed by SFAS No. 123. The compensation cost is recorded over the respective vesting periods of the individual stock options. The expense is included in the respective categories of expense in the statement of operations. We expect to record additional non-cash compensation expense in the future, which may be significant. However, because some of the options issued to consultants either do not vest immediately or vest upon the achievement of certain milestones, the total expense is uncertain.

#### Results of Operations

Years Ended December 31, 2000 and 1999

Revenue. We did not have any revenues for the years ended December 31, 2000 and December 31, 1999.

Research and Development Expenses. Research and development expenses decreased by \$237,000 to \$6,686,000 for the year ended December 31, 2000, as compared to \$6,923,000 in 1999. This decrease was primarily attributable to non-cash compensation expense related to stock option grants of \$3,186,000 and \$5,426,000 for the years ended December 31, 2000 and 1999, respectively. Net of non-cash compensation, research and development expenses increased by \$2,003,000 due primarily to professional fees and expenditures on expansion of our existing research and development activities during the period. We expect our research and development costs to increase significantly over the next several years as we expand our research and product development efforts and implement our business strategy.

General and Administrative Expenses. General and administrative expenses increased by \$4,087,000 to \$5,900,000 for the year ended December 31, 2000, as compared to general and administrative expenses of \$1,813,000 in 1999. This

increase was primarily attributable to non-cash compensation expense related to stock option grants of \$2,688,000 and \$588,000 for the years ended December 31, 2000 and 1999, respectively. Net of non-cash compensation, general and administrative expenses increased by \$2,007,000, due primarily to professional services and expansion of our existing general and administrative activities. We expect our general and administrative expenses to continue to increase over the next several years as we implement our business strategy and commercialize our future products.

Interest Income (Expense), Net. Interest income, net, increased to \$1,317,000 for the year ended December 31, 2000, as compared to an expense of \$258,000 for the year ended December 31, 1999. The increase resulted from a higher level of invested funds due primarily to proceeds from the initial public offering that closed in August 2000.

Income Taxes. Income tax expense increased to \$220,000 for the year ended December 31, 2000, as compared to \$10,000 for the year ended December 31, 1999. This increase is attributable to taxable income from the continuing operations of our subsidiary in Israel. This income is eliminated upon consolidation of our financial statements.

Years Ended December 31, 1999 and 1998

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Revenue. We did not have any revenues for the year ended December 31, 1999, and had insignificant revenues for the year ended December 31, 1998. The revenues received in 1998 were in the form of management fees generated from affiliated companies. We no longer have management fee arrangements.

Research and Development Expenses. Research and development expenses increased by \$5,516,000 to \$6,923,000 for the year ended December 31, 1999, as compared to \$1,407,000 in 1998. This increase was primarily attributable to non-cash compensation expense of \$5,426,000 related to stock option grants in 1999.

General and Administrative Expenses. General and administrative expenses increased by \$801,000 to \$1,813,000 for the year ended December 31, 1999, as compared to general and administrative expenses of \$1,011,000 in 1998. This increase was primarily attributable to non-cash compensation expense of \$588,000 related to stock option grants in 1999.

Income Tax. Income tax expense decreased to \$10,000 for the year ended December 31, 1999 as compared to \$30,000 for the year ended December 31, 1998. The income tax expense is attributable to income from continuing operations relating to our subsidiary and predecessor company in Israel. This income related to our subsidiary is eliminated upon consolidation of our financial statements.

Impact of Inflation. The effects of inflation and changing prices on our operations were not significant during the periods presented.

#### Liquidity and Capital Resources

We have financed our operations from inception primarily through various private and public financings. As of December 31, 2000, we had received net proceeds of \$46.3 million from our initial public offering, \$11.6 million from private placement issuances of common and preferred stock, which includes \$2.9 million raised through the contribution by holders of their notes issued by our predecessor company.

As of December 31, 2000, we had \$48.9 million in cash, cash equivalents, interest receivable and short and long-term investments. Cash used in operating activities for the period ended December 31, 2000 was \$5.3 million as compared to \$2.8 million for the comparable period ended December 31, 1999. This increase was due primarily to increased expenses associated with the expansion of our

business. Net cash used in investing activities was \$26.2 million for the period ended December 31, 2000, consisting primarily of investment of the Company's initial public offering proceeds in short and long term securities, costs incurred in connection with patent applications and related capital expenditures.

In connection with research services provided to us, we are obligated to make payments totaling \$716,000 to Yisum Research Development Company of the Hebrew University of Jerusalem periodically until December 15, 2001. In addition, in connection with our license agreement for KRX-101, we are obligated to make milestone payments to Alfa Wassermann, the licensor, of up to \$2,950,000 and annual payments in the aggregate of up to \$900,000.

#### Current and Future Financing Needs

We have incurred negative cash flow from operations since we started our business. We have spent, and expect to continue to spend, substantial amounts in connection with implementing our

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business strategy, including our planned product development efforts, our clinical trials, and our research and discovery efforts. Based on our current plans, we believe that the net proceeds of approximately \$46.3 million from our July 2000 initial public offering of 5,200,000 shares of common stock, which includes the exercise of a portion of the underwriters' overallotment option, together with our existing cash and cash equivalents immediately prior to our initial public offering will be sufficient to enable us to meet our planned operating needs until at least mid-2002.

Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties. The actual amount of funds we will need to operate is subject to many factors, some of which are beyond our control.

These factors include the following:

- o the progress of our research activities;
- o the number and scope of our research programs;
- o the progress of our pre-clinical and clinical development activities;
- o the progress of the development efforts of parties with whom we have entered into research and development agreements;
- o our ability to maintain current research and development programs and to establish new research and development and licensing arrangements;
- o our ability to achieve our milestones under licensing arrangements;
- o the costs involved in prosecuting and enforcing patent claims and other intellectual property rights; and
- o the costs and timing of regulatory approvals.

We have based our estimate on assumptions that may prove to be wrong. We may need to obtain additional funds sooner or in greater amounts than we currently anticipate. Potential sources of financing include strategic relationships, public or private sales of our shares or debt and other sources. We may seek to access the public or private equity markets when conditions are favorable due to our long-term capital requirements. We do not have any committed sources of financing at this time, and it is uncertain whether additional funding will be available when we need it on terms that will be acceptable to us, or at all. If

we raise funds by selling additional shares of common stock or other securities convertible into common stock, the ownership interest of our existing stockholders will be diluted. If we are not able to obtain financing when needed, we may be unable to carry out our business plan. As a result, we may have to significantly limit our operations and our business, financial condition and results of operations would be materially harmed.

New Accounting Pronouncements

In June 1998 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 ("Statement 133") "Accounting for Derivative Instruments and for Hedging Activities." In June 2000 the FASB issued Statement Financial Accounting Standards Board

Statement No. 138 ("Statement 138"), "Accounting for Certain Derivative Instruments and Certain Hedging Activity, an Amendment of SFAS 133." Statement 133 and Statement 138 require companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. They also require that changes in fair value of a derivative be recognized currently in earnings unless specific hedge accounting criteria are met. The Company adopted Statement 133 and Statement 138 on January 1, 2001. The adoption of Statement 133 and Statement 138 had no impact on the Company's balance sheet or statement of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

Interest Rate Risk. The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. Some of the securities that we invest in may have market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline. We maintain our portfolio in cash equivalents and short- and long-term, interest bearing securities, including corporate debt, money market funds and government debt securities. The average duration of all of our investments in 2000 was less than one year. Due to the short-term nature of these investments, we believe we have no material exposure to interest rate risk arising from our investments. Therefore, no quantitative tabular disclosure is required.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our Consolidated Financial Statements as of December 31, 2000 are presented beginning on page F-1.

	2000			
	Mar. 31	June 30	Sept. 30	Dec. 31
OPERATING EXPENSES:				
Research and development	\$ 1,400,879	\$ 1,128,791	\$ 1,892,833	\$ 2,263,106
General and administrative	1,093,513	2,175,083	1,364,857	1,266,927
LOSS FROM OPERATIONS	(2,494,392)	(3,303,874)	(3,257,690)	(3,530,033)
OTHER INCOME (EXPENSE):				
Financing income (expenses)	54,672	97,947	530,867	633,606

Taxes on income	(27,121)	(27,879)	(38,000)	(127,000)
NET LOSS	\$ (2,466,841)	\$ (3,233,806)	\$ (2,764,823)	\$ (3,023,427)
NET LOSS PER COMMON SHARE				
Basic and diluted	\$ (0.30)	\$ (0.40)	\$ (0.17)	\$ (0.16)
SHARES USED IN COMPUTING NET LOSS PER COMMON SHARE				
Basic and diluted	8,108,306	8,108,306	15,927,878	19,489,568

	1999			
	Mar. 31	June 30	Sept. 30	Dec. 31
OPERATING EXPENSES:				
Research and development	\$ 414,421	\$ 369,763	\$ 508,769	\$ 5,629,844
General and administrative	263,305	265,592	96,256	1,187,355
LOSS FROM OPERATIONS	(677,726)	(635,355)	(605,025)	(6,817,199)
OTHER INCOME (EXPENSE):				
Financing income (expenses)	(9,599)	(90,305)	(76,426)	(81,157)
Taxes on income	--	--	--	(9,970)
NET LOSS	\$ (687,325)	\$ (725,660)	\$ (681,451)	\$ (6,908,326)
NET LOSS PER COMMON SHARE				
Basic and diluted	\$ (0.08)	\$ (0.09)	\$ (0.08)	\$ (0.85)
SHARES USED IN COMPUTING NET LOSS PER COMMON SHARE				
Basic and diluted	8,108,306	8,108,306	8,108,306	8,108,306

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These quarterly results are unaudited. Keryx's results in any one quarter are not necessary indicative of results to be expected for a full year. Accordingly, the Company should be evaluated on the basis of annual financial information.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY.

The information required by this item is incorporated herein by reference to our Proxy Statement for our 2001 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is incorporated herein by reference to our Proxy Statement for our 2001 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this item is incorporated herein by reference to our Proxy Statement for our 2001 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this item is incorporated herein by reference to our Proxy Statement for our 2001 Annual Meeting of Stockholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) 1. Financial Statements.

Our Consolidated Financial Statements listed in the accompanying Index to Consolidated Financial Statements at page F-1 are filed as part of this Form 10-K.

2. Financial Statement Schedules.

All schedules are omitted as the information required is inapplicable or the information is presented in the consolidated financial statements or the related notes.

3. Exhibits. (See (c) below)

(b) Reports on Form 8-K.

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None.

(c) Exhibits

Listed below are the exhibits which are filed as part of this Form 10-K (according to the number assigned to them in Item 601 of Regulation S-K). Each exhibit marked by a (\*) is incorporated by reference to our Registration Statement on Form S-1 (File No. 333-37402) filed on May 19, 2000. Each exhibit marked by a (\*\*) is incorporated by reference to the First Amendment to our Registration Statement on Form S-1 (File No. 333-37402) filed on June 30, 2000. Portions of each exhibit marked with a (!) have been redacted and filed separately with the Commission pursuant to a request for confidential treatment. Each exhibit marked (+) is a management contract or compensatory plan or arrangement filed as an exhibit to this Form 10-K pursuant to Items 14(a) and 14(c) of Form 10-K.

Exhibit Number -----	Description -----
2.1*	--Asset Purchase Agreement between Partec Ltd. and B.R.T. Biopharmaceuticals Ltd., dated as of November 11, 1999.
2.2*	--Asset Purchase Agreement between Partec Ltd. and Lakaro Biopharmaceuticals, Inc., dated as of November 18, 1999.
3.1*	--Certificate of Incorporation of Keryx Biopharmaceuticals, Inc., as amended.
3.2*	--Bylaws of Keryx Biopharmaceuticals, Inc., (f/k/a Paramount Capital Pharmaceuticals, Inc.)
4.1**	--Specimen Common Stock Certificate.
4.2*	--Form of Stock Purchase Agreement for the purchase of shares of Common Stock.
4.4*	--Form of Contribution Agreement between Keryx Biopharmaceuticals, Inc. (f/k/a Lakaro Biopharmaceuticals, Inc.) and the holders of 12% Convertible Notes of Partec Ltd.
4.5*	--Warrant No. 1 for the Purchase of Shares of Common Stock between Children's Medical Center Corporation and Keryx Biopharmaceuticals, Inc., (f/k/a Lakaro Biopharmaceuticals, Inc.), dated as of November 18, 1999.
4.6*	--Warrant No. 2 for the Purchase of Shares of Common Stock between Children's Medical Center Corporation and Keryx Biopharmaceuticals, Inc., (f/k/a Lakaro Biopharmaceuticals, Inc.), dated as of November 18, 1999.
4.7*	--Form of Warrant for the Purchase of Shares of Common Stock between certain holders of Series A Preferred Stock and Keryx Biopharmaceuticals, Inc., (f/k/a Lakaro Biopharmaceuticals, Inc.),

- dated as of December 14, 1999.
- 4.10\* --Warrant for the Purchase of Shares of Common Stock between Paramount Capital, Inc. and Keryx Biopharmaceuticals, Inc., (f/k/a Lakaro Biopharmaceuticals, Inc.), dated as of January 25, 2000.
  - 10.1\*+ --1999 Share Option Plan.
  - 10.2\*+ --Employment Agreement between Morris Laster, M.D. and Keryx Biopharmaceuticals, Inc., (f/k/a Lakaro Biopharmaceuticals, Inc.), dated as of November 19, 1999.
  - 10.3\*+ --Employment Agreement between Morris Laster, M.D. and Keryx (Israel) Biopharmaceuticals Ltd., dated as of May 1, 2000.
  - 10.4\*+ --Employment Agreement between Benjamin Corn and Keryx Biopharmaceuticals, Inc., (f/k/a Lakaro Biopharmaceuticals, Inc.), dated as of November 19, 1999.
  - 10.5\*+ --Employment Agreement between Benjamin Corn and B.R.T. Biopharmaceuticals Ltd., dated as of July 15, 1999.

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Exhibit Number -----	Description -----
10.6*	--Exclusive License Agreement between the Children's Medical Center Corporation and Keryx Biopharmaceuticals, Inc., (f/k/a Lakaro Biopharmaceuticals, Inc.), dated as of November 18, 1999.
10.7*	--License Agreement between Alfa Wassermann S.p.A. and Partec Ltd., dated as of November 12, 1998.
10.8*	--Consulting Agreement between Shmuel Ben-Sasson, Ph.D. and Keryx Biopharmaceuticals, Inc., (f/k/a Lakaro Biopharmaceuticals, Inc.), dated as of November 19, 1999.
10.9*!	--Research Agreement between Yissum Research and Development Company of the Hebrew University of Jerusalem and Keryx Biopharmaceuticals, Inc., (f/k/a Lakaro Biopharmaceuticals, Inc.), dated as of November 18, 1999.
10.10*!	--Manufacturing Agreement between Opocrin S.p.A. and Partec Ltd., dated as of April 16, 1999.
10.11*!	--Manufacturing Agreement between Pharmaceutics International, Inc. and Keryx Biopharmaceuticals, Inc., dated as of March 17, 2000.
10.12*!	--Research and Development Agreement between National Institutes of Health Laboratories and Keryx Biopharmaceuticals, Inc., dated as of April 10, 2000.
10.13*	--Management Services Agreement between Keryx Biopharmaceuticals, Inc., (f/k/a Lakaro Biopharmaceuticals, Inc.) and B.R.T. Biopharmaceuticals Ltd., dated as of November 30, 1999.
10.14*	--Finder Agreement between Paramount Capital, Inc. and Keryx Biopharmaceuticals, Inc., (f/k/a Lakaro Biopharmaceuticals, Inc.), dated as of November 19, 1999.
10.15*	--Form of KRX-101 Scientific Advisory Board Agreement.
10.16*	--Form of KinAce Scientific Advisory Board Agreement between Keryx Biopharmaceuticals, Inc. and Dr. James Broach.
10.17*	--Tenancy Agreement between Har Hotzvim Properties Ltd. and Keryx (Israel) Ltd. (f/k/a BRT Biopharmaceuticals Ltd.), dated as of December 13, 1999.
10.18*	--Management Agreement between Park Meir Management Company Ltd. and Keryx (Israel) Ltd. (f/k/a BRT Biopharmaceuticals Ltd.), dated December 13, 1999.
10.19**	--Form of KinAce Scientific Advisory Board Agreement between Moshe Oren, Ph.D. and Keryx Biopharmaceuticals, Inc.
10.20**+	--2000 Share Option Plan
10.21+	--Employment Agreement between Keryx Biopharmaceuticals, Inc., (f/k/a Lakaro Biopharmaceuticals, Inc.) and Ira Weinstein, dated November 19, 1999.
10.22+	--Employment Agreement between Keryx (Israel) Ltd. (f/k/a Partec Ltd.) and Ira Weinstein, dated July 15, 1999.
10.23+	--Employment Agreement between Keryx Biopharmaceuticals, Inc., (f/k/a Lakaro Biopharmaceuticals, Inc.) and Bob Trachtenberg, dated

November 19, 1999.

- 10.24+ --Employment Agreement between Keryx (Israel) Ltd. (f/k/a Partec Ltd.) and Bob Trachtenberg, dated July 15, 1999.
- 10.25+ --Employment Agreement between Robert Gallahue, Jr. and Keryx Biopharmaceuticals, Inc.
- 10.26+ --Employment Agreement between Noa Shelach and Keryx (Israel) Ltd.
- 10.27 --Lease Agreement between RMPA Nechasim, Ltd. and Keryx (Israel) Ltd., dated December 21, 2000.
- 10.28 --Amendment, dated March 29, 2001, to the Exclusive License Agreement between the Children's Medical Center Corporation and Keryx Biopharmaceuticals, Inc., (f/k/a Lakaro Biopharmaceuticals, Inc.), dated as of November 18, 1999.
- 21.1 --List of subsidiaries of Keryx Biopharmaceuticals, Inc.
- 23.1 --Consent of KPMG.
- 24.1 --Powers of Attorney (included on signature page).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, we have duly caused this report to be signed on our behalf by the undersigned, thereunto duly authorized.

KERYX BIOPHARMACEUTICALS, INC.

Date: March 30, 2001

By /s/ Morris Laster

-----  
Morris Laster  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, the following persons have signed this report below on behalf of Keryx and in the capacities and on the dates indicated.

Each person, in so signing also makes, constitutes, and appoints Bob Trachtenberg, General Counsel and Secretary of Keryx, and Robert Gallahue, Chief Financial Officer and Treasurer of Keryx, and each of them acting alone, as his true and lawful attorneys-in-fact, with full power of substitution, in his name, place, and stead, to execute and cause to be filed with the Securities and Exchange Commission any or all amendments to this report.

Signature -----	Title -----	Date -----
/s/ Morris Laster ----- Morris Laster, M.D.	Chairman & Chief Executive Officer (Principal Executive Officer)	March 30, 2001
/s/ Robert Gallahue, Jr. ----- Robert Gallahue, Jr.	Chief Financial Officer & Treasurer (Principal Financial and Accounting Officer)	March 30, 2001
/s/ Malcolm Hoenlein ----- Malcolm Hoenlein	Director	March 30, 2001
/s/ Peter M. Kash ----- Peter M. Kash	Director	March 30, 2001
/s/ Mark H. Rachesky ----- Mark H. Rachesky, M.D.	Director	March 30, 2001

/s/ Lindsay A. Rosenwald ----- Lindsay A. Rosenwald, M.D.	Director	March 30, 2001
----- Wayne Rothbaum	Director	March __, 2001
/s/ J. Wilson Totten ----- J. Wilson Totten, M.D.	Director	March 30, 2001

Keryx Biopharmaceuticals, Inc. (Development Stage Company)  
Consolidated Financial Statements as of December 31, 2000  
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Independent Auditors' Report

To the Board of Directors and Shareholders of  
Keryx Biopharmaceuticals, Inc.:

We have audited the accompanying consolidated balance sheets of Keryx Biopharmaceuticals, Inc. (the "Company"), a development stage company, and its subsidiaries, as of December 31, 2000 and 1999 and the related consolidated statements of operations, statements of changes in stockholders' equity and consolidated statements of cash flows for each of the years in the three-year period ended December 31, 2000, and for the development stage period. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company, a development stage company, and its subsidiaries, at December 31, 2000 and 1999 and the results of their operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2000, and for the development stage period, in conformity with accounting principles generally accepted in the United States.

Somekh Chaikin  
 Certified Public Accountants (Isr.)  
 A member firm of KPMG International

Jerusalem, Israel  
 February 15, 2001

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Consolidated Balance Sheets as of December 31

	2000	1999
Assets		
Current assets		
Cash and cash equivalents	\$22,708,462	\$ 4,126,735
Investment securities, held-to-maturity	15,492,568	--
Accrued interest receivable	595,200	--
Other receivables and prepaid expenses	204,854	251,822
Total current assets	39,001,084	4,378,557
Investment securities, held-to-maturity	10,103,644	--
Investment in respect of employee severance obligations	136,173	64,047
Fixed assets, net	312,187	160,141
Other assets (primarily intangible assets)	711,268	345,471
	\$50,264,356	\$ 4,948,216

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

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Keryx Biopharmaceuticals, Inc. (Development Stage Company)

	2000	1999
Liabilities and Stockholders' Equity		

Accounts payable and accrued expenses	\$ 919,307	\$ 141,236
Accrued compensation and related liabilities	173,899	111,698
Related party	--	141,483
	-----	-----
Total current liabilities	1,093,206	394,417
	-----	-----
Liability in respect of employee severance obligations	304,502	117,736
	-----	-----
Stockholder's equity		
Series A convertible preferred stock, \$0.001 par value each (liquidation preference - \$100 per share plus all declared but unpaid dividends, 0 and 170,000 shares authorized and 0 and 79,465 shares issued and fully paid at December 31, 2000 and 1999, respectively)	--	79
Common stock, \$0.001 par value each (40,000,000 and 20,000,000 shares authorized, 19,532,772 and 1,208,306 shares issued and fully paid at December 31, 2000 and 1999, respectively)	19,533	1,208
Additional paid-in capital	76,565,052	19,712,951
Unearned compensation	(3,805,145)	(2,854,280)
Deficit accumulated during the development stage	(23,912,792)	(12,423,895)
	-----	-----
	48,866,648	4,436,063
	-----	-----
	\$ 50,264,356	\$ 4,948,216
	=====	=====

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

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Keryx Biopharmaceuticals, Inc. (Development Stage Company)

Consolidated Statement of Operations for the Year Ended December 31

	2000	1999	1998	Amounts accumulated during the development stage
	-----	-----	-----	-----
Management fees from related party	\$ --	\$ --	\$ 66,662	\$ 299,997
	-----	-----	-----	-----
Expenses				
Research and development expenses	6,685,609	6,922,797	1,406,993	15,584,257
General and administrative expenses	5,900,380	1,812,508	1,011,286	9,249,719
	-----	-----	-----	-----
Total operating expenses	12,585,989	8,735,305	2,418,279	24,833,976
	-----	-----	-----	-----
Operating loss	(12,585,989)	(8,735,305)	(2,351,617)	(24,533,979)
Interest income	1,368,172	21,042	4,268	1,393,482
Interest expense and other bank charges	(51,080)	(278,529)	(161,619)	(502,100)
	-----	-----	-----	-----
Net loss before income taxes	(11,268,897)	(8,992,792)	(2,508,968)	(23,642,597)
Income taxes	220,000	9,970	30,447	270,195
	-----	-----	-----	-----
Net loss	\$ (11,488,897)	\$ (9,002,762)	\$ (2,539,415)	\$ (23,912,792)
	=====	=====	=====	=====
Basic and diluted loss per common share	\$ (0.89)	\$ (1.11)	\$ (0.31)	\$ (2.57)
	=====	=====	=====	=====
Weighted average shares used in computing basic and diluted net loss per common share	12,929,643	8,108,306	8,108,306	9,313,640

The accompanying notes are an integral part of the consolidated financial

statements.

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Keryx Biopharmaceuticals, Inc. (Development Stage Company)

Statement of Changes in Stockholders' Equity

	Series A convertible preferred stock		Common stock	
	Shares	Amount	Shares	Amount
Balance at January 1, 1998	--	\$ --	--	\$ --
Changes during the year:				
Contributed capital	--	--	--	--
Net loss for the year	--	--	--	--
Balance at December 31, 1998	--	--	--	--
Changes during the year:				
Conversion of convertible notes of Partec into stock in Keryx	--	--	--	--
Issuance of Series A convertible preferred stock to investors at \$100 per share for cash (net of issuance expenses of \$308,910)	50,000	50	--	--
Issuance of Series A convertible preferred stock at \$0.001 par value to noteholders in exchange for note of predecessor	29,465	29	--	--
Issuance of common stock to technology licensors for technology license	--	--	1,208,306	1,208
Compensation in respect of options granted to employees, directors and consultants	--	--	--	--
Warrants for common stock issued to technology licensor for technology license	--	--	--	--
Warrants for common stock issued to noteholders in exchange for note of predecessor	--	--	--	--
Net loss for the year	--	--	--	--
Balance at December 31, 1999	79,465	\$ 79	1,208,306	\$ 1,208

	Additional paid-in capital	Unearned compensation	Deficit accumulated during the development stage	Total
Balance at January 1, 1998	\$ 6	\$ --	\$ (881,718)	\$ (881,712)
Changes during the year:				
Contributed capital	3,180,541	--	--	3,180,541
Net loss for the year	--	--	(2,539,415)	(2,539,415)
Balance at December 31, 1998	3,180,547	--	(3,421,133)	(240,586)
Changes during the year:				
Conversion of convertible notes of Partec into stock in Keryx	2,973,376	--	--	2,973,376
Issuance of Series A convertible preferred stock to investors at \$100 per share for cash (net of issuance expenses of \$308,910)	4,691,040	--	--	4,691,090
Issuance of Series A convertible preferred stock at \$0.001 par value to noteholders in exchange for note of predecessor	--	--	--	29
Issuance of common stock to technology licensors for technology license	--	--	--	1,208
Compensation in respect of options granted to employees, directors and consultants	7,554,854	(2,128,880)	--	5,425,974
Warrants for common stock issued to technology licensor for technology license	725,400	(725,400)	--	--
Warrants for common stock issued to noteholders in exchange for note of predecessor	587,734	--	--	587,734
Net loss for the year	--	--	(9,002,762)	(9,002,762)
Balance at December 31, 1999	\$ 19,712,951	\$ (2,854,280)	\$ (12,423,895)	\$ 4,436,063

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

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Keryx Biopharmaceuticals, Inc. (Development Stage Company)

Statement of Changes in Stockholders' Equity (cont'd)

	Series A convertible preferred stock		Common stock	
	Shares	Amount	Shares	Amount
Balance at December 31, 1999	79,465	\$ 79	1,208,306	\$ 1,208
Changes during the year:				
Issuance of Series A convertible preferred stock to investors at \$100 per share for cash (net of issuance expenses of \$270,876)	39,180	39	--	--
Receipt on account of shares issued in prior years	--	--	6,900,000	6,900
Conversion of Series A convertible preferred stock to common stock	(118,645)	(118)	6,114,962	6,115
Issuance of common stock in initial public offering, including exercise of over-allotment (net of issuance expenses of \$5,701,601)	--	--	5,200,000	5,200
Exercise of warrants	--	--	109,504	110
Compensation in respect of options granted to employees, directors and consultant	--	--	--	--
Compensation in respect of warrants for common stock issued to technology licensor	--	--	--	--
Warrants of common stock issued to related party as finder's fee in private placement	--	--	--	--
Net loss	--	--	--	--
Balance at December 31, 2000	--	\$ --	19,532,772	\$ 19,533

	Additional paid-in capital	Unearned compensation	Deficit accumulated during the development stage	Total
Balance at December 31, 1999	\$ 19,712,951	\$ (2,854,280)	\$ (12,423,895)	\$ 4,436,063
Changes during the year:				
Issuance of Series A convertible preferred stock to investors at \$100 per share for cash (net of issuance expenses of \$270,876)	3,647,085	--	--	3,647,124
Receipt on account of shares issued in prior years	--	--	--	6,900
Conversion of Series A convertible preferred stock to common stock	(5,997)	--	--	--
Issuance of common stock in initial public offering, including exercise of over-allotment (net of issuance expenses of \$5,701,601)	46,293,199	--	--	46,298,399
Exercise of warrants	624	--	--	734
Compensation in respect of options granted to employees, directors and consultant	3,733,974	430,817	--	4,164,791
Compensation in respect of warrants for common stock issued to technology licensor	3,069,595	(1,381,682)	--	1,687,913
Warrants of common stock issued to related party as finder's fee in private placement	113,621	--	--	113,621
Net loss	--	--	(11,488,897)	(11,488,897)
Balance at December 31, 2000	\$ 76,565,052	\$ (3,805,145)	\$ (23,912,792)	\$ 48,866,648

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

Keryx Biopharmaceuticals, Inc. (Development Stage Company)

Statement of Changes in Stockholders' Equity (cont'd)

Series A convertible preferred stock	Common stock
--------------------------------------	--------------

	Shares	Amount	Shares	Amount
	-----	-----	-----	-----
Amounts accumulated during the development stage:				
Contributed capital	--	\$ --	--	\$ --
Conversion of convertible notes of Partec into stock in Keryx	--	--	--	--
Issuance of Series A convertible preferred stock to investors at \$100 per share for cash (net of issuance expenses of \$552,325)	89,180	89	--	--
Issuance of Series A convertible preferred stock at \$0.001 par value to noteholders in exchange for note of predecessor	29,465	29	--	--
Issuance of common stock to technology licensors for technology license	--	--	1,208,306	1,208
Receipt on account of shares issued in prior years	--	--	6,900,000	6,900
Conversion of Series A convertible preferred stock to common stock	(118,645)	(118)	6,114,962	6,115
Issuance of common stock in initial public offering, including exercise of over allotment (net of issuance expenses of \$5,701,601)	--	--	5,200,000	5,200
Exercise of warrants	--	--	109,504	110
Compensation in respect of options granted to employees, directors and consultants	--	--	--	--
Warrants for common stock issued to technology licensor	--	--	--	--
Warrants of common stock issued to related party as finder's fee in private placement	--	--	--	--
Warrants for common stock issued to noteholders in exchange for note of predecessor	--	--	--	--
Net loss	--	--	--	--
	-----	-----	-----	-----
	--	\$ --	19,532,772	\$ 19,533
	=====	=====	=====	=====

	Additional paid-in capital	Unearned compensation	Deficit accumulated during the development stage	Total
	-----	-----	-----	-----
Amounts accumulated during the development stage:				
Contributed capital	\$ 3,180,547	\$ --	\$ --	\$ 3,180,547
Conversion of convertible notes of Partec into stock in Keryx	2,973,376	--	--	2,973,376
Issuance of Series A convertible preferred stock to investors at \$100 per share for cash (net of issuance expenses of \$552,325)	8,338,125	--	--	8,338,214
Issuance of Series A convertible preferred stock at \$0.001 par value to noteholders in exchange for note of predecessor	--	--	--	29
Issuance of common stock to technology licensors for technology license	--	--	--	1,208
Receipt on account of shares issued in prior years	--	--	--	6,900
Conversion of Series A convertible preferred stock to common stock	(5,997)	--	--	--
Issuance of common stock in initial public offering, including exercise of over allotment (net of issuance expenses of \$5,701,601)	46,293,199	--	--	46,298,399
Exercise of warrants	624	--	--	734
Compensation in respect of options granted to employees, directors and consultants	11,288,828	(1,698,063)	--	9,590,765
Warrants for common stock issued to technology licensor	3,794,995	(2,107,082)	--	1,687,913
Warrants of common stock issued to related party as finder's fee in private placement	113,621	--	--	113,621
Warrants for common stock issued to noteholders in exchange for note of predecessor	587,734	--	--	587,734
Net loss	--	--	(23,912,792)	(23,912,792)
	-----	-----	-----	-----
	\$ 76,565,052	\$ (3,805,145)	\$ (23,912,792)	\$ 48,866,648
	=====	=====	=====	=====

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

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Keryx Biopharmaceuticals, Inc. (Development Stage Company)

Consolidated Statement of Cash Flows for the Year Ended December 31

Amounts accumulated during the

	2000	1999	1998	development stage
Cash flows from operating activities				
Net loss	\$(11,488,897)	\$ (9,002,762)	\$ (2,539,415)	\$(23,912,792)
Adjustments to reconcile cash flows used in operating activities:				
Revenues and expenses not involving cash flows:				
Employee stock compensation expense	3,556,016	4,964,797	--	8,520,813
Consultants' stock compensation expense	2,296,687	1,048,911	--	3,345,598
Interest on convertible notes settled through issuance of preferred shares	--	252,966	--	252,966
Provision for employee severance obligations	186,766	36,392	*59,344	304,502
Depreciation and amortization	47,272	36,195	27,938	123,440
Exchange rate differences	3,200	421	(5,009)	(3,508)
Changes in assets and liabilities:				
Decrease (increase) in other receivables and prepaid expenses	46,968	(202,675)	25,145	(200,376)
Increase in accrued interest receivable	(595,200)	--	--	(595,200)
Increase (decrease) in amounts due to related party	(141,483)	140,968	515	--
Increase (decrease) in other payable and accrued expenses	778,072	(97,328)	77,471	915,108
Increase in accrued compensation and related liabilities	62,201	16,074	70,414	173,899
Net cash used in operating activities	(5,248,398)	(2,806,041)	(2,283,597)	(11,075,550)

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	2000	1999	1998	Amounts accumulated during the development stage
Cash flows from investing activities				
Purchases of fixed assets, net of disposals	(199,318)	(2,058)	(138,141)	(434,887)
Investment in other assets	(365,797)	(140,431)	(199,637)	(712,237)
Purchase of investment securities-employee severance obligations	(72,126)	(19,374)	* (22,673)	(136,173)
Investment in short-term securities	(15,492,568)	--	--	(15,492,568)
Investment in long-term securities	(10,103,644)	--	--	(10,103,644)
Net cash used in investing activities	\$(26,233,453)	\$ (161,863)	\$ (360,451)	\$(26,879,509)

\* reclassified

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

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Keryx Biopharmaceuticals, Inc. (Development Stage Company)

Consolidated Statement of Cash Flows for the Year Ended December 31 (cont'd)

	2000	1999	1998	Amounts accumulated during the development stage

Cash flows from financing activities								
Proceeds from short-term loans	\$	--	\$	--	\$	500,000	\$	500,000
Proceeds from long-term loans		--		124,861		2,119,679		3,250,902
Issuance of convertible note, net		--		2,150,000		--		2,150,000
Issuance of preferred shares, net and contributed capital		3,760,745		4,692,327		--		8,453,078
Receipts on account of shares previously issued		6,900		--		--		6,900
Proceeds from initial public offering, net		46,298,399		--		--		46,298,399
Proceeds from exercise of warrants		734		--		--		734
		-----		-----		-----		-----
Net cash provided by financing activities		50,066,778		6,967,188		2,119,679		60,660,013
		-----		-----		-----		-----
Effect of exchange rate on cash		(3,200)		(421)		5,009		3,508
		-----		-----		-----		-----
Net increase (decrease) in cash and cash equivalents		18,581,727		3,998,863		(519,360)		22,708,462
		-----		-----		-----		-----
Cash and cash equivalents at beginning of period		4,126,735		127,872		647,232		4,126,735
		-----		-----		-----		-----
Cash and cash equivalents at end of period		\$ 22,708,462		\$ 4,126,735		\$ 127,872		\$ 26,835,197
		=====		=====		=====		=====
Non - cash transactions								
Conversion of short-term loans into contributed capital	\$	--	\$	--	\$	500,000	\$	500,000
Conversion of long-term loans into contributed capital		--		--		2,680,541		2,680,541
Conversion of long-term loans into convertible notes of Partec		--		570,361		--		570,361
Conversion of convertible notes of Partec and accrued interest into stock in Keryx		--		2,973,376		--		2,973,376
Issuance of warrants to related party as finder's fee in private placement		113,621		--		--		113,621
Declaration of stock dividend		2,702		402		--		3,104
Conversion of Series A preferred stock to common stock		118		--		--		118
Supplementary disclosures of cash flow information								
Cash paid for interest	\$	3,406	\$	13,719	\$	120,336	\$	137,461
Cash paid for income taxes		118,431		--		--		118,431

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

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#### Note 1 - Organization and Summary of Significant Accounting Policies

##### Description of Business

Keryx Biopharmaceuticals, Inc. (the "Company") is a development stage biotechnology company formed to use data discovered through the mapping of the human genome to generate drug candidates. Keryx was incorporated in Delaware in October 1998 (under the name Paramount Pharmaceuticals, Inc. which was later changed to Lakaro Biopharmaceuticals, Inc. in November 1999, and finally to Keryx Biopharmaceuticals, Inc. in January 2000). The Company commenced activities in November 1999, and since then has operated in one segment of operations, namely the development and commercialization of clinical compounds and core technologies for the life sciences. The Company has not had revenues from its planned principal operations and is dependent upon significant financing to fund the working capital necessary to execute its business development plan. There can be no assurance that the Company will be able to obtain additional financing.

Until November 1999, most of the Company's activities were carried out by Partec Limited, an Israeli corporation formed in December 1996, and its subsidiaries SignalSite Inc. (85% owned) and its wholly owned subsidiary, SignalSite Israel Ltd., and Vectagen Inc. (87.25% owned) and its wholly owned subsidiary, Vectagen Israel Ltd. (hereinafter collectively referred to as "Partec"). In November 1999, the Company acquired substantially all of the assets and liabilities of Partec and, as of that date, the

activities formerly carried out by Partec are now performed by the Company. At the date of the acquisition, Keryx and Partec were entities under common control (the controlling interest owned approximately 79.7% of Keryx and approximately 76% of Partec) and accordingly, the assets and liabilities were recorded at their historical cost basis by means of an "as if" pooling and Partec is being presented as a predecessor company. Consequently, these financial statements include the activities performed in previous periods by Partec by aggregating the relevant historical financial information with the financial statements of the Company as if they had formed a discrete operation under common management for the entire development stage.

The Company owns a 100% interest in Keryx (Israel) Limited, incorporated in Israel, and Keryx Securities Corp., a US corporation. At present substantially all of the biopharmaceutical research and development activities are in Israel, and therefore, the Company has one geographical segment.

#### Principles of Consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and the operations detailed above. Intercompany transactions and balances have been eliminated.

#### Foreign Currency Translation

The financial statements of the Israeli subsidiary have been translated using the US dollar as the functional currency.

Transactions in foreign currency (primarily in New Israeli Shekels - "NIS") are recorded at the representative exchange rate as of the transaction date. Assets and liabilities in foreign currency are stated on the basis of the representative rate of exchange of the NIS prevailing at the balance sheet date. All exchange gains and losses from remeasurement of monetary balance sheet item denominated in non-dollar currencies are reflected in the statement of operations as they arise.

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#### Note 1 - Organization and Summary of Significant Accounting Policies (cont'd)

##### Cash and Cash Equivalents

The Company considers all highly-liquid investments with original maturities of three months or less to be cash equivalents.

##### Investment Securities

Investment securities at December 31, 2000 consist of U.S. government and corporate debt securities. The Company classifies its investment securities in one of three categories: trading, available-for-sale, or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities in which the Company has the ability and intent to hold the security until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis.

A decline in the market value of any available-for-sale or held-to-maturity security below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Premiums and discounts are amortized or accreted over the life of the related held-to-maturity or available-for-sale security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

#### Investment in Respect of Employee Severance Obligations

Investment in respect of employee severance obligations is recorded at its current redemption value.

#### Fixed Assets

Fixed assets are stated at historical cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Office furniture and equipment	6-15
Laboratory equipment	20
Computers, software and related equipment	20-33

Leasehold improvements are amortized over the lesser of 10 years or the remaining term of lease inclusive of renewal options.

### Note 1 - Organization and Summary of Significant Accounting Policies (cont'd)

#### Intangible Assets

Acquired patents and intangible assets are recorded at cost and will be amortized over the remaining useful lives of these assets. The Company evaluates continually whether events and circumstances warrant the recognition of a reduction of carrying amounts.

#### Revenue Recognition

Revenues in 1998 and during the development stage period arose from provision of management services to a related company. They were recognized ratably over the period for which the services are provided.

#### Research and Development Costs

Research and development costs are expensed as incurred.

#### Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. If the likelihood of realizing the deferred tax assets or liability is less than "more likely than not," a valuation allowance is then created.

#### Stock - Based Compensation

The Company applies the intrinsic value-based method of accounting prescribed by the Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, to account for stock option plans for employees and directors. As such, compensation expense would be recorded on the measurement date only if current market price of the underlying stock exceeded the exercise price. SFAS 123 is applied to stock options and warrants granted to other than employees and directors. The Company has adopted the disclosure requirements of SFAS No. 123.

In March 2000, the FASB issued Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" (FIN No. 44). This interpretation clarifies the application of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," with respect to certain issues in accounting for employee stock compensation and is generally effective as of July 1, 2000. The Company follows the provisions of FIN No. 44.

#### Impairment of Long Lived Assets

The Company reviews its fixed assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such

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assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

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#### Note 1 - Organization and Summary of Significant Accounting Policies (cont'd)

##### Net Loss Per Share

Basic loss per share is computed on the basis of the weighted average number of shares outstanding for the reporting period. Diluted net loss per share is the same as basic net loss per share as the inclusion of common stock equivalents would be anti-dilutive. The common stock equivalent of anti-dilutive securities not included in the computation of net loss per share amounts to 5,224,150 for the year ended December 31, 2000 (1999 and 1998- 4,095,625). The number of shares of common stock outstanding retroactively reflects a stock dividend declared in June 2000 (as described in Note 8). Basic net loss per share has been computed using the number of shares issued by the Company immediately following the commencement of activities in November 1999 as if outstanding for the period of the predecessor company (see Description of Business above).

##### Comprehensive Income (Loss)

The Company follows SFAS 130 "Reporting Comprehensive Income," which states that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. It requires that an enterprise (a) classify items of other comprehensive income by their nature in financial statements and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid in capital in the equity section of the statement of financial position. Comprehensive income (loss) is the same as net loss for all years presented.

Concentrations of Credit Risk

The Company does not have significant off-balance-sheet risk or credit risk concentrations. The Company maintains its cash and cash equivalents with multiple financial institutions and invests in investment-grade securities with maturities of less than twenty-four months.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In June 1998 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 ("Statement 133") "Accounting for Derivative Instruments and for Hedging Activities." In June 2000 the FASB issued Statement Financial Accounting Standards Board Statement No. 138 ("Statement 138"), "Accounting for Certain Derivative Instruments and Certain Hedging Activity, an Amendment of SFAS 133." Statement 133 and Statement 138 require companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. They also require that changes in fair value of a derivative be recognized currently in earnings unless specific hedge accounting criteria

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are met. The Company adopted Statement 133 and Statement 138 on January 1, 2001. The adoption of Statement 133 and Statement 138 had no impact on the Company's balance sheet or statement of operations.

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Note 2 - Cash and Cash Equivalents

	December 31 2000	December 31 1999
	-----	-----
In or linked to US dollars:		
Money market funds	\$20,488,618	\$ -
Cash	*2,025,645	4,041,513
In Israeli currency	194,199	85,222
	-----	-----
	\$22,708,462	\$4,126,735
	=====	=====

\* Of this amount, \$40,000 is restricted in connection with bank guarantees, as described in Note 11.

Note 3 - Investment Securities

The following table summarizes the Company's investment securities at December 31, 2000 (there were no investment securities during the year ended December 31, 1999):

	Amortized cost -----	Gross unrealized holding gains -----	Gross unrealized holding losses -----	Fair value -----
Short-term investments				
Obligations of domestic governmental agencies (mature in September 2001)	3,496,020	10,679	(1,519)	3,505,180
US corporate debt securities (mature between January and August 2001)	11,996,548	31,772	-	12,028,320
	-----	-----	-----	-----
	15,492,568	42,451	(1,519)	15,533,500
	=====	=====	=====	=====
Long-term investments				
Obligations of domestic governmental agencies (mature between January and February 2002)	2,782,856	14,009	(4,046)	2,792,819
US corporate debt securities (mature between February and July 2002)	7,320,788	8,375	-	7,329,163
	-----	-----	-----	-----
	10,103,644	22,384	(4,046)	10,121,982
	=====	=====	=====	=====

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Note 4 - Fixed Assets

	December 31 2000 -----	December 31 1999 -----
Cost		
Office furniture and equipment	\$161,865	\$153,119
Laboratory equipment(1)	27,422	-
Computers, software and related equipment	127,403	61,943
Leasehold improvements	94,701	2,275
	-----	-----
	411,391	217,337
	-----	-----
Accumulated depreciation and amortization	99,204	57,196
	-----	-----
Net book value	\$312,187	\$160,141
	=====	=====

(1) Most of the Company's research and development to date has been carried out at laboratories of a third-party with whom the Company has entered into a sponsor-research agreement.

Note 5 - Other Assets

	December 31 2000 -----	December 31 1999 -----
Patents and other intangible assets	\$711,268	\$341,405
Other	-	4,066
	-----	-----
	\$711,268	\$345,471
	=====	=====

Note 6 - Related Party

The amount of \$141,483 at December 31, 1999 was due to a preferred shareholder in connection with its activities relating to the Company's

November 1999 private placement as explained below. This amount bore no interest and was paid upon the final closing of the private placement in January 2000.

During 1997 and 1998, the Company provided management services (including general management and research and development consulting) to a wholly owned subsidiary of an investee company. The Company holds a 4% interest in the investee company and records the investment at cost; therefore there is no elimination of revenues on consolidation in respect of the management fees.

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Note 7 - Liability in Respect of Employee Severance Obligations

Under Israeli law, employers are required to make severance payments to dismissed employees and employees leaving employment in certain other circumstances, on the basis of the latest monthly salary for each year of service.

This liability is provided for by payments of premiums to insurance Companies under approved plans and by a provision in these financial statements.

For the year ended December 31, 2000, \$186,766 (1999 - \$36,392, 1998 - \$59,344) was recorded as salary expense in respect of future severance obligations and \$72,126 (December 31, 1999 - \$19,374, 1998 - \$22,673) was funded under the severance payment plans and is included in these financial statements as long-term investments.

Note 8 - Stockholders' Equity

Composition

	December 31, 2000			December 31, 1999		
	Authorized Number	Issued Number	Issued and fully paid Number	Authorized Number	Issued Number	Issued and fully paid Number
Common stock, \$0.001 par value each	40,000,000	19,532,772	19,532,772	20,000,000	8,108,306 (3)	1,208,306 (3)
"Blank check" preferred stock, \$0.001 par value each	4,830,000	-	-	4,830,000	-	-
Series A convertible preferred stock, \$0.001 par value each	-	-	-	170,000	79,465	79,465

(1) The shares of Series A convertible preferred stock have a stated value of \$100 each and were convertible into shares of common stock at a ratio of 51.54 to 1. The voting and dividend rights associated with the stock are similar to those of the common stock, based on the number of shares that would have been received if the preferred shares had been converted at the record date. In January 2000, an

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additional 39,180 shares of Series A convertible preferred stock were issued as part of the continuation of the private placement. In July 2000, the 118,645 outstanding shares of Series A convertible preferred stock were converted to 6,114,962 shares of common stock

upon the effectiveness of the Company's initial public offering.

- (2) In June 2000, the stockholders approved an increase in authorized capital stock by 20,000,000 shares to 40,000,000 shares of common stock, par value \$0.001, which took effect upon the effectiveness of the Company's initial public offering.

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Note 8 - Stockholders' Equity (cont'd)

Composition (cont'd)

- (3) In June 2000, the board of directors declared a 3:2 common stock dividend which was effective in conjunction with the Company's initial public offering whereby the stockholders received one share of common stock for each two shares of common stock held at July 15, 2000. These financial statements have been prepared to retroactively reflect the stock dividend.
- (4) The Company completed its initial public offering of 4.6 million shares of its common stock at \$10 per share pursuant to a Registration Statement on Form S-1 (Registration no. 333-37402) which was effective on July 28, 2000. Additionally, the underwriters exercised their overallotment option and purchased an additional 600,000 shares of the Company's common stock, at \$10 per share, on August 30, 2000. Total proceeds of this offering, including the exercise of the over-allotment option, were approximately \$46.3 million, net of underwriting fees and offering expenses of approximately \$5.7 million.

As a result of the offering, all outstanding shares of Series A convertible preferred stock automatically converted into 6,114,962 shares of common stock.

Stock Option Plans

In November, 1999, the Company adopted a stock option plan (the "1999 plan") pursuant to which the Company's board of directors may grant stock-based awards to directors, consultants and employees. The plan authorizes grants to purchase up to 4,230,000 shares of authorized but unissued common stock at a 1:1 ratio. In June 2000, the Company adopted an additional stock option plan (the "2000 plan") pursuant to which the compensation committee of the Company's board of directors may grant stock-based awards to directors, consultants and employees. The 2000 plan authorizes grants to purchase up to 4,455,000 shares of authorized but unissued common stock at a 1:1 ratio. At December 31, 2000, a total of 4,298,732 (1) stock options have been granted as part of the plan and, in addition, 240,000 options, which are not part of any plan, have been granted. At December 31, 2000, no options have been exercised. The vesting and exercise terms are as follows:

To directors and employees:

Exercise Price	Number of Options Outstanding(1)	Vesting period	Expiration date	Weighted Averaged Exercise Price	Number of Options Vested
\$0.10	2,096,587	Immediately upon grant	25 years from date of grant	\$0.10	2,096,587
0.10-0.50	1,783,500	At different dates from December 1999 through December 2003	10 years from date of grant	0.14	1,282,125
10.00-14.55	222,200			11.64	-

- (1) Does not include 60,000 options granted in 1999 and 30,000 options granted in 2000 which were forfeited.

Note 8 - Stockholders' Equity (cont'd)

Stock Option Plans (cont'd)

The Company applies APB Opinion No. 25 in accounting for its options granted to directors and employees. The Company has recorded \$3,556,016 of compensation expense during 2000 and \$347,922 of compensation expense in regard to these options has been deferred. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS 123, the Company's net loss would have been increased to the pro forma amounts indicated below:

		For the year ended December 31			Amounts accumulated during the development stage
		2000	1999	1998	
Net loss	As reported	\$ (11,488,897)	\$ (9,002,762)	\$ (2,539,415)	\$ (23,922,172)
	Pro forma	\$ (11,501,682)	\$ (9,048,812)	\$ (2,539,415)	\$ (23,981,007)
Basic and diluted losses per common share	As reported	\$ (0.89)	\$ (1.11)	\$ (0.31)	\$ (2.57)
	Pro forma	\$ (0.89)	\$ (1.12)	\$ (0.31)	\$ (2.57)

The value of these options has been estimated using the Black-Scholes model. The assumptions used in the calculation of the fair value for compensation expense during the year ended December 31, 2000 were a weighted average expected life of each option of three years, an expected volatility rate of 70-75% and a risk-free interest rate of 5-6%.

To consultants:

Exercise Price	Number of Options Outstanding	Vesting period	Expiration date	Weighted Averaged Exercise Price	Number of Options Vested
\$ 0.10	236,945	Immediately	25 years from date of grant	\$0.10	236,945
10.00-13.625	19,500	At different dates from December 1999 through December 2003	10 years from date of grant	11.72	4,500
0.10	180,000	Milestone - based	10 years from date of grant	0.10	-

During 2000, the Company recorded \$592,401 in compensation expense in regard to these options based on the fair value at the grant date as determined using the Black-Scholes model under the assumptions stated above. Deferred compensation expense on these options amounted to \$1,350,141 at December 31, 2000. In accordance with EITF

96-18, these options are revalued at every reporting period over the vesting period in order to determine the actual amount of deferred

compensation expense. At December 31, 2000, none of the options had been exercised.

Note 8 - Shareholders' Equity (cont'd)

Warrants

In November 1999, the Board of Directors resolved to grant warrants to purchase 678,832 shares of common stock to investors and others (not directors or employees). In January 2000, the board of directors granted warrants to a related party to purchase 116,090 shares of common stock as a finder's fee in connection with the private placement. The costs of \$113,621 were recorded against proceeds from the private placement. During 2000, the Company recorded \$1,704,286 in compensation expense and at December 31, 2000, \$2,107,082 of compensation expense in regard to these warrants remains deferred. Compensation expense with regard to the warrants has been calculated using the Black-Scholes model assuming 3-5 year expected life of the warrants, an expected volatility rate of 70-75% and a risk-free interest rate of 5-6%.

The terms of the warrants are as follows:

Exercise Price	Number of Warrants Outstanding	Vesting period	Expiration date	Weighted Averaged Exercise Price	Number of Outstanding Warrants Vested
\$0.0067	194,328	Immediately upon grant	3 years from date of grant	\$0.0067	194,328
1.94	116,090	Immediately upon grant	10 years from date of grant	1.94	116,090
0.0067	375,000	Milestone - based	10 years from date of grant	0.0067	-

As of December 31, 2000, 109,504 warrants have been exercised.

In accordance with EITF 96-18, the milestone-based warrants issued to consultants are revalued at every reporting period over the vesting period in order to determine the actual amount of deferred compensation expense.

Note 9 - Fair Value of Financial Instruments

The Company's financial instruments at December 31, 2000 and 1999 consisted of cash and cash equivalents, investment securities, accrued interest receivable, other receivables, accounts payable and accrued expenses, accrued compensation and related liabilities and due to related party. The carrying amounts of all financial instruments other than investment securities approximates their fair value for all years presented. The difference between the carrying value and fair value of investment securities held-to-maturity is set forth in Note 3 above.

The following methods and assumptions were used to estimate fair value of each class of financial instruments:

Cash and cash equivalents, accrued interest receivable, other receivables, accounts payable and accrued expenses, accrued compensation and related liabilities and due to related party: The carrying amounts approximate fair value because of the relatively short maturity of these instruments.

Investment securities: the fair values of debt securities held-to-maturity are based on quoted market prices at the reporting date for those or similar investments.

Note 10 - Taxes on Income

At December 31, 2000, for US income tax purposes, the Company had approximately \$5.7 million of net operating loss carryforwards from November 1999 through December 31, 2000. Such net operating losses begin expiring in 2019.

Because of the Company's lack of earnings history, the deferred tax assets have been fully offset by a valuation allowance. The valuation allowance for deferred tax assets was \$7.9 million as of December 31, 2000.

The Israeli subsidiary is subject to the Income Tax Regulations (Guidelines for Management of the Books and Records of Companies with Foreign Investment and of Certain Partnerships and Determination of Taxable Income), 1986, which state that the Israeli subsidiary's income may be calculated on the basis of its results in dollars. Partec, the predecessor company, is subject to the Israeli Income Tax Law (Inflationary Adjustments), 1985. Under this law, operating results for tax purposes are measured in real terms, in accordance with the changes in the Israeli Consumer Price Index ("Israeli CPI"), and companies are entitled to deduct from their taxable income an "equity preservation deduction" (which partially compensated for the decrease in the value of stockholders' equity resulting from the annual rise in the Israeli CPI).

The tax expense reported in the consolidated financial statements relates to the subsidiary in Israel and to Partec. Income tax expense attributable to income from continuing operations was \$220,000, \$9,970, and \$30,447 for the years ended December 31, 2000, 1999 and 1998, respectively, and differed from amounts computed by applying the US federal income tax rate of 35% to pretax income from continuing operations as a result of the following:

	For the year ended December 31		
	2000	1999	1998
Losses before taxes on income, as reported in the consolidated statements of operations	\$ (11,268,897)	\$ (8,992,792)	\$ (2,508,968)
Computed "expected" tax benefit	(3,944,114)	(3,147,477)	(878,139)
Increase (decrease) in income taxes resulting from:			
Expected benefit from state & local taxes	(1,673,474)	--	--
Change in the balance of the valuation allowance for deferred tax assets allocated to income tax expense (1)	5,710,594	2,206,888	871,733
Losses of Partec not entitling Keryx to deferred tax assets	--	976,070	--
Permanent differences	--	--	1,049
Effect of foreign operations	126,994	(25,511)	(35,804)
	-----	-----	-----
	\$ 220,000	\$ 9,970	\$ 30,447
	-----	-----	-----

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- (1) Deferred tax assets of Partec were lost upon acquisition of operations by Keryx (see Note 1).

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Note 10 - Taxes on Income (cont'd)

The significant components of deferred income tax expense (income) attributable to income from continuing operations are as follows:

	For the year ended December 31		
	2000	1999	1998
Deferred tax expense (income)	\$ (5,710,594)	\$ (2,206,888)	(871,733)
Increase in the valuation allowance for deferred tax assets	5,710,594	2,206,888	871,733
	\$ --	\$ --	\$ --

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2000 and 1999 are presented below.

	December 31 2000 (1)	December 31 1999 (1)
Deferred tax assets:		
Net operating loss	\$2,557,991	\$ 102,090
Timing differences (primarily relating to compensation)	5,359,491	2,104,798
Total gross deferred assets	7,917,482	2,206,888
Less valuation allowance	(7,917,482)	(2,206,888)
Net deferred tax assets	\$ --	\$ --

(1) Deferred tax assets of Partec were lost upon assumption of operation by Keryx (see Note 1).

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#### Note 11 - Commitments and Contingencies

##### Agreements

The Company entered into a license agreement with Alfa Wassermann SpA which grants it the exclusive rights to KRX-101 for diabetic nephropathy, diabetic retinopathy and diabetic neuropathy in the United States, Canada, Japan, Australia, New Zealand, South Africa and Israel, and entitles Alfa Wassermann to ongoing royalties and fixed milestone payments. The license requires Alfa Wassermann to pay the Company a royalty to the extent that Alfa Wasserman or its sub-licensees receive revenues from products that incorporate information or know-how developed by the Company and commits Alfa Wassermann to participate in the costs of data or intellectual property developed by the Company that Alfa Wasserman decides to utilize. Unless terminated for reason of breach or other customary termination provisions, the license terminates upon the later of the expiration of all underlying patent rights or ten years from the first commercial sale of KRX-101 by the Company.

Pursuant to a license with Children's Medical Center Corporation, referred to as CMCC, the Company has the exclusive right to commercialize the KinAce platform and practice the claims contained in on granted patent and four patent applications owned by them. Unless terminated for breach or other customary termination provisions, the license terminates upon the later of November 2014 or the expiration of the last patent covered by the

license.

The license obligates the Company to meet certain financing and development milestones. To date, the Company has met all of its milestones under this agreement. Should CMCC reasonably believe that the Company failed to meet any of the development milestones that remain to be fulfilled because it did not devote diligent efforts and adequate resources, the license could be terminated, which could materially affect the Company's operations. Subsequent to the balance sheet date, an amendment to the license agreement was signed, whereby the date for the filing of the first IND was extended to June 2003.

The Company has undertaken to make milestone payments to its licensors, contingent upon attaining certain goals, of up to approximately \$3.95 million. In certain cases, such payments will reduce any royalties to be paid on sales of related products. In the event that the milestones are not achieved, the Company remains obligated to pay one licensor \$100,000 annually for two years, commencing in 1999, and \$50,000 annually thereafter until the licenses expire. As of December 31, 2000, the Company has paid \$400,000 in such annual royalty payments.

Manufacturing Agreements. Opocrin S.P.A., a manufacturer of bulk biological products, has agreed to manufacture and supply the Company's raw requirements for sulodexide until 2009. The agreement with Opocrin may be terminated by the Company or them on 180 days' notice for any reason. Pharmaceuticals International, Inc., a manufacturer of medicinal gelcaps, has agreed to produce the KRX-101 gelcaps necessary for the proposed clinical trial. Until the agreed-upon manufacturing is completed, this agreement may be terminated only by the Company.

Research Agreements. The Company has entered into sponsored research agreements for the development of specific products and/or technologies under which the Company is committed to finance up to \$1.2 million of research costs through December 2001.

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Note 11 - Commitments and Contingencies (cont'd)

Research and Development Agreements (cont'd)

Professor Shmuel Ben-Sasson directs the KinAce Research program pursuant to a research agreement, as mentioned above, with Yissum Research Development Company of the Hebrew University of Jerusalem, referred to as Yissum, and a consulting agreement with Professor Ben-Sasson. The consulting agreement obligates Professor Ben-Sasson to provide consulting services to the Company to develop the KinAce platform and may be terminated by the Company or him on 180 days' notice for any reason. The Company issued to Professor Ben-Sasson 402,768 shares of its common stock in connection with his consulting agreement. The research agreement obligates the Company to make quarterly payments to Yissum and expires in November 2001, although it may be extended by mutual agreement for additional periods of 180 days. It may terminate the research agreement and cease making payments to Yissum should Professor Ben-Sasson fail to meet any milestones contained in the agreement. In general, the milestones are project-specific and require Professor Ben-Sasson to meet enumerated product development timetables.

Leases

The subsidiary leases its premises under an operating lease which expires in December 2004.

Future minimum annual lease payments are as follows:

2001

\$63,750

2002	63,750
2003	63,750
2004	15,940

The Company has bank guarantees of approximately \$40,000 in connection with the lease.

Additionally, the Company has signed a lease for new premises (the "new lease"), effective 2001, through December 2005 with an option for a five year renewal. Future minimum annual lease payments under the new lease, assuming all options are exercised, are as follows:

2001	\$311,040
2002	311,040
2003	322,486
2004	330,318
2005	330,318

As of January 2001, the Company has bank guarantees of approximately \$160,000 in connection with the "new lease".

EMPLOYMENT AGREEMENT

This Agreement, dated November 19, 1999, by and between LAKARO BIOPHARMACEUTICALS, INC. ("Lakaro"), a Delaware corporation having an address at 216 Jaffa Rd., Sha'arei Ha'ir, Jerusalem, Israel 94383 and IRA WEINSTEIN, an individual residing at 5/3 Mishol Uzrad, Jerusalem, Israel (the "Treasurer")

WITNESSETH:

WHEREAS, the Corporation desires to employ the Treasurer as Treasurer of Lakaro and the Treasurer desires to be employed by the Lakaro as Treasurer of Lakaro, all pursuant to the terms and conditions hereinafter set forth;

NOW THEREFORE, in consideration of the foregoing and the mutual promises and covenants herein contained, it is agreed as follows:

1. EMPLOYMENT DUTIES

(a) Lakaro hereby engages and employs the Treasurer, and the Treasurer accepts engagement and employment, as Treasurer of Lakaro, to direct, supervise and have responsibilities for the financial affairs of Lakaro and for any other appropriate areas and tasks which the Board of Directors and/or the Chief Executive Officer may assign to him. The Treasurer acknowledges and agrees that the performance by the Treasurer of his duties hereunder may require significant domestic and international travel by the Treasurer. In addition, the Treasurer realizes that he may be required to spend a substantial amount of time in Jerusalem, Israel.

(b) The Treasurer shall devote substantially all of his gainful time to the discharge of his duties and responsibilities under this Agreement.

2. TERM

The Treasurer's employment hereunder shall be for a term of three (3) years commencing on the Effective Date and continuing through the third anniversary of the Effective Date (the "Initial Term"), with successive one-year renewals thereafter (the "Renewal Terms") unless sooner terminated as hereinafter provided, or by notice of either party not less than 90 days prior to the expiration of each term.

3. COMPENSATION

(a) As compensation for the performance of his duties on behalf of Lakaro, the Treasurer shall be compensated as follows:

(i) Upon the next meeting of the Corporation's Board of Directors, the Corporation will grant (the "Initial Grant") the Treasurer options (the "Options") to purchase 150,000 shares of the common stock of the Corporation at an exercise price equal to \$0.15 per share (the "Exercise Price"), which options shall be exercisable for a period of 10 years from the date of issuance. Should any change be made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, appropriate adjustments shall be made to (i) the total number and/or class of securities subject to such options and (ii) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement under such options.

(ii) The stock options shall vest as follows: one-third on the

closing of the next equity investment in Lakaro; one-sixth six months from the date of grant; one-sixth twelve months from the date of grant; one-sixth eighteen months from the date of grant; and one-sixth twenty four months

from the date of grant; but immediate vesting shall occur upon a change of control of the Corporation as described in paragraph 10(a)(iii)C below.

(iii) At the discretion of the Board of Directors, the Treasurer shall be entitled to an annual grant of subsequent stock options each of which shall have the same antidilution protection as described in Section 3 paragraph (a)(i) above.

(b) Lakaro shall reimburse the Treasurer for all normal, usual and necessary expenses incurred by the Treasurer in furtherance of the business and affairs of Lakaro, including travel and entertainment, against receipt by Lakaro of appropriate vouchers or other proof of the Treasurer's expenditures and otherwise in accordance with such Expense Reimbursement Policy as may from time to time be adopted by the Board of Directors of Lakaro.

(c) The Treasurer shall be, during the term of this Agreement, entitled to four (4) weeks of vacation per year as well as all statutory holidays.

(d) Lakaro shall adopt as part of the Corporation's Bylaws a broad form indemnity of all actions taken in good faith by the officers and directors of the Corporation.

(e) Subject to Section 10(c) below, the Treasurer must be an employee of Lakaro at the time any compensation is due in order to receive such compensation. In addition, no options shall vest after the termination of this Agreement.

4. REPRESENTATIONS AND WARRANTIES  
BY THE TREASURER AND LAKARO

(a) The Treasurer hereby represents and warrants to Lakaro as follows:

(i) Neither the execution and delivery of this Agreement nor the performance by the Treasurer of his duties and other obligations hereunder violate any statute, law, determination or award, or conflict with or constitute a default under (whether immediately, upon the giving of notice or lapse of time or both) any prior employment agreement, contract, or other instrument to which the Treasurer is a party or by which he is bound.

(ii) The Treasurer has the full right, power and legal capacity to enter and deliver this Agreement and to perform his duties and other obligations hereunder. This Agreement constitutes the legal, valid and binding obligation of the Treasurer enforceable against him in accordance with its terms. No approvals or consents of any persons or entities are required for the Treasurer to execute and deliver this Agreement or perform his duties and other obligations hereunder.

(b) Lakaro hereby represents and warrants to the Treasurer as follows:

(i) Lakaro is duly organized, validly existing and in good standing under the laws of the State of Delaware, with all requisite corporate power and authority to own its properties and conduct its business in the manner presently described.

(ii) Lakaro has the full power and authority to enter into this Agreement and to incur and perform its obligations hereunder.

(iii) The execution, delivery and performance by Lakaro of this Agreement does not conflict with or result in a breach or violation of or constitute a default under (whether immediately, or upon the giving of notice or lapse of time or both) the certificate of incorporation or by-laws of Lakaro, or

any agreement or instrument to which Lakaro is a party or by which Lakaro or any of its properties may be bound or affected.

5. CONFIDENTIAL INFORMATION

(a) The Treasurer agrees that during the course of his employment and at any time thereafter, he will not disclose or make accessible to any other person, Lakaro's products, services and technology, both current and under development, promotion and marketing programs, lists, trade secrets and other confidential and proprietary business information of Lakaro or any of its clients. The Treasurer agrees: (i) not to use any such information for himself or others; and (ii) not to take any such material or reproductions thereof from Lakaro's facilities at any time during his employment by Lakaro, except as required in the Treasurer's duties to Lakaro. The Treasurer agrees immediately to return all such material and reproductions in his possession to Lakaro upon request and in any event upon termination of employment. Nothing in the foregoing shall be construed to prevent the Treasurer from disclosing or using any information which the Treasurer can show by written documentation was in the public domain or enters into the public domain through no improper act on the Treasurer's part or on the part of any of Lakaro's employees or was in his possession prior to his joining Lakaro or disclosed properly to the Treasurer after leaving Lakaro.

(b) Except with prior written authorization by Lakaro, the Treasurer agrees not to disclose or publish any of the confidential, technical or business information or material of Lakaro, its clients or any other party to whom Lakaro owes an obligation of confidence, at any time during or for a period of two years after his employment with Lakaro except in the event of involuntary no cause termination by Lakaro or a termination by the Treasurer for cause.

6. NON-COMPETITION

(a) The Treasurer understands and recognizes that his services to Lakaro are special and unique and agrees that, during the term of this Agreement, and for a period of 12 months from the date of termination of his employment hereunder, he shall not in any manner, directly or indirectly, on behalf of himself or any person, firm, partnership, joint venture, corporation or other business entity ("Person"), enter into or engage in any business directly competitive with Lakaro's business, either as an individual for his own account, or as a partner, joint venturer, Treasurer, agent, consultant, salesperson, officer, director or shareholder of a Person operating or intending to operate within the area that Lakaro is, at the date of termination, conducting its business (the "Restricted Businesses"); provided, however, that nothing herein will preclude the Treasurer from holding one percent (1%) or less of the stock of any publicly traded company or from holding a position with a Person who does not engage in a business directly competitive with the Restrictive Businesses so long as the Treasurer works in a division of such Person which carries on a bona fide business which is not directly competitive with the Restricted Businesses.

(b) For a period of 12 months after the termination of this Agreement, the Treasurer shall not interfere with or disrupt or attempt to disrupt Lakaro's business relationship with any of its customers, or solicit any of the employees of Lakaro.

(c) In the event that the Treasurer breaches any provisions of this Section 6 or there is a threatened breach, then, in addition to any other rights which Lakaro may have, Lakaro shall be entitled, without the posting of a bond or other security, to injunctive relief to enforce the restrictions contained herein. In the event that an actual proceeding is brought in equity to enforce the provisions of this Section 6, the Treasurer shall not argue as a defense that there is an adequate remedy at law nor shall Lakaro be prevented from seeking any other remedies which may be available.

7. OWNERSHIP OF PROPRIETARY INFORMATION

(a) The Treasurer agrees that all information that has been created, discovered or developed by Lakaro, its subsidiaries, affiliates, successors or assigns (collectively, the "Affiliates") (including, without limitation, information relating to the development of Lakaro's business created, discovered, developed or made know to Lakaro or the Affiliates by Treasurer during the Term and information relating to Lakaro's customers, suppliers, consultants, and licensees) and/or in which property rights have been assigned or otherwise conveyed to Lakaro or the Affiliates, shall be the sole property of Lakaro or the Affiliates, as applicable, and Lakaro or the Affiliates, as the case may be, shall be the sole owner of all patents, copyrights and other rights in connection therewith, including but

not limited to the right to make application for statutory protection. All of the aforementioned information is hereinafter called "Proprietary Information." By way of illustration, but not limitation, Proprietary Information includes trade secrets, processes, discoveries, structures, inventions, designs, ideas, works of authorship, copyrightable works, trademarks, copyrights, formulas, data, know-how, show-how, improvements, inventions, product concepts, techniques, information or statistics contained in, or relating to, marketing plans, strategies, forecasts, blueprints, sketches, records, notes, devices, drawings, customer lists, patent applications, continuation applications, continuation-in-part applications, file wrapper continuation applications and divisional applications and information about Lakaro's or the Affiliates' employees and/or consultants (including, without limitation, the compensation, job responsibility and job performance of such employees and/or consultants).

(b) The Treasurer further agrees that at all times, both during the Term and after the termination of this Agreement, he will keep in confidence and trust all Proprietary Information, and he will not use or disclose any Proprietary Information or anything directly relating to it without the written consent of Lakaro or the Affiliates, as appropriate, except as may be necessary in the ordinary course of performing his duties hereunder and except for academic, non-commercial research purposes with the prior written approval of the Board of Directors. The Treasurer acknowledges that the Proprietary Information constitutes a unique and valuable asset of Lakaro and each Affiliate acquired at great time and expense, which is secret and confidential and which will be communicated to Treasurer, if at all, in confidence in the course of his performance of his duties hereunder, and that any disclosure or other use of the Proprietary Information other than for the sole benefit of Lakaro or the Affiliates would be wrongful and could cause irreparable harm to Lakaro or the Affiliates, as the case may be.

Notwithstanding the foregoing, the parties agree that, at all such times, Treasurer is free to use (i) information in the public domain not as a result of a breach of this Agreement, (ii) information lawfully received from a third party and (iii) Treasurer's own skill, knowledge, know-how and experience to whatever extent and in whatever way he wishes, in each case consistent with his obligations as Treasurer and that, at all times, Treasurer is free to conduct any non-commercial research not relating to Lakaro's business.

#### 8. DISCLOSURE AND OWNERSHIP OF INVENTIONS

(a) During the Term, the Treasurer agrees that he will promptly disclose to Lakaro, or any persons designated by Lakaro, all improvements, inventions, designs, ideas, works of authorship, copyrightable works, discoveries, trademarks, copyrights, trade secrets, formulas, processes, structures, product concepts, marketing plans, strategies, customer lists, information about Lakaro's or the Affiliates' employees and/or consultants (including, without limitation, job performance of such employees and/or consultants), techniques, blueprints, sketches, records, notes, devices, drawings, know-how, data, whether or not patentable, patent applications, continuation applications, continuation-in-part applications, file wrapper continuation applications and divisional applications, made or conceived or reduced to practice or learned by him, either alone or jointly with others,

during the Term (all said improvements, inventions, designs, ideas, works of authorship, copyrightable works, discoveries, trademarks, copyrights, trade secrets, formulas, processes, structures, product concepts, marketing plans, strategies, customer lists, information about Lakaro's or the Affiliates' employees and/or consultants, techniques, blueprints, sketches, records, notes, devices, drawings, know-how, data, patent applications, continuation applications, continuation-in-part applications, file wrapper continuation applications and divisional applications shall be collectively hereinafter called "Inventions").

(b) The Treasurer agrees that all Inventions shall be the sole property of Lakaro to the maximum extent permitted by applicable law and to the extent permitted by law shall be "works made for hire" as that term is defined in the United States Copyright Act (17 USCA, Section 101). Lakaro shall be the sole owner of all patents, copyrights, trade secret rights, and other intellectual property or other rights in connection therewith. Treasurer hereby assigns to Lakaro all right, title and interest he may have or acquire in all Inventions. Treasurer further agrees to assist Lakaro in every proper way (but at Lakaro's expense) to obtain and from time to time enforce patents, copyrights or other rights on said Inventions in any and all countries, and to that end the Treasurer will execute all documents necessary:

(i) to apply for, obtain and vest in the name of Lakaro alone (unless Lakaro otherwise directs) letters patent, copyrights or other analogous protection in any country throughout the world and when so obtained or vested to renew and restore the same; and

(ii) to defend any opposition proceedings in respect of such applications and any opposition proceedings or petitions or applications for revocation of such letters patent, copyright or other analogous protection.

(c) The Treasurer's obligation to assist Lakaro in obtaining and enforcing patents and copyrights for the Inventions in any and all countries shall continue beyond the Term, but Lakaro agrees to compensate the Treasurer at his normal and usual rate after the expiration of the Term for time actually spent by the Treasurer at Lakaro's request on such assistance.

#### 9. NON-SOLICITATION

During the Term, and for 12 months thereafter, Treasurer shall not, directly or indirectly, without the prior written consent of Lakaro:

(a) solicit or induce any employee of Lakaro or any Affiliate to leave the employ of Lakaro or any Affiliate or hire for any purpose any employee of Lakaro or any Affiliate or any employee who has left the employment of Lakaro or any Affiliate within six months of the termination of said employee's employment with Lakaro; or

(b) solicit or accept employment or be retained by any party who, at any time during the Term, was a customer or supplier of Lakaro or any Affiliate where his position will be related to the business of Lakaro; or

(c) solicit or accept the business of any customer or supplier of Lakaro or any Affiliate with respect to products similar to those supplied by Lakaro.

#### 10. TERMINATION

(a) This Treasurer's employment hereunder shall begin on the Effective Date and shall continue for the period set forth in Section 2 hereof unless sooner terminated upon the first to occur of the following events:

- (i) (A) The death of the Treasurer; or
- (B) the total disability of the Treasurer.

(ii) Termination by the Board of Directors of Lakaro for just cause. Any of the following actions by the Treasurer shall constitute just cause:

(A) Material breach by the Treasurer of Sections 5, 6, 7, 8, or 9 of this Agreement; or

(B) Material breach by the Treasurer of any provision of this Agreement other than Sections 5, 6, 7, 8 or 9 which is not cured by the Treasurer within 30 days of notice from Lakaro; or in the event the breach is not curable within 30 days; the commencement of action(s) to cure within said 30 days and the diligent pursuit of the cure thereafter, provided such breach may be completely cured; or

(C) Any action by the Treasurer constituting gross negligence, recklessness or willful misconduct in respect of the Treasurer's obligation to Lakaro which has or is likely to result in material, economic damage to Lakaro.

(iii) Termination by the Treasurer for just cause. Any of the following actions or omissions by Lakaro shall constitute just cause.

(A) Material breach by Lakaro of any provision of this Agreement which is not cured by Lakaro within 30 days of notice thereof from the Treasurer; or

(B) A failure to elect or reelect the Treasurer to the office of Treasurer of Lakaro or other change by Lakaro of the Treasurer's function, duties or responsibilities such that the Treasurer is no longer the highest ranking Officer of Lakaro; or

(C) A "change in control," which shall mean a merger or consolidation in which either more than 50% of the voting power of Lakaro is transferred or Lakaro is not the surviving entity, or sale or other disposition of all or substantially all the assets of Lakaro; or

(D) Termination of the Treasurer's employment other than for serious, willful misconduct in respect of the Treasurer's obligations to the Corporation, including, but not limited to, final conviction for a felony or perpetration of a common-law fraud which has or is likely to result in material economic damage to the Corporation; or

(E) Relocation to a geographic area without the Treasurer's prior consent.

(iv) Termination by Lakaro without cause. Notwithstanding anything in this Agreement, Lakaro may terminate the Treasurer's employment without cause upon 90 days prior notice.

(b) Upon termination by Lakaro for any reason other than the reasons set forth in subparagraph (i) or (ii) of paragraph (a) above, or upon termination by the Treasurer for any reason set forth in subparagraph (iii) of paragraph (a) above, then the Options shall immediately vest and become exercisable at the option of the Treasurer.

## 11. NOTICES

Any notice or other communication under this Agreement shall be in

writing and shall be deemed to have been given: when delivered personally against receipt thereof; one (1) business day after being sent by Federal Express or similar overnight delivery; or three (3) business days after being mailed registered or certified mail, postage prepaid, return receipt requested, to either party at the address set forth above, or to such other address as such party shall give by notice hereunder to the other party.

12. SEVERABILITY OF PROVISIONS

If any provision of this Agreement shall be declared by a court of competent jurisdiction to be invalid, illegal or incapable of being enforced in whole or in part, the remaining conditions and provisions or portions thereof shall nevertheless remain in full force and effect and enforceable to the extent they are valid, legal and enforceable, and no provision shall be deemed dependent upon any other covenant or provision unless so expressed herein.

13. ENTIRE AGREEMENT MODIFICATION

This Agreement contains the entire agreement of the parties relating to the subject matter hereof, and the parties hereto have made no agreements, representations or warranties relating to the subject matter of this Agreement which are not set forth herein. No modification of this Agreement shall be valid unless made in writing and signed by the parties hereto.

14. BINDING EFFECT

The rights, benefits, duties and obligations under this Agreement shall inure to, and be binding upon, Lakaro, its successors and assigns, and upon the Treasurer and his legal representatives. This Agreement constitutes a personal service agreement, and the performance of the Treasurer's obligations hereunder may not be transferred or assigned by the Treasurer.

15. NON-WAIVER

The failure of either party to insist upon the strict performance of any of the terms, conditions and provisions of this Agreement shall not be construed as a waiver or relinquishment of future compliance therewith, and said terms, conditions and provisions shall remain in full force and effect. No waiver of any term or condition of this Agreement on the part of either party shall be effective for any purpose whatsoever unless such waiver is in writing and signed by such party.

16. GOVERNING LAW

This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York without regard to principles of conflicts of law. Any litigation commenced pursuant to the terms of the Agreement shall only be prosecuted and defended in the city, county and state of New York. Additionally, the prevailing party in any litigation shall be entitled to an additional award of the recoupment of its attorney fees, cost and expenses.

17. REMEDIES FOR BREACH

The Treasurer understands and agrees that any breach of Sections 5, 6, 7, 8 or 9 of this Agreement by the Executive could cause irreparable damage to Lakaro and to the Affiliates, and that monetary damages alone would not be adequate and, in the event of such breach, Lakaro shall have, in addition to any and all remedies of law, the right to an injunction, specific performance or other equitable relief to prevent or redress the violation of Lakaro's rights under such Sections.

18. HEADINGS

The headings of paragraphs are inserted for convenience and shall not affect any interpretation of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

EMPLOYEE:

By: /s/ Ira Weinstein  
-----  
Name: Ira Weinstein

LAKARO BIOPHARMACEUTICALS, INC.

By: /s/ Morris Laster  
-----  
Name: Morris Laster  
Title: Chief Executive Officer

EMPLOYMENT AGREEMENT

This employment agreement (the "Agreement") is effective as of July 15, 1999 (the "Effective Date"), by and between PARTEC LTD., an Israeli company with its principal place of business at Sha'arei Ha'ir, 216 Jaffa Road, Jerusalem (the "Company") and IRA WEINSTEIN, I.D. No. 015476542, of Mishol Uzrad 5/3, Jerusalem (the "Employee").

WHEREAS the Employee has been employed by the Company as Chief Operating Officer since 1 January 1997;

WHEREAS the Company desires to continue to employ the Employee in the position of Chief Operating Officer (the "Position");

WHEREAS the Employee desires have his employment continued by the Company and fulfill the responsibilities of the Position; and

WHEREAS the parties desire to set forth the conditions of employment pursuant to which the Employee will be continued to be employed by the Company;

IT IS HEREBY AGREED BY AND BETWEEN THE PARTIES AS FOLLOWS:

1. PREAMBLE

The preamble to this Agreement and any attachments thereto are an integral part of this Agreement.

2. JOB DESCRIPTION

The Employee shall be responsible for the financial and administrative management of the Company. He shall report directly to the Chief Executive Officer. The description of responsibilities set forth herein shall serve as a general statement of the duties, responsibilities and authority of the Employee. Additional duties, responsibilities and authority may be assigned to the Employee by the Chief Executive Officer from time to time in his discretion.

3. WORKING HOURS

The Employee shall be employed by the Company on a full-time basis, namely for not less than forty-four (44) hours per week (inclusive of meal time). The Employee agrees that his position is considered to be a management position as defined in the Hours of Work and Rest Law - 1951, which requires a special measure of personal trust. Accordingly, the provisions of the Hours of Work and Rest Law - 1951 shall not apply and the Employee shall not be entitled to receive any additional payment for his work other than those that are set forth in this Agreement.

4. TERM OF AGREEMENT

This Agreement shall take effect from the Effective Date and shall remain in effect through the third anniversary of such date, unless it is earlier terminated as hereinafter provided.

5. ANNUAL SALARY

5.1. The Employee's annual salary shall be as follows:

5.1.1. The Employee shall receive an annual gross salary of eighty-five thousand dollars (\$85,000), payable in New

Israeli Shekels according the representative rate of exchange in effect each month at the time Company salaries are calculated. The Employees salary shall be paid in twelve equal installments, monthly in arrears.

- 5.1.2. On each anniversary date of this Agreement, the Employee's annual gross salary shall be increased by an amount to be determined by the Board of Directors and the Chief Executive Officer.
- 5.1.3 The salary set forth in paragraph 5.1.1, above, shall be referred to as the "Global Salary". The linkage of the Global Salary to the United States dollar is in lieu of any generally-applicable increases, whether the statutory cost of living increase ("Tosefet Yoker") or any other industry-wide increase applicable as the result of collective bargaining agreements or other order of the Ministry of Labor and Welfare (such as Tzavei Harhava). By signing this Agreement and accepting employment pursuant to its terms, the Employee represents that s/he will not claim any such increase.
- 5.1.4. The Employee shall not be entitled to receive from the Company any salary or payment of any kind other than the Global Salary and other payments specifically set forth in this Agreement or properly authorized by the Board of Directors and, should the Employee be a director of the Company at the time such other payments not specifically included in this Agreement are made, by the shareholders of the Company.

## 5.2. Other Terms of Employment

- 5.2.1. BONUSES: The Employee shall be eligible to receive one or more bonuses during any calendar year in the discretion of the Chief Executive Officer, acting in consultation with the Board of Directors.
- 5.2.2. EXPENSES: The Employee shall be entitled, in accordance with the Company's standard policy in effect from time to time, to be reimbursed for expenses (Hotza'ot Eshel) incurred in Israel and abroad in connection with Company business against receipt by the Company of appropriate vouchers, receipts or other proof of the Employee's expenditures.
- 5.2.3. CONTINUING EDUCATION FUND: The Employee shall be entitled to participate in the Company's continuing education fund (Keren Hishtalmut). The Company shall contribute an amount equal to five percent (5%) of the Employee's Global Salary and shall deduct two and a half percent (2.5%) of the Employee's Global Salary and transfer it as the Employee's contribution. The Employee consents to the deduction of this amount as his contribution to the continuing education fund. These contributions will be calculated up to the permissible tax-exempt salary ceiling according to the income tax regulations in effect from time to time. If the amount of the Company's contribution is greater than permitted by those regulations, the Employee shall not have the right to receive the excess amount.
- 5.2.4. RESERVE DUTY: The Employee shall be entitled to receive his full Global Salary and other payments while performing reserve duty, provided that any amount received by the Employee from the I.D.F. or any other source (excluding Damei Calcala) is transferred to the Company or, in the alternative, an amount equal to that received from the I.D.F. or any other source is deducted from the Global Salary payable to the Employee.

5.2.5. ANNUAL LEAVE AND RECREATION PAY (DAMEI HAVRA'A): The Employee shall be entitled to twenty (20) working days of paid annual leave each year. The Employee shall not be allowed to accrue more than thirty (30) working days of annual leave except in unusual circumstances and with the permission of the Company. Should the Employee's annual leave balance exceed thirty (30) days at the end of any calendar year, the excess number of days shall be paid out in accordance with the provisions of the Annual Leave Law - 1951. The Company shall also pay the Employee for five (5) days of recreation (damei havra'a) each year in accordance with the law and the normal practice of the Company in effect from time to time.

5.2.6. SICKNESS AND DISABILITY INSURANCE: The Employee shall be entitled to the number of days for sick leave permitted by law. Compensation for sick days utilized shall be paid according to his Global Salary only upon the presentation of medical documentation as required by the

Company. The Employee shall be covered by disability insurance that provides monthly compensation. The cost of such insurance shall be borne by the Company. Notwithstanding the foregoing, the Employee shall not be entitled to receive compensation for sick leave if such compensation is covered by the Employee's disability insurance referred to above. However, should the amounts received by the Employee pursuant to such disability insurance be less than the amount that is properly payable as compensation for the Employee's available sick leave, according to the Global Salary, the Company shall pay the difference. It is understood and agreed that unused sick leave cannot be redeemed by the Employee. For the avoidance of doubt, it is understood and agreed that the payments made by the Company in consideration of sick leave covers all obligations of the Company pursuant to the Sick Leave Law - 1976.

### 5.3. PENSION BENEFITS AND SEVERANCE PAYMENTS

5.3.1. The Company will pay into a Provident Fund (Kupat Gemel) (in the meaning of paragraph 47 of the Income Tax Ordinance) in the form of Manager's Insurance or another form according to the Employee's choice and the Company's agreement, an amount equal to thirteen and one third percent (13 1/3 %) from the monthly Global Salary paid to the Employee, and the Employee will pay, on his own account, an amount equal to five percent (5%) from that Global Salary. The Employee agrees that the Company shall be entitled to deduct the Employee's contribution (5%) from the Employee's salary. For the avoidance of doubt, it is clarified that under no circumstance shall the Company's contribution exceed thirteen and one third percent (13 1/3 %) of the Global Salary in any one month.

5.3.2. Five percent (5%) of the thirteen and one third percent (13 1/3 %) that the Company contributes as set forth above and the five percent (5%) the Employee contributes, together with linkage and interest on the contributions, will be treated as pension benefits for the Employee or his survivors. The remaining eight and one third percent (8 1/3 %) of the Company's contribution, together with linkage and interest on that portion, will be utilized to pay severance benefits to the Employee or his descendants in the event of the termination of his employment with the Company, except in those circumstances discussed below.

5.3.3. In the event that the Employee chooses Manager's Insurance, the policy shall belong to the Company as long as it employs

the Employee and it makes the required payments on the policy. The payments made into the Kupat Gemel pursuant to paragraph 5.3.1, above, shall fulfill the Company's obligation for severance payment pursuant to the Severance Compensation Law - 1963. Upon the termination of the Employee's employment, for whatever reason, and upon his final departure from the Company, the Employee or his descendants shall be entitled to receive the ownership of all rights which have accrued on his behalf in the Kupat Gemel or the ownership of the Manager's

Insurance policy, as appropriate and subject to the provisions of section 6, below.

- 5.3.4. In the event that there is a difference in the Employee's favor between the amount to which he is entitled to receive pursuant to the Severance Compensation Law - 1963 and the severance payment amount (including linkage and interest) that is in the Kupat Gemel or Manager's Insurance policy, the Company shall pay that difference. The Company shall be obligated to pay such difference whether the termination of the Employee's employment is at the Employee's initiative or the Company's, except in the case of termination pursuant to paragraphs 6.3 and 6.4, below. For the avoidance of doubt, it is understood that in the event that the severance payment amount (including linkage and interest) that is in the Employee's Kupat Gemel or Manager's Insurance policy exceeds the amount to which he is entitled to receive as severance compensation pursuant to the Severance Compensation Law - 1963, the difference shall not be transferred to the Employee, including to his pension account, but shall be the property of the Company.

## 6. TERMINATION OF EMPLOYMENT

- 6.1. Either party may terminate the Employee's employment with the Company without cause at any time upon three (3) month's notice. The Company shall have the right, in its sole discretion, to require the Employee to continue working for the Company during the notice period. If the Employer terminates the Employee without cause pursuant to this section, the Board of Directors shall take the necessary steps so that (a) any outstanding, but unvested, options granted to the Employee shall vest upon the effective date of his termination; and (b) the period during which the Employee shall be permitted to exercise such options shall be extended to two (2) years from the effective date of his termination as defined in the Share Option Plan governing the options in question.
- 6.2. The Employee's employment shall be terminated by his death or disability. (For purposes of this section, "disability" shall be deemed to have occurred if the Employee is unable, due to any physical or mental disease or condition, to perform his normal duties of employment for 120 consecutive days or 180 days in any twelve month period.) In such an event, he shall be entitled to continue to receive his annual salary for three (3) months following his last day of actual employment by the Company. Such amount shall be in addition to any severance payment he is entitled to receive according the provisions of the Severance Compensation Law - 1963. In addition, the Board of Directors shall take the necessary steps so that (a) any outstanding, but unvested, options granted to the Employee shall vest upon the effective date of his termination; and (b) the period during which the Employee shall be permitted to exercise such options shall be extended to two (2) years from the effective date of his termination as defined in the Share Option Plan governing the options in question. Should the Employee's employment be terminated as a

result of his death, the benefits granted herein, shall be granted instead to his lawful heir or heirs.

6.3. Notwithstanding the foregoing, the Company may terminate the Employee immediately and without prior notice in the following circumstances: (a) a material breach of the Employee's obligations pursuant to paragraphs 8.8, 8.9 and 8.10 (confidentiality and non-competition); (b) a material breach by the Employee of any other provision of this Agreement, which is not cured by the Employee within fifteen (15) days after receiving notice thereof from the Company containing a description of the breach or breaches alleged to have occurred; (c) the habitual neglect or gross failure by the Employee to adequately perform the duties of his position; (d) any act of moral turpitude or criminal action connected to his employment with the Company or his place of employment; or (e) the Employee's refusal to comply with or his violation of lawful instructions of the Chief Executive Officer or the Board of Directors.

6.4. In the event that Employee's employment has been terminated in accordance with paragraph 6.3, above, the Employee shall not be entitled to receive any of the severance payments set forth in paragraphs 5.3.4 and 6.2, above.

#### 7. TAXES AND OTHER PAYMENTS

7.1. Unless otherwise specifically provided for in this Agreement, the Company shall not be liable for the payment of taxes or other payments for which the Employee is responsible as result of this Agreement or any other legal provision, and the Employee shall be personally liable for such taxes and other payments.

7.2. The Employee hereby agrees that the Company shall deduct from his Global Salary the Employee's national insurance fees, income tax and other amounts required by law or the terms of this Agreement. The Company shall provide the Employee with documentation of such deductions.

#### 8. THE OBLIGATIONS OF THE EMPLOYEE

8.1. The Employee agrees to devote his entire business time, energy, abilities and experience to the performance of his duties, effectively and in good faith.

8.2. During the period of his employment, the Employee shall not be employed, whether or not during regular business hours, for pay by any other party other than the Company, except for teaching activities approved by the Chief Executive Officer. The Employee must receive the prior written consent of the Company before assuming an unpaid position outside the Company. Notwithstanding the foregoing, the Employee may, with the written permission of the Chairman of the Board of Directors, become a member of the Board of Directors of another company and may accept any compensation in connection with such position.

8.3. The Employee agrees to immediately inform the Company of any Company issue or transaction in which the Employee has a direct or indirect personal interest and/or where such issue or transaction could cause a conflict of interest for the Employee in the fulfillment of his responsibilities as an employee of the Company.

8.4. The Employee hereby gives irrevocable instructions and permission to the Company to deduct from any amounts owed to the Employee by the Company, including amounts payable as severance compensation, (a) any debt he has or will have to the Company; and/or (b) any amount that was wrongfully or mistakenly paid to him by the Company. Any such

amounts to be deducted shall be calculated in real terms as of the date of the deduction, including linkage to cost of living index.

- 8.5. The Company may at its discretion and at any time apply for and procure as owner and for its own benefit and at its own expense, insurance on the life of the Employee ("Key Man Life Insurance") in such amounts and in such form or forms as the Company may choose. The Employee shall cooperate with the Company in procuring such insurance and shall, at the Company's request, submit to such medical examinations, supply such information and execute such documents as may be required by the insurance company or companies to whom the Company has applied for such insurance. Neither the Employee nor any of his dependents shall have any interest whatsoever in any such policy or policies, or in the proceeds thereof.
- 8.6. The Employee declares that the terms and conditions of his employment are personal and confidential and will not be disclosed by him.
- 8.7. The Employee declares that he is free to enter into this Agreement and that he has no obligations of any kind to any third party that would impair this Agreement, either as an employee or an independent contractor. The Employee further declares that as long as he remains an employee of the Company, he will not incur any such obligations.
- 8.8. The Employee agrees to keep confidential (a) all professional, scientific, commercial, and business information; and (b) any other information or document that comes to the Employee's knowledge in connection with the affairs of the Company (collectively, the "Confidential Information"), and agrees not to use or exploit the Confidential Information or to disclose it to any third party where such use, exploitation or disclosure is not directly related to the affairs of the Company, unless the Company gives prior written authorization of such disclosure.
- 8.9. The Employees agrees that during his employment by the Company and thereafter he (a) will not disseminate or otherwise make use of the Confidential Information or of other non-public information of which he learned while working for the Company, except where such dissemination or use is directly related to the affairs of the Company; (b) will maintain the confidentiality of the Confidential Information; and (c) will not in any way act to injure the reputation of the Company or any of its affiliated companies.
- 8.10. The Employee understands and recognizes that his services to the Company are special and unique. Therefore, he agrees that during the term of this Agreement and for one (1) year after the termination for any reason of his employment, he shall not be employed in or give any services to any business or third party that competes with the Company or whose activities conflict with the activities of the Company, unless the Chairman of the Board of Directors has given his explicit written consent prior the commencement of such employment or the giving of such services.
- 8.11. Upon termination of his employment, the Employee agrees to assist the Company with an orderly transition of his responsibilities and to return to the Company any documents, information and/or materials that were given to him or which were created by him in connection with his employment.

## 9. INTELLECTUAL PROPERTY RIGHTS

- 9.1. The Employee declares that he is aware that anything that is done by him in the Company or in connection with the Company, whether it be an invention, a discovery, or the development of an idea or a thing, all within the framework of the Company's business (the "Development") shall belong to and be controlled by the Company, unless the Board of

Directors shall, in writing, direct otherwise.

- 9.2. The Company shall have the right to fully utilize and exploit the Development, as it sees fit, including changing it, registering part or all of it as a patent, whether in Israel or abroad, selling it, transferring it to a third party, all without being required to either receive the Employee's consent or pay the Employee any additional payment for such Development apart from any payment he receives pursuant to this Agreement.
- 9.3. The Development and any subsequent intellectual property arising therefrom shall remain the sole property of the Employer even after the Employee's employment terminates for any reason. The termination of this Agreement, whether due to its breach or its own terms, shall not impair the Company's exclusive rights in the Development. Notwithstanding the termination of this Agreement, the Board of Directors shall have the discretion to award the Employee a cash payment in accordance with the terms of paragraph 5.2.1, above, as a result of any Development or subsequent intellectual property arising therefrom developed primarily by the Employee.
- 9.4. The Employee may not do anything with the Development or any related materials without the knowledge and prior consent of the Company. The Employee declares that he neither has nor will have any rights in the Development or its fruits and that all rights to the Development and its fruits shall fully reside in the Company.
- 9.5. Even in the event that at the time of the termination of the Employee's employment for any reason the Development has not been completed, the Employee shall be prohibited from any continued activity in connection with

the subject of the Development, alone or in concert with others, that is not explicitly allowed in writing by the Company. The Company alone will be the sole owner of the uncompleted Development and shall have the sole right to complete the Development or to take any other action in connection with the Development.

## 10. INDEMNIFICATION

The Company shall take whatever steps are necessary to establish a policy of indemnifying its officers, including, but not limited to the Employee, for all actions taken in good faith in pursuit of their duties and obligations to the Company. Such steps shall include, but shall not necessarily be limited to, the obtaining of an appropriate level of Directors and Officers Liability coverage.

## 11. GENERAL

- 11.1. It is agreed that the provisions of this Agreement represent the full scope of the agreement between the parties and that neither side shall be bound by any promises, declarations, exhibits, agreements or obligations, oral or written, that are not included in this Agreement prior to its execution. Any changes or amendments to this Agreement must be in writing and signed by both parties.
- 11.2. This Agreement shall be governed by, and construed and interpreted under, the laws of the State of Israel. The parties agree that any legal claim lodged by one party against the other arising from the terms of this Agreement shall be adjudicated only by the appropriate court in Jerusalem, Israel.
- 11.3. If any provision of this Agreement shall be declared by a court of competent jurisdiction to be invalid, illegal or incapable of being enforced in whole or in part, the remaining conditions and provisions or portions thereof shall nevertheless remain in full force and effect and enforceable, and no provision shall be deemed dependent

upon any other covenant or provision unless so expressed herein.

11.4. The rights, benefits, duties and obligations under this Agreement shall inure to, and be binding upon, the Company, its successors and assigns, and upon the Employee and his legal representatives. This Agreement constitutes a personal service agreement, and the performance of the Employee's obligations hereunder may not be transferred or assigned by the Employee.

11.5 The failure of either party to insist upon the strict performance of any of the terms, conditions and provisions of this Agreement shall not be construed as a waiver or relinquishment of future compliance therewith or with any other term, condition or provision hereof, and said terms, conditions and provisions shall remain in full force and effect. No waiver of any term or condition of this Agreement on the part of either party shall be effective or any purpose whatsoever unless such waiver is in writing and signed by such party.

11.6 The headings of Sections are inserted for convenience and shall not affect any interpretation of this Agreement.

## 12. NOTICES

12.1. A notice that is sent by registered mail to a party at its address as set forth in paragraph 12.2, below, shall be deemed received three (3) days after its posting, and the receipt stamped by the post office shall represent definitive evidence of the date of mailing.

12.2. The addresses of the parties for the purposes of this Agreement are:

PARTEC LTD.:

216 Jaffa Road  
Jerusalem 94383

EMPLOYEE:

Mishol Uzrad 5/3  
Jerusalem

IN WITNESS WHEREOF the parties have hereunto set their hands at the place and on the date first above written.

Partec Ltd.  
By

/s/ Morris Laster

/s/ Ira Weinstein

-----  
Employee

EMPLOYMENT AGREEMENT

This Agreement, dated November 19, 1999, by and between LAKARO BIOPHARMACEUTICALS, INC. ("Lakaro"), a Delaware corporation having an address at 216 Jaffa Rd., Sha'arei Ha'ir, Jerusalem, Israel 94383 and BOB TRACHTENBERG, an individual residing at Gidon 22, Jerusalem, Israel (the "Secretary")

WITNESSETH:

WHEREAS, the Corporation desires to employ the Secretary as Secretary of Lakaro and the Secretary desires to be employed by the Lakaro as Secretary of Lakaro, all pursuant to the terms and conditions hereinafter set forth;

NOW THEREFORE, in consideration of the foregoing and the mutual promises and covenants herein contained, it is agreed as follows:

1. EMPLOYMENT DUTIES

(a) Lakaro hereby engages and employs the Secretary, and the Secretary accepts engagement and employment, as Secretary of Lakaro, to direct, supervise and have responsibilities for the corporate affairs of Lakaro and for any other appropriate areas and tasks which the Board of Directors and/or the Chief Executive Officer may assign to him. The Secretary acknowledges and agrees that the performance by the Secretary of his duties hereunder may require significant domestic and international travel by the Secretary. In addition, the Secretary realizes that he may be required to spend a substantial amount of time in Jerusalem, Israel.

(b) The Secretary shall devote substantially all of his gainful time to the discharge of his duties and responsibilities under this Agreement.

2. TERM

The Secretary's employment hereunder shall be for a term of three (3) years commencing on the Effective Date and continuing through the third anniversary of the Effective Date (the "Initial Term"), with successive one-year renewals thereafter (the "Renewal Terms") unless sooner terminated as hereinafter provided, or by notice of either party not less than 90 days prior to the expiration of each term.

3. COMPENSATION

(a) As compensation for the performance of his duties on behalf of Lakaro, the Secretary shall be compensated as follows:

(i) Upon the next meeting of the Corporation's Board of Directors, the Corporation will grant (the "Initial Grant") the Secretary options (the "Options") to purchase 125,000 shares of the common stock of the Corporation at an exercise price equal to \$0.15 per share (the "Exercise Price"), which options shall be exercisable for a period of 10 years from the date of issuance. Should any change be made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, appropriate adjustments shall be made to (i) the total number and/or class of securities subject to such options and (ii) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement under such options.

(ii) The stock options shall vest as follows: one-third on the

closing of the next equity investment in Lakaro; one-sixth six months from the date of grant; one-sixth twelve months from the date of grant; one-sixth eighteen months from the date of grant; and one-sixth twenty four months from the date of grant; but immediate vesting shall occur upon a change of control of the Corporation as described in paragraph 10(a)(iii)C below.

(iii) At the discretion of the Board of Directors, the Secretary shall be entitled to an annual grant of subsequent stock options each of which shall have the same antidilution protection as described in Section 3 paragraph (a)(i) above.

(b) Lakaro shall reimburse the Secretary for all normal, usual and necessary expenses incurred by the Secretary in furtherance of the business and affairs of Lakaro, including travel and entertainment, against receipt by Lakaro of appropriate vouchers or other proof of the Secretary's expenditures and otherwise in accordance with such Expense Reimbursement Policy as may from time to time be adopted by the Board of Directors of Lakaro.

(c) The Secretary shall be, during the term of this Agreement, entitled to four (4) weeks of vacation per year as well as all statutory holidays.

(d) Lakaro shall adopt as part of the Corporation's Bylaws a broad form indemnity of all actions taken in good faith by the officers and directors of the Corporation.

(e) Subject to Section 10(c) below, the Secretary must be an employee of Lakaro at the time any compensation is due in order to receive such compensation. In addition, no options shall vest after the termination of this Agreement.

4. REPRESENTATIONS AND WARRANTIES  
BY THE SECRETARY AND LAKARO

(a) The Secretary hereby represents and warrants to Lakaro as follows:

(i) Neither the execution and delivery of this Agreement nor the performance by the Secretary of his duties and other obligations hereunder violate any statute, law, determination or award, or conflict with or constitute a default under (whether immediately, upon the giving of notice or lapse of time or both) any prior employment agreement, contract, or other instrument to which the Secretary is a party or by which he is bound.

(ii) The Secretary has the full right, power and legal capacity to enter and deliver this Agreement and to perform his duties and other obligations hereunder. This Agreement constitutes the legal, valid and binding obligation of the Secretary enforceable against him in accordance with its terms. No approvals or consents of any persons or entities are required for the Secretary to execute and deliver this Agreement or perform his duties and other obligations hereunder.

(b) Lakaro hereby represents and warrants to the Secretary as follows:

(i) Lakaro is duly organized, validly existing and in good standing under the laws of the State of Delaware, with all requisite corporate power and authority to own its properties and conduct its business in the manner presently described.

(ii) Lakaro has the full power and authority to enter into this Agreement and to incur and perform its obligations hereunder.

(iii) The execution, delivery and performance by Lakaro of this Agreement does not conflict with or result in a breach or violation of or constitute a default under (whether immediately, or upon the giving of notice or lapse of time or both) the certificate of incorporation or by-laws of Lakaro, or any agreement or instrument to which Lakaro is a party or by which Lakaro or any

of its properties may be bound or affected.

5. CONFIDENTIAL INFORMATION

(a) The Secretary agrees that during the course of his employment and at any time thereafter, he will not disclose or make accessible to any other person, Lakaro's products, services and technology, both current and under development, promotion and marketing programs, lists, trade secrets and other confidential and proprietary business information of Lakaro or any of its clients. The Secretary agrees: (i) not to use any

such information for himself or others; and (ii) not to take any such material or reproductions thereof from Lakaro's facilities at any time during his employment by Lakaro, except as required in the Secretary's duties to Lakaro. The Secretary agrees immediately to return all such material and reproductions in his possession to Lakaro upon request and in any event upon termination of employment. Nothing in the foregoing shall be construed to prevent the Secretary from disclosing or using any information which the Secretary can show by written documentation was in the public domain or enters into the public domain through no improper act on the Secretary's part or on the part of any of Lakaro's employees or was in his possession prior to his joining Lakaro or disclosed properly to the Secretary after leaving Lakaro.

(b) Except with prior written authorization by Lakaro, the Secretary agrees not to disclose or publish any of the confidential, technical or business information or material of Lakaro, its clients or any other party to whom Lakaro owes an obligation of confidence, at any time during or for a period of two years after his employment with Lakaro except in the event of involuntary no cause termination by Lakaro or a termination by the Secretary for cause.

6. NON-COMPETITION

(a) The Secretary understands and recognizes that his services to Lakaro are special and unique and agrees that, during the term of this Agreement, and for a period of 12 months from the date of termination of his employment hereunder, he shall not in any manner, directly or indirectly, on behalf of himself or any person, firm, partnership, joint venture, corporation or other business entity ("Person"), enter into or engage in any business directly competitive with Lakaro's business, either as an individual for his own account, or as a partner, joint venturer, Secretary, agent, consultant, salesperson, officer, director or shareholder of a Person operating or intending to operate within the area that Lakaro is, at the date of termination, conducting its business (the "Restricted Businesses"); provided, however, that nothing herein will preclude the Secretary from holding one percent (1%) or less of the stock of any publicly traded company or from holding a position with a Person who does not engage in a business directly competitive with the Restrictive Businesses so long as the Secretary works in a division of such Person which carries on a bona fide business which is not directly competitive with the Restricted Businesses.

(b) For a period of 12 months after the termination of this Agreement, the Secretary shall not interfere with or disrupt or attempt to disrupt Lakaro's business relationship with any of its customers, or solicit any of the employees of Lakaro.

(c) In the event that the Secretary breaches any provisions of this Section 6 or there is a threatened breach, then, in addition to any other rights which Lakaro may have, Lakaro shall be entitled, without the posting of a bond or other security, to injunctive relief to enforce the restrictions contained herein. In the event that an actual proceeding is brought in equity to enforce the provisions of this Section 6, the Secretary shall not argue as a defense that there is an adequate remedy at law nor shall Lakaro be prevented from seeking any other remedies which may be available.

7. OWNERSHIP OF PROPRIETARY INFORMATION

(a) The Secretary agrees that all information that has been created, discovered or developed by Lakaro, its subsidiaries, affiliates, successors or assigns (collectively, the "Affiliates") (including, without limitation, information relating to the development of Lakaro's business created, discovered, developed or made know to Lakaro or the Affiliates by Secretary during the Term and information relating to Lakaro's customers, suppliers, consultants, and licensees) and/or in which property rights have been assigned or otherwise conveyed to Lakaro or the Affiliates, shall be the sole property of Lakaro or the Affiliates, as applicable, and Lakaro or the Affiliates, as the case may be, shall be the sole owner of all patents, copyrights and other rights in connection therewith, including but not limited to the right to make application for statutory protection. All of the aforementioned information is hereinafter called "Proprietary Information." By way of illustration, but not limitation, Proprietary Information includes trade secrets, processes, discoveries, structures, inventions, designs, ideas, works of authorship, copyrightable works, trademarks, copyrights, formulas, data, know-how, show-how, improvements, inventions, product concepts, techniques, information or statistics contained in, or relating to, marketing plans, strategies, forecasts, blueprints, sketches, records, notes, devices, drawings, customer lists, patent applications, continuation applications, continuation-in-part applications, file wrapper continuation applications and divisional

applications and information about Lakaro's or the Affiliates' employees and/or consultants (including, without limitation, the compensation, job responsibility and job performance of such employees and/or consultants).

(b) The Secretary further agrees that at all times, both during the Term and after the termination of this Agreement, he will keep in confidence and trust all Proprietary Information, and he will not use or disclose any Proprietary Information or anything directly relating to it without the written consent of Lakaro or the Affiliates, as appropriate, except as may be necessary in the ordinary course of performing his duties hereunder and except for academic, non-commercial research purposes with the prior written approval of the Board of Directors. The Secretary acknowledges that the Proprietary Information constitutes a unique and valuable asset of Lakaro and each Affiliate acquired at great time and expense, which is secret and confidential and which will be communicated to Secretary, if at all, in confidence in the course of his performance of his duties hereunder, and that any disclosure or other use of the Proprietary Information other than for the sole benefit of Lakaro or the Affiliates would be wrongful and could cause irreparable harm to Lakaro or the Affiliates, as the case may be.

Notwithstanding the foregoing, the parties agree that, at all such times, Secretary is free to use (i) information in the public domain not as a result of a breach of this Agreement, (ii) information lawfully received from a third party and (iii) Secretary's own skill, knowledge, know-how and experience to whatever extent and in whatever way he wishes, in each case consistent with his obligations as Secretary and that, at all times, Secretary is free to conduct any non-commercial research not relating to Lakaro's business.

## 8. DISCLOSURE AND OWNERSHIP OF INVENTIONS

(a) During the Term, the Secretary agrees that he will promptly disclose to Lakaro, or any persons designated by Lakaro, all improvements, inventions, designs, ideas, works of authorship, copyrightable works, discoveries, trademarks, copyrights, trade secrets, formulas, processes, structures, product concepts, marketing plans, strategies, customer lists, information about Lakaro's or the Affiliates' employees and/or consultants (including, without limitation, job performance of such employees and/or consultants), techniques, blueprints, sketches, records, notes, devices, drawings, know-how, data, whether or not patentable, patent applications, continuation applications, continuation-in-part applications, file wrapper continuation applications and divisional applications, made or conceived or reduced to practice or learned by him, either alone or jointly with others, during the Term (all said improvements, inventions, designs, ideas, works of

authorship, copyrightable works, discoveries, trademarks, copyrights, trade secrets, formulas, processes, structures, product concepts, marketing plans, strategies, customer lists, information about Lakaro's or the Affiliates' employees and/or consultants, techniques, blueprints, sketches, records, notes, devices, drawings, know-how, data, patent applications, continuation applications, continuation-in-part applications, file wrapper continuation applications and divisional applications shall be collectively hereinafter called "Inventions").

(b) The Secretary agrees that all Inventions shall be the sole property of Lakaro to the maximum extent permitted by applicable law and to the extent permitted by law shall be "works made for hire" as that term is defined in the United States Copyright Act (17 USCA, Section 101). Lakaro shall be the sole owner of all patents, copyrights, trade secret rights, and other intellectual property or other rights in connection therewith. Secretary hereby assigns to Lakaro all right, title and interest he may have or acquire in all Inventions. Secretary further agrees to assist Lakaro in every proper way (but at Lakaro's expense) to obtain and from time to time enforce patents, copyrights or other rights on said Inventions in any and all countries, and to that end the Secretary will execute all documents necessary:

(i) to apply for, obtain and vest in the name of Lakaro alone (unless Lakaro otherwise directs) letters patent, copyrights or other analogous protection in any country throughout the world and when so obtained or vested to renew and restore the same; and

(ii) to defend any opposition proceedings in respect of such applications and any opposition proceedings or petitions or applications for revocation of such letters patent, copyright or other analogous protection.

(c) The Secretary's obligation to assist Lakaro in obtaining and enforcing patents and copyrights for the Inventions in any and all countries shall continue beyond the Term, but Lakaro agrees to

compensate the Secretary at his normal and usual rate after the expiration of the Term for time actually spent by the Secretary at Lakaro's request on such assistance.

#### 9. NON-SOLICITATION

During the Term, and for 12 months thereafter, Secretary shall not, directly or indirectly, without the prior written consent of Lakaro:

(a) solicit or induce any employee of Lakaro or any Affiliate to leave the employ of Lakaro or any Affiliate or hire for any purpose any employee of Lakaro or any Affiliate or any employee who has left the employment of Lakaro or any Affiliate within six months of the termination of said employee's employment with Lakaro; or

(b) solicit or accept employment or be retained by any party who, at any time during the Term, was a customer or supplier of Lakaro or any Affiliate where his position will be related to the business of Lakaro; or

(c) solicit or accept the business of any customer or supplier of Lakaro or any Affiliate with respect to products similar to those supplied by Lakaro.

#### 10. TERMINATION

(a) This Secretary's employment hereunder shall begin on the Effective Date and shall continue for the period set forth in Section 2 hereof unless sooner terminated upon the first to occur of the following events:

- (i) (A) The death of the Secretary; or
- (B) the total disability of the Secretary.

(ii) Termination by the Board of Directors of Lakaro for just cause. Any of the following actions by the Secretary shall constitute just cause:

(A) Material breach by the Secretary of Sections 5, 6, 7, 8, or 9 of this Agreement; or

(B) Material breach by the Secretary of any provision of this Agreement other than Sections 5, 6, 7, 8 or 9 which is not cured by the Secretary within 30 days of notice from Lakaro; or in the event the breach is not curable within 30 days; the commencement of action(s) to cure within said 30 days and the diligent pursuit of the cure thereafter, provided such breach may be completely cured; or

(C) Any action by the Secretary constituting gross negligence, recklessness or willful misconduct in respect of the Secretary's obligation to Lakaro which has or is likely to result in material, economic damage to Lakaro.

(iii) Termination by the Secretary for just cause. Any of the following actions or omissions by Lakaro shall constitute just cause.

(A) Material breach by Lakaro of any provision of this Agreement which is not cured by Lakaro within 30 days of notice thereof from the Secretary; or

(B) A failure to elect or reelect the Secretary to the office of Secretary of Lakaro or other change by Lakaro of the Secretary's function, duties or responsibilities such that the Secretary is no longer the highest ranking Officer of Lakaro; or

(C) A "change in control," which shall mean a merger or consolidation in which either more than 50% of the voting power of Lakaro is transferred or Lakaro is not the

surviving entity, or sale or other disposition of all or substantially all the assets of Lakaro; or

(D) Termination of the Secretary's employment other than for serious, willful misconduct in respect of the Secretary's obligations to the Corporation, including, but not limited to, final conviction for a felony or perpetration of a common-law fraud which has or is likely to result in material economic damage to the Corporation; or

(E) Relocation to a geographic area without the Secretary's prior consent.

(iv) Termination by Lakaro without cause. Notwithstanding anything in this Agreement, Lakaro may terminate the Secretary's employment without cause upon 90 days prior notice.

(b) Upon termination by Lakaro for any reason other than the reasons set forth in subparagraph (i) or (ii) of paragraph (a) above, or upon termination by the Secretary for any reason set forth in subparagraph (iii) of paragraph (a) above, then the Options shall immediately vest and become exercisable at the option of the Secretary.

Any notice or other communication under this Agreement shall be in writing and shall be deemed to have been given: when delivered personally against receipt thereof; one (1) business day after being sent by Federal Express or similar overnight delivery; or three (3) business days after being mailed registered or certified mail, postage prepaid, return receipt requested, to either party at the address set forth above, or to such other address as such party shall give by notice hereunder to the other party.

12. SEVERABILITY OF PROVISIONS

If any provision of this Agreement shall be declared by a court of competent jurisdiction to be invalid, illegal or incapable of being enforced in whole or in part, the remaining conditions and provisions or portions thereof shall nevertheless remain in full force and effect and enforceable to the extent they are valid, legal and enforceable, and no provision shall be deemed dependent upon any other covenant or provision unless so expressed herein.

13. ENTIRE AGREEMENT MODIFICATION

This Agreement contains the entire agreement of the parties relating to the subject matter hereof, and the parties hereto have made no agreements, representations or warranties relating to the subject matter of this Agreement which are not set forth herein. No modification of this Agreement shall be valid unless made in writing and signed by the parties hereto.

14. BINDING EFFECT

The rights, benefits, duties and obligations under this Agreement shall inure to, and be binding upon, Lakaro, its successors and assigns, and upon the Secretary and his legal representatives. This Agreement constitutes a personal service agreement, and the performance of the Secretary's obligations hereunder may not be transferred or assigned by the Secretary.

15. NON-WAIVER

The failure of either party to insist upon the strict performance of any of the terms, conditions and provisions of this Agreement shall not be construed as a waiver or relinquishment of future compliance therewith, and said terms, conditions and provisions shall remain in full force and effect. No waiver of any term or condition of this Agreement on the part of either party shall be effective for any purpose whatsoever unless such waiver is in writing and signed by such party.

16. GOVERNING LAW

This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York without regard to principles of conflicts of law. Any litigation commenced pursuant to the terms of the Agreement shall only be prosecuted and defended in the city, county and state of New York. Additionally, the prevailing party in any litigation shall be entitled to an additional award of the recoupment of its attorney fees, cost and expenses.

17. REMEDIES FOR BREACH

The Secretary understands and agrees that any breach of Sections 5, 6, 7, 8 or 9 of this Agreement by the Executive could cause irreparable damage to Lakaro and to the Affiliates, and that monetary damages alone would not be adequate and, in the event of such breach, Lakaro shall have, in addition to any and all remedies of law, the right to an injunction, specific performance or other equitable relief to prevent or redress the violation of Lakaro's rights under such Sections.

18. HEADINGS

The headings of paragraphs are inserted for convenience and shall not affect any interpretation of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

EMPLOYEE:

By: /s/ Bob Trachtenberg  
-----  
Name: Bob Trachtenberg

LAKARO BIOPHARMACEUTICALS, INC.

By: /s/ Morris Laster  
-----  
Name: Morris Laster  
Title: Chief Executive Officer

EMPLOYMENT AGREEMENT

This employment agreement (the "Agreement") is effective as of July 15, 1999 (the "Effective Date"), by and between PARTEC LTD., an Israeli company with its principal place of business at Sha'arei Ha'ir, 216 Jaffa Road, Jerusalem (the "Company") and BOB TRACHTENBERG, I.D. No. 310977764, of Gidon 22, Jerusalem (the "Employee").

WHEREAS the Employee has been employed by the Company as General Counsel and Secretary since 18 October 1998;

WHEREAS the Company desires to continue to employ the Employee in the position of General Counsel and Secretary (the "Position");

WHEREAS the Employee desires have his employment continued by the Company and fulfill the responsibilities of the Position; and

WHEREAS the parties desire to set forth the conditions of employment pursuant to which the Employee will be continued to be employed by the Company;

IT IS HEREBY AGREED BY AND BETWEEN THE PARTIES AS FOLLOWS:

1. PREAMBLE

The preamble to this Agreement and any attachments thereto are an integral part of this Agreement.

2. JOB DESCRIPTION

The Employee shall be responsible for the managing the legal and corporate activities of the Company. He shall report directly to the Chief Executive Officer. The description of responsibilities set forth herein shall serve as a general statement of the duties, responsibilities and authority of the Employee. Additional duties, responsibilities and authority may be assigned to the Employee by the Chief Executive Officer from time to time in his discretion.

3. WORKING HOURS

The Employee shall be employed by the Company on a full-time basis, namely for not less than forty-four (44) hours per week (inclusive of meal time). The Employee agrees that his position is considered to be a management position as defined in the Hours of Work and Rest Law - 1951, which requires a special measure of personal trust. Accordingly, the provisions of the Hours of Work and Rest Law - 1951 shall not apply and the Employee shall not be entitled to receive any additional payment for his work other than those that are set forth in this Agreement.

4. TERM OF AGREEMENT

This Agreement shall take effect from the Effective Date and shall remain in effect through the third anniversary of such date, unless it is earlier terminated as hereinafter provided.

5. ANNUAL SALARY

5.1. The Employee's annual salary shall be as follows:

5.1.1. The Employee shall receive an annual gross salary of eighty

five thousand dollars (\$85,000) payable in New Israeli Shekels according to the representative rate of exchange in effect each month at the time Company salaries are calculated. The Employee's salary shall be paid in twelve equal installments, monthly in arrears.

- 5.1.2. On each anniversary date of this Agreement, the Employee's annual gross salary shall be increased by an amount to be determined by the Board of Directors and the Chief Executive Officer.
- 5.1.3. The salary set forth in paragraph 5.1.1, above, shall be referred to as the "Global Salary". The linkage of the Global Salary to the United States dollar is in lieu of any generally-applicable increases, whether the statutory cost of living increase ("Tosefet Yoker") or any other industry-wide increase applicable as the result of collective bargaining agreements or other order of the Ministry of Labor and Welfare (such as Tzavei Harhava). By signing this Agreement and accepting employment pursuant to its terms, the Employee represents that s/he will not claim any such increase.
- 5.1.4. The Employee shall not be entitled to receive from the Company any salary or payment of any kind other than the Global Salary and other payments specifically set forth in this Agreement or properly authorized by the Board of Directors and, should the Employee be a director of the Company at the time such other payments not specifically included in this Agreement are made, by the shareholders of the Company.

## 5.2. Other Terms of Employment

- 5.2.1. **BONUSES:** The Employee shall be eligible to receive one or more bonuses during any calendar year in the discretion of the Chief Executive Officer, acting in consultation with the Board of Directors.
- 5.2.2. **EXPENSES:** The Employee shall be entitled, in accordance with the Company's standard policy in effect from time to time, to be reimbursed for expenses (Hotza'ot Eshel) incurred in Israel and abroad in connection with Company business against receipt by the Company of appropriate vouchers, receipts or other proof of the Employee's expenditures.
- 5.2.3. **CONTINUING EDUCATION FUND:** The Employee shall be entitled to participate in the Company's continuing education fund (Keren Hishtalmut). The Company shall contribute an amount equal to five percent (5%) of the Employee's Global Salary and shall deduct two and a half percent (2.5%) of the Employee's Global Salary and transfer it as the Employee's contribution. The Employee consents to the deduction of this amount as his contribution to the continuing education fund. These contributions will be calculated up to the permissible tax-exempt salary ceiling according to the income tax regulations in effect from time to time. If the amount of the Company's contribution is greater than permitted by those regulations, the Employee shall not have the right to receive the excess amount.
- 5.2.4. **PROFESSIONAL LICENSE EXPENSES:** The Company shall reimburse the Employee for expenses incurred by him in connection with the maintenance of his professional licenses in Israel and the United States, including, but not limited to, the costs of any continuing legal education ("CLE") required as a condition of such licenses.

5.2.5. RESERVE DUTY: The Employee shall be entitled to receive his full Global Salary and other payments while performing reserve duty, provided that any amount received by the Employee from the I.D.F. or any other source (excluding Damei Calcala) is transferred to the Company or, in the alternative, an amount equal to that received from the I.D.F. or any other source is deducted from the Global Salary payable to the Employee.

5.2.6. ANNUAL LEAVE AND RECREATION PAY (DAMEI HAVRA'A): The Employee shall be entitled to twenty (20) working days of paid annual leave each year. The Employee shall not be allowed to accrue more than thirty (30) working days of annual leave except in unusual circumstances and with the permission of the Company. Should the Employee's annual leave balance exceed thirty (30) days at the end of any calendar year, the excess number of days shall be paid out in accordance with the provisions of the Annual Leave Law - 1951. The Company shall also pay the Employee for five (5) days of recreation (damei havra'a) each

year in accordance with the law and the normal practice of the Company in effect from time to time.

5.2.7. SICKNESS AND DISABILITY INSURANCE: The Employee shall be entitled to the number of days for sick leave permitted by law. Compensation for sick days utilized shall be paid according to his Global Salary only upon the presentation of medical documentation as required by the Company. The Employee shall be covered by disability insurance that provides monthly compensation. The cost of such insurance shall be borne by the Company. Notwithstanding the foregoing, the Employee shall not be entitled to receive compensation for sick leave if such compensation is covered by the Employee's disability insurance referred to above. However, should the amounts received by the Employee pursuant to such disability insurance be less than the amount that is properly payable as compensation for the Employee's available sick leave, according to the Global Salary, the Company shall pay the difference. It is understood and agreed that unused sick leave cannot be redeemed by the Employee. For the avoidance of doubt, it is understood and agreed that the payments made by the Company in consideration of sick leave covers all obligations of the Company pursuant to the Sick Leave Law - 1976.

### 5.3. PENSION BENEFITS AND SEVERANCE PAYMENTS

5.3.1. The Company will pay into a Provident Fund (Kupat Gemel) (in the meaning of paragraph 47 of the Income Tax Ordinance) in the form of Manager's Insurance or another form according to the Employee's choice and the Company's agreement, an amount equal to thirteen and one third percent (13 1/3 %) from the monthly Global Salary paid to the Employee, and the Employee will pay, on his own account, an amount equal to five percent (5%) from that Global Salary. The Employee agrees that the Company shall be entitled to deduct the Employee's contribution (5%) from the Employee's salary. For the avoidance of doubt, it is clarified that under no circumstance shall the Company's contribution exceed thirteen and one third percent (13 1/3 %) of the Global Salary in any one month.

5.3.2. Five percent (5%) of the thirteen and one third percent (13 1/3 %) that the Company contributes as set forth above and the five percent (5%) the Employee contributes, together with linkage and interest on the contributions, will be treated as pension benefits for the Employee or his survivors. The remaining eight and one third percent (8 1/3 %) of the Company's contribution, together with linkage and interest on

that portion, will be utilized to pay severance benefits to the Employee or his descendants in the event of the termination of his employment with the Company, except in those circumstances discussed below.

- 5.3.3. In the event that the Employee chooses Manager's Insurance, the policy shall belong to the Company as long as it employs the Employee and it makes the required payments on the policy. The payments made

into the Kupat Gemel pursuant to paragraph 5.3.1, above, shall fulfill the Company's obligation for severance payment pursuant to the Severance Compensation Law - 1963. Upon the termination of the Employee's employment, for whatever reason, and upon his final departure from the Company, the Employee or his descendants shall be entitled to receive the ownership of all rights which have accrued on his behalf in the Kupat Gemel or the ownership of the Manager's Insurance policy, as appropriate and subject to the provisions of section 6, below.

- 5.3.4. In the event that there is a difference in the Employee's favor between the amount to which he is entitled to receive pursuant to the Severance Compensation Law - 1963 and the severance payment amount (including linkage and interest) that is in the Kupat Gemel or Manager's Insurance policy, the Company shall pay that difference. The Company shall be obligated to pay such difference whether the termination of the Employee's employment is at the Employee's initiative or the Company's, except in the case of termination pursuant to paragraphs 6.3 and 6.4, below. For the avoidance of doubt, it is understood that in the event that the severance payment amount (including linkage and interest) that is in the Employee's Kupat Gemel or Manager's Insurance policy exceeds the amount to which he is entitled to receive as severance compensation pursuant to the Severance Compensation Law - 1963, the difference shall not be transferred to the Employee, including to his pension account, but shall be the property of the Company.

## 6. TERMINATION OF EMPLOYMENT

- 6.1. Either party may terminate the Employee's employment with the Company without cause at any time upon three (3) month's notice. The Company shall have the right, in its sole discretion, to require the Employee to continue working for the Company during the notice period. If the Employer terminates the Employee without cause pursuant to this section, the Board of Directors shall take the necessary steps so that (a) any outstanding, but unvested, options granted to the Employee shall vest upon the effective date of his termination; and (b) the period during which the Employee shall be permitted to exercise such options shall be extended to two (2) years from the effective date of his termination as defined in the Share Option Plan governing the options in question.
- 6.2. The Employee's employment shall be terminated by his death or disability. (For purposes of this section, "disability" shall be deemed to have occurred if the Employee is unable, due to any physical or mental disease or condition, to perform his normal duties of employment for 120 consecutive days or 180 days in any twelve month period.) In such an event, he shall be entitled to continue to receive his annual salary for three (3) months following his last day of actual employment by the Company. Such amount shall be in addition to any severance payment he is entitled to receive according the provisions of the Severance Compensation Law - 1963. In addition, the Board of Directors

shall take the necessary steps so that (a) any outstanding, but unvested, options granted to the Employee shall vest upon the effective date of his termination; and (b) the period during which the Employee shall be permitted to exercise such options shall be extended to two (2) years from the effective date of his termination as defined in the Share Option Plan governing the options in question. Should the Employee's employment be terminated as a result of his death, the benefits granted herein, shall be granted instead to his lawful heir or heirs.

- 6.3. Notwithstanding the foregoing, the Company may terminate the Employee immediately and without prior notice in the following circumstances: (a) a material breach of the Employee's obligations pursuant to paragraphs 8.8, 8.9 and 8.10 (confidentiality and non-competition); (b) a material breach by the Employee of any other provision of this Agreement, which is not cured by the Employee within fifteen (15) days after receiving notice thereof from the Company containing a description of the breach or breaches alleged to have occurred; (c) the habitual neglect or gross failure by the Employee to adequately perform the duties of his position; (d) any act of moral turpitude or criminal action connected to his employment with the Company or his place of employment; or (e) the Employee's refusal to comply with or his violation of lawful instructions of the Chief Executive Officer or the Board of Directors.
- 6.4. In the event that Employee's employment has been terminated in accordance with paragraph 6.3, above, the Employee shall not be entitled to receive any of the severance payments set forth in paragraphs 5.3.4 and 6.2, above.

## 7. TAXES AND OTHER PAYMENTS

- 7.1. Unless otherwise specifically provided for in this Agreement, the Company shall not be liable for the payment of taxes or other payments for which the Employee is responsible as result of this Agreement or any other legal provision, and the Employee shall be personally liable for such taxes and other payments.
- 7.2. The Employee hereby agrees that the Company shall deduct from his Global Salary the Employee's national insurance fees, income tax and other amounts required by law or the terms of this Agreement. The Company shall provide the Employee with documentation of such deductions.

## 8. THE OBLIGATIONS OF THE EMPLOYEE

- 8.1. The Employee agrees to devote his entire business time, energy, abilities and experience to the performance of his duties, effectively and in good faith.
- 8.2. During the period of his employment, the Employee shall not be employed, whether or not during regular business hours, for pay by any other party other than the Company. The Employee must receive the prior written consent of the Company before assuming an unpaid position outside the Company. Notwithstanding the foregoing, the Employee may, with the written

permission of the Chairman of the Board of Directors, become a member of the Board of Directors of another company and may accept any compensation in connection with such position.

- 8.3. The Employee agrees to immediately inform the Company of any Company issue or transaction in which the Employee has a direct or indirect personal interest and/or where such issue or transaction could cause a conflict of interest for the Employee in the fulfillment of his

responsibilities as an employee of the Company.

- 8.4. The Employee hereby gives irrevocable instructions and permission to the Company to deduct from any amounts owed to the Employee by the Company, including amounts payable as severance compensation, (a) any debt he has or will have to the Company; and/or (b) any amount that was wrongfully or mistakenly paid to him by the Company. Any such amounts to be deducted shall be calculated in real terms as of the date of the deduction, including linkage to cost of living index.
- 8.5. The Company may at its discretion and at any time apply for and procure as owner and for its own benefit and at its own expense, insurance on the life of the Employee ("Key Man Life Insurance") in such amounts and in such form or forms as the Company may choose. The Employee shall cooperate with the Company in procuring such insurance and shall, at the Company's request, submit to such medical examinations, supply such information and execute such documents as may be required by the insurance company or companies to whom the Company has applied for such insurance. Neither the Employee nor any of his dependents shall have any interest whatsoever in any such policy or policies, or in the proceeds thereof.
- 8.6. The Employee declares that the terms and conditions of his employment are personal and confidential and will not be disclosed by him.
- 8.7. The Employee declares that he is free to enter into this Agreement and that he has no obligations of any kind to any third party that would impair this Agreement, either as an employee or an independent contractor. The Employee further declares that as long as he remains an employee of the Company, he will not incur any such obligations.
- 8.8. The Employee agrees to keep confidential (a) all professional, scientific, commercial, and business information; and (b) any other information or document that comes to the Employee's knowledge in connection with the affairs of the Company (collectively, the "Confidential Information"), and agrees not to use or exploit the Confidential Information or to disclose it to any third party where such use, exploitation or disclosure is not directly related to the affairs of the Company, unless the Company gives prior written authorization of such disclosure.
- 8.9. The Employee agrees that during his employment by the Company and thereafter he (a) will not disseminate or otherwise make use of the Confidential Information or of other non-public information of which he  
  
learned while working for the Company, except where such dissemination or use is directly related to the affairs of the Company; (b) will maintain the confidentiality of the Confidential Information; and (c) will not in any way act to injure the reputation of the Company or any of its affiliated companies.
- 8.10 The Employee understands and recognizes that his services to the Company are special and unique. Therefore, he agrees that during the term of this Agreement and for one (1) year after the termination for any reason of his employment, he shall not be employed in or give any services to any business or third party that competes with the Company or whose activities conflict with the activities of the Company, unless the Chairman of the Board of Directors has given his explicit written consent prior the commencement of such employment or the giving of such services.
- 8.11 Upon termination of his employment, the Employee agrees to assist the Company with an orderly transition of his responsibilities and to return to the Company any documents, information and/or materials that were given to him or which were created by him in connection with his

employment.

## 9. INTELLECTUAL PROPERTY RIGHTS

- 9.1. The Employee declares that he is aware that anything that is done by him in the Company or in connection with the Company, whether it be an invention, a discovery, or the development of an idea or a thing, all within the framework of the Company's business (the Development") shall belong to and be controlled by the Company, unless the Board of Directors shall, in writing, direct otherwise.
- 9.2. The Company shall have the right to fully utilize and exploit the Development, as it sees fit, including changing it, registering part or all of it as a patent, whether in Israel or abroad, selling it, transferring it to a third party, all without being required to either receive the Employee's consent or pay the Employee any additional payment for such Development apart from any payment he receives pursuant to this Agreement.
- 9.3. The Development and any subsequent intellectual property arising therefrom shall remain the sole property of the Employer even after the Employee's employment terminates for any reason. The termination of this Agreement, whether due to its breach or its own terms, shall not impair the Company's exclusive rights in the Development. Notwithstanding the termination of this Agreement, the Board of Directors shall have the discretion to award the Employee a cash payment in accordance with the terms of paragraph 5.2.1, above, as a result of any Development or subsequent intellectual property arising therefrom developed primarily by the Employee.
- 9.4. The Employee may not do anything with the Development or any related materials without the knowledge and prior consent of the Company. The Employee declares that he neither has nor will have any rights in the Development or its fruits and that all rights to the Development and its fruits shall fully reside in the Company.
- 9.5. Even in the event that at the time of the termination of the Employee's employment for any reason the Development has not been completed, the Employee shall be prohibited from any continued activity in connection with the subject of the Development, alone or in concert with others, that is not explicitly allowed in writing by the Company. The Company alone will be the sole owner of the uncompleted Development and shall have the sole right to complete the Development or to take any other action in connection with the Development.

## 10. INDEMNIFICATION

The Company shall take whatever steps are necessary to establish a policy of indemnifying its officers, including, but not limited to the Employee, for all actions taken in good faith in pursuit of their duties and obligations to the Company. Such steps shall include, but shall not necessarily be limited to, the obtaining of an appropriate level of Directors and Officers Liability coverage.

## 11. GENERAL

- 11.1. It is agreed that the provisions of this Agreement represent the full scope of the agreement between the parties and that neither side shall be bound by any promises, declarations, exhibits, agreements or obligations, oral or written, that are not included in this Agreement prior to its execution. Any changes or amendments to this Agreement must be in writing and signed by both parties.
- 11.2. This Agreement shall be governed by, and construed and interpreted under, the laws of the State of Israel. The parties agree that any legal claim lodged by one party against the other arising from the

terms of this Agreement shall be adjudicated only by the appropriate court in Jerusalem, Israel.

11.3. If any provision of this Agreement shall be declared by a court of competent jurisdiction to be invalid, illegal or incapable of being enforced in whole or in part, the remaining conditions and provisions or portions thereof shall nevertheless remain in full force and effect and enforceable, and no provision shall be deemed dependent upon any other covenant or provision unless so expressed herein.

11.4. The rights, benefits, duties and obligations under this Agreement shall inure to, and be binding upon, the Company, its successors and assigns, and upon the Employee and his legal representatives. This Agreement constitutes a personal service agreement, and the performance of the Employee's obligations hereunder may not be transferred or assigned by the Employee.

11.5 The failure of either party to insist upon the strict performance of any of the terms, conditions and provisions of this Agreement shall not be construed as a waiver or relinquishment of future compliance therewith or with any other term, condition or provision hereof, and said terms, conditions and provisions shall remain in full force and effect. No waiver of any term or

condition of this Agreement on the part of either party shall be effective or any purpose whatsoever unless such waiver is in writing and signed by such party.

11.6 The headings of Sections are inserted for convenience and shall not affect any interpretation of this Agreement.

## 12. NOTICES

12.1. A notice that is sent by registered mail to a party at its address as set forth in paragraph 12.2, below, shall be deemed received three (3) days after its posting, and the receipt stamped by the post office shall represent definitive evidence of the date of mailing.

12.2. The addresses of the parties for the purposes of this Agreement are:

PARTEC LTD.:

216 Jaffa Road  
Jerusalem 94383

EMPLOYEE:

Gidon 22  
Jerusalem 93506

IN WITNESS WHEREOF the parties have hereunto set their hands at the place and on the date first above written.

Partec Ltd.

By

/s/ Morris Laster

/s/ Bob Trachtenberg

-----  
Employee

EMPLOYMENT AGREEMENT

This Agreement by and between KERYX BIOPHARMACEUTICALS, INC. ("Keryx"), a Delaware corporation having an address at 5 Kiryat Mada, Har Hotzvim, Jerusalem, Israel 91236 and ROBERT GALLAHUE, JR., an individual residing at 544 Sharpner's Pond Road, North Andover, Massachusetts 01845 United States of America ("Gallahue").

WITNESSETH:

WHEREAS, the Corporation desires to employ Gallahue as Chief Financial Officer and Treasurer of Keryx and Gallahue desires to be employed by the Keryx as Chief Financial Officer and Treasurer of Keryx, all pursuant to the terms and conditions hereinafter set forth;

NOW THEREFORE, in consideration of the foregoing and the mutual promises and covenants herein contained, it is agreed as follows:

1. EMPLOYMENT DUTIES

Keryx hereby engages and employs Gallahue, and Gallahue accepts engagement and employment, as Chief Financial Officer and Treasurer of Keryx, to direct, supervise and have responsibilities for the financial affairs of Keryx and for any other appropriate areas and tasks which the Board of Directors and/or the Chief Executive Officer may assign to him. Gallahue acknowledges and agrees that the performance by Gallahue of his duties hereunder may require significant domestic and international travel by Gallahue.

2. TERM

Gallahue's employment hereunder shall be for a term of three (3) years commencing on June 29, 2000, and continuing through June 29, 2003 (the "Initial Term"), with successive one-year renewals thereafter (the "Renewal Terms") unless sooner terminated as hereinafter provided. (The Initial Term and Renewal Terms are collectively referred to as the "Term.")

3. COMPENSATION

(a) As compensation for the performance of his duties on behalf of Keryx, Gallahue shall be compensated as follows:

(i) BASE SALARY. Gallahue shall receive an annual gross base salary of one hundred and fifty thousand dollars (\$150,000) payable in accordance with the Corporation's payroll policies and subject to standard payroll deductions and withholdings. The Corporation's Board of Directors shall review Gallahue's performance and the Corporation's financial and operating results on at least an annual basis, and may increase Gallahue's base salary as it, in its reasonable discretion, deems appropriate based on such review.

(ii) BONUS. Gallahue shall be eligible to receive one or more bonuses during any calendar year in the discretion of the Chief Executive Officer, acting in consultation with the Board of Directors.

(iii) EQUITY. The Corporation will grant Gallahue options (the "Options") to purchase 90,000 shares of the common stock of the Corporation (the "Initial Grant") at an exercise price equal to \$10.00 per share (the "Exercise Price"), which options shall be exercisable for a period of 10 years from the date of issuance. The Initial Grant and the Exercise Price give effect to the Corporation's one-for-two common stock dividend declared by the Board of

Directors on June 14, 2000 (the "June 2000 Stock Dividend"). Gallahue's Options will be granted under the Corporation's 2000 Stock Option Plan (the "Plan") and will be subject to the terms and conditions thereof, including any Stock Option Agreement entered into by Gallahue and the Corporation thereunder. In accordance with the Plan, should any change be made to the Common Stock by reason of any stock split, stock dividend

(other than the June 2000 Stock Dividend, for which such adjustment has already been made), recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, appropriate adjustments shall be made to (A) the total number and/or class of securities subject to such options and (B) the Exercise Price in order to reflect such change and thereby preclude a dilution or enlargement under such options. One-third of the Initial Grant shall vest on each anniversary date following the grant date of such options, provided that at the time of vesting, Gallahue is employed by the Corporation or by a parent, subsidiary or affiliate of the Corporation.

(b) EXPENSES. Keryx shall reimburse Gallahue for all normal, usual and necessary expenses incurred by Gallahue in furtherance of the business and affairs of Keryx, including travel and entertainment, against receipt by Keryx of appropriate vouchers or other proof of Gallahue's expenditures and otherwise in accordance with such Expense Reimbursement Policy as may from time to time be adopted by the Board of Directors of Keryx.

(c) ANNUAL LEAVE AND HOLIDAYS. Gallahue shall be entitled during the term of this Agreement to twenty (20) business days of annual leave per year as well as the following holidays: New Year's Day, President's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and the day following, and Christmas Day.

(d) EMPLOYEE BENEFITS. During the Term of his employment, Gallahue shall be entitled to participate in all employee and fringe benefit plans and programs generally offered to other members of the Corporation's management who are similarly situated, including, without limitation, any pension, profit sharing, incentive, retirement, insurance, health and disability benefits and plans. The Corporation reserves its right to modify or terminate any of its employee and fringe benefit plans and programs at any time.

4. REPRESENTATIONS AND WARRANTIES  
BY GALLAHUE AND KERYX

(a) Gallahue hereby represents and warrants to Keryx as follows:

(i) Neither the execution and delivery of this Agreement nor the performance by Gallahue of his duties and other obligations hereunder violate any statute, law, determination or award, or conflict with or constitute a default under (whether immediately, upon the giving of notice or lapse of time or both) any prior employment agreement, contract, or other instrument to which Gallahue is a party or by which he is bound.

(ii) Gallahue has the full right, power and legal capacity to enter and deliver this Agreement and to perform his duties and other obligations hereunder. This Agreement constitutes the legal, valid and binding obligation of Gallahue enforceable against him in accordance with its terms. No approvals or consents of any persons or entities are required for Gallahue to execute and deliver this Agreement or perform his duties and other obligations hereunder.

(iii) Gallahue will devote his entire business time, energy, abilities and experience to the performance of his duties, effectively and in good faith. Further, during the Term, Gallahue shall not render services as an employee, consultant or otherwise, whether or not during regular business hours, for pay to any other party other than the Corporation without the written permission of the Chief Executive Officer.

(b) Keryx hereby represents and warrants to Gallahue as follows:

(i) Keryx is duly organized, validly existing and in good standing under the laws of the State of Delaware, with all requisite corporate power and authority to own its properties and conduct its business in the manner presently conducted.

(ii) Keryx has the full power and authority to enter into this Agreement and to incur and perform its obligations hereunder.

(iii) The execution, delivery and performance by Keryx of this Agreement does not conflict with or result in a material breach or violation of or constitute a material default under (whether immediately, or upon the giving of notice or lapse of time or both) the certificate of incorporation or by-laws of Keryx, or any agreement or instrument to which Keryx is a party or by which Keryx or any of its properties may be bound or affected.

5. CONFIDENTIAL INFORMATION

Gallahue agrees to sign and comply with the Corporation's Proprietary Information and Inventions Agreement, annexed hereto as Exhibit A.

6. NON-COMPETITION

(a) Gallahue understands and recognizes that his services to Keryx are special and unique and agrees that, during the Term, and for a period of 12 months from the date of termination of his employment hereunder, he shall not in any manner, directly or indirectly, on behalf of himself or any person, firm, partnership, joint venture, corporation or other business entity ("Person"), enter into or engage in any business directly competitive with Keryx's business, either as an individual for his own account, or as a partner, joint venturer, treasurer, agent, consultant, salesperson, officer, director or shareholder of a Person operating or intending to operate within the area that Keryx is, at the date of termination, conducting its business (the "Restricted Businesses"); provided, however, that nothing herein will preclude Gallahue from holding one percent (1%) or less of the stock of any publicly traded Corporation.

(b) In the event that Gallahue breaches any provisions of this Section 6 or there is a threatened breach, then, in addition to any other rights which Keryx may have, Keryx shall be entitled, without the posting of a bond or other security, to injunctive relief to enforce the restrictions contained herein. In the event that an actual proceeding is brought in equity to enforce the provisions of this Section 6, Gallahue shall not argue as a defense that there is an adequate remedy at law nor shall Keryx be prevented from seeking any other remedies that may be available.

7. NON-SOLICITATION AND NON-INTERFERENCE

During the Term, and for 12 months thereafter, Gallahue shall not, directly or indirectly, without the prior written consent of Keryx:

(a) solicit or induce any employee of Keryx or any subsidiary, parent, affiliate or successor ("Affiliate") of Keryx to leave the employ of Keryx or any Affiliate or hire for any purpose any employee of Keryx or any Affiliate or any employee who has left the employment of Keryx or any Affiliate within six months of the termination of said employee's employment with Keryx; or

(b) interfere with or disrupt or attempt to disrupt Keryx's or its Affiliates' business relationship with any of their partners, service providers, clients, customers and/or suppliers.

8. TERMINATION

(a) Either party may terminate Gallahue's employment with the Corporation without cause at any time upon ninety (90) days' notice. The

Corporation shall have the right, in its sole discretion, to require Gallahue to continue working for the Corporation during the notice period. If the Employer terminates the Employee without cause pursuant to this section, and only if Gallahue executes a waiver and release of claims substantially in the form set forth in Exhibit B, attached hereto, the Board of Directors shall take the necessary steps so that (i) any outstanding, but unvested, options granted to the Employee shall vest upon the effective date of his termination; and (ii) the period during which the Employee shall be permitted to exercise such options shall be extended to two (2) years from the effective date of his termination as defined in the Stock Option Plan governing the options in question.

(b) Gallahue's employment shall be terminated by his death or disability. (For purposes of this section, "disability" shall be deemed to have occurred if Gallahue is unable, due to any physical

or mental disease or condition, to perform his normal duties of employment for 120 consecutive days or 180 days in any twelve-month period.) In such an event, he shall be entitled to continue to receive his base salary for three (3) months following his last day of actual employment by the Corporation. In addition, the Board of Directors shall take the necessary steps so that (a) any outstanding, but unvested, options granted to the Employee shall vest upon the effective date of his termination; and (b) the period during which the Employee shall be permitted to exercise such options shall be extended to two (2) years from the effective date of his termination as defined in the Share Option Plan governing the options in question. Should the Employee's employment be terminated as a result of his death, the benefits granted herein, shall be granted instead to his lawful heir or heirs. In either case (disability or death), accelerated vesting and extended exercise of the options will only be granted if Gallahue or, in the case of his death, his legal successor, together with his lawful heir or heirs, execute a waiver and release of claims substantially in the form set forth in Exhibit B hereto.

(c) Notwithstanding the foregoing, the Corporation may terminate Gallahue immediately and without prior notice in the following circumstances: (a) a material breach of Gallahue's obligations pursuant to Sections 4(a), 5, 6 and/or 7; (b) a material breach by Gallahue of any other provision of this Agreement, which is not cured by Gallahue within fifteen (15) days after receiving notice thereof from the Corporation containing a description of the breach or breaches alleged to have occurred; (c) the habitual neglect or gross failure by Gallahue to adequately perform the duties of his position; (d) any act of moral turpitude or criminal action connected to his employment with the Corporation or his place of employment; or (e) Gallahue's refusal to comply with or his violation of lawful instructions of the Chief Executive Officer or the Board of Directors.

(d). In the event that Gallahue's employment has been terminated in accordance with Section 8(c), above, Gallahue shall not be entitled to receive any of the severance benefits set forth in Section 8(a) or (b), above.

## 9. INDEMNIFICATION

The Corporation shall take whatever steps are necessary to establish a policy of indemnifying its officers, including, but not limited to Gallahue, for all actions taken in good faith in pursuit of their duties and obligations to the Corporation. Such steps shall include, but shall not necessarily be limited to, the obtaining of an appropriate level of Directors and Officers Liability coverage.

## 10. NOTICES

Any notice or other communication under this Agreement shall be in writing and shall be deemed to have been given when delivered personally against receipt thereof; two (2) business days after being sent by Federal Express or similar internationally recognized courier service; or seven (7) business days after being mailed registered or certified mail, postage prepaid, return receipt requested, to either party at the address set forth above, or to such other

address as such party shall give by notice hereunder to the other party.

11. SEVERABILITY OF PROVISIONS

If any provision of this Agreement shall be declared by a court of competent jurisdiction to be invalid, illegal or incapable of being enforced in whole or in part, the remaining conditions and provisions or portions thereof shall nevertheless remain in full force and effect and enforceable to the extent they are valid, legal and enforceable, and no provision shall be deemed dependent upon any other covenant or provision unless so expressed herein.

12. ENTIRE AGREEMENT; MODIFICATION

This Agreement contains the entire agreement of the parties relating to the subject matter hereof, and the parties hereto have made no agreements, representations or warranties relating to the subject matter of this Agreement that are not set forth herein. No modification of this Agreement shall be valid unless made in writing and signed by the parties hereto.

13. BINDING EFFECT

The rights, benefits, duties and obligations under this Agreement shall inure to, and be binding upon, Keryx, its successors and assigns, and upon Gallahue and his legal representatives. This Agreement constitutes a personal service agreement, and the performance of Gallahue's obligations hereunder may not be transferred or assigned by Gallahue.

14. NON-WAIVER

The failure of either party to insist upon the strict performance of any of the terms, conditions and provisions of this Agreement shall not be construed as a waiver or relinquishment of future compliance therewith, and said terms, conditions and provisions shall remain in full force and effect. No waiver of any term or condition of this Agreement on the part of either party shall be effective for any purpose whatsoever unless such waiver is in writing and signed by such party.

15. GOVERNING LAW

This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the Commonwealth of Massachusetts without regard to principles of conflicts of law. Additionally, the prevailing party in any litigation shall be entitled to an additional award of its attorney fees, cost and expenses.

16. REMEDIES FOR BREACH

Gallahue understands and agrees that any breach of Sections 4(a) 5, 6 and/or 7 of this Agreement by him could cause irreparable damage to Keryx and to the Affiliates, and that monetary damages alone would not be adequate and, in the event of such breach, Keryx shall have, in addition to any and all remedies of law, the right to an injunction, specific performance or other equitable relief to prevent or redress the violation of Keryx's rights under such Sections.

17. HEADINGS

The headings of paragraphs are inserted for convenience and shall not affect any interpretation of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

EMPLOYEE:

By: /s/ Robert Gallahue, Jr.  
-----

Name: Robert Gallahue, Jr.

KERYX BIOPHARMACEUTICALS, INC.

By: /s/ Morris Laster  
-----

Name:

Title:

EXHIBIT A

PROPRIETARY INFORMATION AND INVENTIONS AGREEMENT

In consideration of my employment or continued employment by Keryx Biopharmaceuticals, Inc. (together with any subsidiary of Keryx Biopharmaceuticals, Inc., the "Company"), and the compensation now and hereafter paid to me, I hereby agree as follows:

1. RECOGNITION OF COMPANY'S RIGHTS; NONDISCLOSURE. At all times during the term of my employment and thereafter, I will hold in strictest confidence and will not disclose, use, lecture upon or publish any of the Company's Proprietary Information (defined below), except as such disclosure, use or publication may be required in connection with my work for the Company, or unless an officer of the Company expressly authorizes such in writing.

The term "Proprietary Information" shall mean trade secrets, confidential knowledge, data or any other proprietary information of the Company. By way of illustration but not limitation, "Proprietary Information" includes (a) inventions, mask works, trade secrets, ideas, processes, formulas, source and object codes, data, programs, other works of authorship, know-how, improvements, discoveries, developments, designs and techniques (hereinafter collectively referred to as "Inventions"); and (b) information regarding plans for research, development, new products, regulatory matters, marketing and selling, business plans, budgets and unpublished financial statements, licenses, prices and costs, suppliers and customers; and information regarding the skills and compensation of other employees of the Company.

2. THIRD PARTY INFORMATION. I understand, in addition, that the Company has received, and in the future will receive, from third parties confidential or proprietary information ("Third Party Information") subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. During the term of my employment and thereafter, I will hold Third Party Information in the strictest confidence and will not disclose to anyone (except in connection with my work for the Company), unless expressly authorized by an officer of the Company in writing.

3. ASSIGNMENT OF INVENTIONS

3.1 ASSIGNMENT

(a) I hereby assign to the Company all my right, title and

interest in and to any and all Inventions and all patent rights, copyrights, mask work rights, trademarks, trade secret rights, all other rights throughout the world in connection therewith, and the goodwill associated with all of the foregoing (collectively, "Proprietary Rights"), whether or not patentable or registrable under patent, copyright, trademark or similar statutes, made or conceived or reduced to practice or learned by me, either alone or jointly with others, during the period of my employment with the Company. Inventions assigned to, or as directed by, the Company under this Paragraph 3 are hereinafter referred to as "Company Inventions". I agree, upon request, to execute, verify and deliver assignments of the Proprietary Rights to the Company or its designee and I hereby appoint the Company my attorney-in-fact with respect to the Proprietary Rights for the purpose of effecting any or all of the Company's rights to the Proprietary Rights.

3.1 GOVERNMENT. I also agree to assign to or as directed by the Company all my right, title and interest in and to any and all Inventions, full title to which is required to be assigned to the United States of America by a contract between the Company and United States of America or any of its agencies.

3.2 WORKS FOR HIRE. I acknowledge that all original works of authorship which are made by me (solely or jointly with others) within the scope of my employment and which are protectable by copyright are "works made for hire", as that term is defined in the United States Copyright Act (17 U.S.C. Section 101).

4. ENFORCEMENT OF PROPRIETARY RIGHTS. From time to time, I will assist the Company in every proper way to obtain and enforce United States and foreign Proprietary Rights relating to Company Inventions in any and all countries. My obligation to assist the Company with respect to Proprietary Rights relating to such Company Inventions in any and all countries shall continue beyond the termination of my employment, but the Company shall compensate me at a reasonable rate after my termination for the time actually spent by me at the Company's request on such assistance.

I hereby waive and quitclaim to the Company any and all claims, of any nature whatsoever, which I now or may hereafter have for infringement of any Proprietary Rights assigned hereunder to the Company.

5. OBLIGATION TO KEEP COMPANY INFORMED. During the period of my employment, I will promptly disclose all Inventions to the Company fully and in writing and will hold such Inventions in trust for the sole right and benefit of the Company. In addition, after termination of my employment, I will promptly disclose all patent applications filed by me within a year after termination of employment.

6. PRIOR INVENTIONS. Inventions, if any, patented or unpatented, which I made prior to the commencement of my employment with the Company are excluded from the scope of this Agreement. To preclude any possible uncertainty, I have set forth in Exhibit A attached hereto a complete list of all Inventions (i) that I have, alone or jointly with others, conceived, developed or reduced to practice or caused to be conceived, developed or reduced to practice prior to the commencement of my employment with the Company, (ii) that I consider to be my property or the property of third parties and (iii) that I wish to have excluded from the scope of this Agreement. If disclosure of any such Invention on Exhibit A would cause me to violate any prior confidentiality agreement, I understand that I am not to list such Inventions in Exhibit A but am to inform the Company that all such Inventions have not been listed for that reason.

7. NO IMPROPER USE OF MATERIALS. During my employment by the Company, I will not improperly use or disclose any confidential information or trade secrets, if any, of any former employer or any other person to whom I have an obligation of confidentiality, and I will not bring onto the premises of the Company any unpublished documents or any property belonging to any former employer or any other person to whom I have an obligation of confidentiality unless consented to in writing by that former employer or person.

8. NO CONFLICTING OBLIGATION. I represent that my performance of all the terms of this Agreement and my performance of my duties as an employee of the Company do not and will not breach any agreement to keep in confidence information acquired by me in confidence or in trust prior to my employment by the Company. I have not entered into, and I agree I will not enter into, any agreement either written or oral in conflict herewith.

9. RETURN OF COMPANY DOCUMENTS. When I leave the employ of the Company, I will deliver to the Company any and all drawings, notes, memoranda, specifications, devices, formulas, molecules, cells, storage media, including software, documents and computer printouts, together with all copies thereof, and any other material containing or disclosing any Company Inventions, Third Party Information or Proprietary Information of the Company. I further agree that any property situated on the Company's premises and owned by the Company, including disks and other storage media, filing cabinets or other work areas, is subject to inspection by Company personnel at any time with or without notice. Prior to leaving, I will cooperate with the Company in completing and signing the Company's termination statement for technical and management personnel.

10. LEGAL AND EQUITABLE REMEDIES. Because my services are personal and unique and because I may have access to and may become acquainted with the Proprietary Information of the Company, the Company shall have the right to enforce this Agreement and any of its provisions by injunction, specific performance or other equitable relief, without bond, without prejudice to any other rights and remedies that the Company may have for a breach of this Agreement, and I waive the claim or defense that the Company has an adequate remedy at law. I shall not, in any action or proceeding to enforce any of the provisions of this Agreement, assert the claim or defense that such an adequate remedy at law exists.

11. NOTICES. Any notices required or permitted hereunder shall be given to me at the address specified below or at such other address as I shall specify in writing. Such notice shall be deemed given upon personal delivery to the appropriate address or if sent by certified or registered mail, three days after the date of mailing.

#### 12. GENERAL PROVISIONS.

12.1 GOVERNING LAW. This Agreement is executed under seal and will be governed by and construed according to the laws of the Commonwealth of Massachusetts.

12.2 ENTIRE AGREEMENT. This Agreement is the final, complete and exclusive agreement of the parties with respect to the subject matter hereof and supersedes and merges all prior discussions between us. No modification or amendment of this Agreement, nor any waiver of any rights under this Agreement, will be effective unless in writing, signed by the party to be charged. Any subsequent change or changes in my duties, salary or compensation will not affect the validity or scope of this Agreement. As used in this Agreement, the period of my employment includes any time during which I may be retained by the Company as a consultant.

12.3 SEVERABILITY. If one or more of the provisions in this Agreement are deemed unenforceable by law, then the remaining provisions will continue in full force and effect.

12.4 SUCCESSORS AND ASSIGNS. This Agreement will be binding upon my heirs, executors, administrators and other legal representatives and will be for the benefit of the Company, its successors, and its assigns. I may not assign any of my rights, or delegate any of my obligations, under this Agreement.

12.5 SURVIVAL. The provisions of this Agreement shall survive the termination of my employment and the assignment of this Agreement by the Company to any successor in interest or other assignee.

12.6 EMPLOYMENT. I agree and understand that nothing in this Agreement shall confer on me any right with respect to continuation of my employment with the Company, or shall it interfere in any way with my right or the Company's right to terminate my employment at any time, with or without cause.

12.7 WAIVER. No waiver by the Company of any breach of this Agreement shall be a waiver of any preceding or succeeding breach. No waiver by the Company of any right under this Agreement shall be construed as a waiver of any other right. The Company shall not be required to give notice to enforce strict adherence to all terms of this Agreement.

12.8 COUNTERPARTS. This Agreement may be executed in counterparts, all of which together shall for all purposes constitute one Agreement, binding on each of the parties hereto notwithstanding that each such party shall not have signed the same counterpart.

12.9 JURISDICTION AND VENUE; WAIVER OF JURY TRIAL. In case of any dispute hereunder, the parties will submit to the exclusive jurisdiction and venue of any court of competent jurisdiction sitting in Suffolk County, Massachusetts, and will comply with all requirements necessary to give such court jurisdiction over the parties and the controversy. EACH PARTY HEREBY WAIVES ANY RIGHT TO A JURY TRIAL AND TO CLAIM OR RECOVER PUNITIVE DAMAGES.

12.10 DISCLOSURE. I shall disclose the existence and terms of this Agreement to any employer or other person that I may work for or be engaged by after the termination of my employment or engagement at the Company. I agree that the Company may, after notification to me, provide a copy of this Agreement to any business or enterprise (i) which I may directly or indirectly own, manage, operate, finance, join, control or participate in the ownership, management, operation, financing, or control of, or (ii) with which I may be connected with as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise, or in connection with which I may use or

permit my name to be used. I will provide the names and addresses of any of such persons or entities as the Company may from time to time reasonably request.

This Agreement shall be effective as of the first day of my employment with the Company, namely June 29, 2000.

I UNDERSTAND THAT THIS AGREEMENT AFFECTS MY RIGHTS TO INVENTIONS I MAKE DURING MY EMPLOYMENT, AND RESTRICTS MY RIGHTS TO DISCLOSE OR USE THE COMPANY'S CONFIDENTIAL INFORMATION DURING OR SUBSEQUENT TO MY EMPLOYMENT.

I HAVE READ THIS AGREEMENT CAREFULLY AND UNDERSTAND ITS TERMS.

Signature:

\_\_\_\_\_  
Robert Gallahue, Jr.

Date: \_\_\_\_\_

ACCEPTED AND AGREED TO:  
Keryx Biopharmaceuticals, Inc.

By: \_\_\_\_\_  
Signature

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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EXHIBIT A  
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NONE

APPENDIX B

EMPLOYEE AGREEMENT AND RELEASE

Except as otherwise set forth in this Employee Agreement and Release (the "Agreement") between the undersigned and Keryx Biopharmaceuticals, Inc. (the "Corporation"), I hereby release, acquit and forever discharge the Corporation, its parents, affiliates and subsidiaries, and their officers, directors, agents, servants, employees, attorneys, shareholders, successors, assigns and affiliates, of and from any and all claims, liabilities, demands, causes of action, costs, expenses, attorneys fees, damages, indemnities and obligations of every kind and nature, in law, equity, or otherwise, known and unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way related to agreements, events, acts or conduct at any time prior to and including the execution date of this Agreement, including but not limited to: all such claims and demands directly or indirectly arising out of or in any way connected with my employment with the Corporation or the termination of that employment; claims or demands related to salary, bonuses, commissions, stock, stock options, or any other ownership interests in the Corporation, vacation pay, fringe benefits, expense reimbursements, severance pay, or any other form of compensation; claims pursuant to any federal, state or local law, statute, or cause of action including, but not limited to, Title VII of the Civil Rights Act of 1964, 42 U.S.C.ss. 2000e ET SEQ., the Age Discrimination in Employment Act, 29 U.S.C.ss. 621 ET SEQ. ("ADEA"), the Americans With Disabilities Act of 1990, 42 U.S.C.ss. 12101 ET SEQ., and the Massachusetts Fair Employment Practices Act, M.G.L. c.151B,ss. 1 ET SEQ., all as amended, and all claims arising out of the Fair Credit Reporting Act, 15 U.S.C.ss. 1681 ET SEQ., the Employee Retirement Income Security Act of 1974 ("ERISA"), 29 U.S.C.ss. 1001 ET SEQ., the Massachusetts Civil Rights Act, M.G.L. c.12ss.ss. 11H and 11I, the Massachusetts Equal Rights Act, M.G.L. c.93ss. 102 and M.G.L. c.214,ss.1C, the Massachusetts Labor and Industries Act, M.G.L. c. 149,ss. 1 ET SEQ., and the Massachusetts Privacy Act, M.G.L. c.214,ss.1B, all as amended;; tort law; contract law; wrongful discharge; discrimination; harassment; retaliation; fraud; defamation; emotional distress; and breach of the implied covenants of good faith and fair dealing.

I acknowledge that I am knowingly and voluntarily waiving and releasing any rights I may have under ADEA. I also acknowledge that the consideration given for the waiver and release in the preceding paragraph hereof is in addition to anything of value to which I was already entitled. I further acknowledge that I have been advised by this writing, as required by the ADEA, that; (a) my waiver and release do not apply to any rights or claims that may arise after the execution date of this Agreement; (b) I have been advised hereby that I have the right to consult with an attorney prior to executing this Agreement; (c) I have

twenty-one (21) days to consider this Agreement (although I may choose to voluntarily execute this Agreement earlier); (d) I have seven (7) days following the execution of this Agreement by the parties to revoke the Agreement; and (e) this Agreement shall not be effective until the date upon which the revocation period had expired, which shall be the eighth day after this Agreement is executed by me.

In giving this release, which includes claims that may be unknown to me at present, I hereby expressly waive and relinquish all rights and benefits under any law of any jurisdiction with respect to my release of any such presently unknown claims I may have against the Corporation.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Robert Gallahue, Jr.

EMPLOYMENT AGREEMENT

An agreement between KERYX (ISRAEL) LTD., an Israeli company with its principal place of business at 5 Kiryat Mada, Har Hotzvim, Jerusalem 91236 (the "Company") and NOA SHELACH I.D. No. 27853258, of Mazkeret Moshe 4, Jerusalem 94316 (the "Employee").

WHEREAS the Company desires to employ the Employee in the position of Vice President - Project Management (the "Position");

WHEREAS the Employee desires to be employed by the Company and fulfill the responsibilities of the Position; and

WHEREAS the parties desire to set forth the conditions of employment pursuant to which the Employee will be employed by the Company;

IT IS HEREBY AGREED BY AND BETWEEN THE PARTIES AS FOLLOWS:

1. PREAMBLE

The preamble to this Agreement and any attachments thereto are an integral part of this Agreement.

2. JOB DESCRIPTION

The duties, responsibilities and authority of the Employee in the Position are to oversee and manage all pre-clinical and clinical activities of the Company. The Employee shall report directly to the Chief Executive Officer or his designee. This description shall serve as a general statement of the duties, responsibilities and authority of the Employee. Additional duties, responsibilities and authority may be assigned to the Employee by the Company from time to time in its discretion.

3. WORKING HOURS

The Employee shall be employed by the Company on a full-time basis, namely for not less than forty-four (44) hours per week (inclusive of mealtime). The Employee agrees that his position is considered to be a management position as defined in the Hours of Work and Rest Law - 1951, which requires a special measure of personal trust. Accordingly, the provisions of the Hours of Work and Rest Law - 1951 shall not apply and the Employee shall not be entitled to receive any additional payment for his work other than those that are set forth in this Agreement.

4. TERM OF AGREEMENT

This Agreement shall take effect from the first day of the Employee's employment with the Company as Vice President - Project Management, on December 20, 2000, and shall remain in effect until one of the parties has given the notice required by paragraph 6, below.

5. SALARY

5.1 THE EMPLOYEE'S SALARY SHALL BE AS FOLLOWS:

5.1.1. The Employee shall receive an annual gross salary of seventy two thousand dollars (\$72,000) payable in New Israeli Shekels according to the representative rate of exchange in effect each month at the time Company salaries are calculated. The Employee's salary shall be paid in twelve equal installments, monthly in

arrears.

5.1.2. The salary set forth in paragraph 4.1.1, above, shall be referred to as the "Global Salary".

The Global Salary shall not be subject to, or include any generally-applicable increases, whether the statutory cost of living increase or any other industry-wide increase applicable as the result of collective bargaining agreements or other order of the Ministry of Labor and Welfare (such as Tzavei Harhava). By signing this Agreement and accepting

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employment pursuant to its terms, the Employee represents that s/he will not claim any such increase.

5.1.3. The Employee shall not be entitled to receive any salary or payment of any kind other than the Global Salary and other payments specifically set forth in this Agreement.

## 5.2. OTHER TERMS OF EMPLOYMENT

### 5.2.1. EXPENSES

The Employee shall be entitled, in accordance with the Company's standard policy in effect from time to time, to be reimbursed for expenses (Hotza'ot Eshel) incurred in Israel and abroad in connection with Company business.

### 5.2.2. CONTINUING EDUCATION FUND

The Employee shall be entitled to participate in the Company's continuing education fund (Keren Hishtalmut). The Company shall contribute an amount equal to five percent (5%) of the Employee's Global Salary and shall deduct two and a half percent (2.5%) of the Employee's Global Salary and transfer it as the Employee's contribution. The Employee consents to the deduction of this amount as his contribution to the continuing education fund. These contributions will be calculated up to the permissible tax-exempt salary ceiling according to the income tax regulations in effect from time to time. If the amount of the Company's contribution is greater than permitted by those regulations, the Employee shall not have the right to receive the excess amount.

### 5.2.3. RESERVE DUTY

The Employee shall be entitled to receive his full Global Salary and other payments while performing reserve duty, provided that any amount received by the Employee from the I.D.F. or any other source (excluding Damei Calcala) is transferred to the Company or, in the alternative, an amount equal to that received from the I.D.F. or any other source is deducted from the Global Salary payable to the Employee.

### 5.2.4. ANNUAL LEAVE AND RECREATION PAY (DAMEI HAVRA'A)

- a. The Employee shall be entitled to twenty (20) working days of paid annual leave each year. The Employee shall not be allowed to accrue more than thirty (30) working days of annual leave except in unusual circumstances and with the permission of the Company.
- b. Should the Employee's annual leave balance exceed thirty (30) days at the end of any calendar year, the excess number of days

shall be paid out in accordance with the provisions of the Annual Leave Law - 1951.

- c. The Company shall pay the Employee for five (5) days of recreation (damei havra'a) each year in accordance with the normal practice of the Company in effect from time to time.

#### 5.2.5. SICKNESS AND DISABILITY INSURANCE

- a. The Employee shall be entitled to the number of days for sick leave permitted by law. Compensation for sick days utilized shall be paid according to his Global Salary only upon the presentation of medical documentation.
- b. The Employee shall be covered by disability insurance that provides monthly compensation. The cost of such insurance shall not exceed two and half percent (2.5%) of the Employee's Global Salary.
- c. Notwithstanding the provisions of subparagraph (a), above, the Employee shall not be entitled to receive compensation for sick leave if such compensation is covered by the Employee's disability insurance referred to in subparagraph (b), above. However, should the amounts received by the Employee pursuant to such disability insurance be less than the amount that is properly payable as compensation for the Employee's

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available sick leave, according to the Global Salary, the Company shall pay the difference

- d. It is understood and agreed the Employee cannot redeem unused sick leave.
- e. For the avoidance of doubt, it is understood and agreed that the payments made by the Company in consideration of sick leave covers all obligations of the Company pursuant to the Sick Leave Law - 1976.

#### 5.3. PENSION BENEFITS AND SEVERANCE PAYMENTS

- 5.3.1. The Company will pay into a Provident Fund (Kupat Gemel) (in the meaning of paragraph 47 of the Income Tax Ordinance) in the form of Manager's Insurance or another form according to the Employee's choice and the Company's agreement, an amount equal to thirteen and one third percent (13 1/3 %) from the monthly Global Salary paid to the Employee, and the Employee will pay, on his own account, an amount equal to five percent (5%) from that Global Salary.
- 5.3.2. The Employee agrees that the Company shall be entitled to deduct the Employee's contribution (5%) from the Employee's salary.
- 5.3.3. For the avoidance of doubt, it is clarified that under no circumstance shall the Company's contribution exceed thirteen and one third percent (13 1/3 %) of the Global Salary in any one month.
- 5.3.4. Five percent (5%) of the thirteen and one third percent (13 1/3 %) that the Company contributes as set forth above and the five percent (5%) the Employee contributes, together with linkage and interest on the contributions, will be treated as pension benefits for the Employee or his survivors.
- 5.3.5. The remaining eight and one third percent (8 1/3 %) of the

Company's contribution, together with linkage and interest on that portion, will be utilized to pay severance benefits to the Employee or his descendants in the event of the termination of his employment with the Company, except in those circumstances discussed below.

- 5.3.6. In the event that the Employee chooses Manager's Insurance, the policy shall belong to the Company as long as it employs the Employee and it makes the required payments on the policy.

The payments made into the Kupat Gemel pursuant to paragraph 5.3.1, above, shall fulfill the Company's obligation for severance payment pursuant to the Severance Compensation Law - 1963.

- 5.3.7. Upon the termination of the Employee's employment, for whatever reason, and upon his final departure from the Company, the Employee or his descendants shall be entitled to receive the ownership of all rights which have accrued on his behalf in the Kupat Gemel or the ownership of the Manager's Insurance policy, as appropriate and subject to the provisions of paragraphs 6.1 and 6.2, below.

- 5.3.8. In the event that there is a difference in the Employee's favor between the amount to which he is entitled to receive pursuant to the Severance Compensation Law - 1963 and the severance payment amount (including linkage and interest) that is in the Kupat Gemel or Manager's Insurance policy, the Company shall pay that difference.

- 5.3.9. For the avoidance of doubt, it is understood that in the event that the severance payment amount (including linkage and interest) that is in the Employee's Kupat Gemel or Manager's Insurance policy exceeds the amount to which he is entitled to receive as severance compensation pursuant to the Severance Compensation Law - 1963, the difference shall not be transferred to the Employee, including to his pension account, but shall be the property of the Company.

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## 6. TERMINATION OF EMPLOYMENT

- 6.1. Either party may terminate the Employee's employment with the Company without cause at any time upon the legally required notice. The Company shall have the right, in its sole discretion, to require the Employee to continue working for the Company during the notice period.
- 6.2. Notwithstanding the foregoing, the Company may terminate the Employee immediately and without prior notice in the following circumstances: (a) a serious breach of faith; (b) the Employee committed a criminal offense connected to his employment with the Company or his place of employment; (c) the Employee refused to comply with or violated the reasonable instructions of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer or their designee.
- 6.3. In the event that Employee's employment has been terminated in accordance with paragraph 6.2, above, the Employee shall not be entitled to receive any severance payment whatsoever, whether from the Company or pursuant to paragraph 5.3.7, above.

## 7. TAXES AND OTHER PAYMENTS

- 7.1. The Company shall not be liable for the payment of taxes or other payments for which the Employee is responsible as result of this

Agreement or any other legal provision, and the Employee shall be personally liable for such taxes and other payments.

7.2. The Employee hereby agrees that the Company deduct from his Global Salary the Employee's national insurance fees, income tax and other amounts required by law or the terms of this Agreement, and provide the Employee with documentation of such deductions.

8. THE OBLIGATIONS OF THE EMPLOYEE

8.1. The Employee agrees to devote his time, energy, abilities and experience to the performance of his duties, effectively and in good faith.

8.2. During the period of his employment, the Employee shall not be employed for pay by any other party other than the Company. The Employee must receive the prior written consent of the Company before assuming an unpaid position outside the Company.

8.3. The Employee agrees to immediately inform the Company of any Company issue or transaction in which the Employee has a direct or indirect personal interest and/or where such issue or transaction could cause a conflict of interest for the Employee in the fulfillment of his responsibilities as an employee of the Company.

8.4. The Employee hereby gives irrevocable instructions and permission to the Company to deduct from any amounts owed to the Employee by the Company, including amounts payable as severance compensation, (a) any debt he has or will have to the Company; and/or (b) any amount that was wrongfully or mistakenly paid to him by the Company. Any such amounts to be deducted shall be calculated in real terms as of the date of the deduction, including linkage to cost of living index.

8.5. The Employee declares that the terms and conditions of his employment are personal and confidential and will not be disclosed by him.

8.6. The Employee declares that he is free to enter into this Agreement and that he has no obligations of any kind to any third party that would impair this Agreement, either as an employee or an independent contractor. The Employee further declares that as long as he remains an employee of the Company, he will not incur any such obligations.

8.7. The Employee agrees to keep confidential (a) all professional, scientific, commercial, and business information; and (b) any other information or document that comes to the Employee's knowledge in connection with the affairs of the Company (collectively, the "Confidential

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Information"), and agrees not to use or exploit the Confidential Information or to disclose it to any third party where such use, exploitation or disclosure is not directly related to the affairs of the Company, unless the Company gives prior written authorization of such disclosure.

8.8. The Employees agrees that during his employment by the Company and thereafter he (a) will not disseminate or otherwise make use of the Confidential Information or of other non-public information of which he learned while working for the Company, except where such dissemination or use is directly related to the affairs of the Company; (b) will maintain the confidentiality of the Confidential Information; and (c) will not in any way act to injure the reputation of the Company or its parent company.

8.9. For one (1) year after the termination for any reason of his

employment by the Company, the Employee shall not be employed in any business or give any services to a third party that competes with the Company or whose activities conflict with the activities of the Company, unless the Company has given its prior written consent.

8.10. Upon termination of his employment, the Employee agrees to assist the Company with an orderly transition of his responsibilities and to return to the Company any documents, information and/or materials that were given to him or which were created by him in connection with his employment.

## 9. INTELLECTUAL PROPERTY RIGHTS

9.1. The Employee declares that he is aware that anything that is done by him in the Company or in connection with the Company, whether it be an invention, a discovery, or the development of an idea or a thing, all within the framework of the Company's business (the "Development") shall belong to and be controlled by the Company.

9.2. The Company shall have the right to fully utilize and exploit the Development, as it sees fit, including changing it, registering part or all of it as a patent, whether in Israel or abroad, selling it, transferring it to a third party, all without being required to either receive the Employee's consent or pay the Employee any additional payment for such Development apart from any payment he receives pursuant to this Agreement.

9.3. The Development and any subsequent intellectual property arising therefrom shall remain the sole property of the Employer even after the Employee's employment terminates for any reason. The termination of this Agreement, whether due to its breach or its own terms, shall not impair the Company's exclusive rights in the Development.

9.4. The Employee may not do anything with the Development or any related materials without the knowledge and prior consent of the Company. The Employee declares that he neither has nor will have any rights in the Development or its fruits and that all rights to the Development and its fruits shall fully reside in the Company.

9.5. Even in the event that at the time of the termination of the Employee's employment for any reason the Development has not been completed, the Employee shall be prohibited from any continued activity in connection with the subject of the Development, alone or in concert with others, that is not explicitly allowed in writing by the Company.

The Company alone will be the sole owner of the uncompleted Development and shall have the sole right to complete the Development or to take any other action in connection with the Development.

## 10. GENERAL

10.1. It is agreed that the provisions of this Agreement represent the full scope of the agreement between the parties and that neither side shall be bound by any promises, declarations, exhibits, agreements or obligations, oral or written, that are not included in this Agreement prior to its execution. Any changes or amendments to this Agreement must be in writing and signed by both parties.

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10.2. The parties agree that the appropriate court in Jerusalem, Israel shall have exclusive jurisdiction of any legal claim lodged by one party against the other arising from the terms of this Agreement.

## 11. NOTICES

11.1.A notice that is sent by registered mail to a party at its address as set forth in paragraph 11.2, below, shall be deemed received three (3) days after its posting, and the receipt stamped by the post office shall represent definitive evidence of the date of mailing.

11.2.The addresses of the parties for the purposes of this Agreement are:

KERYX (ISRAEL) LTD.:

5 Kiryat Mada  
POB 23706  
Jerusalem 91236

EMPLOYEE:

Mozkeret Moshe 4  
-----

Jerusalem 94316  
-----

IN WITNESS WHEREOF the parties have hereunto set their hands at the place and on the date first above written.

Keryx (Israel) Ltd.

By

/s/ Morris Laster  
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/s/ Noa Shelach  
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Noa Shelach

TENANCY AGREEMENT

DRAWN UP AND SIGNED IN JERUSALEM ON DEC. 21, 2000

BETWEEN: RMPA PROPERTIES LTD.  
Company number 51-1808008 (represented by \_\_\_\_\_, ID no. \_\_\_\_\_, ID no. \_\_\_\_\_, authorized to sign on its behalf) whose address is RMPA House, Har Hotzvim, Jerusalem (hereinafter "THE LESSOR") PARTY OF THE FIRST PART

AND: KERYX ISRAEL LTD.  
Company number 51-2850959  
(represented by Mr. Ira Weinstein, ID no. 015476542, authorized to sign on its behalf)  
Qiryat Mada St. 5, Jerusalem  
(hereinafter "THE LESSEE") PARTY OF THE SECOND PART

Whereas The lessor is entitled to be registered as leaseholder from the Israel Lands Administration of lot number 18 according to detailed plan number 3760 (hereinafter "THE LOT") in parcel 95, block 30241, in Har Hotzvim, Jerusalem, on which a Building is being erected that is currently in the final stages of construction (hereinafter "THE Building"); and

Whereas The lessee wishes to lease from the lessor the second and third floors (above the ground floor) in the Building, as marked on the plans attached to this agreement as Appendix A (hereinafter "THE LEASED PREMISES"), whose gross area (including the proportional share of common {public may imply use by outsiders, too} areas in the Building) is 2142 square meters (the third floor is a partial floor only), and the lessor wishes to lease to the lessee the Leased Premises as unprotected tenancy (hereinafter "THE TENANCY"), for a period of time, consideration, and purpose, and subject to the stipulations and provisions detailed in this contract below;

NOW THEREFORE, AND IN CONSIDERATION OF THE MUTUAL UNDERTAKINGS BY THE PARTIES UNDER THE PRESENT CONTRACT, THE PARTIES AGREE AND STIPULATE AS FOLLOWS:

1. PREAMBLE, APPENDICES, AND HEADINGS

- 1.1 The preamble to this contract is an integral part thereof.
- 1.2 The appendices to this contract are an integral part thereof.
- 1.3 The section headings in this contract are included for ease of reading only. They are not part of the contract and shall not be used to interpret it.

2. THE TENANCY

- 2.1 The lessee declares that it is aware that the according to the City Building Plan the area is earmarked for industry and that it has seen and inspected the Building and the Leased Premises, the access routes to them, and their surroundings, the City Building Plans that apply to them, and everything else it may have found it appropriate to inspect and found all of them to be suitable to its objectives, and, subject to the correctness of the lessor's statements as above, hereby waives any claim concerning unsuitability and any other alternative claim with regard to the Building and/ or with regard to the Leased Premises and/ or with regard to the possibility of using the Leased Premises for its

purposes. The lessor affirms that it is not aware of any defect whatsoever in the Leased Premises and/ or in the possibility of using the Leased Premises for high- tech industry that it has not disclosed to the lessee.

2.2 The lessee declares that based on its inspection it is leasing the premises as is. The lessor undertakes to carry out work on the Building as enumerated in the specifications attached to the present agreement, at the time stated in the present agreement. Subject to the performance of the aforesaid work, the lessee hereby waives any claim of any type whatsoever with regard to the Leased Premises, their condition, and the possibility of using them.

2.3 The lessor undertakes that by the date of the completion of the Leased Premises as stated in section 5 below and its actual tenancing for the purpose of the Tenancy, as defined below, construction of the common areas on the floors on which the Leased Premises are located and of the Building lobby will be completed, (at least) one elevator will be operating in a regular and proper fashion, development work will have been carried out at the entrance to the Building in a manner that permits pedestrian access from street level to the Building entrance, and the lessor will be in possession of Form 4 for the Building and/ or a tenancing certificate applying to the Leased Premises, including a temporary certificate.

### 3. NON-APPLICATION OF TENANT PROTECTION LAWS

3.1 The lessee hereby declares, undertakes, and affirms that it is aware that the Leased Premises are a property in a new Building whose construction was completed after August 20, 1968; that on August 20, 1968, it was not a tenant entitled to occupy the Leased Premises; and that sections 9 and 14 of the Tenant Protection Law (Consolidated Version) 5732-1972, which exempt the Tenancy from the provisions of the tenant protection laws, apply to the Tenancy under the present agreement.

3.2 The lessee hereby declares that it was not asked to and did not pay key money or payments that might be construed as key money; and that all work, modifications, renovations, and improvements that may be carried out on the Leased Premises, should such be carried out, are not and will not be fundamental modifications; and that at the time of vacation of the

Leased Premises the lessee will not be entitled to any payment whatsoever, neither as key money nor in any other fashion whatsoever.

3.3 The Tenancy, the lessee, and the Leased Premises are not protected under the provisions of the Tenant Protection Law (consolidated version) 5732-1972 nor by the provisions of any other law that protects a lessee or tenant in any form whatsoever, and the stated laws and amendments to them and regulations that have been or may be promulgated pursuant to them do not apply and shall not apply to the Tenancy, the lessee, the Leased Premises, or the contract.

### 4. PURPOSE OF THE TENANCY

The lessee hereby leases the Leased Premises in order to use them for high- tech industry (including a biopharmaceutical laboratory) and for no other purpose whatsoever (hereinafter "PURPOSE OF THE TENANCY") and hereby undertakes not to use the Leased Premises or any part thereof for any other purpose whatsoever.

5. FINISHING WORK ON THE LEASED PREMISES

5.1 The lessee, itself or by the agency of someone acting on its behalf, will carry out modifications and Finishing Work (hereinafter "THE FINISHING WORK") on the Leased Premises. Before the Finishing Work is carried out, the lessee will submit for the lessor's approval detailed plans for the Finishing Work, including, and without derogating from the generality of the aforesaid, air- conditioning and electrical plans and any other and/ or additional plan that alters the systems of the Leased Premises or its appearance or its structural engineering, as well as specifications. The lessor will examine the aforesaid plans and approve them or make comments within five days of receiving the stated plans. The lessee will amend the plans in accordance with the lessor's comments. Without derogating from the aforesaid, the lessee shall not be entitled to carry out Finishing Work on the Leased Premises that modifies the structural engineering of the Building and/ or its systems and/ or its appearance and/ or Finishing Work that requires a Building permit for its performance.

The lessee undertakes that the contractor who carries out the Finishing Work will be a contractor whose identity has been approved and agreed to in advance by the lessor, which shall be entitled to withhold or grant its consent, at its own reasonable discretion.

In all cases the contractors proposed as stated shall be contractors registered in the appropriate classification for the type of Finishing Work to be done and who have carried out similar work at Har Hotzvim or the Malha Technological Park or some other high- tech park in Tel Aviv, such as Kiryat Atidim, and who have experience in work of the type of the Finishing Work.

The lessee shall notify the lessor of the starting date of the Finishing Work and the planned completion date. The lessor [translated as written] undertakes to complete the work according to the specifications within 90 days of the starting date of the Finishing Work, in accordance with the lessee's notification.

Should the lessor fail to complete the work in accordance with the specifications by the aforesaid date or within 14 additional days, the lessor shall pay the lessee on account of the period from the date on which it was to have completed the work in accordance with the specifications until the date of their actual completion an amount equal to the Rent (including index- linkage differentials) for the aforesaid time period. The aforesaid payment is stipulated and agreed to as fixed damages agreed to in advance, which the parties have set by an assessment calculated in advance.

5.2 The lessee is responsible and undertakes that throughout the period of the Finishing Work the lessee will carry liability insurance appropriate to the type of Finishing Work, under which the lessor shall be covered as an additional insured party.

5.3 The lessee will pay the lessor the sum of \_\_\_\_\_ New Israeli Sheqels (\$32,000 according to the representative exchange rate set on the actual date of payment) (plus value added tax) as a fee for supervising the Finishing Work. This payment will be made upon completion of the Finishing Work but no later than the start of the use of the Leased Premises. At the time of the signing of

the present contract and as an integral part thereof, the lessee will sign a writ of obligation worded as in APPENDIX E to the present contract, whereby the lessee accords a right of refusal to Kir Hed Construction and Development Co., Ltd., a company affiliated with the lessor, to carry out the Finishing Work for it. Should the lessee entrust the Finishing Work to Kir Hed, Ltd., the lessee will be exempt from payment of the supervision fee as in section 5.3 above.

- 5.4 Until the completion date of the Finishing Work the lessor shall complete construction of those parts of the Building necessary for the lessee to make reasonable use of the Leased Premises. The lessee affirms that is aware that gardening work and development work around the Building (including preparation of parking lots) will continue until the date of the completion of the Finishing Work. A delay of up to 60 days in completion of the gardening and development work shall not be considered to be a delay.

## 6. TERM OF THE LEASE

- 6.1 The lessor hereby leases to the lessee and the lessee hereby leases from the lessor the Leased Premises for a period beginning on the date when the Leased Premises are made available to the lessee to carry out the Finishing Work (hereinafter "THE DAY OF HANDOVER OF POSSESSION") and concluding on December 31, 2005 (hereinafter "THE TERM OF THE LEASE"). The lessee shall be entitled to enter the Leased Premises to carry out

Finishing Work from the date of the signing of the present contract and pursuant to compliance with all of the conditions stated in section 5 above, on condition that the Rent for the first period of the Tenancy has been paid and a bank Guarantee conveyed as stated in section 7.5 below.

- 6.2 The term of the present contract shall be extended for an additional five years, to begin immediately after the end of the Term of the Lease (hereinafter "THE TERM OF EXTENSION OF THE LEASE"), unless the lessee notifies the lessor in writing at least six months before the end of the Term of the Lease that it desires not to extend the Term of the Lease.

Should the Tenancy be extended as stated in the present subsection above, all of the provisions of the present contract shall apply to the Term of Extension of the Lease as well, except for the lessee's right to extend the lease for another period, such that in no case shall the Tenancy extend beyond December 31, 2010 (10 years).

- 6.3 The lessee undertakes to appear at the Leased Premises on the Day of Handover of Possession and to take possession of the Leased Premises. Starting on the Day of Handover of Possession the lessee shall be able to use the parking facility of the Building (for payment) and shall have access to and from the Leased Premises. The lessor shall be entitled to postpone completion of work on the parking facility as required to permit parking in it to no later than the day of the completion of the Finishing Work.
- 6.4 Subject to what is stated in section 9.1 below, the lessee shall not be entitled to terminate the Tenancy under the present contract before the end of the Term of the Lease or, as may be applicable, before the end of the Term of Extension of the Lease. Should the lessee stop using the Leased Premises or vacate them before the end of the Term of the Lease or, as may be applicable, before the End of the Term of Extension of the Lease, this shall not release the lessee from fulfilling its obligations under the

present contract, in whole or in part.

- 6.5 A "tenancy year" for the purposes of the present contract means a period of twelve Gregorian months beginning on January 1 of any calendar year and concluding on December 31st of the calendar year following it.

7. RENT

- 7.1 In consideration of the Tenancy, the lessee undertakes to pay the lessor Rent as stated in the present section 7 (hereinafter "THE RENT").

- 7.2 The Rent for each month of Tenancy shall be the amount of NIS 106,676 plus value added tax (one hundred six thousand six hundred seventy- six New Israeli Sheqels) [\$21,420 U.S. plus \$4,500 U.S. for 50 parking spaces] according to the representative U.S. dollar exchange rate known on November 12, 2000, for each of the months of Tenancy. This Rent shall be linked to the index pursuant to the terms of section 7.3 below. The aforesaid notwithstanding, it is agreed that the lessee shall not be

liable for Rent on account of the period from the day of the signing of the present contract until January 1, 2001. The Rent shall be raised in real terms by 7.5% every 30 months of Tenancy. (Thus, for example, the Rent for the month beginning on June 1, 2003, will be the sum of 114,677 sheqels, with this sum linked to the index pursuant to the terms of section 7.3 below.

- 7.3 The Rent will be linked to the index according to the following linkage terms:

If, on the date of payment of any sum whatsoever on account of the Rent, it transpires that the New Index last published before that payment (hereinafter "THE NEW INDEX") rose above the index published on October 15, 2000, which is 106.1 points (hereinafter "THE BASE INDEX"), the lessee shall pay the lessor that sum, augmented proportionally to the rise of the New Index over the Base Index. Should the New Index decline from the Base Index, the Rent will be computed according to the Base Index, such that in no case shall the lessee pay a Rent less than the Rent computed on the basis of the Base Index.

For the purpose of the present contract, "the index" means the Consumer Price Index (cost of living index) including fruits and vegetables published by the Central Bureau of Statistics and Economic Research, and including that index even should it be published by some other official body or institution and including any official index that may replace it, whether based on the same data or not. Should a New Index published by a body or institution as stated be introduced and that body or institution fail to stipulate the ratio between it and the replaced index, the accounting firm \_\_\_\_\_ shall determine the computation of the rise in the index for the purposes of the present section, taking account of the aforesaid changes.

The Rent due from the lessee in accordance with the present section 7, as well as the management fees stated in section 8.6 below, shall be paid by the lessee to the lessor every three months of Tenancy in advance on the first of each calendar month on account of the three months of Tenancy beginning on that date, starting on January 1, 2001.

The aforesaid notwithstanding, the Rent for the period from

January 1, 2001, through March 31, 2001, shall be paid to the lessor at the time of the signing of the present contract.

Should the first of the month be a holiday or Saturday, the Rent shall be paid on the first weekday following it. The lessor shall not be required to receive any payment whatsoever on account of the Rent before the specified due date.

- 7.4 To all Rent payments and all other payments owed by the lessee pursuant to the present contract the lessee shall add value added tax at the rate applicable at that time and shall pay it to the lessor on the date of each payment as stated. A tax invoice on account of each payment as stated

shall be conveyed to the lessee within 14 days of the date of each payment as stated.

- 7.5 To Guarantee payment of the Rent and fulfillment of all other undertakings by the lessee under the present contract, including to Guarantee vacation of the Leased Premises by the lessee on the date stipulated by the present contract, the lessee shall convey to the lessor at the time of the signing of the present contract an unconditional index-linked bank Guarantee in the amount of NIS 903,560, with this sum linked to the index according to the terms of section 7.3 above, and worded as in Appendix B (hereinafter "THE GUARANTEE") [an amount equal to the Rent for 6 months of Tenancy plus management fees and value added tax]. The Guarantee shall be valid for twelve months and shall be extended from time to time no later than 30 days before its expiration for twelve additional months, in such manner that it shall be in force throughout the Term of the Lease (and as relevant, the Term of the Extension of the Lease) and for 60 days thereafter. The lessor shall be entitled to seek to invoke the Guarantee if the Guarantee is not extended on the dates stated, without derogating from the right of the lessor to seek to invoke the Guarantee in the case of a breach of any of the lessee's undertakings under the present contract. The lessor shall convey to the lessee written notification 7 days before acting to invoke the Guarantee as stated. The lessee undertakes that on the dates when the Rent is updated as stated in section 7.2 above it will increase the amount of the Guarantee as may be required, so that the Guarantee shall also be in an amount equal to six months' Rent plus management fees and value added tax.

- 7.6 The parties agree that for the purposes of the present contract the gross area of the Leased Premises (including the proportional share of the common areas in the Building) shall be considered to be 2,142 square meters.

## 8. OTHER PAYMENTS

- 8.1 All municipal and central government Taxes, fees, rates, and compulsory levies (hereinafter "TAXES") (except for property tax and compensation fund) that may be levied on the tenant of the Leased Premises and on account of the parking spaces as stated in section 15.1 before, directly or indirectly, for the Term of the Lease shall be borne by the lessee and paid by it on the dates specified by law for their payment to the authorities. All compulsory payments incumbent upon the owners of a property (and not on the tenant) shall be borne by the lessor and shall be paid by it. To eliminate doubt it is agreed that the lessee shall not be required to pay development and improvement levies on account of the Building (nor shall it bear them through the Building management company).

8.2 The lessee undertakes to be responsible throughout the Term of the Lease for all payments and expenses on account of electricity, water, and any other utility that may be supplied to the Leased Premises (including expenses for electrical power for the air conditioning system for the Leased Premises). The lessee undertakes that a water meter and electric

meter will be installed before the date of its entry to the Leased Premises and undertakes to sign contracts for the supply of electricity and water as stated. The cost of installation of the aforesaid meters shall be borne by the lessee. In the event that separate meters are not installed for the aforesaid utilities, the lessee shall pay the lessor and/ or pursuant to its directives its share in the payments for the aforesaid utilities according to a ratio to be set by the lessor and/ or by the management company stated in section 8.6 below.

It is hereby clarified that use of the air- conditioning systems in the Leased Premises is limited to the proportional share of the Leased Premises in the Building. Should the lessee require enlargement of the air conditioning system in the Leased Premises, it will be the lessee's responsibility to do so itself and at its own expense.

8.3 All Taxes and payments that may be owed to the municipality and/ or the central government and/ or any other body on account of the conduct of the lessee's business in the Leased Premises, including business tax, sign tax, fees, and licenses, shall be the responsibility of the lessee alone and shall be paid by it.

8.4 The lessor shall be entitled but not required to make any payment that according to the provisions of the present contract are the responsibility of the lessee, after it has provided written warning to the lessee to pay it and the lessee has failed to do so. In this case the lessee shall reimburse the lessor for any sum paid by it as stated, immediately upon the lessor's first request, plus linkage differentials and interest, or, at the lessor's option, plus delinquent interest computed according to section 10.1 below.

8.5 During the Term of the Lease the lessee shall be responsible for its relative share of the routine maintenance expenses of the Leased Premises, including insurance on the structure of the Leased Premises, and for a proportional share of expenses for the regular upkeep and maintenance of the common areas of the Building, including, and without derogating from the generality of the aforesaid, its share of the expenses for management, operation, repair, upkeep, refurbishing, maintenance (including a depreciation fund), cleaning, lighting, security, gardening, and insurance for the common areas of the Building and for the technical installations in the Building such as elevators, air conditioning installations, electricity, entrance floors, stairwells, plumbing, water, sanitation, and other actions that the management company may choose to manage, implement, or handle, such as the expenses for an information, reception, and security desk; security center; central power room; fire detection and extinguishing equipment; and the like (hereinafter "THE SERVICES"). To eliminate doubt it is stated that the aforesaid shall apply, mutatis mutandis, to parking spaces as well.

The "proportional share" means the ratio of the area of the Leased Premises (including the parking spaces) to the area of all parts of the Building intended for rental or sale.

For the purpose of dividing electric bills on account of the central air conditioning systems, the proportional share of the lessee shall be computed on the basis of the actual use proportional to all actual users of the system, as determined by the lessor.

- 8.6 The lessee affirms that it is aware that the lessor intends to manage the Building or any part thereof on its own or through the agency of a management company (hereinafter "THE MANAGEMENT COMPANY"), or in any other way, at the exclusive discretion of the lessor. Should a Management Company manage the Building, the lessee shall pay its share in the expenses of the Management Company on a basis of cost plus 15%; that is, the tenants of the Building will cover all the expenses of the Management Company (including, but without derogating from the generality of the aforesaid, overhead and financing costs plus a profit of 15%.

It is made clear that financing costs on account of delinquency in payments by a tenant of the Building to the Management Company shall be borne by that tenant.

It is clarified that in consideration of the aforesaid amount the Services enumerated in the Principles of Management appendix attached to this contract as an integral part thereof and labeled APPENDIX C shall be provided.

The lessee undertakes to cooperate with the Management Company and to comply with its instructions and the instructions of anyone acting on its behalf.

- 8.7 At the lessor's request the lessee will sign a management agreement with the lessor or with the Management Company that manages the Building, worded in accordance with the Principles of Management appendix, Appendix C.

- 8.8 The lessor pledges that the Management Company will act efficiently and faithfully to the benefit of the tenants and owners of areas in the Building.

## 9. OCCUPANCY OF THE LEASED PREMISES DURING THE TERM OF THE LEASE

- 9.1 The lessee hereby undertakes not to transfer its rights under the present contract or any part thereof to some other party or parties in any fashion whatsoever, directly or indirectly; and not to deliver or transfer the Leased Premises or any part thereof to another party or parties in any fashion whatsoever; and not to permit use of the Leased Premises or any part thereof for any period whatsoever and in any manner to any other party or parties; and not to include another party or parties in the occupancy of the Leased Premises or any part thereof; and not to include any other party or parties in occupancy of the Leased Premises or any part thereof and not to grant to anyone whatsoever any right in the Leased Premises as licensee, for consideration or not for consideration, other than in the manner and in

accordance with the terms enumerated in the continuation of this subsection below.

The aforesaid notwithstanding, it is agreed that the lessee shall be entitled to sublet a portion of the Leased Premises subject to compliance with the totality of the terms below.

- (i) The identity and business of the subtenant have been approved in advance by the lessor in writing.
- (ii) The subtenant accepts all of the obligations under the present contract that relate to maintenance and use of the Leased Premises.
- (iii) Keryx Israel, Ltd., remains responsible for all undertakings of the lessee under the present contract.

Should the entire Leased Premises be sublet as stated, the option stated in section 6.2 shall be void.

- 9.2 The lessee undertakes to maintain the Leased Premises and its systems (including plumbing, electricity, lighting, and air-conditioning [not including the central air conditioning system on the roof of the Building, which will be maintained by the Management Company]) in sound working order, to perform regular upkeep and maintenance work, to refrain from causing damage or harm to them or to any of their installations, and to be responsible for and to repair immediately and at its own expense any damage that may be caused to the Leased Premises and its systems by it and/ or by its visitors and/ or by its customers and/ or by its employees and/ or by anyone who may enter the Leased Premises.
- 9.3 The lessee undertakes not to make any interior and/ or exterior modifications to the Leased Premises and not to make any addition to or to destroy any part of the Leased Premises and/ or any of its installations without prior written consent from the lessor; the lessor shall be entitled to prevent the commission of any such act and to remove any modification or addition made in contravention of the present section. The lessor shall not turn down a request by the lessee to make an interior modification as stated other than for reasonable cause. Breach of this section by the lessee shall entitle the lessor, in addition to any remedy that may be available to it by law, to cancel the contract; and in this case the lessor shall be entitled, should it choose this right, to have all additions, repairs, and modifications made in breach of the contract belong to the lessor without being obligated to pay for them.
- 9.4 Should the lessor agree in writing to a request by the lessee to make modifications to the Leased Premises, the lessee, at the end of the Term of the Lease, shall restore the Leased Premises to the condition in which it was on the day of completion of the Finishing Work, subject to reasonable wear and tear, unless the lessor notifies the lessee of its desire that the modifications or some of them remain in place, and the lessee shall not be able to demand and/ or to receive any compensation or payment for them.

The aforesaid notwithstanding, the lessee shall be entitled, at the conclusion of the Term of the Lease, to remove the air-conditioning units (fan- coolers in rooms and additional external units [if installed]) that it may have installed in the Leased Premises. The lessee undertakes to restore the status quo ante, including drop ceilings, electrical wires and conduits, touch-up painting, waterproofing and insulation repairs, and the like, in accordance with the lessor's instructions, after the removal of the air- conditioning units.

- 9.5 The installation and operation of electrical equipment, telephones, and communications equipment in the Leased Premises

and the passage of electrical wiring for the operation of the aforementioned equipment that may cause induction and/ or emissions is contingent upon prior written consent by the lessor and subject to instructions that may be issued by the lessor and also, if required, upon receipt of approval from the Ministry of Communications and/ or Bezeq, Ltd., for the equipment and its installation.

9.6 To eliminate doubt it is stated that the lessee is not entitled to install any equipment whatsoever outside the Leased Premises. The aforesaid notwithstanding, with regard to equipment or systems that are essential for the lessee's use of the Leased Premises the lessee shall be entitled to request that the lessor permit their installation at its the lessee's own expense, providing full details of the components of the system, and the lessor shall be entitled to approve the installation of such equipment and systems as well as their location or to disallow their installation, as relevant, and to set the payment due it for making the space available for the installation of the aforesaid system.

9.7 It is agreed that the lessor shall be entitled to instruct the lessee to change the location in the Building of any system as stated to some other location in the Building and/ or the lot if and when the system creates any interference whatsoever to any tenant of the Building. Should this instruction result from the lessor's desire to build on or use the area on which the system is located for its own purposes, then the change of location shall be carried out by the lessor and at its own expense after provision of five days' advance notice and after having coordinated the method and time of transfer with the lessee. The lessee shall have no grounds for a claim on account of this. The lessee shall not use flammable gas, open flames, or method that gives off cooking odors in any part of the Leased Premises, including in a kitchenette, should there be such in the Leased Premises. The aforesaid notwithstanding, the lessee shall be entitled to use flammable gas or some other gas in the laboratory for laboratory purposes (but not for cooking), subject to advance written approval by the lessor concerning the type of gas, the quantity stored in the Building, and the mode of installation. The lessor and/ or its representative shall be entitled to enter the Leased Premises at any reasonable time and with advance coordination with the lessee to inspect the Leased Premises as well as to carry out repairs and work for other parts of the Building. The lessor shall coordinate with the lessee entry to

the Leased Premises as stated above, except in urgent cases. Nothing in the aforesaid shall impose any obligation whatsoever on the lessor to perform anything mentioned above.

When carrying out actions as stated above, the lessor shall do its utmost so that any damage caused to the lessee, if damage be caused, shall be as minimal as possible; so that the duration of the work shall be as brief as possible; and so that upon completion of the work the lessor shall restore the Leased Premises to the status quo ante.

9.8 The lessee undertakes not store any materials, tools, equipment, or other movable objects in the entrance or outside the Leased Premises, including in the elevator corridor on each story, to be meticulous about keeping the area around the Leased Premises clean, and to conduct its business exclusively within the Leased Premises.

9.9 The lessee shall not be entitled to hang any signs or notices whatsoever on the facade of the Leased Premises or in the

elevator corridor, including the elevator corridor on each floor, or on any external wall of the Leased Premises or any external or other part of the Building, or to install mailboxes, without the consent of the lessor. The lessee shall bear a proportional share of the cost of signs and the general mailbox unit, and the expense of installing signs in the lobby or on the floors on which the Leased Premises are located. In any signs installed in the Building by the lessor, the lessee shall have a share that reflects its share of the Building or of the relevant floors. The lessee shall request the lessor's consent for everything associated with the installation and placement in the Leased Premises of equipment and furnishings whose weight and/ or size is liable to exceed the permissible limit. The lessor shall be entitled to require the lessee to obtain approval from the Building architect or from some other engineer, as it determines.

- 9.10 The lessee undertakes to fulfill and carry out any provision of law, regulation, order, or municipal bylaw that relates to the Leased Premises or to its Tenancy or use thereof, and not to do and not to permit to be done in the Leased Premises or in association with it anything that is liable to constitute a hazard or nuisance or to cause damage or inconvenience to the lessor or to the Building or to other lessees or users or to visitors to the Building.
- 9.11 The lessee undertakes to compensate and indemnify the lessor for any damage or expense that may be caused the lessor on account of a suit brought against the lessor, whether criminal or civil, and on account of the need to defend itself against such a suit--to the extent that the stated suit stems from the lessee's failure to fulfill or breach of its undertakings in the present contract. The lessor shall notify the lessee of any suit that may be brought against it as stated above and shall include it in the direction of the defense against such a suit.
- 9.12 Whereas the lessee is leasing the Leased Premises in order to use them for its business, including a pharmaceutical laboratory, it is agreed that

without derogating from anything else stated in the present contract, if so stated, the lessee shall be responsible for obtaining and undertakes to obtain all of the approvals and licenses required from any authority whatsoever in association with its activity as stated, including in association with the storage and use of hazardous materials, the removal of solid and liquid wastes, and everything else associated with its business. The lessee further undertakes not to keep and not to make any use whatsoever of laboratory animals except on rare occasions and in a temporary manner.

- 9.13 To eliminate doubt it is stated that the Tenancy under the present contract does not include the balconies.

## 10. DELINQUENCY IN PAYMENT

- 10.1 Should the lessee be delinquent in the payment of any sum whatsoever that it is bound to pay the lessor pursuant to the present contract, the lessee shall pay the lessor, in addition to the delinquent amount, index- linkage differentials and interest at the rate then in effect at Bank Le'umi le-Israel, Ltd., for index- linked loans, plus 10 percent per annum, computed from the date on which the lessee was to have paid the delinquent sum until the day when it actually paid or, at the lessor's option, the lessee shall pay the lessor, in addition to the delinquent sum, interest at the maximum rate of interest in effect at Bank Le'umi le-Israel, Ltd., for overdrafts that exceed the approved

credit limit in revolving debitory accounts, compounded monthly (hereinafter "Delinquent Interest"). The Delinquent Interest shall be computed for the period from the day on which the lessee was to have paid the delinquent sum until the date when it was actually paid.

10.2 Nothing in the payment of linkage differentials and interest or the payment of Delinquent Interest pursuant to section 10.1 above shall derogate from the lessor's right to any other remedy that is stipulated in the present contract or in law on the grounds of breach of contract by delinquency in payment. Receipt of the stated interest shall not be construed as a waiver on the part of the lessor or the Management Company of any other remedy as stated.

10.3 A delay in payment that does not exceed seven days shall not be considered to be a breach of the present contract and shall not entitle the lessor to interest as stated above. A delay as stated that exceeds seven days shall be considered to be a breach of contract and shall entitle the lessor, in addition to all remedies available to it pursuant to the present contract and under any law, to interest from the first day of the delinquency.

## 11. LICENSING AND PERMITS

11.1 The lessee is responsible for obtaining all licenses and permits required to conduct its business in the Leased Premises. A failure by the lessee to

obtain the stated licenses or some of them shall not serve as justification or grounds for the lessee to cancel the present contract.

Without derogating from the aforesaid, the lessee shall be responsible for and undertakes to see to obtaining all approvals required with regard to its activity in the Leased Premises from the Ministry of the Environment, the Ministry of Health, the Jerusalem municipality, and any additional and/ or other agency whose approval is required for the lessee's activity in the Leased Premises, and to comply with any request and directive as stated, including in connection with the removal of liquid waste, the removal and disposal of solid waste, water pollution, and possession and storage of flammable materials, chemicals, and the like.

11.2 The lessee hereby declares that before it signed the present contract it was given the opportunity to verify and did in fact verify the suitability of the Leased Premises for the purpose of the Tenancy and the possibility of obtaining a license to operate the Leased Premises for the purpose of the Tenancy.

## 12. OBLIGATIONS OF THE LESSEE

12.1 The lessee undertakes to maintain the Leased Premises throughout the Term of the Lease in sound and orderly condition, to avoid causing damage or harm to the Building or the Leased Premises or any of its installations, and to repair immediately and at its own expense any damage that may be caused to the Leased Premises. The lessor shall repair at its own expense any damage that may be caused to the Leased Premises and/ or to the Building during the first year of the lease as a result of faulty workmanship or use of defective materials. Throughout the Term of the Lease the lessor shall be responsible for repairing and shall repair at its own expense any damage to the shell of the Building that was not caused by acts of commission or omission on the part of the lessee or someone acting on its behalf and that prevents

reasonable use of the Leased Premises.

12.2 The lessee shall be responsible for all damages of any type and kind whatsoever that may be caused to the Leased Premises and/ or to the Building and/ or to the lessor and/ or to any third party that may be present in the Leased Premises and/ or in the Building and that stem from the lessee's acts of commission and/ or omission, including acts of commission and/ or omission by its employees, guests, customers, and persons acting on its behalf and/ or from the conduct of its business in the Leased Premises.

12.3 The lessor shall bear no responsibility whatsoever and no liability whatsoever with regard to any bodily damage and/ or property loss and/ or damage of any kind whatsoever that may be caused to the lessee and/ or to its employees and/ or to its customers and/ or to its visitors and/ or to any person acting on its behalf who may be present in the Leased Premises or en route to or from the Leased Premises, and the lessee assumes full responsibility for any damage of this sort and undertakes to compensate

and indemnify the lessor for any damage or loss for which it may be held accountable and for any expense that the lessor may have in connection with this.

### 13. INSURANCE

13.1 Without derogating from the lessee's responsibility as stated in section 12 above, the lessee undertakes to insure at its own expense the contents of the Leased Premises and its business and the additions and improvements that have been made or may be made to the structure of the Leased Premises and its facilities, its activity in the Leased Premises, at their full value on a replacement basis, with the amount of the insurance updated from time to time as necessary and against all possible, recognized, expected, and customary risks, with a licensed and reputable insurance company. Without derogating from the generality of the aforesaid, the lessee hereby undertakes to insure the contents of the Leased Premises against damage from fire, break-in, theft, forcible entry, or normal loss; broken glass, flood, mechanical failure, and water damage of any kind, all at full replacement value.

13.2 The lessee also undertakes to insure at its own expense its activity in the Leased Premises as follows:

13.2.1 Liability insurance on the Leased Premises and the business conducted in them and on the lessee's activity, to cover the liability of the lessor, the Management Company, and the lessee with regard to any person on account of bodily injury or monetary or property damage that may have taken place in connection with the Leased Premises and/ or the activity conducted in the Leased Premises or in the Building and associated with the lessee's business. The limits of liability of the third-party insurance shall not be less than the following amounts:

\$500,000 for a single claimant in a single incident for bodily damage and \$2 million for multiple claimants in a single incident

\$2 million for property damage per incident and period

\$5 million in employer's liability insurance

- 13.2.2 To cover loss of profits and any consequential damages on account of damage caused to the Leased Premises or their contents.
- 13.3 The lessee hereby undertakes to add the lessor's name (and that of the Management Company) as additional insured parties in the policies mentioned in sections 13.1 and 13.2 above. The lessee undertakes to deliver to the lessor, no later than two weeks before the start of the Term of the Lease, a certificate of insurance signed by the insurer on a form modeled after that in APPENDIX D to the present contract.
- 13.4 The lessee undertakes to comply with all the terms of the policies mentioned above in the present section, to pay the premiums on time, and to see to it that the policies are renewed and are in full force throughout the Term of the Lease.
- 13.5 It is hereby agreed and stated explicitly that no responsibility whatsoever of any type or kind shall be borne by the lessor and the Management Company vis-a-vis the lessee on account of any damage that may be caused to the Leased Premises or to its content or to a third party for any reason whatsoever, whether the cause of the damage or malfunction is known or unknown, and the lessee shall see to it that an explicit clause is added to the insurance policy whereby the insurer explicitly waives any right of subrogation or any other right in law to have recourse to the lessor and/ or to the Management Company in a claim for subrogation or refund or indemnification on account of direct or indirect damage that may be incurred on account of the lessor, should such damage be incurred.
- 13.6 The lessor's right of inspection and its exercise or non-exercise of its right to see the policies and demand updates, riders, or modifications shall not impose upon it any responsibility whatsoever with regard to the policies, their nature, and their validity, or with regard to absence thereof.
- 13.7 The lessor shall take out, on its own or through the Management Company, insurance on the Leased Premises along with the other areas of the Building in its ownership, including the common areas of the Building, comprehensive insurance (structure only, not including modifications or any other changes that may be made to the Leased Premises), and third-party insurance against property damage and/ or bodily damage, under the terms and with the restrictions as may be stipulated by the lessor from time to time. The lessee shall pay the lessor and/ or the Management Company, as relevant, its proportional share of the cost of the insurance, proportional to the area of the Leased Premises, including parking spaces, in the total areas covered by the aforesaid insurance.

To eliminate doubt it is explicitly agreed that the taking out of the aforesaid insurance policies shall not detract or derogate from the lessee's responsibility for the integrity of the Leased Premises and from its undertaking to return it to the lessor at the end of the Term of the Lease free of injury or damage; the lessee undertakes to pay any amount that may be required to repair the structure of the Leased Premises and that is not paid by the insurers for any reason whatsoever.

- 13.8 The lessee hereby undertakes not to perform or allow any other party to perform any act of commission or omission that is liable to increase in any fashion whatsoever the lessor's insurance costs for the Building. Should the lessor or the Management Company be required to pay additional premiums in excess of the

norm and as a direct result of an act of commission or omission on the part of the lessee and/ or by virtue of the nature of its activity in the Leased Premises, the lessee shall pay the lessor or the Management Company, as relevant, the stated increment

immediately upon the first request made by the lessor or by the Management Company. It is hereby agreed that for this purpose the presence of a biopharmaceutical laboratory in the Leased Premises shall not be considered to increase the insurance premiums. With regard to laboratory animals, the insurance on the structure will include no coverage for any damage that may be caused on account of laboratory animals and the lessee shall bear full responsibility for this.

#### 14. MODIFICATIONS OR ADDITIONS BY THE LESSOR

14.1 The lessor shall be entitled at any time, on its own initiative and at its own discretion, to make changes to the Building and to initiate a change in the City Building Plan relating to the Building and to request concessions and a permit for another or exceptional use for any part thereof, including, but without derogating from the generality of the aforesaid, in connection with the use and construction of the balconies of the Building, provided that such a modification does not include a modification of the Leased Premises themselves. The lessee undertakes not to oppose any such change or request.

14.2 The lessor is entitled, without requiring any consent whatsoever on the part of the lessee, to make any modification or addition to the Building, all at the sole discretion of the lessor and as it may see fit from time to time, provided that nothing in the execution of the change or addition shall constitute unreasonable interference with the use of the Leased Premises.

14.3 Without derogating from the generality of what is stated in sections 14.1 and 14.2 above, or in any other section of the present contract, it is hereby explicitly stated by the lessee that the lessor is entitled at any time to add and/ or to construct an additional story on the Building and/ or to carry out any construction work and/ or modifications and/ or additions to the Building; and to make any use of the additional area or parts thereof that may be constructed, without any restriction and with no need to obtain any consent whatsoever on the part of the lessee, all at the sole discretion of the lessor; including leasing, selling, and the like; and the lessee undertakes to permit the lessor to do so and not to interfere with it in any form or manner. The lessor shall carry out the aforesaid activities in such a manner that nothing in these activities shall constitute continuing and unreasonable interference, in the circumstances that apply, with the lessee's normal conduct of the business in the Leased Premises. The aforesaid shall apply to a Building addition using light construction only. Should the lessor wish to add a story or stories to the Building using conventional construction methods, the lessor shall not carry out the stated construction without written consent from the lessee, which shall not withhold it for other than reasonable cause.

#### 15. PARKING FACILITY

15.1 The lessee declares that it is aware that the Building includes a parking facility intended for use by the tenants of the Building and by the public,

but the parking facility will not be included in the common areas of the Building. The lessee leases from the lessor 50 parking spaces in the parking facility in consideration of the Rent stipulated in section 7.2 above. The aforesaid and section 7 notwithstanding, the lessee shall not owe Rent for the parking spaces for the period before the start of the actual use of all or some of the parking spaces, or for three months beginning on November 12, 2000 (Memorandum of Understanding), whichever is earlier. Should actual use be made of only some of the parking spaces, payment shall be made only for the pro rata share of the payment on account of them.

15.2 To eliminate doubt it is hereby stated that the right shall be to park a specific vehicle and to a specific fixed parking space (to be determined by the lessor and/ or the Management Company). The hours of operation of the parking facility and the other terms of use of the parking facility shall be determined from time to time by the operator of the parking facility, and the lessee undertakes to use its parking spaces subject to the aforesaid terms. In addition to any other payment under the present agreement, the lessee undertakes to leave a deposit with the lessor for the remote- control devices that will be provided to it in connection with use of the parking facility.

15.3 Use of the parking facility is on the exclusive responsibility of the lessee. The lessor and/ or the Management Company and/ or any person acting on their behalf shall bear no responsibility whatsoever for any loss or damage to the vehicles that enter the parking facility or to objects inside them. The lessee undertakes to indemnify the lessor and the Management Company and any person acting on their behalf for any damage or expense that may be caused them should they be sued to compensate any person whatsoever for loss or damage as stated. The lessee undertakes that its employees' vehicles that will be parked in the parking facility will be insured for their full value.

#### 16. VACATING THE PREMISES

16.1 At the end of the Term of the Lease or the end of any extension of the Term of the Lease, should there be such, or with the abrogation of the present contract for any cause whatsoever, the lessee undertakes to vacate the Leased Premises and to hand over possession of it to the lessor, with the Leased Premises free of any person or object belonging to the lessee, in clean and orderly condition, and in the condition that the Leased Premises were in after the completion of the Finishing Work, except for reasonable depreciation and wear and tear and except for those changes and additions that are to be left in the Leased Premises at the lessor's request, as stated in section 9.4 above.

16.2 Should the lessee fail to vacate the Leased Premises on the date stated in section 16.1 above, then, in addition to the lessor's right to bring suit for vacation of the Leased Premises and in addition to any other right that the lessor may have under the present contract or under any law, the lessee shall pay the lessor, on account of the period from the time when it was to

have vacated the Leased Premises until the date when it actually vacated the Leased Premises, a sum equal to three times the Rent (including linkage differentials) that would be paid under the present contract had the Tenancy been extended under the terms of the present contract. The stated payment is stipulated and agreed upon as an appropriate usage fee and/ or as damages fixed and

agreed to in advance, which the parties have set by an assessment calculated in advance.

Nothing stated in the present section above shall endow the lessee with a right to continue to occupy the Leased Premises against payment of the agreed upon compensation.

17. REMEDIES AVAILABLE TO THE LESSOR ON ACCOUNT OF BREACH OF CONTRACT

- 17.1 Without derogating from what is stated below in the rest of section 17 and the specific remedies that appear in the present contract, the provisions of the Contracts Law (Remedies for Breach of Contract) 5731-1970 shall apply to a breach of the present contract.
- 17.2 Should the lessee fail to maintain the Leased Premises in sound condition and/ or fail to repair what requires repair in the Leased Premises and/ or fail to return the Leased Premises to the lessor at the end of the Term of the Lease in sound condition as stated in the contract and/ or should any damage whatsoever be caused to the Leased Premises during the Term of the Lease and not have been repaired by the lessee, then in addition to any other right that the lessor may have in such a case pursuant to the provisions of the present contract and/ or in accordance with any legal provision, the lessor shall be entitled to carry out, after having warned the lessee and having specified in the warning a reasonable time for repair and after the lessee has nevertheless not repaired what requires repair within the time specified above, to carry out, at the lessee's expense, any repair and/ or to take any action whatsoever that it may deem appropriate for repairing the damage and/ or for restoring the status quo ante, and the lessee undertakes to pay the lessor, immediately upon demand, all sums that the lessor has expended on actions it took in accordance with the present section above.
- 17.3 Should the lessee breach its obligations or any part thereof vis-a-vis the Management Company and/ or under the management agreement, this shall be deemed to be a breach of the present contract.
- 17.4 Any omission, delay, or waiver by a party in exercising any of its rights under the provisions of the present contract shall not be considered to be a waiver, debarment, consent, or acknowledgement on its part and it shall be able to use its rights under the present contract at any time it wishes without being debarred from doing so.
- 17.5 Should the lessee breach the contract in its entirety or any of its sections and fail to amend the breach within a reasonable time, despite having been warned in writing in a warning that specifies a reasonable time for amending the breach; and in any case in which the lessee fails to pay the

Rent and/or any sums and/or other payments or any part thereof owed by it under the present contract on time, nor within seven days of the date of the written demand that it amend the breach--the lessor shall be entitled, without derogating from all other rights granted it by law and/ or under the present contract, to cancel the contract and/ or to specify a date for vacation of the Leased Premises, as it sees fit, and/ or to act to vacate the Leased Premises, and in this case the contract will be annulled as of the date specified by the lessor and the lessee shall vacate the Leased Premises no later than this date. Should the lessee fail to do so, the lessor shall be entitled to act at its discretion to vacate the Leased Premises, including removing

objects from the Leased Premises and placing them in storage and changing the locks on the Leased Premises.

- 17.6 In any case of the abrogation of the present contract as a result of its breach by the lessee, the lessor shall be entitled to all additional remedies available to it by law on account of breach of contract, including the remedy of monetary compensation, a prohibitory injunction, and a mandatory injunction. Everything stated in the present contract and in addition thereto notwithstanding, in the case of a breach of contract by the lessee on account of which the lessee has been evicted from the Leased Premises before the end of the Term of the Lease, the lessee shall pay the lessor reasonable monetary compensation for the period from the date of eviction until the end of the Term of the Lease, in an amount equal to the Rent lost by the lessor on account of the abrogation, whether for the entire balance of the Term of the Lease (or the balance of the Term of Extension of the Lease, as relevant) or for a period until the Leased Premises are let to another lessee, and after that until the end of the Term of the Lease or to the end of any term of Extension of the Lease, as relevant, on account of the loss of Rent, if any, or on account of a lower Rent paid by the other lessee, but not less than three months' Rent, plus value added tax. This sum is set by the parties as damages fixed and assessed in advance with no need to prove damage, after the parties have made a cautious and deliberate assessment of the damage that may be caused to the lessor on account of a breach by the lessee as stated.

18. MISCELLANEOUS

- 18.1 Any equipment that may be installed on the roof of the Building shall be equipped with shock absorbers of reasonable size for the equipment installed.
- 18.2 The lessor pledges that access to the roof on the third floor shall not be through the Leased Premises.
- 18.3 The lessee declares that it is aware that work on the first floor of the Building has begun and it undertakes to complete any work planned to be carried out on the floor of the second floor and the ceiling of the first floor no later than 30 days from the signing of the present contract. The lessee declares that it is aware that after this date it will not be permitted to carry out work on the ceiling of the first floor and that any damage and/or delay in the completion of the Finishing Work that may delay completion of the
- work for the lessee of the first floor of the Building shall be borne by the lessee.
- 18.4 The lessee declares that it is aware that for the purpose of a tenanting certificate it may be required to complete the sprinkler system in the Leased Premises, and it undertakes to do so no later than 14 days from receipt of a request from the lessor and to submit certification from the Standards Institution of Israel that affirms the soundness of the system for presentation to the authorities by the lessor.
- 18.5 All payments that the lessee is required to make to the lessor under the present contract shall be made by the lessee to the lessor by a standing order or by a bank transfer to the lessor's account or in any other way as the lessor may instruct the lessee from time to time.
- 18.6 The lessor is entitled to sign over and/ or to pledge its rights in the Building and/ or in the Leased Premises, in whole or in

part, to transfer a partial or full leasehold, at its sole discretion, without requiring the consent of the lessee; similarly, the lessor shall be entitled to pledge the present contract in whole or in part, to sign over its rights in it to other parties, to transfer it in whole or part, in whatever fashion and manner the lessor may deem to be appropriate from time to time, whether in order to obtain financing or for any other purpose, all at the sole discretion of the lessor; the lessee hereby explicitly agrees to assume and to comply with all provisions of this contract vis-a-vis any other entity, if any, that may come in place of the lessor. Such a mortgage, lien, endorsement, or transfer shall have no power to derogate from the rights of the lessee under the present contract or to add to its obligations according to it and any transferee to which the lessor may transfer its rights as stated above shall replace the lessor in everything associated with the present contract.

- 18.7 The lessor shall be entitled to build a blocking wall at the boundary between the lot and the lot located southeast of the lot, and the lessee shall have no right to file a claim on these grounds.
- 18.8 Subject to any explicit contravening provision in the present contract, the parties hereby agree that the present contract is personal and cannot be transferred by the lessee in any fashion whatsoever.
- 18.9 The terms of the present contract reflect what has been stipulated between the parties in full and annul any prior contractual agreements, promises, representations, and undertakings made by the parties before the signing of the present contract, if any, whether written or oral. Any amendment of the present contract and any supplement to it must be executed in writing and signed by the parties.
- 18.10 The lessee declares that it is aware that the name of the Building is Beit Hadarim and that the lessor is entitled to change the name of the Building as it may see fit, at its sole discretion.

19. ADDRESSES AND NOTICES

- 19.1 The cost of stamping the present contract shall be borne and paid by the lessee.
- 19.2 The addresses of the parties for the purpose of the contract are as follows:  
  
Lessor:RMPA Har Hotzvim, Ltd., House  
  
Lessee:The Leased Premises
- 19.3 Any notice that may be sent by one party to the other pursuant to the present contract shall be sent by registered mail or by fax or shall be delivered by hand and shall be considered to have been delivered in the reasonable time in which the stated notice should have reached the addressee.

IN WITNESS WHEREOF THE PARTIES HAVE AFFIXED THEIR SIGNATURES AT THE PLACE AND ON THE DATE SPECIFIED AT THE START OF THE CONTRACT.

/s/ Amos Hadar  
-----  
Lessor

/s/ Morris Laster  
-----  
Lessee

BEIT HADARIM:  
TECHNICAL SPECIFICATION FOR THE BUILDING SHELL

1. Polished stone facing plus windows and curtain walls according to the architect's plans and what currently exists on the site
2. Floors
  - a. Smoothed concrete floor
  - b. Concrete and/ or prefab ceilings
3. Elevators with a rated capacity of one ton each
4. Aluminum windows and curtain walls made of various profiles in natural matte silk finish as currently exists in the Building and in accordance with the decision of the lessor's consultants, blue anti-sun glazing as exists at the site
5. Infrastructure for electrical connection by the electric company. Request (of the electric company) for electrical hook-up and cost of installation of meters if any. Capacity of the connection for each floor: 3 x 63 amperes.
6. Complete public electrical system, including:
  - a. Lighting in public areas, lobbies, and parking facilities, and exterior lighting
  - b. Electric power to operate the Building systems (elevators, electric gates, pumps, switchboards, and the like)
  - c. Power feed for the central air conditioning system
7. Air conditioning: central air conditioning system with two 90- ton chillers and auxiliary systems including fresh air ducts and water pipes for each floor
8. Telephony infrastructure satisfying the requirements of Bezeq, Ltd.  
Infrastructure on each story connected to the main communications room
9. One lavatory will be built in the public area for use by the guard or custodian.
10. Water hook-up: a water hook-up will be installed in the utility cabinet on each floor. Infrastructure will be installed on each story for a sprinkler system. This infrastructure will be connected to the main system of the Building.
11. Sanitation hook-up: sanitary plumbing infrastructure at many points in the Building as currently exists.

APPENDIX C  
PRINCIPLES OF THE MANAGEMENT AGREEMENT

1. DEFINITIONS

"The Management Company"	The lessor and/ or a company acting on its behalf and/ or in its name
"Management and Maintenance Fees"	All sums that the lessee is required to pay to the Management Company (hereinafter "the Management Agreement")
"Public Areas"	This means all areas within the boundaries of the lot, including, and without derogating from the generality of the aforesaid, all structures, additions, or improvements that may be made from time to time, the outside and/ or underground parking facilities, gardens, roofs, passageways, stairwells, entrances and exits, basements, internal streets, sidewalks, utility rooms, lavatories, air- conditioning, loading and unloading facilities, elevators, stairs, stairwells, escalators, and any other area within the boundaries of the lot on which the project has been erected that is accessible to the general public and/ or that will be made accessible to it and/ or those areas that serve and/ or will serve all the tenants in the project or most of them, such as transformer rooms, garbage compactors, loading and/ or unloading and/ or storage cellars, the offices of the Management Company, and shelters, all except for those parts of the Building and the lot intended for sale and/ or rental.

2. OBLIGATIONS OF THE MANAGEMENT COMPANY

- a. The Management Company undertakes to manage, maintain, and operate the Building.

The lessee undertakes not to carry out itself and/ or through the agency of another party acting on its behalf the services and other activities entrusted to the Management Company under the Management Agreement and agrees that these services and activities will be carried out exclusively by the Management Company.

- b. Without derogating from the generality of the aforesaid, the Management Company shall be entitled to deal, inter alia, with the following matters that are included in the management, maintenance, and operation of the Building and the lot:

- (1) Cleaning and lighting of the public areas and a receptionist in the lobby 24 hours a day
- (2) Air-conditioning of those public areas in which air-conditioning is possible and appropriate
- (3) Gardening work on the lawns and plantings in the public areas
- (4) Installation of equipment and objects that will serve visitors to the lot
- (5) Maintenance and upkeep of the public areas and of the equipment and objects that serve the Building and/ or the tenants and/ or those with rights in the Building, all or some of them, to the extent that this relates to equipment that is not owned by and/ or the responsibility of any of the tenants, including, inter alia, generators, gas and

fuel tanks, the sanitary, plumbing, electrical, drainage, and lighting systems, and the elevators and escalators in the public areas of the Building

3. RIGHTS OF THE MANAGEMENT COMPANY

- a. In order to carry out its obligations under the Management Agreement, the Management Company is entitled, inter alia, at its sole and absolute discretion, and in such conditions as it may deem appropriate:

To maintain offices in the Building and/ or in any other place and to employ managers, clerks, accountants, bookkeepers, lawyers, laborers, artisans, professionals, consultants, engineers, architects, contractors, subcontractors, and other workers, all as it may deem essential and at its sole discretion. Such employment shall be exclusively with reference to the needs of the tenants and owners of areas in the Building.

- b. To take out insurance on the physical structure of the project against physical loss or damage on account of fire, lightning, explosion, earthquake, riots, terrorism, strikes and wanton damage, flood and water damage, electricity, and other natural disasters, as well as against any other risk that the Management Company may deem necessary, in amounts or with no cap on the amount, as may be determined by the Management Company. The insurance as stated shall include a clause waving the right of subrogation vis-a-vis the tenants on account of damage caused by them unintentionally to the structure of the Building.

- c. To take out third- party liability insurance covering the liability of the lessor, the Management Company, and the lessee against any third party whatsoever in amounts or with no cap on the amount, as the Management Company may deem warranted from time to time, in the public areas that are not part of the Leased Premises.

The policy shall include a cross- liability clause.

- d. To take out employers' liability insurance that covers the liability of the Management Company and the lessor vis-a-vis their employees in accordance with the Torts Ordinance (New Version) and/ or in accordance with any other law, on account of death and/ or on account of any bodily injury (including emotional or mental injury) for every employee as a result of an accident or illness during and on account of his or her employment.

- e. To take out insurance against loss of Rent and/ or loss of management fees and/ or consequential loss of profits to the lessor and/ or to the Management Company as a result of a physical loss or damage to the project and/ or to the Leased Premises, and any other insurance that the Management Company deems essential and is related to physical loss and/ or damage and/ or financial loss and/ or liability related to the project, its management, and its operation.

- f. To handle payments for water, electricity, and energy for the public areas, payment of municipal and central government Taxes that apply to the public areas, payment of all other sums of any type or kind whatsoever that do not apply to specific areas, and payment of all other sums on account of services and Building maintenance and on account of the operations of the Management Company, as stated in this agreement.

4. WORK TO BE CARRIED OUT BY THE MANAGEMENT COMPANY

The Management Company is entitled to enter the Leased Premises at any time, with advance coordination with the lessee (except in urgent cases), and to carry out there any action that it believes to be necessary in order to exercise its rights under the present agreement. Without derogating from the generality of the aforesaid, the Management Company shall be entitled, inter alia, to open walls, floors, ceilings, and other parts of the Leased Premises and to replace and repair pipes and plumbing and make connections to them and to carry out any electrical work whatsoever.

The Management Company undertakes to act to the best of its ability to minimize any disturbance to the lessee and to restore the status quo ante as soon as possible.

The lessee undertakes to do whatever may be required to assist the Management Company in carrying out the work on the Leased Premises and to permit the Management Company to minimize any disturbance to the operation of the Leased Premises.

#### 5. MANAGEMENT AND MAINTENANCE FEES

In consideration of the management and maintenance services that the Management Company will provide as stated in the management agreement, the lessee undertakes to pay the Management Company management and maintenance fees as follows:

- a. The lessee's proportional share (as stated in the Tenancy Agreement) of the costs associated with the operation, management, and maintenance of the Building by the Management Company and the fulfillment of the Management Company's obligations as enumerated in the Management Agreement (including financing costs and expenses on account of depreciation of equipment at the rate fixed by law, which shall be paid to the lessor for the installation and/ or replacement of equipment to serve the public and/ or the tenants of the Building or some of them) (hereinafter "Operating and Maintenance Expenses").
- b. Payment of all expenses or of the lessee's proportional share in the expenses that, at the sole discretion of the Management Company, should be borne by the lessee and/ or by the lessee together with other specific lessees because the expense stems from the conduct of the specific business of the lessee and/ or the businesses of a number of lessees.
- c. Expenses that may be caused by specific lessees shall be borne by those lessees (such as electricity for air conditioning).
- d. In addition to payments on account of operating and maintenance expenses and expenditures as stated above, the lessee shall pay the Management Company a management fee equal to 15% (fifteen percent) of the total payment charged the lessee as stated above (that is, the actual payment will be cost plus 15%), plus value added tax according to law on the total sum of the payment.
- e. The lessee may examine the management expenditures ledgers at any reasonable time with prior coordination with the manager of the Management Company and in the company offices.

#### 6. TERM OF THE MANAGEMENT AGREEMENT

At the end of the Term of the Lease or the term of an option, should such apply, whichever is later, or upon cancellation of the Tenancy Agreement pursuant to the stipulations of the Tenancy Agreement, the present agreement shall lapse and a final reckoning shall be drawn up between the lessee and the Management Company concerning their credit and debit balances, pursuant to the terms of the Management Agreement,

all of this subject to compliance with all conditions in the Tenancy Agreement for carrying out the reckoning.

7. USE OF THE UPPER ROOF AND/ OR BALCONIES

It is hereby agreed that the lessee shall have no right to use the upper roof above the Leased Premises or any other external roof without explicit written consent from the lessor.

8. PARKING FACILITY

It is hereby agreed that the parking facility will be managed by the lessor or by someone acting on its behalf, and the lessee undertakes to comply with their instructions.

APPENDIX E

Dec. 21, 2000

Kir Hed, Ltd.  
RMPA House  
Har Hotzvim  
Jerusalem

Dear Sir or Madam:

Re: FINISHING WORK IN BEIT HADARIM

Pursuant to the Tenancy Agreement (hereinafter "THE TENANCY AGREEMENT") signed on Dec. 21, 2000, between us and RMPA Properties, Ltd. (hereinafter "THE LESSOR") concerning space in Beit Hadarim in Har Hotzvim in Jerusalem (hereinafter "THE LEASED PREMISES");

And whereas it has been agreed between us and the Lessor that we will carry out the Finishing Work in the Leased Premises (hereinafter "THE FINISHING WORK") by means of a contractor to be selected by us for this purpose who has experience in carrying out similar work in the Har Hotzvim industrial zone, the Malha Technological Park, or some other high- tech park in Tel Aviv, and that you will be given the right of first refusal to carry out the Finishing Work;

Accordingly we make the following commitment to you:

1. We shall provide you with a copy of the detailed plans and specifications for the Finishing Work, including all the working blueprints and specifications and any other and/ or additional plans as soon as they are ready.
2. As soon as we have received contractors' bids on the Finishing Work, we shall transmit all the proposals received to you and notify you as to which is our preferred proposal.
3. You shall be entitled to inform us, within seven days of receiving our notification and the contractors' proposals as stated in section 5 of the Tenancy Agreement, that you are interested in carrying out the Finishing Work yourselves, at the price and under the terms offered to us by the contractor whose proposal we preferred, as stated above.
4. Should you notify us that you are interested in carrying out the Finishing Work under the aforesaid conditions, we undertake to entrust the Finishing Work to you.

Sincerely yours,  
Keryx Israel, Ltd.

CC: RMPA Properties, Ltd.

Appendix B  
BANK GUARANTEE

To:  
RMPA PROPERTIES LTD.  
-----

DATE: \_\_\_\_\_

Dear Sir:

Re: Bank guarantee no. \_\_\_\_\_

Pursuant to a request by Keryx Israel, Ltd. (hereinafter "the Guaranteed") we hereby guarantee the payment to you of any amount up to the amount of NIS \_\_\_\_\_ (\_\_\_\_\_ New Israeli Sheqels), index-linked, in accordance with the indexation conditions enumerated below (hereinafter "the Amount of the Guarantee") that are or may be due you from the guaranteed.

For the purposes of the present guarantee

The "Base Index" means--

The index published on \_\_\_\_\_ (date) for \_\_\_\_\_ (month and year), namely, \_\_\_\_\_ points.

The "New Index" means--

The last index published before the actual payment of any amount pursuant to the present guarantee.

If, on the date when we pay you any sum whatsoever in accordance with the present guarantee, it transpires that the New Index has risen with respect to the Base Index, we shall pay you that amount multiplied by the ratio of the New Index to the Base Index.

We shall pay you from time to time, and in any case within ten days of receipt of your initial written demand, any amount within the limit of the guarantee, without your having to justify your demand or make a previous demand for payment by the debtor, on condition that the entire sum we must pay in response to all your demands taken together does not exceed the amount of the guarantee.

This guarantee will remain in force until \_\_\_\_\_ (date), inclusive, and any demand pursuant to it must be sent in writing to the branch indicated below no later than the aforesaid date.

This guarantee is irrevocable.

Sincerely yours,

-----  
Bank

RMPA Properties Ltd. [rubber stamp, signature]

To  
RMPA PROPERTIES, LTD. (hereinafter "the company")  
P.O.B. 45079, RMPA House, Har Hotzvim  
Jerusalem  
Dear Sir,

Re: Confirmation of Insurance Coverage in Force from \_\_\_\_\_  
through \_\_\_\_\_

We hereby confirm that we have issued the insurance policies enumerated below on the content of the Leased Premises leased by the lessee whose name is stated below, located in your Building in Har Hotzvim (Beit Hadarim), Jerusalem, and for the lessee's business and activities in the Building.

1. EXPANDED FIRE INSURANCE

Insured party \_\_\_\_\_ (hereinafter "the lessee")

Property covered: The contents of the Leased Premises, and without derogating from the generality of the aforesaid, including any modifications, improvements, and additions to the Leased Premises, performed by and/ or on behalf of the lessee, as well as furnishings, equipment, and inventory of every sort.

Amount of coverage: \_\_\_\_\_

Risks covered: The standard risks covered by expanded fire insurance, and without derogating from the generality of the aforesaid, including fire, explosion, earthquake, riots, strikes and malicious damage, flooding, water damage, and burglary  
Special stipulation: The policy includes a clause waiving subrogation vis-a-vis the company and/ or vis-a-vis all the other lessees and/ or tenants in the building, including all those who come on behalf of those enumerated above.

2. THIRD-PARTY LIABILITY INSURANCE

Insured party \_\_\_\_\_ (hereinafter "the lessee")

Limits of liability: \_\_\_\_\_ per incident; \_\_\_\_\_ total

Nullification of limits: fire, explosion, panic, motor vehicle lifting, loading, and unloading equipment, poisoning and foreign substances in any food or beverage, and National Insurance

Special stipulations:

(1) The policy includes a cross-liability clause among the units of the insured party.

(2) The policy is expanded to indemnify the company on account of their liability as owners and managers of the leased premises and on account of their vicarious liability for acts of commission and/ or omission on the part of the lessee.

3. EMPLOYER'S LIABILITY INSURANCE

Insured party \_\_\_\_\_ (hereinafter "the lessee")

Special stipulation: The policy is expanded to indemnify the company on account of its liability as owners and managers of the Leased Premises and on account of its vicarious liability for acts of commission and/ or omission on the part of the lessee.

The aforesaid policies may not be cancelled without prior notification sent to the company by registered mail 60 days in advance.

Sincerely yours,  
The Insurer

-----

RMPA Properties Ltd. [rubber stamp, signature]

Keryx (Israel) Ltd. [rubber stamp, signature]

AMENDMENT

This amendment (the "Amendment"), dated March 29, 2001, is being made between KERYX BIOPHARMACEUTICALS, INC., a corporation organized under the laws of the State of Delaware, with offices at Kiryat Mada 5, Jerusalem 91236 Israel ("Keryx"), and CHILDREN'S MEDICAL CENTER CORPORATION, 300 Longwood Avenue, Boston, Massachusetts 02155 United States of America ("CMCC").

WHEREAS the parties executed a License Agreement, dated November 12, 1999, pursuant to which, among other things, meet certain development milestones (the "License Agreement"); and

WHEREAS the parties have determined that the proper development and funding of the technology that is the subject of the License Agreement justifies amendments to the clauses addressing the development milestones and Keryx's reporting requirements;

IT IS HEREBY AGREED by and between the parties:

- 1. Article III.B.1 of the License Agreement shall be deleted in its entirety and replaced with the following language:

B. Licensee shall accomplish development of Licensed Products and/or Licensed Processes according to the following timetable:

- 1. file an Initial New Drug Application ("IND") for a Licensed Product with United States Food and Drug Administration ("FDA") or its foreign equivalent in a country with reasonably comparable requirements within forty two (42) months from the identification of the first lead compound; and

- 2. This Amendment shall not be deemed to alter in any manner any rights and/or obligations of either party except as specifically set forth above.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment, by proper persons duly authorized.

KERYX BIOPHARMACEUTICALS, INC.

CHILDRENS MEDICAL CENTER CORPORATION

By: /s/ Morris Laster  
-----

By: /s/ Willlliam New  
-----

Name: Morris Laster, M.D.

Name: William New

Title: Chief Executive Officer

Title:

KERYX BIOPHARMACEUTICALS, INC. - LIST OF SUBSIDIARIES

1. Keryx (Israel) Ltd. - incorporated in Israel
2. Keryx Securities Corporation -- incorporated in Massachusetts

The Board of Directors of  
Keryx Biopharmaceuticals, Inc.

We consent to incorporation by reference in the registration statement on Form S-8 of Keryx Biopharmaceuticals, Inc. of our report dated February 15, 2001 relating to the consolidated balance sheets of Keryx Biopharmaceuticals, Inc. and subsidiaries as of December 31, 2000, and 1999, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2000, and all related schedules, which report appears in the December 31, 2000 annual report on Form 10-K of Keryx Biopharmaceuticals, Inc.

/s/ Somekh Chaikin

Somekh Chaikin  
Certified Public Accountants

A member firm of KPMG International

Jerusalem, Israel

March 29, 2001