XTL BIOPHARMACEUTICALS LTD
Form 6-K
November 29, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the month of November, 2013

Commission File Number: **000-51310**

XTL Biopharmaceuticals Ltd.

(Translation of registrant’s name into English)

85 Medinat Hayehudim St., Herzliya
Pituach, PO Box 4033,

Herzliya 4614001, Israel

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ____

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ____

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ¨ No x

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- N/A

XTL Biopharmaceuticals Ltd. (the "Company") Presents Its Translated From Hebrew Interim Financial Statements as of September 30, 2013

Attached hereto is an English translation (from Hebrew) of our interim financial statements and additional information as submitted on the Tel Aviv Stock Exchange.

The following documents are included:

A. Board of Directors' Report as of September 30, 2013.

B. Reviewed Condensed Consolidated Financial Statements as of September 30, 2013.

C. Separate Financial Information as of September 30, 2013 in accordance with Regulation 38d of the Israeli Securities Regulations (Periodical and Immediate Reports) - 1970.

D. Interim Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure as of September 30, 2013, Pursuant to Regulation 38c(a) of the Israeli Securities Authority.

XTL BIOPHARMACEUTICALS LTD.

DIRECTORS' REPORT ON THE CORPORATION'S STATE OF AFFAIRS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

The Board of Directors of XTL Biopharmaceuticals Ltd. (the "**Company**") hereby presents the Company's interim consolidated financial statements as of September 30, 2013 and for the nine months then ended (the "**Reporting Period**"), in conformity with the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 (the "**Reporting Regulations**").

The data presented in this report relates to the Company and its subsidiaries on a consolidated basis (the "**Group**"), unless explicitly stated otherwise.

The directors' report contains, among other things, a condensed description of the Company's business, its financial position, an analysis of operating results and the effect of events during the reporting period on the data in the consolidated financial statements of the Company as of September 30, 2013 (the "**Financial Statements**"). The material changes in the Company's business compared to the information presented in the Company's periodic report for 2012, in conformity with Regulation 39a to the Reporting Regulations, are specified in section 1.2 below.

The directors' report was prepared based on the assumption that the reader also has at its disposal the Company's directors' report for the year ended December 31, 2012.

1. PART 1 - THE BOARD OF DIRECTORS' EXPLANATIONS FOR THE STATE OF THE CORPORATION'S BUSINESS

1.1 <u>A condensed description of the Company's business</u>

The Company was incorporated under the Israeli Companies Law on March 9, 1993. The Company is engaged in the development of therapeutics, among others, for the treatment of unmet medical needs, improvement of existing medical treatment and business development in the medical realm.

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Effective from July 15, 2013, the Company's American Depositary Receipts ("**ADRs**") are now traded on the Nasdaq Capital Market (see details in section 1.2.3 below). In the past, the Company's ADRs were traded in the U.S in the over-the-counter market. The Company's securities are also traded on the Tel-Aviv Stock Exchange ("**TASE**").

On November 21, 2012, the Company acquired approximately 31.35% of the shares of Proteologics Ltd. ("**Proteologics**"), a public company whose shares are traded on the TASE, in consideration of approximately $ 1,700,000 (approximately NIS 6,500,000) paid in cash (see also Note 12 to the annual consolidated financial statements for 2012). On September 12, 2013, the Company entered into an agreement for the sale of its entire investment in Proteologics in consideration of approximately $ 3,400,000 after having acquired another 14.13% of Proteologics' shares on September 11, 2013. See more details in section 1.2.5 below.

On July 25, 2012, the Company completed the acquisition of approximately 50.79% of the issued and outstanding share capital of InterCure Ltd. ("**InterCure**"), a public company whose shares are traded on the TASE and is engaged in the research, development, marketing and sale of home medical devices for the non-medicinal and non-invasive treatment of various diseases such as hypertension, congestive cardiac failure, insomnia and stress. On May 16, 2013, the Company's Board approved the conversion of the loan which had been extended to InterCure into 7,620,695 Ordinary shares of InterCure as predetermined in the acquisition agreement. Following said conversion and as of the date of the report, the Company holds approximately 54.72% of InterCure's issued and outstanding share capital.

As of the date of the report, the Company is in the planning stages for the implementation of a phase 2 clinical trial of the recombinant EPO ("**rHuEPO**") drug for treating Multiple Myeloma patients. As part of said preparations, the Company has conducted a study which consists of collecting preliminary data on the existence of specific proteins in the blood of a group of Multiple Myeloma patients, is preparing market analyses and undergoing regulatory activities. The data collected in the preliminary study will be combined in the plans and preparations for the implementation of the phase 2 clinical trial, as needed. Based on the Company's current business plans and estimates, the approval for commencing the clinical trial is expected to be obtained during the first half of 2014.

On November 30, 2011, the Company completed the MinoGuard transaction in which it acquired the activity of MinoGuard Ltd. ("**MinoGuard**"), founded by Mor Research Applications Ltd. ("**Mor**") by way of receiving an exclusive license to use MinoGuard's entire technology, including the SAM-101, a combination drug for treating psychotic diseases, focusing on schizophrenia, in return for sales royalties and milestone payments to be made over the clinical development period. The drug is based on a combination of existing antipsychotic drugs and a recognized medicinal compound (Minocycline). See also section 1.2.7 below.

The Company has patent rights and other assets in the field of treating hepatitis C (DOS program) transferred to Presidio Pharmaceuticals Inc. ("**Presidio**") and returned by Presidio to the Company in August 2012 (see more information in Note 18a to the annual consolidated financial statements for 2012). The Company intends to examine renewing the activity in the field of hepatitis C and/or locate strategic partners for the continued development and marketing of drugs for treating hepatitis C based on the DOS technology transferred by Presidio.

As of September 30, 2013, the Company has the following subsidiaries:

a. InterCure - a publicly traded company on the TASE. InterCure has two subsidiaries - InterCure Inc., incorporated in the U.S., and InterCure UK (inactive), incorporated in the UK.

b. Xtepo Ltd. ("**Xtepo**") - a private company incorporated in Israel in November 2009 which holds a license for the exclusive use of the patent for rHuEPO drug for treating Multiple Myeloma patients.

c. XTL Biopharmaceuticals Inc. ("**XTL Inc.**") **-** a U.S. company incorporated in 1999 under the laws of the State of Delaware, USA and was engaged in development of therapeutics and business development in the medical realm. XTL Inc. has a wholly-owned subsidiary (a sub-subsidiary of the Company) - XTL Development Inc. ("**XTL Development**"), which was incorporated in 2007 under the laws of the State of Delaware, USA. As of the date of the approval of the financial statements, XTL Inc. and XTL Development are inactive.

1.2 <u>Significant events during the reporting period</u>

1.2.1 On February 21, 2013, the Company's special general meeting of shareholders and the general meeting of holders of warrants (series 2) of the Company decided to extend the exercise period of said warrants from February 27, 2013 to December 31, 2013. On March 12, 2013, the decision was approved by the District Court pursuant to Section 350 to the Israeli Companies Law.

1.2.2 The Company and Kitov Pharmaceuticals Ltd. (see Note 18a to the annual consolidated financial statements for 2012), on March 5, 2013, decided to cease the negotiations as they failed to yield any binding agreement.

1.2.3 Listing for trading on the Nasdaq Capital Market ("Nasdaq") - on July 10, 2013, the Company's management received a notice from Nasdaq representatives stating that the admission committee had approved the Company's application to relist its ADRs for trading on the Nasdaq Capital Market. Accordingly, on July 15, 2013, the Company's ADRs began trading on Nasdaq.

1.2.4 On August 19, 2013, Dr. Ben-Zion Weiner, a director in the Company, announced his resignation from the Company's Board. In his resignation announcement, Dr. Weiner stated to the Company's management that, if requested, he would be willing to positively consider joining the Company's scientific advisory committee. Following Dr. Weiner's resignation, on August 19, 2013, 2,938,668 of the options that had been granted to Dr. Weiner and have not yet vested as of the resignation date were forfeited (see also section 4.1.2 below).

1.2.5 On September 11, 2013, the Company entered into an agreement for the purchase of another 14.13% of the shares of Proteologics from Aurum Ventures MKI Ltd. ("**Aurum**") in consideration of the issuance of 3,031,299 shares of NIS 0.1 par value each of the Company to Aurum. On September 12, 2013, the Company signed an agreement with Zmiha Investment House Ltd. ("**Zmiha**") for the sale of its entire investment in Proteologics, representing 44.95% of Proteologics' issued and outstanding share capital as of the date of the agreement, in consideration of approximately $ 3,400,000 (approximately NIS 12,000,000). According to the agreement, on the consummation date, the Company received an amount of approximately $ 2,700,000 (approximately NIS 9,600,000) and the balance is held in escrow until the completion of an inspection process by an inspector and the execution of a stay of proceedings pursuant to section 350 to the Companies Law in Proteologics. As of the date of approval of the financial statements, the majority of the consideration has been delivered to the Company and an amount of approximately $ 300,000 (approximately NIS 1,000,000) remains in escrow according to the agreement.

1.2.6 On September 11, 2013, the Company's Board received notification from Mr. David Grossman, the former CEO, that he wished to terminate his position as CEO. Accordingly, on September 11, 2013, the Company's Board approved the appointment and employment terms of Mr. Josh Levine as CEO effective from October 15, 2013. Mr. Grossman shall complete his tenure as CEO at the end of the four-month notice period stipulated in his employment agreement. On October 15, 2013, Mr. Levine began his tenure as the Company's CEO.

1.2.7 On September 12, 2013, the Company issued to MinoGuard 175,633 Ordinary shares of NIS 0.1 par value each of the Company in respect of annual license fees from July 1, 2013 through June 30, 2014.

1.2.8 During the reporting period, holders of the Company's warrants (series 2) exercised 86,299 warrants (series 2) into 86,299 Ordinary shares of NIS 0.1 par value each for an average exercise increment of NIS 1 per warrant. The overall proceeds from the exercise of the warrants (series 2) totaled approximately $ 25,000.

1.2.9 During the reporting period, 130,000 non-marketable stock options of the Company were exercised into 130,000 Ordinary shares of NIS 0.1 par value each for an average exercise increment of NIS 0.28 per stock option. The proceeds from the exercise of the stock options totaled approximately $ 9,000.

1.2.10 <u>InterCure</u>

1.2.10.1 On January 21, 2013, InterCure announced that the examination conducted as part of the process of concluding the engagement with Mr. Erez Gavish, InterCure's former CEO ("**Mr. Gavish**"), revealed several issues which require inspection in connection with InterCure's actions during Mr. Gavish's term as CEO, including the legal validity granted to the license agreement of October 2011 signed between InterCure and Yazmonit Ltd., a company controlled by Dr. Benjamin Gavish ("**Yazmonit**" and "**Dr. Gavish**", respectively). InterCure's Board appointed a committee which includes an external attorney hired for this purpose and another director in InterCure in order to investigate the issue and provide the Board with its conclusions. In addition, a notice was delivered to Mr. Gavish and Dr. Gavish on the establishment of said committee which summoned the two to provide explanations regarding the issues under inspection and requested that they inform any of their future potential partners or investors of the inspection of the legal validity of said license agreement. On April 7, 2013, InterCure announced that on April 4, 2013, an originating summons had been filed by Yazmonit against it with the Tel-Aviv-Jaffa District Court, according to which the Court is asked to render a verdict which declares that the license agreement had been approved and signed and the rights therein had been conferred and transferred by the respondent to the petitioner as required by law.

Moreover, on May 13, 2013, InterCure filed a petition with the Court for dismissing the originating summons in limine and assigning the motion to a standard legal procedure. On July 17, 2013, InterCure made it public that it had reached a settlement with Mr. Gavish and Dr. Gavish in connection with the amendment of said license agreement. According to the amendment, Yazmonit will not be able to market its products under InterCure's RESPeRATE ™ trademark and brand name.

1.2.10.2 On March 21, 2013, Prof. Reuven Zimlichman was appointed as InterCure's medical director. According to his consulting agreement, he will provide InterCure services consisting of R&D consulting, IP and medical regulation management. Prof. Zimlichman will be granted 130,000 stock options exercisable into 130,000 Ordinary shares of InterCure for an exercise increment of NIS 0.54 per stock option. The stock options vest in 12 equal portions each quarter over a period of three years from the grant date. Alternatively, if as a result of the signing of an agreement between InterCure and a medical institution (such as a sick fund) for the sale of InterCure's products through the medical institution the total sales of InterCure's products exceed US$ 175,000, then 30% of the then unvested stock options will vest. The fair value of all the stock options using the Black and Scholes model in accordance with the provisions of IFRS 2 as of the date of InterCure's Board's approval approximates $ 9,000. The exercise period of the stock options is a maximum of 10 years from the date of grant. The value of each option is based on the following inputs: expected dividend of 0%, expected standard deviation of 92.21%, risk-free interest rates of 2.76%-3.21% and expected life of 5-6.5 years.

1.2.10.3 On June 26, 2013, InterCure's Board approved the appointment of Mr. Ofer Gilboa as the CEO of InterCure instead of Mr. Ronen Twito, the Company's CFO and Deputy CEO who terminated his tenure as temporary CEO of InterCure. According to Mr. Gilboa's employment agreement, as approved by InterCure's Board, he will be granted 650,000 stock options which are exercisable into Ordinary shares of InterCure at an exercise price of NIS 0.23 per stock option. The stock options vest over a period of three years whereby 1/12 of the total number of stock options will vest at the end of each quarter.

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The fair value of all of the stock options using the Black and Scholes model pursuant to the provisions of IFRS 2 as of the date of InterCure's Board's approval was approximately $ 19,000. The exercise period is for a maximum of ten years from the allocation date. The value of each option is based on the following inputs: expected dividend rate of 0%, expected standard deviation rate of 5.41%, risk-free interest rate of 1% and expected life of 5-6.5 years. Also according to the employment agreement, if InterCure's revenues exceed $ 5,000,000 and the EBITDA is not less than $ 1,000,000, Mr. Gilboa will be entitled to a bonus of $ 25,000. It was also determined that Mr. Gilboa will be entitled to a bonus of 1% of any capital rising round in InterCure over a period of 36 months from commencing his tenure, provided that the investments are made by third parties that are unrelated to InterCure, and up to a maximum bonus of $ 100,000. In addition, the agreement provides for a letter of exemption and indemnification and the inclusion of Mr. Gilboa in InterCure's directors' and officers' liability insurance policy. Mr. Gilboa's employment terms were approved by the meeting of InterCure's shareholders of August 15, 2013. See also section 4.1.7.6 below.

1.2.10.4 **Appointing a CFO in InterCure - CPA Uri Ben-Or** - on July 11, 2013, InterCure appointed CPA Uri Ben-Or as CFO.

1.2.10.5 **Blind trust agreement signed by InterCure for the sale of the Company's shares held by it -** on July 22, 2013, InterCure announced that it had entered into a blind trust agreement with S.G.S. Trusts Ltd. for the gradual sale of the Company's shares over a period of two years and subject to the terms defined by the Company's Board. These shares had been allocated to InterCure in the debt refinancing agreement signed by InterCure with its creditors on July 25, 2012 in the context of which the Company acquired control over InterCure. Consequently, in the reporting period, InterCure reported the sale of 352,297 Company shares that had been allocated to it in the context of the acquisition agreement of July 25, 2012 for an average price of $ 0.315 (approximately NIS 1.13) per share. See also section 4.1.7.5 below.

1.2.10.6 On August 15, 2013, the general meeting of InterCure's shareholders approved the following issues:

1.2.10.6.1 Approval of the remuneration offered to InterCure's new CEO, Mr. Ofer Gilboa, through a company that is wholly controlled by him, including the grant of a letter of exemption and indemnification and the inclusion of Mr. Gilboa in InterCure's officers' and directors' liability insurance policy. See also section 4.1.7.6 below.

1.2.10.6.2 Approval of a change in the exercise increment of non-marketable stock options that had been granted to employees and officers in InterCure, including directors in InterCure who act as officers (or directors) in the Company (see also 1.2.10.7 below).

1.2.10.6.3 Approval of a change in the terms of the options previously granted to InterCure's former CEO, Mr. Ronen Twito, who acts as the Company's CFO and Deputy CEO (see also 1.2.10.7 below).

1.2.10.7 **Changing the terms of the stock options granted to employees and officers in InterCure and to InterCure's former CEO -** on August 15, 2013, following the approval of the Board of June 26, 2013, the general meeting of InterCure's shareholders approved a change in the exercise increment of 1,238,333 non-marketable stock options granted to employees and officers in InterCure, including directors in InterCure who act as officers in the Company, from an amount of $ 0.15 (54 Agorot) per stock option to an amount equivalent to 10% above the average price of InterCure's share on the TASE in the three trading days that preceded the date of the Board's decision, namely $ 0.063 (22.73 Agorot). The general meeting also approved a change in the terms of the options previously granted to InterCure's former CEO, Mr. Ronen Twito, who acts as the Company's CFO and Deputy CEO. The total economic value of the change in the option terms above, according to the Black and Scholes model pursuant to the provisions of IFRS 2 as of the date of the Board's approval approximates $ 12,000.

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1.2.10.8 On September 15, 2013, InterCure reported that on September 10, 2013 the TASE notified it that based on data as of June 30, 2013, InterCure is not meeting the Maintenance Rules based on the TASE's articles of association since the value of public holdings in InterCure shares approximates NIS 3,000,000. The TASE requires the value of public holdings to be at least NIS 5,000,000. According to the TASE's articles of association, InterCure was granted an extension until December 31, 2013 to take steps to meet the Maintenance Rules. Insofar as InterCure fails to meet the Maintenance Rules by the end of the extension period, the TASE's board of directors will discuss the transfer of InterCure's shares to the Maintenance List in its meeting scheduled to take place in January 2014.

1.3 The financial position, operating results, liquidity and financing resources

The Company has incurred continuing losses and depends on outside financing resources to continue its activities. The Company's income at this stage originates from InterCure, a subsidiary in which control was acquired on July 25, 2012. Based on existing business plans, the Company's management estimates that its outstanding cash and cash equivalent balances, including short-term deposits, will allow the Company to finance its activities at least until the fourth quarter of 2015 (independently of InterCure, which is 54.72% held). However, the amount of cash which the Company will need in practice to finance its activities depends on numerous factors which include, but are not limited to, the timing, planning and execution of clinical trials of existing drugs and future projects which the Company might acquire or other business development activities such as acquiring new technologies and/or changes in circumstances which are liable to cause significant expenses to the Company in excess of management's current and known expectations as of the date of these financial statements and which will require the Company to reallocate funds against plans, also due to circumstances beyond its control.

The Company expects to incur additional losses in 2013 arising from research and development activities, testing additional technologies and operating activities, which will be reflected in negative cash flows from operating activities. Accordingly, in order to perform the clinical trials aimed at developing a product until obtaining its marketing approval, the Company will be forced to raise additional funds in the future by issuing securities. Should the Company fail to raise additional capital in the future under standard terms, it will be required to dispose of marketable securities held by it or minimize its activities, sell or grant a sublicense to third parties to use all or part of its technologies.

1.3.1 The financial position

Balance sheet highlights (U.S. dollars in thousands)

Line item	September 30, 2013 Amount $000	% of total balance sheet		December 31, 2012 Amount $000	% of total balance sheet	
Total balance sheet	10,282	100	%	11,086	100	%
Equity attributable to equity holders of the Company	7,323	71	%	7,353	66	%
Non-controlling interests	1,657	16	%	2,071	19	%
Current assets	5,549	54	%	3,792	34	%
Investment in associate	-	0	%	2,336	21	%
Property, plant and equipment, net	66	1	%	72	1	%
Intangible assets, net	4,667	45	%	4,886	44	%
Current liabilities	1,289	13	%	1,649	15	%
Non-current liabilities	13	0	%	13	0	%

Explanations for the developments in the items of the statement of financial position:

Equity

The Company's equity as of September 30, 2013 (including non-controlling interests) was approximately $ 8,980,000. Equity attributable to equity holders of the Company as of September 30, 2013 totaled $ 7,323,000, with no material change from December 31, 2012, representing about 71% of total balance sheet compared to 66% of total balance sheet as of December 31, 2012. The change in equity attributable to equity holders of the Company is mainly a result of a gain from the sale of an investment in an associate and the issuance of shares in the third quarter of 2013, offset by the loss for the period (less share-based payment expenses).

The balance of non-controlling interests as of September 30, 2013 was approximately $ 1,657,000, representing the other shareholdings in InterCure compared to $ 2,071,000 as of December 31, 2012. The decrease is mainly a result of the loss for the period (offset by share-based payment expenses) and the increase in the Company's stake in InterCure following the conversion of the loan that had been extended to InterCure according to the acquisition agreement. As of September 30, 2013, the Company holds approximately 54.72% of InterCure's issued and outstanding share capital (see more details in section 1.1 above).

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Assets

The Group's total current assets as of September 30, 2013 amounted to approximately $ 5,549,000, an increase of approximately $ 1,757,000, compared to approximately $ 3,792,000 as of December 31, 2012. The change is primarily a result of an increase in the Group's balances of cash, short-term deposits and other accounts receivable. As of September 30, 2013, the Group's cash and short-term deposits totaled approximately $ 4,144,000 and other accounts receivable totaled approximately $ 867,000, an increase of approximately $ 832,000 compared to cash and short-term deposits totaling approximately $ 3,312,000 as of December 31, 2012 and an increase of approximately $ 714,000 compared to other accounts receivable as of December 31, 2012. This increase is mainly a result of the sale of the investment in an associate which was partly paid in cash and partly held in escrow according to the agreement (see details in section 1.2.5 above), less cash used in the Group's operating activities.

The carrying amount of trade receivables in the statement of financial position as of September 30, 2013 was approximately $ 106,000 compared to approximately $ 76,000 as of December 31, 2012. The balance arises from InterCure's trade receivables. The balance of trade receivables mainly arises from sales to UK and U.S. chains. The Company's current standard payment terms for retail distribution channels are 30 credit days and 3-5 days for direct sale channels.

The carrying amount of inventories as of September 30, 2013 totaled approximately $ 409,000 compared to approximately $ 229,000 as of December 31, 2012. The increase in inventories is principally explained by the purchase of inventories in InterCure which arrived at its warehouses in the third quarter of 2013.

The carrying amount of other accounts receivable in the statement of financial position as of September 30, 2013 totaled approximately $ 867,000 (approximately $ 806,000 excluding InterCure) compared to approximately $ 153,000 as of December 31, 2012 (approximately $ 117,000 excluding InterCure). The change mainly arises from the proceeds from the sale of the investment in an associate placed in escrow according to the agreement (see details in section 1.2.5 above).

Property, plant and equipment as of September 30, 2013 totaled approximately $ 66,000 (approximately $ 32,000 excluding InterCure) compared to approximately $ 72,000 as of December 31, 2012 (approximately $ 31,000 excluding InterCure) with no material change.

The carrying amount of intangible assets as of September 30, 2013 was approximately $ 4,667,000 compared to approximately $ 4,886,000 on December 31, 2012. The balance comprises the license for the exclusive use of the rHuEPO drug patent for treating Multiple Myeloma and the related knowhow and studies underlying the patent in a total of approximately $ 2,265,000, including transaction costs of approximately $ 187,000. The balance also includes excess cost (less current amortization) attributed to technology totaling approximately $ 1,658,000 and to brand name totaling approximately $ 430,000 from the InterCure acquisition transaction of July 2012. The change in the carrying amount as of September 30, 2013 compared to December 31, 2012 arises mainly from the current amortization of said technology and brand name.

Current liabilities

The carrying amount of current liabilities as of September 30, 2013 totaled approximately $ 1,289,000 (approximately $ 560,000 excluding InterCure), compared to approximately $ 1,649,000 as of December 31, 2012 (approximately $ 757,000 excluding InterCure). The decrease is primarily a result of the repayment of liabilities to professional service providers and the payment of grants to officers for the capital raising of 2012.

1.3.2 **Analysis of the operating results**

Condensed statements of income (U.S. dollars in thousands)

In the first half of 2012, the Company did not include the results of InterCure whose results have only been consolidated in the Group's financial statements starting from the acquisition date - from the third quarter of 2012.

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2013	2012	2013	2012	2012
	$000				
Revenues	1,658	343	473	343	938
Cost of sales	(567)	(156)	(180)	(156)	(380)
Gross profit	1,091	187	293	187	558
Research and development expenses	(75)	(81)	(32)	(38)	(99)
Selling and marketing expenses	(1,620)	(211)	(326)	(211)	(848)
General and administrative expenses	(1,546)	(1,873)	(152)	(898)	(2,769)
Other gains, net	1,056	795	1,046	795	802
Operating income (loss)	(1,094)	(1,183)	829	(165)	(2,356)
Finance income (expenses), net	38	(11)	12	15	45
Earnings (losses) from investment in associate	(845)	-	(396)	-	569
Income (loss) for the period	(1,901)	(1,194)	445	(150)	(1,742)
Other comprehensive income:					
Foreign currency translation differences	(113)	-	(181)	-	114
Total other comprehensive income (loss)	(113)	-	(181)	-	114
Total comprehensive income (loss) for the period	(2,014)	(1,194)	264	(150)	(1,628)
Income (loss) for the period attributable to:					
Equity holders of the Company	(1,326)	(1,049)	549	(50)	(1,390)
Non-controlling interests	(575)	(100)	(104)	(100)	(352)
Total income (loss) for the period	(1,901)	(1,149)	445	(150)	(1,742)

Total comprehensive income (loss) for the period attributable to:					
Equity holders of the Company	(1,439)	(1,049)	368	(50)	(1,276)
Non-controlling interests	(575)	(100)	(104)	(100)	(352)
Total comprehensive income (loss) for the period	(2,014)	(1,149)	264	(150)	(1,628)

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Revenues

The Company's sales in the nine and three months ended September 30, 2013 totaled approximately $ 1,658,000 and approximately $ 473,000, respectively. These sales originated from InterCure. InterCure's main sales are to customers in online markets. In the first and second quarters of 2013, InterCure's sales totaled approximately $ 673,000 and approximately $ 512,000, respectively. The decrease in sales in the Company's sales arises mainly from seasonality.

Gross profit

Gross profit in the nine and three months ended September 30, 2013 totaled approximately $ 1,091,000 and approximately $ 293,000, respectively (approximately $ 1,250,000 and approximately $ 347,000 without amortizing excess cost in the transaction, respectively).

Cost of sales in the nine and three months ended September 30, 2013 includes amortization of excess cost attributable to technology identified in the acquisition and totaled approximately $ 159,000 and approximately $ 54,000, respectively.

Research and development expenses

Research and development expenses in the nine and three months ended September 30, 2013 totaled approximately $ 75,000 and approximately $ 32,000, respectively, similar to the corresponding periods last year. Research and development expenses comprise mainly medical regulation costs, clinical insurance expenses and other medical consulting costs. Research and development expenses attributable to InterCure in the nine and three months ended September 30, 2013 totaled approximately $ 29,000 and approximately $ 10,000, respectively.

Selling and marketing expenses

Selling and marketing expenses in the nine and three months ended September 30, 2013 totaled approximately $ 1,620,000 and approximately $ 326,000, respectively, originating entirely from InterCure. Selling and marketing expenses include advertising expenses (mainly media expenses) of approximately $ 766,000 and approximately $ 206,000, respectively, in the nine and three months ended September 30, 2013, compared to a gross profit of approximately $ 1,250,000 and approximately $ 347,000, respectively (less amortization of excess cost), which represents an average contribution (gross profit less direct/online advertising costs divided by direct/online advertising expenses) of about 63% and 68%, respectively. These expenses also include expenses in respect of share-based payments to InterCure's service providers of approximately $ 307,000 and approximately $ 11,000, respectively.

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General and administrative expenses

General and administrative expenses in the nine and three months ended September 30, 2013 totaled approximately $ 1,546,000 and approximately $ 149,000, respectively, compared to approximately $ 1,873,000 and approximately $ 898,000 in the corresponding periods last year, respectively. The main decrease in general and administrative expenses in relation to the corresponding periods last year is principally explained by a decrease of approximately $ 388,000 in share-based payments to employees and directors mostly arising from the forfeiture of options granted to Dr. Ben-Zion Weiner, a director, which have not vested as of the date of his resignation. In contrast, there was an increase in legal expenses, consulting expenses and registration fees stemming from the Company's reinstatement on Nasdaq. General and administrative expe