

TEVA PHARMACEUTICAL INDUSTRIES LTD

Form 6-K

July 29, 2009

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## **FORM 6-K**

### **SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Report of Foreign Private Issuer**

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

**under the Securities Exchange Act of 1934**

**For the month of July 2009**

**Commission File Number 0-16174**

## **TEVA PHARMACEUTICAL INDUSTRIES LIMITED**

**(Translation of registrant's name into English)**

**5 Basel Street, P.O. Box 3190**

**Petach Tikva 49131 Israel**

**(Address of principal executive offices)**

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Indicate by check mark whether the registrant files or will file annual reports under cover of 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): \_\_\_\_\_

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As listed below, attached as Exhibit 101 to this Report on Form 6-K is certain information contained in this Report on Form 6-K of Teva Pharmaceutical Industries Limited relating to the three months and six months ended June 30, 2009, formatted in XBRL (Extensible Business Reporting Language). Users of this data are advised, in accordance with Rule 406T of Regulation S-T promulgated by the Securities and Exchange Commission, that this Interactive Data File is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

<b>Exhibit No.</b>	<b>Description</b>
EX-101.LAB	XBRL Taxonomy Label Linkbase Document
EX-101.PRE	XBRL Taxonomy Presentation Linkbase Document
EX-101.INS	XBRL Taxonomy Instance Document
EX-101.SCH	XBRL Taxonomy Extension Schema Document
EX-101.CAL	XBRL Taxonomy Calculation Linkbase Document

**Table of Contents****TEVA PHARMACEUTICAL INDUSTRIES LIMITED****CONSOLIDATED STATEMENTS OF INCOME**

(U.S. dollars in millions, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net sales	\$ 3,400	\$ 2,823	\$ 6,547	\$ 5,395
Cost of sales	1,631	1,318	3,207	2,518
Gross profit	1,769	1,505	3,340	2,877
Research and development expenses	169	198	388	377
Selling and marketing expenses	649	500	1,253	852
General and administrative expenses	197	169	393	331
Acquisition of research and development in process				382
Litigation settlements, impairment and restructuring expenses	52		66	
Operating income	702	638	1,240	935
Financial expenses net	61	34*	124	100*
Income before income taxes	641	604	1,116	835
Provision for income taxes	98	68*	123	160*
	543	536	993	675
Share in losses of associated companies net	20	1	19	**
Net income	523	535	974	675
Attributable to non-controlling interests	2	2	2	3
Net income attributable to Teva	\$ 521	\$ 533	\$ 972	\$ 672
Earnings per share:				
Basic	\$ 0.61	\$ 0.68	\$ 1.13	\$ 0.86
Diluted	\$ 0.58	\$ 0.65	\$ 1.09	\$ 0.82
Weighted average number of shares (in millions):				
Basic	860	778	858	777
Diluted	895	836	895	820

\* After giving retroactive effect to the adoption of Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement), as further described in note 10(a).

\*\* Represents an amount of less than \$0.5 million.

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



**Table of Contents****TEVA PHARMACEUTICAL INDUSTRIES LIMITED****CONSOLIDATED BALANCE SHEETS**

(U.S. dollars in millions)

	<b>June 30, 2009 Unaudited</b>	<b>December 31, 2008 Audited</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,761	\$ 1,854
Short-term investments	42	53
Accounts receivable	4,376	4,653
Inventories	3,496	3,396
Prepaid expenses and other current assets	1,360	1,470
<b>Total current assets</b>	<b>11,035</b>	<b>11,426</b>
<b>Long-term investments and receivables</b>	<b>459</b>	<b>425</b>
<b>Property, plant and equipment, net</b>	<b>3,726</b>	<b>3,699</b>
<b>Identifiable intangible assets, net</b>	<b>4,349</b>	<b>4,581</b>
<b>Goodwill</b>	<b>12,218</b>	<b>12,297</b>
<b>Other assets, deferred taxes and deferred charges</b>	<b>464</b>	<b>492*</b>
<b>Total assets</b>	<b>\$ 32,251</b>	<b>\$ 32,920</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Short-term debt	\$ 2,028	\$ 2,906
Sales reserves and allowances	2,460	2,708
Accounts payable	2,129	2,244
Other current liabilities	623	623
<b>Total current liabilities</b>	<b>7,240</b>	<b>8,481</b>
<b>Long-term liabilities:</b>		
Deferred income taxes	1,602	1,723
Other taxes and long term payables	655	621
Employee related obligations	186	182
Senior notes and loans	3,857	3,654
Convertible senior debentures	861	1,821*
<b>Total long-term liabilities</b>	<b>7,161</b>	<b>8,001</b>
<b>Total liabilities</b>	<b>14,401</b>	<b>16,482</b>
<b>Shareholders equity:</b>		
Ordinary shares as of June 30, 2009 and December 31, 2008: authorized 1,500 million shares; issued and outstanding 912 million shares and 889 million shares, respectively	49	48
Additional paid-in capital	12,498	11,673*
Retained earnings	5,902	5,191*
Accumulated other comprehensive income	290	390

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Treasury shares	June 30, 2009 and December 31, 2008	38 million ordinary shares	(924)	(924)
<b>Teva shareholders equity</b>			17,815	16,378
<b>Non-controlling interests</b>			35	60
<b>Total shareholders equity</b>			17,850	16,438
<b>Total liabilities and shareholders equity</b>			\$ 32,251	\$ 32,920

\* After giving retroactive effect to the adoption of Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) , as further described in note 10(a).

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

**Table of Contents****TEVA PHARMACEUTICAL INDUSTRIES LIMITED****CONSOLIDATED STATEMENTS OF CASH FLOW**

(U.S. dollars in millions)

(Unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Operating activities:</b>		
Net income attributable to Teva	\$ 972	\$ 672*
Adjustments to reconcile net income to net cash provided from operations:		
Depreciation and amortization	414	246
Deferred income taxes net	(137)	(154)*
Acquisition of research and development in process		382
Impairment of assets	2	82
Stock-based compensation	25	29
Decrease in working capital	54	232
Other items net	61	63*
<b>Net cash provided by operating activities</b>	<b>1,391</b>	<b>1,552</b>
<b>Investing activities:</b>		
Purchase of property, plant and equipment	(311)	(322)
Acquisition of subsidiaries, net of cash acquired		(414)
Purchase of investments and other assets	(40)	(1,353)
Proceeds from realization of investments	42	1,890
Other items net	(8)	72
<b>Net cash used in investing activities</b>	<b>(317)</b>	<b>(127)</b>
<b>Financing activities:</b>		
Proceeds from exercise of options by employees	74	45
Excess tax benefit on options exercised	6	12
Proceeds from long-term loans and other long-term liabilities received	277	3
Discharge of long-term loans and other long-term liabilities	(118)	(111)
Repayment of bridge loan in connection with the acquisition of Barr	(1,120)	
Net decrease in short-term credit	(13)	(128)
Dividends paid	(261)	(201)
Redemption of convertible senior debentures		(141)
<b>Net cash used in financing activities</b>	<b>(1,155)</b>	<b>(521)</b>
<b>Translation differences on cash balances of certain subsidiaries</b>	<b>(12)</b>	<b>92</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(93)</b>	<b>996</b>
<b>Balance of cash and cash equivalents at beginning of period</b>	<b>1,854</b>	<b>1,488</b>



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<b>Balance of cash and cash equivalents at end of period</b>	\$ 1,761	\$ 2,484
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**Supplemental disclosure of non-cash financing activities:**

During the six months ended June 30, 2009, \$719 million principal amount of convertible senior debentures were converted into approximately 20 million Teva shares.

\* After giving retroactive effect to the adoption of Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) , as further described in note 10(a).

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

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## Notes To Condensed Consolidated Financial Statements

(Unaudited)

**NOTE 1 Basis of presentation:**

The accompanying unaudited condensed consolidated financial statements have been prepared on the same basis, with the exception of the adoption of FASB Staff Position No. APB 14-1 as explained in note 10(a), as the annual consolidated financial statements and, in the opinion of management, reflects all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position and results of operations of Teva Pharmaceutical Industries Limited (Teva or the Company). These consolidated financial statements and notes thereto are unaudited and should be read in conjunction with the Company's audited financial statements included in its Annual Report on Form 20-F for the year ended December 31, 2008, as filed with the Securities and Exchange Commission. The results of operations for the three months and six months ended June 30, 2009 are not necessarily indicative of results that could be expected for the entire fiscal year.

**NOTE 2 Certain transactions:****a. Acquisition of Barr Pharmaceuticals, Inc.**

On December 23, 2008, the Company completed the acquisition of Barr Pharmaceuticals, Inc. (Barr), a U.S.-based multinational generic pharmaceutical company with operations mainly in the United States and Europe, for approximately \$4.6 billion in cash and 69 million shares. For accounting purposes, the transaction was valued at approximately \$7.5 billion, based on the average value of our shares during the five trading day period commencing two trading days before the date of the merger agreement. In addition, Barr's net debt as of the acquisition date was approximately \$1.5 billion.

The consideration for the acquisition was attributed to net assets on the basis of fair value of assets acquired and liabilities assumed. This allocation has not been finalized.

Restructuring provisions recorded were \$320 million, mainly related to employee severance, termination of certain agreements and other exit costs, of which approximately \$103 million has been paid through June 30, 2009.

Barr's results of operations are included in the consolidated financial statements of Teva commencing January 1, 2009.

**b. Lonza cooperation agreement**

On January 20, 2009, Teva signed a definitive agreement with Lonza Group Ltd. to establish a joint venture to develop, manufacture and market generic equivalents of a selected portfolio of biologic pharmaceuticals. The joint venture, TL Biopharmaceuticals AG, commenced activities in May 2009. In connection with the formation of the joint venture, Teva was reimbursed for related R&D efforts it previously incurred. This reimbursement has been recorded as a reduction in research and development expenses.

Teva records its share of the joint venture under share in losses of associated companies.

**NOTE 3 Inventories:**

Inventories consisted of the following:

	June 30, 2009	December 31, 2008
	U.S. \$ in millions	
	Unaudited	Audited
Raw and packaging materials	\$ 1,152	\$ 903
Products in process	561	559

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Finished products	1,670	1,904
	3,383	3,366
Materials in transit and payments on account	113	30
	\$ 3,496	\$ 3,396

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**TEVA PHARMACEUTICAL INDUSTRIES LIMITED**

Notes To Condensed Consolidated Financial Statements

(Unaudited)

**NOTE 4 Convertible senior debentures:**

During the six months ended June 30, 2009, \$719 million principal amount of convertible senior debentures were converted into approximately 20 million Teva shares. Out of the \$719 million principle amount, approximately \$354 million principal amount is related to 0.5% convertible senior debentures due 2024 and \$365 million principal amount is related to 0.25% convertible senior debentures due 2024.

**NOTE 5 Earnings per share:**

Basic earnings per share is computed by dividing net income attributable to Teva by the weighted average number of ordinary shares (including special shares exchangeable into ordinary shares) outstanding during the period, net of treasury shares.

In computing diluted earnings per share for the three months and six months ended June 30, 2009 and 2008, respectively, basic earnings per share was adjusted to take into account the potential dilution that could occur upon: (1) the conversion of the convertible senior debentures, using the if-converted method, by adding to net income attributable to Teva interest expense on these debentures, and amortization of issuance costs, net of tax benefits, and by adding to the number of shares the weighted average number of shares issuable upon assumed conversion of these debentures; and (2) the exercise of options and restricted stock units granted under employee stock compensation plans, using the treasury stock method.

In computing diluted earnings per share for the three months and six months ended June 30, 2009 and for the six months ended June 30, 2008, no account was taken of the potential dilution of the convertible senior debentures, amounting to 16 million weighted average shares, since they had an anti-dilutive effect on earnings per share.

**NOTE 6 Revenue recognition:**

Revenue is recognized when title to, and risk and reward for, a given product are transferred to the customer, with provisions for estimated chargebacks, returns, rebates, discounts and shelf stock adjustments established concurrently with the recognition of revenue, and deducted from sales.

Provisions for chargebacks, returns, rebates and other promotional items are included in sales reserves and allowances under current liabilities. Provision for doubtful debts and prompt payment discounts are netted against Accounts receivable.

The calculation is based on historical experience and the specific terms in the individual agreements. Chargebacks are the largest component of sales reserves and allowances. Provisions for estimating chargebacks are determined using historical chargeback experience, or expected chargeback levels and wholesaler sales information for new products, which are compared to externally obtained distribution channel reports for reasonableness. Shelf-stock adjustments are granted to customers based on the existing inventory of a customer following actual or anticipated decreases in the invoice or contract price of the related product. Where there is a historical experience to customer returns, Teva records a reserve for estimated sales returns by applying that experience to the amounts invoiced and the amount of returned products to be destroyed versus product that can be placed back in inventory for resale.

**NOTE 7 Comprehensive income:**

Comprehensive income is as follows:

Three months ended June 30,	Six months ended June 30,
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	U.S. \$ in millions			
	2009	2008	2009	2008
Net income attributable to Teva	\$ 521	\$ 533	\$ 972	\$ 672
Other comprehensive income, net of tax:				
Unrealized gain (loss) from available-for-sale securities, net of tax	58	(54)	(7)	(128)
Reclassification adjustment on available for sale securities, net of tax	(7)	36*	(7)	82*
Currency translation adjustment, net of tax	527	145	(86)	736
	\$ 1,099	\$ 660	\$ 872	\$ 1,362

\* Represents mainly the unrealized loss on marketable securities valued using Level 3 inputs, which was considered other than temporary and charged to the statement of income.

The above amounts are after deducting amounts attributable to non-controlling interest, which were not material.

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## Notes To Condensed Consolidated Financial Statements

(Unaudited)

**NOTE 8 Financial information by business segments:**

Financial reports to Teva's chief operating decision maker evolve over time as Teva's business develops and following major acquisitions. Historically, Teva presented two reportable segments: Pharmaceutical and Active Pharmaceutical Ingredients (API). In 2009, following the acquisition of Barr at the end of 2008, Teva commenced certain organizational changes. Following the completion of these changes, the Company intends to re-evaluate its segment reporting in light of such changes. For purposes of this interim report, Teva has reported two operating segments as in the past.

a. Financial data relating to reportable operating segments:

	Pharmaceutical	API	Total
	U.S. \$ in millions		
<b>Three months ended June 30, 2009:</b>			
Net sales:			
To unaffiliated customers	\$ 3,265	\$ 135	\$ 3,400
Intersegment		198	198
<b>Total net sales</b>	<b>\$ 3,265</b>	<b>\$ 333</b>	<b>\$ 3,598</b>
Operating income	\$ 588	\$ 178	\$ 766
Depreciation and amortization	\$ 216	\$ 34	\$ 250
<b>Three months ended June 30, 2008:</b>			
Net sales:			
To unaffiliated customers	\$ 2,667	\$ 156	\$ 2,823
Intersegment		296	296
<b>Total net sales</b>	<b>\$ 2,667</b>	<b>\$ 452</b>	<b>\$ 3,119</b>
Operating income	\$ 503	\$ 208	\$ 711
Depreciation and amortization	\$ 91	\$ 28	\$ 119
<b>Six months ended June 30, 2009:</b>			
Net sales:			
To unaffiliated customers	\$ 6,254	\$ 293	\$ 6,547
Intersegment		407	407
<b>Total net sales</b>	<b>\$ 6,254</b>	<b>\$ 700</b>	<b>\$ 6,954</b>
Operating income	\$ 1,025	\$ 323	\$ 1,348

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Depreciation and amortization	\$ 340	\$ 61	\$ 401
Six months ended June 30, 2008:			
Net sales:			
To unaffiliated customers	\$ 5,086	\$ 309	\$ 5,395
Intersegment		653	653
Total net sales	\$ 5,086	\$ 962	\$ 6,048
Operating income*	\$ 596	\$ 469	\$ 1,065
Depreciation and amortization	\$ 187	\$ 53	\$ 240

\* Operating income for the six months ended June 30, 2008 of the pharmaceutical segment included a charge of \$382 million relating to the acquisition of research and development in process as part of the CoGenesys acquisition.

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## Notes To Condensed Consolidated Financial Statements

(Unaudited)

b. The following is a reconciliation of operating income and assets of the reportable segments to the data included in the condensed consolidated financial statements:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	U.S. \$ in millions			
Total operating income:				
Reportable segments	\$ 766	\$ 711	\$ 1,348	\$ 1,065
Amounts not allocated to segments:				
Profits not yet realized	(43)	(47)	(62)	(61)
General and administration expenses	(21)	(7)	(46)	(36)
Other expenses		(19)		(33)
Financial expenses net	(61)	(34)	(124)	(100)
Consolidated income before income taxes	\$ 641	\$ 604	\$ 1,116	\$ 835

**NOTE 9 Fair value measurement:**

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (SFAS No. 157), for financial assets and liabilities, and related Financial Staff Positions (FSPs), including FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP FAS 157-3). This pronouncement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. As defined in SFAS No. 157 and clarified by FSP FAS 157-3, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, effective January 1, 2009, the Company implemented SFAS No. 157 for non-financial assets and liabilities as well. The adoption did not have a significant effect on these financial statements. In April 2009, the FASB issued FSP FAS 157-4, Determining Whether a Market Is Not Active and a Transaction Is Not Distressed. FSP FAS 157-4 provides additional guidance on factors to consider when estimating fair value consequent to a significant decrease in market activity for a financial asset. As applicable for Teva, this standard became effective for interim and annual periods ending after June 15, 2009. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In order to increase consistency and comparability in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers counterparty credit risk in its assessment of fair value.





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## Notes To Condensed Consolidated Financial Statements

(Unaudited)

Financial items carried at fair value as of June 30, 2009 are classified in the table below in one of the three categories described above:

	June 30, 2009			Total
	Level 1	U.S. \$ in millions		
		Level 2	Level 3	
Cash and cash equivalents:				
Money markets	\$ 490	\$	\$	\$ 490
Mainly cash deposits	1,271			1,271
Marketable securities**				
Auction rate securities			75	75
Collateral debt obligations	12	*	*	12
Equity securities	61			61
Structures		36		36
Other	34			34
Derivatives net***		61		61
<b>Total</b>	<b>\$ 1,868</b>	<b>\$ 97</b>	<b>\$ 75</b>	<b>\$ 2,040</b>

\* Represents an amount of less than \$0.5 million.

\*\* Marketable securities consist mainly of debt securities classified as available-for-sale and are recorded at fair value. The fair value of quoted securities is based on current market value (Level 1 input) or observable prices (Level 2 input). When securities do not have an active market or observable prices, fair value is determined using a valuation model (Level 3 input). This model is based on reference to other instruments with similar characteristics, or a discounted cash flow analysis, or other pricing models making use of market inputs and relying as little as possible on entity-specific inputs.

\*\*\* Derivatives primarily represent foreign currency and option contracts and interest rate swaps which are valued primarily based on observable inputs including interest rate curves and both forward and spot prices for currencies.

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

	June 30, 2009
	U.S. \$ in millions
Carrying value as of January 1, 2009	\$ 98
Amount realized	(3)
Net change to fair value included in other comprehensive income	(20)
Carrying value as of June 30, 2009	\$ 75

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures About Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 require fair value disclosures in both interim as well as annual financial statements in order to provide more timely information about the effects of current market conditions on financial statements. As applicable for Teva, FSP FAS 107-1

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and APB 28-1 are effective for interim and annual periods ending after June 15, 2009. The fair values and the carrying amounts of derivatives and senior convertible notes and debentures with an earliest date of redemption within 12 months are assets of \$87 million and liabilities of \$986 million at June 30, 2009. The fair value of derivatives generally reflects the estimated amounts that Teva would receive or pay to terminate the contracts at the reporting dates.

The financial instruments of the Company consist mainly of cash and cash equivalents, marketable securities, current and non-current receivables, short-term credit, accounts payable and accruals, long-term loans and other long-term senior notes and loans, convertible senior debentures and derivatives.

The fair value of the financial instruments included in working capital and non-current receivables of the Company is usually identical or close to their carrying value. The fair value of long-term bank loans and senior notes also approximates their carrying value, since they bear interest at rates close to the prevailing market rates. The fair value of the convertible senior notes and debentures, included under long-term liabilities, based on quoted market values and prevailing market rates, amounted to \$2,611 million at June 30, 2009.

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Notes To Condensed Consolidated Financial Statements

(Unaudited)

Changes in fair value of available for sale securities, net of taxes, are reflected in other comprehensive income. Unrealized losses considered to be temporary are reflected in other comprehensive income; unrealized losses that are considered to be other-than-temporary are charged to income as an impairment charge. On June, 15, 2009, the Company adopted FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 change the method for determining whether an other-than-temporary impairment exists for debt securities and the amount of the impairment to be recorded in earnings. The adoption of FASP FAS 115-2 and FAS 124-2 did not have a material impact on the Company's financial statements.

**NOTE 10 Recently adopted accounting pronouncements:**

**(a) - Accounting for convertible debt instruments that may be settled in cash upon conversion:**

Effective January 1, 2009, the Company adopted FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). The FSP was issued in May 2008, and requires issuers to account separately for the liability and equity components of convertible debt instruments that may be settled in cash (including partial cash settlement), in a manner that reflects the issuer's nonconvertible debt (unsecured debt) borrowing rate when interest cost is recognized. The FSP requires bifurcation of a component of the debt, classification of that component in equity and accretion of the resulting discount on the debt to be recognized as part of interest expense in the consolidated statement of operations. The FSP requires retroactive application to the terms of instruments as they existed for all periods presented. The adoption of this FSP primarily affects the accounting for the Company's 0.25% Senior Convertible Debentures due 2026 and 1.75% Senior Convertible Debentures due 2026.

The retroactive application of this FSP resulted in (i) an increase in the opening balance in 2009 of additional paid-in capital and a decrease in retained earnings of \$175 million and \$97 million, respectively, (ii) an increase in financial expenses for the three months and six months ended June 30, 2008 of \$6 million and \$15 million, respectively, (iii) a decrease in income taxes for the three months and six months ended June 30, 2008 of an amount of less than \$0.5 million and \$1 million, respectively, and (iv) a decrease in basic earnings per share of \$0.01 and \$0.02 for the three months and six months ended June 30, 2008, respectively, and a decrease in diluted earnings per share of \$0.01 for the six months ended June 30, 2009.

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**TEVA PHARMACEUTICAL INDUSTRIES LIMITED**

Notes To Condensed Consolidated Financial Statements

(Unaudited)

**(b) - Derivative instruments and hedging activities:**

Effective January 1, 2009, the Company adopted Statement of Financial Accounting Standard No. 161 ( FAS 161 ), Disclosures about Derivative Instruments and Hedging Activities, as an amendment to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. FAS 161 was issued in March 2008 and requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation.

The fair value of derivative instruments is comprised of:

1. Asset derivatives, comprising foreign exchange contracts, designated as hedging instruments under FAS 133. These are reported under prepaid expenses and other current assets, and the fair value amounted to less than \$0.5 million and \$13 million at June 30, 2009 and December 31, 2008, respectively.
2. Asset derivatives, comprising primarily foreign exchange contracts, not designated as hedging instruments under FAS 133. These are reported under prepaid expenses and other current assets, and the fair value amounted to \$87 million and \$52 million at June 30, 2009 and December 31, 2008, respectively.
3. Liability derivatives, comprising foreign exchange contracts, not designated as hedging instruments under FAS 133. These are reported under accounts payable, and the fair value amounted to \$26 million and \$126 million at June 30, 2009 and December 31, 2008, respectively.

Derivatives on foreign exchange contracts not designated as hedging instruments under FAS 133, which hedge Teva's balance sheet items from currency exposure, were recognized under financial expenses in the amount of a loss of \$70 million and a gain of \$169 million for the six months ended June 30, 2009 and June 30, 2008, respectively, and a gain of \$56 million and a gain of \$117 million for the three months ended June 30, 2009 and June 30, 2008, respectively. Such gains or losses offset the revaluation of the balance sheet items booked also under financial expenses. The impact of derivatives designated as hedging instruments under FAS 133 was not material.

**(c) - Other recently adopted accounting pronouncements:**

In November 2008, the FASB ratified EITF issue No. 08-07, Accounting for Defensive Intangible Assets (EITF 08-7). EITF 08-7 gives guidance for accounting for defensive intangible assets subsequent to their acquisition in accordance with SFAS No. 141R and SFAS No. 157, including the estimated useful life that should be assigned to such assets. EITF 08-7 is effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The implementation of this standard did not have a material impact on the Company's consolidated financial statements.

In April 2008, the FASB issued FSP 142-3, Determination of the Useful Life of Intangible Assets ( FSP 142-3 ). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions on legal and contractual provisions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets . FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The implementation of this standard did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ( FAS 141R ). FAS 141R provides revised guidance on how acquirers recognize and measure the consideration, identifiable assets acquired, liabilities assumed, contingencies, non-controlling interests and goodwill acquired in a business combination, and expands disclosure requirements surrounding the nature and financial effects of

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business combinations. Key changes include: acquired in-process research and development will no longer be expensed on acquisition, but capitalized and assessed for impairment where relevant and amortized over its useful life; acquisition costs will be expensed as incurred; restructuring costs will generally be expensed in periods after the acquisition date; the consideration in shares would be valued at the closing date; and in the event that a deferred tax valuation allowance relating to a business acquisition, including from prior years, is subsequently reduced, the adjustment will be recognized in the statement of income. Early adoption is not permitted. As applicable to Teva, this statement became effective, on a prospective basis, as of January 1, 2009. The adoption of FAS 141R did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin 51 ( FAS 160 ), which establishes accounting and reporting standards for non-controlling interests in a subsidiary and deconsolidation of a subsidiary. Early adoption is not permitted. As applicable to Teva, this statement became effective as of January 1, 2009. The adoption of FAS 160 did not have a material impact on the Company's consolidated financial statements.

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In May 2009, the FASB issued SFAS No.165, *Subsequent Events* ( FAS 165 ), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. As applicable to Teva, this Statement became effective as of June 15, 2009. In accordance with FAS 165, the Company has evaluated subsequent events up to the filing date of these financial statements.

**NOTE 11 Recently issued accounting pronouncement:**

In June 2009, the FASB issued SFAS No.168, *Accounting Standard Codification* ( FAS 168 ). FAS 168 will become the single authoritative source for U.S. generally accepted accounting principles (GAAP) and will change the way in which the accounting literature is organized. As applicable to Teva, FAS 168 will be effective commencing September 15, 2009.

**NOTE 12 Contingencies:**

*General*

From time to time, Teva and its subsidiaries are subject to legal claims for damages and/or equitable relief arising in the ordinary course of business. In addition, as described below, in large part as a result of the nature of its business, Teva is frequently subject to patent litigation. Teva believes it has meritorious defenses to the actions to which it is a party and expects to pursue vigorously the defense of each of the ongoing actions, including those described below. Based upon the status of these cases, the advice of counsel, management's assessment of such cases and potential exposure involved relative to insurance coverage, except as otherwise noted below, no provision has been made in Teva's financial statements for any of such actions. Teva believes that none of the proceedings described below will have a material adverse effect on its financial condition; however, if one or more of such proceedings were to result in judgments against Teva, such judgments could be material to its results of operations in a given period.

From time to time, Teva seeks to develop generic products for sale prior to patent expiration in various territories. In the United States, to obtain approval for most generic products prior to the expiration of the originator's patent(s), Teva must challenge the patent(s) under the procedures set forth in the Hatch-Waxman Act of 1984, as amended by the Medicare Prescription Drug Improvement and Modernization Act of 2003. To the extent that it seeks to utilize such patent challenge procedures, Teva is and expects to be involved in patent litigation regarding the validity, enforceability or infringement of the originator's patent(s). Teva may also be involved in patent litigation involving the extent to which alternate manufacturing process techniques may infringe originator or third-party process patents. Additionally, depending upon a complex analysis of a variety of legal and commercial factors, Teva may, in certain circumstances, elect to market a generic product even though litigation is still pending. This could be before any court decision is rendered or while an appeal of a lower court decision is pending. To the extent Teva elects to proceed in this manner, it could face substantial liability for patent infringement if the final court decision is adverse to Teva. Although the underlying generic industry legislation, as well as the patent law, is different in other countries where Teva does business, from time to time Teva is also involved in litigation regarding corresponding patents in those countries. Except as described below, Teva does not have a reasonable basis to estimate the loss, or range of loss, that is reasonably possible with respect to such patent infringement cases. However, if Teva were to be required to pay damages in any such case, courts would generally calculate the amount of any such damages based on a reasonable royalty or lost profits of the patentee. If damages were determined based on lost profits, the amount would be related to the sales of the branded product. In addition, the launch of an authorized generic and other generic competition may be relevant to the damages estimation.

Teva's business inherently exposes it to potential product liability claims. Teva believes that it maintains product liability insurance coverage in amounts and with provisions that are reasonable and prudent in light of its business and related risks. However, Teva sells, and will continue to sell, pharmaceutical products that are not covered by insurance and accordingly may be subject to claims that are not covered by insurance as well as claims that exceed its policy limits. Product liability coverage for pharmaceutical companies is becoming more expensive and increasingly difficult to obtain. As a result, Teva may not be able to obtain the type and amount of coverage it desires.

In connection with third-party agreements, Teva may under certain circumstances be required to indemnify, and may be indemnified by, in unspecified amounts, the parties to such agreements against third-party claims.

*Intellectual Property Proceedings*

In October 2004, Alparma and Teva launched their 100 mg, 300 mg and 400 mg gabapentin capsule products and, in December 2004, Alparma and Teva launched their 600 mg and 800 mg gabapentin tablet products. Gabapentin capsules and tablets are the AB-rated generic versions of Pfizer's anticonvulsant Neurontin® capsules and tablets, which had annual sales of approximately \$2.7 billion for the twelve months ended September 2004, based on IMS data. Teva's subsidiary Ivax also launched its non-AB rated tablets in



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August 2004 and its AB-rated capsules and tablets in March and April 2005, respectively. In August 2005, the United States District Court for the District of New Jersey granted summary judgment in favor of Teva, Alpharma and Ivax. On September 21, 2007, the Court of Appeals for the Federal Circuit ( Federal Circuit ) reversed the summary judgment decision and remanded the case for further proceedings. A trial has not been scheduled. The patent at issue expires in 2017. Were Pfizer ultimately to be successful in its allegation of patent infringement, Teva could be required to pay damages and be enjoined from selling its gabapentin products. Pursuant to the terms of the agreement with Alpharma, were Pfizer to be successful in its allegation of patent infringement against Alpharma, Teva may also be required to pay damages related to a portion of the sales of Alpharma's gabapentin products.

In September and November 2004, Teva commenced sales of Impax Laboratories' 20 mg and 10 mg omeprazole delayed release capsules, respectively, which are the AB-rated generic versions of AstraZeneca's Prilosec® capsules. Prilosec® had sales for the 10 mg capsule of \$30 million and 20 mg capsule sales of approximately \$532 million, both for the twelve months ended June 2004, based on IMS data. As provided for in a strategic alliance agreement between Impax and Teva, the parties agreed to certain risk-sharing arrangements relating to the omeprazole launch. Trial in the United States District Court for the Southern District of New York of AstraZeneca's patent infringement litigation against Impax relating to its omeprazole capsules concluded in June 2006. Following the expiration of the patent in April 2007, the District Court issued a trial opinion in which it found that Impax's omeprazole capsules infringed two formulation patents and that those patents were valid. On August 20, 2008, the Federal Circuit affirmed the District Court's decision. A separate litigation against Teva with respect to the launch of omeprazole capsules has been revived, but no trial date has been scheduled. Were AstraZeneca ultimately to be successful in its allegation of patent infringement, Teva and Impax could be required to pay damages related to a portion of the sales of Impax's omeprazole capsules.

In May 2007, Teva commenced sales of its 300 mg cefdinir capsule product and 125 mg/5 ml and 250 mg/5 ml cefdinir powder for oral suspension products. Cefdinir capsules and cefdinir for oral suspension are the AB-rated generic versions of Abbott's antibiotic Omnicef®, which had annual sales of approximately \$860 million for the twelve months ended December 2006, based on IMS data. Teva is in litigation with Abbott in the United States District Court for the Northern District of Illinois with respect to a polymorph patent that expires in 2011. In May 2007, the District Court denied Abbott's motion for a preliminary injunction, finding that Abbott was not likely to prevail on the merits as to Teva's noninfringement defense, based on the record before the Court. On May 18, 2009, the Federal Circuit affirmed the District Court's denial of the preliminary injunction. No trial date has been scheduled. Were Abbott ultimately to be successful in its allegation of patent infringement, Teva could be required to pay damages relating to sales of its cefdinir products and be enjoined from selling those products.

In May 2007, Teva commenced sales of its 2.5mg/10mg, 5mg/10mg, 5mg/20mg, and 10mg/20mg amlodipine besylate/benazepril capsules. Amlodipine besylate/benazepril capsules are the AB-rated generic versions of Novartis' Lotrel®, which had annual sales of approximately \$1.4 billion for the twelve months ended March 2007, based on IMS data. In June 2007, the United States District Court for the District of New Jersey denied Novartis' motion for a preliminary injunction, finding that Novartis was not likely to succeed on its allegations of infringement. The patent at issue expires in 2017. A trial date has not been scheduled. Were Novartis ultimately to be successful in its allegation of patent infringement, Teva could be required to pay damages related to sales of its amlodipine besylate/benazepril capsules and be enjoined from selling those products.

In June 2007, Novopharm, Teva's Canadian subsidiary, commenced sales in Canada of its 2.5 mg, 5 mg, 7.5 mg, 10 mg and 15 mg olanzapine tablets, which are the generic versions of Eli Lilly's Zyprexa®. Zyprexa® had annual sales in Canada of approximately \$180 million for the twelve months ended May 2007, based on IMS sales. In June 2007, the Federal Court of Canada denied Eli Lilly's request for an application to prohibit the Minister of Health from issuing Novopharm's final regulatory approval. Shortly after Novopharm's launch, Lilly filed an action for patent infringement. The trial was completed on April 3, 2009. The patent at issue expires on April 24, 2011. Were Eli Lilly ultimately to be successful in its allegation of patent infringement, Novopharm could be required to pay damages related to its sales of olanzapine tablets and be enjoined from selling those products.

In September 2007, Teva commenced sales of its 125 mg, 250 mg and 500 mg famciclovir tablets, which are the AB-rated generic versions of Novartis' Famvir®. Famvir® had annual sales of approximately \$200 million for the twelve months ended June 2007. In September 2007, the United States District Court for the District of New Jersey denied Novartis' motion for a preliminary injunction, finding that Novartis was not likely to prevail on the merits as to Teva's invalidity and inequitable conduct defenses, based on the record before the Court. On June 9, 2008, the Federal Circuit denied Novartis' appeal of the denial of the preliminary injunction. Trial is currently scheduled to begin on November 9, 2009.

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Were Novartis ultimately to be successful in its allegation of patent infringement, Teva could be required to pay damages relating to the sale of its famciclovir tablets and be enjoined from selling those products.

In December 2007, Teva commenced sales of its 20 mg and 40 mg pantoprazole sodium tablets. Pantoprazole sodium tablets are the AB-rated generic versions of Wyeth's Protonix<sup>®</sup>, which had annual sales of approximately \$2.5 billion for the twelve months

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ended September 2007, based on IMS data. In September 2007, the United States District Court for the District of New Jersey denied Wyeth/Altana's motion for a preliminary injunction, finding that Wyeth/Altana was not likely to prevail on the merits as to Teva's invalidity defense, based on the record before the Court. On May 14, 2009, the Federal Circuit affirmed the District Court's denial of the preliminary injunction. The patent at issue expires on January 19, 2011, including pediatric exclusivity. A trial date has not been scheduled. Were Wyeth/Altana ultimately to be successful in its allegation of patent infringement, Teva could be required to pay damages relating to the sale of its pantoprazole sodium tablets and be enjoined from further selling those products.

On July 11, 2008, Teva learned that Sandoz Inc., the U.S. generic drug division of Novartis AG, in conjunction with Momenta Pharmaceuticals, Inc., had filed an ANDA with the FDA for a generic version of Copaxone® (glatiramer acetate) containing Paragraph IV certifications to each of the patents that Teva has listed in the FDA's Orange Book for the product. On August 28, 2008, Teva filed a complaint against Sandoz, Inc., Sandoz International GmbH, Novartis AG and Momenta Pharmaceuticals, Inc. in the United States District Court for the Southern District of New York, alleging infringement of four Orange Book patents, as well as trade secret misappropriation claims. The patents, which expire on May 24, 2014, cover the chemical composition of Copaxone®, pharmaceutical compositions containing it, and methods of using it. The lawsuit has triggered a stay of any FDA approval of the Sandoz ANDA until the earlier of the expiration of a period of 30 months or a district court decision in Sandoz's favor. On November 3, 2008, Sandoz, Inc. and Momenta Pharmaceuticals Inc. filed their answers to Teva's complaint. The answers assert several affirmative defenses to Teva's patent infringement claims, including non-infringement, invalidity and unenforceability of the asserted Orange Book patents. The answers also seek declaratory judgments of non-infringement, invalidity and unenforceability with respect to three unasserted Orange Book patents and two non-Orange Book patents. On December 11, 2008, Sandoz International GmbH and Novartis AG brought a motion to dismiss Teva's patent claims on personal jurisdiction grounds. Those defendants are also seeking to dismiss Teva's trade secret misappropriation claims, alleging that the Court has no jurisdiction over the trade secret claims. No trial date has been scheduled.

In August 2008, Barr commenced sales of its 4 mg, 8 mg and 12 mg galantamine immediate release (IR) tablets. Galantamine IR tablets are the AB-rated generic versions of Ortho-McNeil and Janssen's Razadyne®, which had annual sales of approximately \$98 million for the twelve months ending September 2008, based on IMS data. Prior to launching the product, the United States District Court for the District of Delaware held that the one Orange Book method patent, which expired in December 2008, was invalid. Oral argument on Ortho-McNeil and Janssen's appeal was heard on June 3, 2009. Were Ortho-McNeil and Janssen ultimately to be successful in their allegations of patent infringement, Barr could be required to pay damages relating to the sale of its galantamine IR tablets.

In October 2008, Barr commenced sales of its 8 mg, 16 mg and 24 mg galantamine extended release (ER) capsules. Galantamine ER capsules are the AB-rated generic versions of Ortho-McNeil and Janssen's Razadyne ER®, which had annual sales of approximately \$110 million for the twelve months ending September 2008, based on IMS data. The case involved two patents—a formulation patent and a method patent. The United States District Court for the District of New Jersey dismissed the allegations with respect to the formulation patent. The method patent was held invalid in the litigation involving galantamine IR, and oral argument was heard on June 3, 2009. Were Ortho-McNeil and Janssen ultimately to be successful in their appeal of the method patent, Barr could be required to pay damages relating to the sale of its galantamine ER capsules.

*Product Liability Matters*

Barr and Duramed have been named as defendants in approximately 6,000 personal injury product liability cases brought against them and other manufacturers by plaintiffs claiming injuries from the use of certain estrogen and progestin products. The cases primarily involve medroxyprogesterone acetate (a progestin that has been prescribed to women receiving estrogen-containing hormone therapy), and a much smaller number involve Cenestin (an estrogen-containing product sometimes prescribed to treat symptoms associated with menopause). A high percentage of the plaintiffs were unable to demonstrate actual use of a Barr or Duramed product. As a result, approximately 5,450 cases have been dismissed, leaving approximately 500 pending. To date, Barr and Duramed products have been identified in 487 of those cases. Additional dismissals are expected. Barr believes it has viable defenses to the allegations in the complaints and is defending the actions vigorously.

*Commercial Matters*

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In April 2004, Rhodes Technologies and Napp Technologies ( Rhodes/Napp ) filed a complaint in Massachusetts Superior Court, seeking an equal share of the value to Teva of the settlement of certain claims between GlaxoSmithKline and Teva relating to Teva's nabumetone products. The allegations are based upon the termination of a nabumetone API supply agreement between Teva and Rhodes/Napp. Teva originally assessed the value of the product rights received in connection with the settlement at \$100 million and subsequently recorded impairment charges of \$52 million in the aggregate relating to this product. Oral argument on the parties' cross-motions for summary judgment was held in April 2006. In April 2007, the Superior Court granted Teva's motion for summary judgment, dismissing Rhodes/Napp's claims against Teva. On July 14, 2009, the Massachusetts Appeals Court affirmed the granting of summary judgment in Teva's favor. Rhodes/Napp may seek further appellate review of this decision, but the review is discretionary, and not as of right.

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In October 2005, plaintiffs Agvar Chemicals Inc., Ranbaxy Laboratories, Inc., and Ranbaxy Pharmaceuticals, Inc. filed suit against Barr in the Superior Court of New Jersey. In their complaint, plaintiffs sought to recover damages and other relief, based on an alleged breach of a contract whereby Barr was to purchase from Ranbaxy raw material for its generic Allegra product. In February 2009, Barr settled its claims with Agvar and in April it settled its claims with Ranbaxy.

*Environmental Matters*

Teva's subsidiaries, including those in the United States and its territories, are party to a number of proceedings brought under the Comprehensive Environmental Response, Compensation and Liability Act, commonly known as the Superfund law, or other national, federal, provincial or similar state and local laws imposing liability for the investigation and remediation of releases of hazardous substances and for natural resource damages. These proceedings seek to require the generators of hazardous wastes disposed of at a third-party owned site, or the party responsible for a release of hazardous substances into the environment that impacted a site, to investigate and clean up the sites or to pay for such activities and any related damages to natural resources. Teva has been made a party to these proceedings, along with other potentially responsible parties, as an alleged generator of wastes that were disposed of or treated at third-party waste disposal sites, or as a result of an alleged release from one of Teva's (or its predecessors') facilities or former facilities that may have adversely impacted a site. In many of these cases, the government or private litigants allege that the responsible parties are jointly and severally liable for the investigation and cleanup costs. Although the liability among the responsible parties may be joint and several, these proceedings are frequently resolved so that the allocation of cleanup costs among the parties reflects the relative contributions of the parties to the site conditions and takes into account other equitable factors. Teva's potential liability varies greatly at each of the sites in the proceedings; for some sites the costs of the investigation, cleanup and natural resource damages have not yet been determined, and for others Teva's allocable share of liability has not been determined. At other sites, Teva has been paying its share, but the amounts have not been, and are not expected to be, material. Teva has taken an active role in identifying these costs, which do not include reductions for potential recoveries of cleanup costs from insurers, former site owners or operators. While it is not feasible to predict the outcome of many of these proceedings, Teva believes that they should not ultimately result in any liability that would have a material adverse effect on its financial position, results of operations or liquidity and capital resources.

*Competition, Pricing and Regulatory Matters*

In April 2006, Teva and Barr were sued, along with Cephalon, Inc., Mylan Laboratories, Inc., Ranbaxy Laboratories Ltd. and Ranbaxy Pharmaceuticals, Inc., in a class action lawsuit filed in the United States District Court for the Eastern District of Pennsylvania. The case alleges generally that the settlement agreements entered into between the different generic pharmaceutical companies and Cephalon, in their respective patent infringement cases involving finished modafinil products (the generic version of Provigil®), were unlawful because the settlement agreements resulted in the exclusion of generic competition. The case seeks unspecified monetary damages, attorneys' fees and costs. The case was brought by King Drug Company of Florence, Inc. on behalf of itself and as a proposed class action on behalf of any other person or entity that purchased Provigil® directly from Cephalon from January 2006 until the alleged unlawful conduct ceases. Similar allegations have been made in a number of additional complaints, including those filed on behalf of proposed classes of direct and indirect purchasers of the product, by an individual indirect purchaser of the product and by Apotex, Inc. The cases seek various forms of injunctive and monetary relief, including treble damages and attorneys' fees and costs. In February 2008, following an investigation of these matters, the Federal Trade Commission (FTC) sued Cephalon, alleging that Cephalon violated Section 5 of the Federal Trade Commission Act, which prohibits unfair or deceptive acts or practices in the marketplace, by unlawfully maintaining a monopoly in the sale of Provigil® and improperly excluding generic competition. The FTC's complaint does not name Teva or Barr as a defendant.

Teva Pharmaceuticals USA, Inc. (Teva USA) is a defendant, along with Biovail Corp. and Elan Corporation, plc, in several civil actions currently pending in the United States District Court for the District of Columbia. The cases allege generally that arrangements between Biovail and Elan relating to sales of nifedipine cc extended release tablets, in connection with which Teva USA acted as a distributor for Biovail, were unlawful under the federal antitrust laws. The challenged arrangements were previously the subject of a consent decree entered into by the FTC with Biovail and Elan, to which Teva USA was not a party. The complaints seek unspecified monetary damages, attorneys' fees and costs. Four of the cases were brought on behalf of alleged classes of persons who allegedly purchased nifedipine cc extended release tablets made by Elan or Biovail in the United States directly from Teva USA; two of the cases were brought individually by alleged direct purchasers.

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Together with many other pharmaceutical manufacturers, Teva and/or its subsidiaries in the United States, including Teva USA, Sicor Inc. ( Sicor ), Ivax, and Barr (collectively, the Teva parties ), are defendants in a number of cases pending in state and federal courts throughout the country that relate generally to drug price reporting by manufacturers. Such price reporting is alleged to have caused governments and others to pay inflated reimbursements for covered drugs.

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Class actions and other cases have been filed against over two dozen pharmaceutical manufacturers, including Sicom, regarding allegedly inflated reimbursements or payments under Medicare or certain insurance plans. These cases were consolidated under the federal multi-district litigation procedures and are currently pending in the United States District Court for the District of Massachusetts (the MDL ). In March 2008, the Track 2 defendants in the MDL, including Sicom, entered into a settlement agreement to resolve the MDL. The court granted preliminary approval of the amended MDL settlement in July 2008 and deferred final approval of the settlement to allow for the resolution of certain notice issues. Sicom is also a defendant in an action brought under the federal False Claims Act, but has not yet been served with the complaint. This matter is under seal and includes many of the same defendants as the MDL. A provision for these matters, including Sicom's share of the MDL settlement payment, has been included in the financial statements.

A number of state attorneys general, approximately 47 counties in New York and the City of New York have also filed various actions relating to drug price reporting. The Teva parties (either collectively or individually) are currently involved in one or more actions relating to reimbursements under Medicaid or other programs in the following 17 states: Alabama, Alaska, Arizona, Florida, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Mississippi, Missouri, New York, South Carolina, Texas, Utah and Wisconsin. In addition to its action relating to its Medicaid program, the state of South Carolina has brought an action in the South Carolina state courts on behalf of its state health plan. Sicom definitively settled the action brought by the state of Arizona and certain Teva parties reached a settlement in principle to resolve the action brought by the state of Alabama. A provision has been included in the financial statements for both settlements. Trials for certain Teva parties have been scheduled for January 2010 in the Texas action and June 2010 in the Hawaii action.

In May 2008, the United States District Court for the District of Massachusetts unsealed a drug pricing action against several generic pharmaceutical companies, including various Teva parties. The action was filed by a private party pursuant to the federal False Claims Act, and it alleges, on behalf of the federal government, drug pricing claims arising from the federal government's contributions to the various state Medicaid programs. According to the complaint, the federal government declined to intervene in the litigation. The foregoing drug pricing cases, which seek unspecified amounts in money damages, civil penalties, treble damages, punitive damages, attorneys fees, and/or administrative, injunctive, equitable or other relief, are at various stages of litigation, and the Teva parties continue to defend them vigorously.

The Office of the United States Attorney for the District of Massachusetts (the U.S. Attorney ) and the Civil Division of the Department of Justice (the Civil Division ) initiated an investigation of allegations that IVAX Pharmaceuticals, Inc. ( IPI ) caused Omnicare, Inc. to file false or tainted claims for Medicare and/or Medicaid reimbursement, in violation of law, by directly or indirectly offering or paying remuneration to Omnicare, Inc., to induce it to recommend, prescribe or purchase IPI's products. IPI cooperated in the investigation. In April 2008, the U.S. Attorney advised IPI's counsel that criminal charges would not be brought against IPI. The U.S. Attorney and the Civil Division, however, continued their investigation into potential violations of the False Claims Act. IPI reached a settlement in principle with the U.S. Attorney and the Civil Division, and a provision for the settlement amount has been included in the financial statements.

Barr has been named as a co-defendant with Bayer Corporation, The Rugby Group, Inc. and others in approximately 38 class action complaints filed in state and federal courts by direct and indirect purchasers of Ciprofloxacin (Cipro) from 1997 to the present. The complaints allege that a 1997 Bayer-Barr patent litigation settlement agreement was anti-competitive and violated federal antitrust laws and/or state antitrust and consumer protection laws. A prior investigation of this agreement by the Texas Attorney General's office on behalf of a group of state attorneys general was closed without further action in December 2001. In March 2005, the court in the federal multi-district litigation granted summary judgment in Barr's favor and dismissed all of the federal actions before it. In November 2007, the Second Circuit transferred the appeal involving the indirect purchaser plaintiffs to the United States Court of Appeals for the Federal Circuit, while retaining jurisdiction over the appeals of the direct purchaser plaintiffs. On October 15, 2008, the Federal Circuit affirmed the grant of summary judgment in the defendants' favor on all claims by the indirect purchaser plaintiffs. The plaintiffs' petition for panel rehearing and rehearing en banc was denied on December 23, 2008 and the mandate issued on December 30, 2008. The plaintiffs filed a petition for certiorari to the United States Supreme Court, which was denied on June 22, 2009. Briefing in the direct purchaser plaintiffs' appeal in the Second Circuit is complete, and oral argument was heard on April 28, 2009. All but three of the state cases have been dismissed. Following an earlier stay of the California case, the parties briefed summary judgment motions, and oral argument on those motions is scheduled for August 21, 2009. The Kansas action is stayed, and the Florida action is in the very early stages, with no hearings or schedule set to date. Barr believes that its agreement with Bayer is a valid settlement to a patent suit and cannot form the basis of an antitrust claim.





**Table of Contents****OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

*The following discussion and analysis contains forward-looking statements, which express the current beliefs and expectations of management. Such statements involve a number of known and unknown risks and uncertainties that could cause our future results, performance or achievements to differ significantly from the results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause or contribute to such differences include risks relating to: our ability to successfully develop and commercialize additional pharmaceutical products, the introduction of competing generic equivalents, the extent to which we may obtain U.S. market exclusivity for certain of our new generic products and regulatory changes that may prevent us from utilizing exclusivity periods, potential liability for sales of generic products prior to a final resolution of outstanding patent litigation, including that relating to the generic versions of Neurontin<sup>®</sup>, Lotrel<sup>®</sup> and Protonix<sup>®</sup>, current economic conditions, competition from brand-name companies that are under increased pressure to counter generic products, or competitors that seek to delay the introduction of generic products, the effects of competition on our innovative products, especially Copaxone<sup>®</sup> sales, dependence on the effectiveness of our patents and other protections for innovative products, especially Copaxone<sup>®</sup>, the impact of consolidation of our distributors and customers, the impact of pharmaceutical industry regulation and pending legislation that could affect the pharmaceutical industry, our ability to achieve expected results through our innovative R&D efforts, the difficulty of predicting U.S. Food and Drug Administration, European Medicines Agency and other regulatory authority approvals, the uncertainty surrounding the legislative and regulatory pathway for the registration and approval of biotechnology-based products, the regulatory environment and changes in the health policies and structures of various countries, supply interruptions or delays that could result from the complex manufacturing of our products and our global supply chain, our ability to successfully identify, consummate and integrate acquisitions, the potential exposure to product liability claims to the extent not covered by insurance, our exposure to fluctuations in currency, exchange and interest rates, significant operations worldwide that may be adversely affected by terrorism, political or economical instability or major hostilities, our ability to enter into patent litigation settlements and the intensified scrutiny by the U.S. government, the termination or expiration of governmental programs and tax benefits, impairment of intangible assets and goodwill, environmental risks, and other factors that are discussed in our Annual Report on Form 20-F for the year ended December 31, 2008, in this report and in our other filings with the U.S. Securities and Exchange Commission ( SEC ).*

*Forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update any forward-looking statements or other information contained in this report, whether as a result of new information, future events or otherwise. You are advised, however, to consult any additional disclosures we make in our reports to the SEC on Form 6-K. Also note that we provide a cautionary discussion of risks and uncertainties under Risk Factors in our Annual Report on Form 20-F for the year ended December 31, 2008. These are factors that we believe could cause our actual results to differ materially from expected results. Other factors besides those listed could also adversely affect us. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.*

**Results of Operations****Comparison of Three Months Ended June 30, 2009 to Three Months Ended June 30, 2008****General**

Highlights of the second quarter of 2009 included the following:

Teva's net sales reached \$3,400 million, an increase of 20% (\$577 million) over the second quarter of 2008. Operating income for the quarter was \$702 million, an increase of 10% from the comparable quarter of 2008;

An increase of 35% in U.S. generic pharmaceutical sales, attributable to the inclusion of Barr's U.S. sales and the launch of the generic version of Adderall XR<sup>®</sup> (mixed amphetamine salts ER);

Record global in-market sales of Copaxone<sup>®</sup> of \$682 million, an increase of 21% over the comparable quarter of 2008;

Record international sales of \$515 million, an increase of 18% over the second quarter of 2008;

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An increase of 31% in Azilect® sales and 13% in sales of global respiratory products, compared to the second quarter of 2008;

An adverse effect on sales of approximately \$256 million resulting from the appreciation of the U.S. dollar, which also affected other line items, but had a negligible impact on operating income;

Cash flow from operating activities of \$658 million, compared to \$806 million in the second quarter of 2008; and

A decrease in total debt of \$1.7 billion, mainly due to repayment of bridge loans used to finance the acquisition of Barr and conversion of \$719 million of Teva's convertible debentures due 2024 into equity, resulting in a financial leverage ratio of approximately 27%.

**Table of Contents****Financial Data**

The following table sets forth certain financial data presented as a percentage of net sales for the periods indicated and the percentage change from the second quarter of last year.

	Percentage of Net Sales		Period to Period Percentage Change %
	Three Months Ended June 30,		
	2009 %	2008 %	
Net sales	100.0	100.0	20
Gross profit	52.0	53.3	18
Research and development expenses	5.0	7.0	(15)
Selling and marketing expenses	19.1	17.7	30
General and administrative expenses	5.8	6.0	17
Litigation settlements, impairment and restructuring expenses	1.5		100
Operating income	20.6	22.6	10
Financial expenses - net	1.8	1.2	79
Income before income taxes	18.8	21.4	6
Provision for income taxes	2.8	2.4	44
Share in losses of associated companies - net	0.6	*	1900
Net income attributable to non-controlling interests	0.1	0.1	
Net income attributable to Teva	15.3	18.9	(2)

\* Represents a percentage less than 0.05%.

**Sales - General**

Net sales for the three months ended June 30, 2009 reached \$3,400 million, an increase of 20% over the comparable quarter of 2008. The growth in sales, which occurred in many of Teva's businesses, regions and products, was partially offset by the weakening of several currencies against the U.S. dollar. Teva's sales in the quarter included sales of Barr and Bentley, which were not included in the comparable quarter of 2008.

**Sales By Geographical Area**

	U.S. Dollars in Millions		Percent Change 2009 from 2008	% of 2009
	Three Months Ended June 30,			
	2009	2008		
North America	\$ 2,108	\$ 1,573	34%	62%
Europe*	777	814	(5)%	23%
International	515	436	18%	15%
Total	\$ 3,400	\$ 2,823	20%	100%

\* All members of the European Union as well as Switzerland and Norway.

**Table of Contents****Sales By Business Segment**

	U.S. Dollars in Millions		Percent Change 2009 from 2008	% of 2009
	Three Months Ended June 30,			
	2009	2008		
Pharmaceuticals	\$ 3,265	\$ 2,667	22%	96%
A.P.I. *	135	156	(13)%	4%
Total	\$ 3,400	\$ 2,823	20%	100%

\* Third-party sales only.

***Pharmaceutical Sales***

Pharmaceutical sales during the three months ended June 30, 2009 were \$3,265 million, or 96% of net sales, which represented an increase of 22 % over the second quarter of 2008. The following table shows the geographic breakdown of these sales:

**Pharmaceutical Sales**

	U.S. Dollars in Millions		Percent Change 2009 from 2008	% of 2009
	Three Months Ended June 30,			
	2009	2008		
North America	\$ 2,052	\$ 1,505	36%	63%
Europe*	732	762	(4)%	22%
International	481	400	20%	15%
Total	\$ 3,265	\$ 2,667	22%	100%

\* All members of the European Union as well as Switzerland and Norway.

***North America***

Pharmaceutical sales in North America for the three months ended June 30, 2009 reached \$2,052 million, an increase of 36% over the comparable quarter of 2008. This increase was a result of the following factors:

An increase of 35% in U.S. generic sales, attributable primarily to the inclusion of Barr's U.S. sales and the launch of the generic version of Adderall XR<sup>®</sup> (mixed amphetamine salts ER) as well as continued strong sales of generic versions of Lotrel<sup>®</sup> (amlodipine benazapril), Yasmin<sup>®</sup> (drospirenone and ethinyl estradiol), Protonix<sup>®</sup> (pantoprazole) and Imitrex<sup>®</sup> (sumatriptan), which were partially offset by lower sales of budeprion XL and risperidone due to the loss of exclusivity;

An increase of 32% in U.S. in-market sales of Copaxone<sup>®</sup> to \$438 million, due to price increases; and

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An increase of 28% in U.S. sales of respiratory products over the comparable quarter in 2008, primarily due to sustained growth in sales of ProAir™ resulting from the HFA conversion.

Teva has continued to expand its leading market share in the U.S. among all pharmaceutical companies both generic and brand with total prescriptions increasing by over 67 million to reach 625 million in the twelve months ended June 30, 2009, or 16.5% of total prescriptions for such period. In the same twelve-month period, Teva's generic prescriptions increased by over 60 million to reach 598 million, or 23.4% of total generic prescriptions.

During the second quarter of 2009, Teva launched five new products in the U.S., which were generic versions of the following branded products (listed in order of launch date): Adderall® XR (mixed amphetamine salts ER), Topamax® capsules (topiramate), Cellcept® tablets and capsules (mycophenolate mofetil), and Urso® tablets (ursodiol). In addition, generic versions of the following additional 17 branded products were sold during the second quarter in the U.S. that were not sold in the comparable quarter of 2008 (listed in order of launch date): Lamictal® tablets (lamotrigene), Depakote® CP (divalproex sodium DR), Vibramycin® (doxycycline FOS), Adenocard® (adenosine PFS), Cardene® (nicardipine HCl injection), Zithromax® (azithromycin FOS), Diflucan® (fluconazole FOS), Pravachol® 80mg (pravastatin), Teva label phenylephrine, Cardizem® (diltiazem injection), Hespan® (6% hetastarch in 0.9% sodium chloride), Keppra® (levetiracetam), Risperdal® solution (risperidone), Imitrex® injection and tablets (sumatriptan), Solodyn® ER (minocycline) and Topamax® tablets (topiramate).

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In addition, on June 30, 2009, Teva launched Tri-Lo Sprintec, a generic version of Ortho McNeil Janssen's (OMJ) oral contraceptive, Ortho Tri-Cyclen® Lo (ethinyl estradiol and norgestimate). No revenue from such launch was recognized in the second quarter. Shipments were ceased pending the outcome of litigation in a patent infringement lawsuit brought by OMJ. On July 24, 2009, Teva entered into a definitive agreement with OMJ to settle the lawsuit. Under the terms of the settlement, Teva obtained a release for past sales of its generic product in exchange for a royalty payment, as well as a license to re-enter the market on December 31, 2015, or earlier in certain circumstances. The settlement became effective on July 29, 2009.

Below are the abbreviated new drug application (ANDA) approvals Teva received from the FDA during the second quarter of 2009:

Product	Form	Approval Date	Brand Name	Annual Brand Sales (\$ in millions)
ibandronate sodium	Injection vials	4/3/09*	Boniva®	\$ 67
topiramate	Capsules	4/17/09	Topamax® sprinkle	\$ 55
mycophenolate mofetil	Tablets	5/4/09	Cellcept®	\$ 680
mycophenolate mofetil	Capsules	5/6/09	Cellcept®	\$ 367
ursodiol	Tablets	5/13/09	Urso®	\$ 76
moxifloxacin ophthalmic	Solution	5/14/09*	Vigamox®	\$ 223
montelukast sodium	Tablets	5/21/09*	Singulair®	\$ 2,583
zoledronic acid	Injection	6/9/09*	Zometa®	\$ 703
montelukast sodium	Chewable tablets	6/25/09*	Singulair®	\$ 833
ethinyl estradiol/norgestimate	Tablets	6/29/09	Ortho Tri-Cyclen®Lo	\$ 400

\* Tentative approval.

Teva expects that its sales in North America will continue to be fueled by its strong U.S. generic pipeline, which, as of July 21, 2009, included 198 product applications awaiting final FDA approval, including 42 tentative approvals. The branded products covered by these applications had annual U.S. sales of approximately \$110 billion. Approximately 132 of these were Paragraph IV applications. Teva believes it is the first to file on 82 of the Paragraph IV applications, which relate to branded products having aggregate annual sales in the U.S. in excess of \$54 billion.

In the second quarter of 2009, Teva Animal Health experienced a decrease in sales as a result of operational issues at its facilities in St. Joseph, Missouri. Teva expects these issues to continue to affect the financial results of Teva Animal Health, which are not material to Teva, until a recovery plan is fully implemented.

**Europe**

Teva's pharmaceutical sales in Europe totaled \$732 million, a decrease of 4% from the second quarter of 2008. An increase of approximately 20% in sales in local currency terms was offset by currency effects, due to the strengthening of the U.S. dollar, which resulted in a decrease of sales. Teva's second-quarter European sales, compared to the second quarter of 2008, also reflect the following factors:

Strong sales in Germany, Poland and the U.K., mainly attributable to Pliva's integration;

Increased sales in Spain, mainly due to the integration of Bentley; and

An increasingly challenging competitive environment in certain countries, despite which Teva's market position in key markets grew or remained strong.

As of June 30, 2009, Teva had received 464 generic drug approvals in Europe relating to 109 compounds in 225 formulations, including three European Medicines Agency (EMA) approvals valid in all EU member states. In addition, as of June 30, 2009, Teva had approximately 3,275 marketing authorization applications pending approval in 29 European countries, relating to 214 compounds in 448 formulations, including 15 applications pending with the EMA.

*International*

Teva's International group, which includes countries other than the U.S., Canada, EU member states, Norway and Switzerland, had record pharmaceutical sales of \$481 million in the second quarter of 2009, an increase of 20% over the second quarter of 2008. This increase was due primarily to the inclusion of Pliva's sales in Russia and Croatia and strong sales in certain Latin American countries and Israel. In local currency terms, International sales grew by 35%.

Teva's International group generated approximately 40% of its sales in Latin America, 29% in non-EU member states in the CEE region, 24% in Israel and 7% in other countries.

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### ***Innovative and Specialty Products***

**Copaxone**<sup>®</sup>. During the second quarter of 2009, global in-market sales of Copaxone<sup>®</sup>, Teva's leading innovative drug for the treatment of multiple sclerosis, reached a record of \$682 million, an increase of 21% over the comparable quarter of 2008. U.S. in-market sales increased 32% to \$438 million as a result of price increases. U.S. sales accounted for 64% of global Copaxone<sup>®</sup> in-market sales in the second quarter of 2009, compared with 59% in the comparable quarter of 2008. Unit growth in several non-U.S. markets, including Germany, Italy, Spain, the U.K., Russia, Brazil and Turkey, resulted in a 5% increase in in-market sales to \$244 million. In local currency terms, in-market sales outside the U.S. grew by 26%.

To date, Copaxone<sup>®</sup> has been approved for marketing in 52 countries worldwide, including the U.S., Canada, Israel, all EU countries, Switzerland, Australia, Russia, Mexico, Brazil and Argentina. Copaxone<sup>®</sup> continued to be the leading MS therapy worldwide and in the U.S. and Canada, reaching record U.S. market shares in terms of new and total prescriptions of 37.2% and 38.1%, respectively, according to June 2009 IMS data.

**Azilect**<sup>®</sup>. Azilect<sup>®</sup> (rasagiline tablets), Teva's once-daily treatment for Parkinson's disease, continued to establish itself in the U.S. and Europe. Despite unfavorable currency trends, global in-market sales in the quarter reached \$55 million compared to \$42 million in the second quarter of 2008, an increase of 31%, attributable primarily to growth in the U.S. and increased sales in Europe, mainly in Spain and Italy. During the quarter Azilect<sup>®</sup> was launched in Russia and is now available in 38 countries. In local currencies, global in-market sales of Azilect<sup>®</sup> grew by 44%.

As Teva's preparatory activities and discussions with the FDA relating to the ADAGIO study remain on-going, the timing of Teva's planned filing for a label extension for Azilect<sup>®</sup> 1 mg has not been determined.

**Respiratory**. Teva's global respiratory business recorded sales of \$189 million in the second quarter of 2009, an increase of 13% compared to \$168 million in the second quarter of 2008. Sales in the U.S. grew to \$106 million, a 28% increase over the comparable quarter in the prior year, primarily due to growth in ProAir<sup>®</sup> unit sales. ProAir<sup>®</sup> continues to maintain its leading market share of 58% in the short-acting beta agonist (SABA) category as the conversion to HFA has essentially been completed. Concurrently, Qvar<sup>®</sup> increased its market share in the U.S., and is now second in new prescriptions in the inhaled corticosteroid category. Sales of Qvar<sup>®</sup> increased in the main markets in Europe as well, most notably in the U.K.

**Women's Health**. Teva's women's health business, which was part of the Barr acquisition, reached sales of \$80 million, an increase of 4% from \$77 million sold by Barr in the comparable quarter in 2008. This sales figure represents proprietary women's health products only and is different from the figure previously reported by Barr as its overall proprietary sales. The increase in sales is attributable to an increase in the sales of Plan B<sup>®</sup> (2 Tab), offset by lower sales of non-promoted products that faced generic competition and inventory decreases by certain customers. The decline from the first quarter of 2009 is attributable to a decrease in inventory levels by customers of certain products, particularly Plan B<sup>®</sup> (2 Tab), in advance of the launch of Plan B<sup>®</sup> One-Step, which occurred in late July.

### ***Sales of Active Pharmaceutical Ingredients (API)***

API sales to third parties were \$135 million this quarter, a decrease of 13% from the second quarter of 2008. The decline is partially the result of the fact that sales to Barr and Pliva, which previously were recorded as sales to third parties, are now accounted for as internal sales.

### ***Gross Profit***

Gross profit margin was 52.0% in the second quarter of 2009, compared to 53.3% for the second quarter of 2008. The decrease in gross margin is due to higher amortization of purchased intangible assets and an inventory step-up of \$76 million related to the Barr acquisition.



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**Table of Contents*****Research and Development (R&D) Expenses***

Net R&D spending for the quarter was \$169 million (5% of net sales), more than half of which went to generic R&D. Such amount represents a 15% decrease from the comparable quarter of 2008. TL Biopharmaceuticals AG, Teva's joint venture with Lonza Group Ltd., reimbursed Teva approximately \$40 million for certain R&D efforts incurred prior to the formation of the joint venture, which resulted in a decline in net R&D expenses despite growth in gross R&D expenses. Through this joint venture, which was announced in January 2009, Teva and Lonza will develop, manufacture and market a portfolio of biosimilars. The Teva share in the joint venture expenses—approximately \$20 million—is reflected in the income statement under share in losses of associated companies. Teva continues to increase its R&D spending in accordance with its strategic plan to double generic R&D output from its 2007 level by 2012, and to expand R&D activity in biogenerics and its innovative and branded franchises.

***Selling and Marketing (S&M) Expenses***

S&M expenses, which represented 19.1% of net sales, amounted to \$649 million in the second quarter of 2009, as compared to 17.7% of net sales and \$500 million in the second quarter of 2008. The increase is primarily due to the larger proportion of innovative and branded products in Teva's sales, including respiratory products and women's health care products, as well as branded generics in many of Teva's international markets, which have higher associated selling costs.

***General and Administrative (G&A) Expenses***

G&A expenses were \$197 million in the second quarter of 2009, essentially unchanged as a percentage of net sales (5.8%) from the second quarter of 2008. This stability was achieved while Teva continued to make progress integrating Barr's operations.

***Operating Income***

Operating income reached \$702 million in the second quarter of 2009, compared to \$638 million for the second quarter of 2008. This operating income was achieved after taking into account \$52 million of expenses relating to legal settlements and restructuring activities. As a percentage of net sales, operating margins were influenced significantly by the amortization of purchased intangible assets and an inventory step-up related to the acquisition of Barr, partially offset by a mix of more profitable products, continued Barr integration synergies and on-going cost reduction efforts.

***Financial Expenses***

Net financial expenses for the second quarter of 2009 were \$61 million, compared with expenses of \$34 million during the comparable quarter of 2008, and reflect increased interest expense resulting from the financing of the Barr acquisition. Net financial expenses in 2008 included a write-down of \$25 million of auction rate securities.

***Tax Rate***

The provision for taxes for the second quarter of 2009 amounted to \$98 million, or 15.3% of pre-tax income of \$641 million, reflecting an estimated annual tax rate of 11%. The provision for taxes in the comparable quarter of 2008 was \$68 million, or 11% of pre-tax income.

President Obama's administration has recently announced initiatives that would substantially reduce Teva's ability to defer U.S. taxes on the income of non-U.S. subsidiaries of Teva USA, including the potential elimination or deferral of U.S. taxation of foreign earnings; the elimination or substantial reduction of Teva's ability to claim foreign tax credits; and limitations on various tax deductions until foreign earnings are repatriated to the U.S. If any of these proposals were to become law, they could have an adverse impact on Teva's overall tax rate, financial position and results of operations.

***Net Income and Share Count***

Net income attributable to Teva for the quarter ended June 30, 2009 totaled \$521 million, compared to net income attributable to Teva of \$533 million in the second quarter of 2008. The decrease in net income is due, in addition to the factors affecting operating income noted above, to the increases in financial expenses, provision for taxes and losses from associated companies. Net income as a percentage of sales was 15.3% in the second quarter of 2009, compared to 18.9% in the comparable quarter of 2008. Diluted earnings per share was \$0.58 for the second quarter of 2009, compared to \$0.65 for the second quarter of 2008.

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For the second quarter of 2009, the share count for the diluted earnings per share calculation was 895 million, as compared to 836 million for the second quarter of 2008, primarily due to the shares issued in connection with the acquisition of Barr.

**Table of Contents****Comparison of Six Months Ended June 30, 2009 to Six Months Ended June 30, 2008****General**

In general, the factors mentioned above that explain quarterly changes on a year-over-year basis are also relevant to a comparison of the results for the six months ended June 30, 2008 and June 30, 2009. Additional factors affecting the six month comparisons are described below.

The following table sets forth certain financial data presented as a percentage of net sales and the percentage change for the periods indicated.

	Percentage of Net Sales		Period to Period Percentage Change %
	Six Months Ended June 30,		
	2009 %	2008 %	
Net sales	100.0	100.0	21
Gross profit	51.0	53.3	16
Research and development expenses	5.9	7.0	3
Selling and marketing expenses	19.1	15.8	47
General and administrative expenses	6.0	6.1	19
Acquisition of research and development in process		7.1	(100)
Litigation settlements, impairment and restructuring expenses	1.0		100
Operating income	19.0	17.3	33
Financial expenses - net	1.9	1.8	24
Income before income taxes	17.1	15.5	34
Provision for income taxes	1.9	3.0	(23)
Share in losses of associated companies - net	0.3		100
Net income attributable to non-controlling interests	*	*	
Net income attributable to Teva	14.9	12.5	45

\* Represents a percentage less than 0.05%.

**Sales General**

The following tables show the breakdown by geographic area and by business segment of net sales for the six months ended June 30, 2009 and 2008.

**Sales By Geographical Areas**

	U.S. Dollars in Millions		Percent Change 2009 from 2008	% of 2009
	Six Months Ended June 30,			
	2009	2008		
North America	\$ 4,033	\$ 3,006	34%	62%
Europe*	1,516	1,537	(1)%	23%
International	998	852	17%	15%
Total	\$ 6,547	\$ 5,395	21%	100%

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\* All members of the European Union as well as Switzerland and Norway.

**Sales By Business Segment**

	U.S. Dollars in Millions		Percent Change 2009 from 2008	% of 2009
	Six Months Ended			
	2009	2008		
Pharmaceuticals	\$ 6,254	\$ 5,086	23%	96%
A.P.I. *	293	309	(5)%	4%
<b>Total</b>	<b>\$ 6,547</b>	<b>\$ 5,395</b>	<b>21%</b>	<b>100%</b>

\* Third-party sales only.

**Table of Contents*****Pharmaceutical Sales***

The following table shows the geographic breakdown of pharmaceutical sales during the six months ended June 30, 2009 and 2008:

**Pharmaceutical Sales**

	U.S. Dollars in Millions		Percent Change 2009 from 2008	% of 2009
	Six Months Ended June 30,			
	2009	2008		
North America	\$ 3,913	\$ 2,873	36%	62%
Europe*	1,424	1,429	**%	23%
International	917	784	17%	15%
Total	\$ 6,254	\$ 5,086	23%	100%

\* All members of the European Union as well as Switzerland and Norway.

\*\* Represents number less than 0.5%.

***North America***

Pharmaceutical sales in North America for the six months ended June 30, 2009 reached \$3,913 million, an increase of 36% over the comparable period of 2008. Sales growth in this period benefited from the inclusion of Barr's sales, sales from newly launched products as described above and increased sales of Copaxone®.

***Europe***

Teva's pharmaceutical sales in Europe were \$1,424 million in the first six months of 2009, essentially the same as in the first six months of 2008. Despite an increase in sales, in local currency terms, over the comparable period of 2008, the gain was offset by the strengthening of the US dollar.

***International***

Teva's International group, which includes countries other than the U.S., Canada, EU member states, Norway and Switzerland, had pharmaceutical sales of \$917 million in the first six months of 2009, an increase of 17% over the comparable period of 2008.

***Innovative and Specialty Products***

**Copaxone®.** During the first half of 2009, global in-market sales of Copaxone®, Teva's leading innovative drug, reached a record of \$1,303 million, an increase of 18% over the comparable period of 2008. As of April 1, 2008, Teva assumed sole responsibility for the distribution of Copaxone® in the U.S. and Canada from sanofi-aventis, and as of that date, it started recording the full in-market sales of Copaxone® in these regions.

**Azilect®.** Global in-market sales in the first half reached \$110 million compared to \$79 million in the comparable period of 2008, an increase of 39%.

**Respiratory.** Teva's global respiratory business recorded sales of \$373 million in the first half of 2009, as compared to sales of \$337 million during the comparable period of 2008, an increase of 11%.

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**Women's Health.** Teva's women's health business, which was part of the Barr acquisition, reached sales of \$177 million, an increase of 20% from \$147 million as sold by Barr in the comparable period in 2008. This sales figure represents proprietary women's health products only and is different from the figure previously reported by Barr as its overall proprietary sales.

### ***Sales of Active Pharmaceutical Ingredients (API)***

API sales to third parties reached \$293 million in the first half of 2009, a decrease of 5% from the comparable period of 2008.

### ***Gross Profit***

Gross profit margin was 51.0% in the first six months of 2009, compared to 53.3% for the comparable period of 2008. The decrease is mainly due to the inventory step-up and amortization of intangible assets related to the Barr acquisition.

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### ***Research and Development (R&D) Expenses***

Net R&D spending for the first six months grew by 3% over the comparable period of 2008 and reached \$388 million.

In connection with the CoGenesys acquisition in February 2008, Teva wrote off \$382 million of in-process R&D in the first six months of 2008.

### ***Selling and Marketing (S&M) Expenses***

S&M expenses, which represented 19.1% of net sales, amounted to \$1,253 million in the first six months of 2009, as compared to 15.8% of net sales and \$852 million in the comparable period of 2008.

### ***General and Administrative (G&A) Expenses***

G&A expenses were \$393 million in the first six months of 2009, essentially unchanged as a percentage of net sales (6.1%) from the comparable period of 2008.

### ***Financial Expenses***

Net financial expenses for the first six months of 2009 were \$124 million, compared with \$100 million during the first six months of 2008. Net financial expenses in 2008 included a write-down of \$77 million of auction rate securities.

### ***Tax Rate***

The provision for taxes for the first six months of 2009 amounted to \$123 million, or 11% of pre-tax income of \$1,116 million. The provision for taxes in the comparable period of 2008 was \$160 million, or 19% of pre-tax income. The lower tax rate in 2009 is due to the tax effect of the inventory step-up and other acquisition-related charges recorded during the first half of 2009. The tax rate for the comparable period of 2008 was affected by a write-off of in-process R&D related to the acquisition of Cogenesys.

### ***Net Income***

Net income attributable to Teva for the first six months ended June 30, 2009 totaled \$972 million, compared to \$672 million in the comparable period of 2008. Diluted earnings per share reached \$1.09 for the first six months of 2009, compared to \$0.82 for the comparable period of 2008. Net income attributable to Teva as a percentage of sales was 14.8% in the first six months of 2009.

### **Supplemental Non-GAAP Income Data**

The tables below present supplemental data, in U.S. dollar terms, as a percentage of sales and the increase/decrease by item as a percentage of the amount for the comparable period. The data is presented after excluding the following items, a presentation which we believe facilitates an understanding of the trends underlying our business.

In the three months ended June 30, 2009:

\$76 million charge of inventory step-up related to the Barr acquisition;

\$151 million charge related to amortization of purchased intangible assets;

\$42 million of litigation settlement expenses;

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\$10 million of restructuring charges in connection with the Barr acquisition;  
and a corresponding tax effect of \$58 million.



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In the six months ended June 30, 2009:

\$296 million charge of inventory step-up related to the Barr acquisition;

\$205 million charge related to amortization of purchased intangible assets;

\$42 million of litigation settlement expenses;

\$21 million of restructuring charges in connection with the Barr acquisition;

\$3 million charge related to impairment of intangible assets;  
and a corresponding tax effect of \$163 million.

In the three months ended June 30, 2008:

\$45 million charge related to amortization of purchased intangible assets;

\$25 million charge in connection with an impairment in fair value of auction rate securities;  
and a corresponding tax effect of \$10 million.

In the six months ended June 30, 2008:

\$382 million charge related to a write-off of in-process R&D in connection with the CoGenesys acquisition;

\$77 million charge in connection with an impairment in fair value of auction rate securities;

\$93 million charge related to amortization of purchased intangible assets;  
and a corresponding tax effect of \$23 million.

The data so presented after these exclusions are the results used by management and our Board of Directors to evaluate our operational performance, to compare against work plans and budgets, and ultimately to evaluate the performance of management. For example, each year we prepare detailed work plans for the next three succeeding fiscal years. These work plans are used to manage the business and are the plans against which management's performance is measured. All of such plans are prepared on a basis comparable to the presentation below, in that none of the plans takes into account those elements that are factored out in our non-GAAP presentations. In addition, at quarterly meetings of the Board at which management provides financial updates to the Board, presentations are made comparing the current fiscal quarterly results against: (a) the comparable quarter of the prior year, (b) the immediately preceding fiscal quarter and (c) the work plan. Such presentations are based upon the non-GAAP approach reflected in the table below. Moreover, while there are always qualitative factors and elements of judgment involved in the granting of annual cash bonuses, the principal quantitative element in the determination of such bonuses are performance targets tied to the work plan, and thus tied to the same non-GAAP presentation as is set forth below.

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In arriving at our non-GAAP presentation, we have in the past factored out items, and would expect in the future to continue to factor out items, that either have a non-recurring impact on the income statement or which, in the judgment of our management, are items that, either as a result of their nature or size, we would not expect to occur as part of our normal business on a regular basis, and that, were they not singled out, could potentially cause investors to extrapolate future performance from an improper base. While not all-inclusive, examples of these items include: purchase accounting adjustments related to acquisitions, including adjustments for write-offs of in-process R&D, amortization of intangible assets and inventory step-ups following acquisitions; restructuring charges related to efforts to rationalize and integrate operations on a global basis; material tax and other awards or settlements both in terms of amounts paid or amounts received; impairment charges related to intangible and other assets such as intellectual property, product rights or goodwill; and the income tax effects of the foregoing types of items when they occur.

These data are non-GAAP financial measures and should not be considered replacements for GAAP results. We provide such non-GAAP data because management believes that such data provide useful information to investors. However, investors are cautioned that, unlike financial measures prepared in accordance with GAAP, non-GAAP measures may not be comparable with the calculation of similar measures for other companies. These non-GAAP financial measures are presented solely to permit investors to more fully understand how management assesses our performance. The limitations of using these non-GAAP financial measures as performance measures are that they provide a view of our results of operations without including all events during a period, such as the effects of acquisition, merger-related, restructuring and other charges, and may not provide a comparable view of our performance to other companies in the pharmaceutical industry.

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Investors should consider non-GAAP financial measures in addition to, and not as replacements for, or superior to, measures of financial performance prepared in accordance with GAAP.

*Supplemental Non-GAAP Income Data*

	Three Months Ended		Percentage of		Percentage
	June 30,	June 30,	Net Sales		
	2009	2008	2009	2008	Change
	U.S. dollars and shares in				Comparison
	millions (except percentages				2009-2008
	and per share amounts)		%	%	%
Net sales	3,400	2,823	100.0	100.0	20
Gross profit	1,988	1,543	58.5	54.7	29
Operating income	981	683	28.9	24.2	44
Income before income taxes	920	674	27.1	23.9	36
Provision for income taxes	156	78	4.6	2.8	100
Net income attributable to Teva	742	593	21.8	21.0	25
Diluted earnings per share	0.83	0.72			15
Weighted average number of shares	911	836			9

	Six Months Ended		Percentage of		Percentage
	June 30,	June 30,	Net Sales		
	2009	2008	2009	2008	Change
	U.S. dollars and shares in				Comparison
	millions (except percentages				2009-2008
	and per share amounts)		%	%	%
Net sales	6,547	5,395	100.0	100.0	21
Gross profit	3,825	2,956	58.4	54.8	29
Operating income	1,807	1,410	27.6	26.1	28
Income before income taxes	1,683	1,387	25.7	25.7	21
Provision for income taxes	286	183	4.4	3.4	56
Net income attributable to Teva	1,376	1,201	21.0	22.3	15
Diluted earnings per share	1.54	1.47			5
Weighted average number of shares	911	836			9

*Reconciliation between Reported Net Income Attributable to Teva and Earnings per Share to Non-GAAP Net Income Attributable to Teva and Earnings per Share*

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2009	2008	2009	2008
	U.S. dollars in millions			
	(except per share amounts)			

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Reported net income attributable to Teva	521	533	972	672
Acquisition of research and development in-process				382
Inventory step-up charges	76		296	
Impairment of financial assets		25		77
Litigation settlements, impairment and restructuring expenses	52		66	
Amortization of purchased intangible assets	151	45	205	93
Related tax effect	(58)	(10)	(163)	(23)
Non-GAAP net income attributable to Teva	742	593	1,376	1,201
Diluted earnings per share:				
Reported (\$)	0.58	0.65	1.09	0.82
Non-GAAP (\$)	0.83	0.72	1.54	1.47

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### **Critical Accounting Policies**

The preparation of Teva's consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions in certain circumstances that affect the amounts reported in the accompanying consolidated financial statements and related footnotes. Actual results may differ from these estimates. To facilitate the understanding of Teva's business activities, certain accounting policies that are more important to the portrayal of its financial condition and results of operations and that require management's subjective judgments are described in Teva's Annual Report on Form 20-F for the year ended December 31, 2008. Teva bases its judgments on its experience and various assumptions that it believes to be reasonable under the circumstances. The more important estimates that Teva makes on an ongoing basis include those related to revenue recognition, sales reserves and allowances, income taxes, contingencies, inventories and valuation of intangible assets, marketable securities and long-lived assets. Please refer to Note 1 to the Consolidated Financial Statements included in Teva's Annual Report on Form 20-F for the year ended December 31, 2008 for a summary of all significant accounting policies.

### **Recently Adopted Accounting Pronouncements**

See the notes to the consolidated financial statements included in this report.

### **Recently Issued Accounting Pronouncements**

See the notes to the consolidated financial statements included in this report.

### **Impact of Currency Fluctuations and Inflation**

Because Teva's results are reported in U.S. dollars, changes in the rate of exchange between the U.S. dollar and local currencies—mainly the euro, new Israeli shekel (NIS), Canadian dollar, British pound sterling, Russian ruble and Hungarian forint—affect Teva's results. During the second quarter of 2009, the euro depreciated by 14% against the U.S. dollar relative to the comparable quarter last year (average compared with average). In addition, the forint depreciated by approximately 33%, the pound by 27%, the NIS by 19%, the Canadian dollar by 16% and the ruble by 37% between the second quarter of 2008 and the second quarter of 2009.

Exchange rate movements adversely affected Teva's sales by approximately 9% (\$256 million) during the second quarter of 2009 as compared to the second quarter of 2008, with a negligible effect on operating income, due to an offsetting decrease in the U.S. dollar cost of expenses incurred in local currencies.

The inflation rate in Venezuela, which has increased substantially over the past few years, is approaching hyperinflation (100% over a three year period). The exchange rate between the U.S. dollar and the Venezuela bolivar has been fixed by the Venezuelan authorities over the last few years. The Venezuelan authorities also imposed monetary restrictions on the distribution of foreign currencies from Venezuela. A potential devaluation of the local currency versus the U.S. dollar may have an adverse effect on Teva's financial position and the results of our Venezuelan operations.

### **Liquidity and Capital Resources**

Total assets amounted to \$32.3 billion at June 30, 2009 compared to \$32.2 billion at March 31, 2009. The strengthening of most currencies versus the U.S. dollar during the second quarter of 2009 resulted in an increase in many of the balance sheet items, which was offset by a decrease in cash and cash equivalents and short-term investments, which were used to reduce debt.

Inventory value increased during the quarter by \$285 million, mainly due to currency effects and an increase in inventory undertaken to improve Teva's ability to meet customer requirements, partially offset by the inventory step-up charge recorded in the second quarter. The ratio of days sales in inventory at June 30, 2009 decreased to 188 compared to 191 at March 31, 2009.

Trade receivables, net of sales reserves and allowances (SR&A), increased by \$344 million during the quarter primarily due to the strengthening of most currencies versus the U.S. dollar. Days sales outstanding (receivables), net of SR&A, decreased from 51 days in March 31, 2009, to 47 days at June 30, 2009. Although Teva records receivables on a gross basis, and records substantially all of the SR&A as a liability, Teva has used a net figure for the calculation in order to facilitate a more meaningful comparison with some of its peers, which record receivables net of these reserves.

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Investment in property, plant and equipment in the second quarter of 2009 was \$151 million, compared to \$180 million in the comparable quarter last year and \$681 million for all of 2008. On an annual basis, investments in property, plant and equipment are expected to be lower than in 2008, due to the additional assets obtained as a result of the Barr acquisition. Depreciation amounted to \$107 million in the second quarter of 2009, as compared to \$76 million in the comparable quarter of 2008. The increase reflects the higher cost basis being depreciated, with the inclusion of Barr's assets.

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Total debt decreased by \$1.7 billion during the second quarter of 2009. Debt repayment of approximately \$1 billion included repayment of \$770 million of the bridge loan facilities used for funding the acquisition of Barr, which, as of June 30, 2009, had a remaining balance of \$630 million. Debt was also decreased due to the conversion of \$719 million of Teva's convertible senior debentures due 2024, which reduced short-term and long-term debt in roughly equal amounts. As a result, Teva's financial leverage ratio decreased from approximately 34% at March 31, 2009 to approximately 27% at June 30, 2009.

Shareholders' equity was \$17.8 billion at June 30, 2009. The increase of \$1,736 million from March 31, 2009 resulted primarily from the conversion of approximately \$719 million of convertible debt, a \$527 million translation gain as a result of the strengthening of most of the major currencies relative to the U.S. dollar and net income from the quarter of \$521 million, offset by dividend payments.

For purposes of calculating Teva's market capitalization at June 30, 2009, Teva uses approximately 879 million shares. Such number represents ordinary shares outstanding on such date, less shares held by subsidiaries, plus exchangeable shares issuable in connection with the acquisition of Novopharm Ltd.

Cash flow generated from operating activities during the second quarter of 2009 was \$658 million compared to \$806 million in the second quarter of 2008. The lower cash flow from operations was driven by the timing of significant U.S. launches and related collections. In addition, Teva paid during the quarter approximately \$80 million of Barr integration-related expenses that are not reflected in the income statement according to purchase accounting.

Teva's principal sources of short-term liquidity are its existing cash investments and liquid securities, as well as internally generated funds, which Teva believes are sufficient to meet its operating needs and anticipated capital expenditures over the near term.

## **RISK FACTORS**

There are no material changes to the risk factors previously disclosed in Teva's Annual Report on Form 20-F for the year ended December 31, 2008.

## **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Reference is made to "Quantitative and Qualitative Disclosures About Market Risk" (Item 11) in Teva's Annual Report on Form 20-F for the year ended December 31, 2008.

## **LEGAL PROCEEDINGS**

Teva is subject to various litigation and other legal proceedings. For a discussion of these matters, see "Contingencies," Note 12 to the consolidated financial statements included in this report.

## **SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEVA PHARMACEUTICAL INDUSTRIES LIMITED  
(Registrant)

Date: July 29, 2009

By: /s/ Eyal Desheh  
Name: Eyal Desheh  
Title: Chief Financial Officer