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)

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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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

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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.

Exhibit No.	Description
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

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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	$ 0.86
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.

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED BALANCE SHEETS

(U.S. dollars in millions)

	June 30, 2009 Unaudited	December 31, 2008 Audited
ASSETS		
Current assets:		
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
Total current assets	11,035	11,426
Long-term investments and receivables	459	425
Property, plant and equipment, net	3,726	3,699
Identifiable intangible assets, net	4,349	4,581
Goodwill	12,218	12,297
Other assets, deferred taxes and deferred charges	464	492*
Total assets	$ 32,251	$ 32,920
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
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
Total current liabilities	7,240	8,481
Long-term liabilities:		
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*
Total long-term liabilities	7,161	8,001
Total liabilities	14,401	16,482
Shareholders equity:		
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

Treasury shares	June 30, 2009 and December 31, 2008	38 million ordinary shares	(924)	(924)
Teva shareholders equity			17,815	16,378
Non-controlling interests			35	60
Total shareholders equity			17,850	16,438
Total liabilities and shareholders equity			$ 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.

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOW

(U.S. dollars in millions)

(Unaudited)

	Six Months Ended June 30,	
	2009	**2008**
Operating activities:		
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*
Net cash provided by operating activities	1,391	1,552
Investing activities:		
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
Net cash used in investing activities	(317)	(127)
Financing activities:		
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)
Net cash used in financing activities	(1,155)	(521)
Translation differences on cash balances of certain subsidiaries	(12)	92
Net increase (decrease) in cash and cash equivalents	(93)	996
Balance of cash and cash equivalents at beginning of period	1,854	1,488

Balance of cash and cash equivalents at end of period	$ 1,761	$ 2,484

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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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

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

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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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,

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

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,	
	U.S. $ in millions			
	2009	2008	2009	2008
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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(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 U.S. $ in millions			
	Level 1	Level 2	Level 3	Total
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
Total	$ 1,868	$ 97	$ 75	$ 2,040

* 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

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

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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(Unaudited)

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 filling 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, Alpharma and Teva launched their 100 mg, 300 mg and 400 mg gabapentin capsule products and, in December 2004, Alpharma 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.

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®, 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

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.

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 Sicor, 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 Sicor, 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. Sicor 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 Sicor 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. Sicor 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.

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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®, Lotrel® and Protonix®, 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® sales, dependence on the effectiveness of our patents and other protections for innovative products, especially Copaxone®, 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 though 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® (mixed amphetamine salts ER);
- Record global in-market sales of Copaxone® 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;

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%.

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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 Three Months Ended June 30,		Period to Period Percentage Change
	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 Three Months Ended June 30,		Percent Change 2009 from 2008	
	2009	2008		% of 2009
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.

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Sales By Business Segment

	U.S. Dollars in Millions Three Months Ended June 30,		Percent Change 2009 from 2008	
	2009	2008		% of 2009
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 Three Months Ended June 30,		Percent Change 2009 from 2008	
	2009	2008		% of 2009
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® (mixed amphetamine salts ER) as well as continued strong sales of generic versions of Lotrel® (amlodipine benazapril), Yasmin® (drospirenone and ethinyl estradiol), Protonix® (pantoprazole) and Imitrex® (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® to $438 million, due to price increases; and

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
mycophenalate mofetil	Tablets	5/4/09	Cellcept®	$ 680
mycophenalate 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 (EMEA) 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 EMEA.

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® . During the second quarter of 2009, global in-market sales of Copaxone®, 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® 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® 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® 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®. Azilect® (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® was launched in Russia and is now available in 38 countries. In local currencies, global in-market sales of Azilect® 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® 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 unit sales. ProAir 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® increased its market share in the U.S., and is now second in new prescriptions in the inhaled corticosteroid category. Sales of Qvar® 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® (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® (2 Tab), in advance of the launch of Plan B® 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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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.

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.

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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 Six Months Ended June 30,		Period to Period Percentage Change
	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

Six Months Ended June 30,