

TEVA PHARMACEUTICAL INDUSTRIES LTD

Form 6-K

July 27, 2010

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 6-K

**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 2010**

**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  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):

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**TEVA PHARMACEUTICAL INDUSTRIES LIMITED**

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**Exhibits**

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 and six months ended June 30, 2010, 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 Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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

**INTRODUCTION AND USE OF CERTAIN TERMS**

Unless otherwise indicated or the context otherwise requires, all references to the Company, we, our and Teva refer to Teva Pharmaceutical Industries Limited and its subsidiaries. References to U.S. dollars, U.S.\$ and \$ are to the lawful currency of the United States of America, and references to NIS are to new Israeli shekels. Market share data is based on information provided by IMS Health Inc., a leading provider of market research to the pharmaceutical industry ( IMS ), unless otherwise stated.

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

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

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Net sales	\$ 3,800	\$ 3,400	\$ 7,453	\$ 6,547
Cost of sales	1,679	1,631	3,319	3,207
Gross profit	2,121	1,769	4,134	3,340
Research and development expenses	217	169	424	388
Selling and marketing expenses	644	649	1,396	1,253
General and administrative expenses	189	197	371	393
Legal settlements, acquisition and restructuring expenses and impairment	(9)	52	25	66
Purchase of research and development in process	5		9	
Operating income	1,075	702	1,909	1,240
Financial expenses net	148	61	175	124
Income before income taxes	927	641	1,734	1,116
Provision for income taxes	118	98	203	123
	809	543	1,531	993
Share in losses of associated companies net	9	20	17	19
Net income	800	523	1,514	974
Net income attributable to non-controlling interests	3	2	4	2
Net income attributable to Teva	\$ 797	\$ 521	\$ 1,510	\$ 972
Earnings per share attributable to Teva:				
Basic	\$ 0.89	\$ 0.61	\$ 1.69	\$ 1.13
Diluted	\$ 0.88	\$ 0.58	\$ 1.66	\$ 1.09
Weighted average number of shares (in millions):				
Basic	895	860	894	858
Diluted	921	895	921	895

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)

	June 30, 2010 Unaudited	December 31, 2009 Audited
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 4,854	\$ 1,995
Short-term investments	24	253
Accounts receivable	4,985	5,019
Inventories	3,078	3,332
Deferred taxes and other current assets	1,502	1,542
<b>Total current assets</b>	<b>14,443</b>	<b>12,141</b>
<b>Long-term investments and receivables</b>	<b>628</b>	<b>534</b>
<b>Deferred taxes, deferred charges and other assets</b>	<b>630</b>	<b>642</b>
<b>Property, plant and equipment, net</b>	<b>3,622</b>	<b>3,766</b>
<b>Identifiable intangible assets, net</b>	<b>3,639</b>	<b>4,053</b>
<b>Goodwill</b>	<b>12,223</b>	<b>12,674</b>
<b>Total assets</b>	<b>\$ 35,185</b>	<b>\$ 33,810</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Short-term debt and current maturities of long term liabilities	\$ 1,946	\$ 1,301
Sales reserves and allowances	2,978	2,942
Accounts payable and accruals	2,647	2,680
Other current liabilities	611	679
<b>Total current liabilities</b>	<b>8,182</b>	<b>7,602</b>
<b>Long-term liabilities:</b>		
Deferred income taxes	1,686	1,741
Other taxes and long term payables	712	727
Employee related obligations	171	170
Senior notes and loans	5,050	3,494
Convertible senior debentures	21	817
<b>Total long term liabilities</b>	<b>7,640</b>	<b>6,949</b>
<b>Commitments and contingencies, see note 14</b>		
<b>Total liabilities</b>	<b>15,822</b>	<b>14,551</b>
<b>Equity:</b>		
<b>Teva shareholders' equity:</b>		
Ordinary shares as of June 30, 2010 and December 31, 2009: authorized 2,500 million shares and 1,500 million shares, respectively; issued and outstanding 935 million shares and 923 million shares, respectively	49	49
Additional paid-in capital	13,139	12,880
Retained earnings	7,843	6,662
Accumulated other comprehensive income (loss)	(779)	555

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Treasury shares as of June 30, 2010 and December 31, 2009 38 million ordinary shares	(924)	(924)
	19,328	19,222
<b>Non-controlling interests</b>	<b>35</b>	<b>37</b>
<b>Total equity</b>	<b>19,363</b>	<b>19,259</b>
<b>Total liabilities and equity</b>	<b>\$ 35,185</b>	<b>\$ 33,810</b>

**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</b>	
	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating activities:</b>		
Net income*	\$ 1,514	\$ 974
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	468	414
Decrease (increase) in working capital items	(217)	54
Deferred income taxes net and uncertain tax positions*	6	(108)
Purchase of research and development in process	9	
Stock-based compensation	41	25
Other items net*	19	32
<b>Net cash provided by operating activities</b>	<b>1,840</b>	<b>1,391</b>
<b>Investing activities:</b>		
Purchase of property, plant and equipment	(301)	(311)
Proceeds from realization of investments	538	42
Purchase of investments and other assets	(400)	(40)
Other items net	24	(8)
<b>Net cash used in investing activities</b>	<b>(139)</b>	<b>(317)</b>
<b>Financing activities:</b>		
Proceeds from senior notes, net of issuance costs of \$6 million	2,492	
Repayment of short term loans in connection with the acquisition of Barr		(1,120)
Dividends paid	(329)	(261)
Proceeds from exercise of options by employees	125	74
Proceeds from long-term loans and other long-term liabilities received	43	277
Redemption of convertible debentures	(45)	
Discharge of long-term loans and other long-term liabilities	(930)	(118)
Net decrease in other short-term credit	(16)	(13)
Excess tax benefit on options exercised	10	6
<b>Net cash provided by (used in) financing activities</b>	<b>1,350</b>	<b>(1,155)</b>
<b>Translation adjustment on cash and cash equivalents</b>	<b>(192)</b>	<b>(12)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>2,859</b>	<b>(93)</b>
<b>Balance of cash and cash equivalents at beginning of period</b>	<b>1,995</b>	<b>1,854</b>
<b>Balance of cash and cash equivalents at end of period</b>	<b>\$ 4,854</b>	<b>\$ 1,761</b>

\* Reclassified.

**Supplemental disclosure of non-cash financing activities:**

During the six months ended June 30, 2010, \$83 million principal amount of convertible senior debentures was converted into approximately 2.3 million Teva shares.

**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 as the annual consolidated financial statements. In the opinion of management, the financial statements reflect 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, 2009, as filed with the Securities and Exchange Commission. The results of operations for the six months ended June 30, 2010 are not necessarily indicative of results that could be expected for the entire fiscal year.

Certain items in the cash flow statements and in the comprehensive income (loss) note have been reclassified.

**NOTE 2 Certain transactions:**

*a. Acquisition*

On March 18, 2010, the Company signed a definitive agreement under which Teva agreed to acquire Merckle ratiopharm Group ( "ratiopharm" ) for an enterprise value of Euro 3.625 billion plus interest accrued from January 1, 2010 (or approximately \$4.7 billion). Ratiopharm is a global pharmaceutical company that operates in more than 20 countries. This acquisition is expected to improve Teva's market position in Germany and further enhance Teva's leadership position in key European markets and Canada.

Closing of the transaction is subject to certain conditions, including relevant regulatory approvals. The transaction is expected to close in the third quarter of 2010.

In July 2010, we entered into separate bilateral credit agreements with three banks, each of which provides for \$500 million in committed financing, for an aggregate of \$1.5 billion, which will be used to pay a portion of the purchase price for the ratiopharm acquisition. We have drawn down \$500 million under one of the facilities.

*b. Termination of agreement*

Under agreements entered into by Teva and Sanofi-Aventis, the sale and distribution, in North America, Europe and certain other countries, of Copaxone<sup>®</sup>, an innovative product of the Company for the treatment of multiple sclerosis, have been carried out by Sanofi-Aventis.

On April 1, 2008, Teva took over the U.S. and Canadian distribution of Copaxone<sup>®</sup>. Under the terms of the agreements, Sanofi-Aventis was entitled to payment by Teva of previously agreed-upon termination consideration of 25% of the in-market sales of Copaxone<sup>®</sup> in the U.S. and Canada for an additional two-year period which ended on April 1, 2010.

**NOTE 3 Issuance of senior notes:**

In June 2010, subsidiaries of the Company issued an aggregate of \$2.5 billion principal amount of senior notes as described in the table below. All such notes are guaranteed by Teva.

Issuer	Annual interest rate %	Principal amount issued	Due
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		(U.S. \$ in millions)	
Teva Pharmaceutical Finance III, LLC	LIBOR plus 0.40	\$ 500	December 2011
Teva Pharmaceutical Finance III, LLC *	1.5	\$ 1,000	June 2012
Teva Pharmaceutical Finance II, B.V. *	3.0	\$ 1,000	June 2015

\* In June 2010, the Company entered into two interest rate swap agreements with respect to its \$1 billion principal amount of 1.50% senior notes due 2012 and to its \$1 billion principal amount of 3.00% senior notes due 2015 (see note 11).

**Table of Contents****TEVA PHARMACEUTICAL INDUSTRIES LIMITED****Notes To Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 4 Inventories:**

Inventories consisted of the following:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<b>U.S. \$ in millions</b>	
	<b>Unaudited</b>	<b>Audited</b>
Raw and packaging materials	\$ 1,022	\$ 1,072
Products in process	493	522
Finished products	1,453	1,658
	2,968	3,252
Materials in transit and payments on account	110	80
	\$ 3,078	\$ 3,332

**NOTE 5 Convertible senior debentures:**

During the six months ended June 30, 2010, \$83 million principal amount of convertible senior debentures was converted into approximately 2.3 million Teva shares. Of the \$83 million principal amount, \$34 million principal amount is related to Teva's 0.5% convertible senior debentures due 2024 and \$49 million principal amount is related to Teva's 0.25% convertible senior debentures due 2024. In addition, during the six months ended June 30, 2010, \$45 million principal amount of convertible senior debentures related to Teva's 0.5% convertible senior debentures due 2026 was converted.

Teva's 1.75% convertible senior debentures due 2026 amounting to \$779 million, which were reported under long-term liabilities at December 31, 2009, were reported under short-term debt at June 30, 2010 as the earliest future redemption both by the holders and Teva is on February 1, 2011.

Teva's 0.25% convertible senior debentures due 2024 amounting to \$67 million, which were reported under short-term liabilities at December 31, 2009, were reported under long-term debt at June 30, 2010 as the earliest future redemption by the holders is on August 1, 2014.

**Table of Contents****TEVA PHARMACEUTICAL INDUSTRIES LIMITED****Notes To Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 6 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, 2010 and 2009, respectively, basic earnings per share were adjusted to take into account the potential dilution that could occur upon: (i) the exercise of options and non-vested restricted stock units ( RSUs ) granted under employee stock compensation plans and one series of convertible senior debentures, using the treasury stock method; and (ii) the conversion of the remaining convertible senior debentures and subordinated notes using the if-converted method, by adding to net income interest expense on the debentures and amortization of issuance costs, net of tax benefits, and by adding the weighted average number of shares issuable upon assumed conversion of the debentures and subordinated notes.

In computing diluted earnings per share for the three months and six months ended June 30, 2009, 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.

The net income and the weighted average number of shares used in the computation of basic and diluted earnings per share for the three months and six months ended June 30, 2010 and 2009 are as follows:

	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2010	2009	2010	2009
	(in millions)			
Net income attributable to Teva	\$ 797	\$ 521	\$ 1,510	\$ 972
Interest expense on convertible senior debentures, and issuance costs, net of tax benefits	11	1	22	2
<b>Net income used for the computation of diluted earnings per share</b>	<b>\$ 808</b>	<b>\$ 522</b>	<b>\$ 1,532</b>	<b>\$ 974</b>
Weighted average number of shares used in the computation of basic earnings per share	895	860	894	858
<b>Add:</b>				
Additional shares from the assumed exercise of employee stock options and unvested RSUs	7	7	7	8
Weighted average number of additional shares issued upon the assumed conversion of convertible senior debentures	19	28	20	29
<b>Weighted average number of shares used in the computation of diluted earnings per share</b>	<b>921</b>	<b>895</b>	<b>921</b>	<b>895</b>

**NOTE 7 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 .

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The calculation is based on historical experience and the specific terms in the individual agreements. Chargebacks are the single 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.

**Table of Contents****TEVA PHARMACEUTICAL INDUSTRIES LIMITED****Notes To Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 8 Comprehensive income (loss):**

Comprehensive income (loss) is as follows:

	Three months ended June 30,		Six months ended June 30,	
	U.S. \$ in millions			
	2010	2009	2010	2009
Net income*	\$ 800	\$ 523	\$ 1,514	\$ 974
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) from available-for-sale securities, net of tax	(18)	58	29	(7)
Unrealized gain on derivative financial instruments	7		7	
Realization and reclassification adjustment on available for sales securities, net of tax	(26)	(7)	(26)	(7)
Currency translation adjustment, net of tax	(1,022)	527	(1,344)	(86)
<b>Total comprehensive income (loss)</b>	<b>(259)</b>	<b>1,101</b>	<b>180</b>	<b>874</b>
Comprehensive income attributable to the non-controlling interests*	(3)	(2)	(4)	(2)
<b>Comprehensive income (loss) attributable to Teva</b>	<b>\$ (262)</b>	<b>\$ 1,099</b>	<b>\$ 176</b>	<b>\$ 872</b>

\* Reclassified.

**NOTE 9 Entity-wide disclosures:**

Net sales by geographic area were as follows:

	Three months ended June 30,		Six months ended June 30,	
	U.S. \$ in millions			
	2010	2009	2010	2009
North America	\$ 2,467	\$ 2,108	\$ 4,776	\$ 4,033
Europe	811	777	1,623	1,516
International	522	515	1,054	998
	\$ 3,800	\$ 3,400	\$ 7,453	\$ 6,547

**NOTE 10 Fair value measurement:**

The Company measures fair value and discloses fair value measurements for financial assets and liabilities. 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.

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

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

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

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

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

**Table of Contents****TEVA PHARMACEUTICAL INDUSTRIES LIMITED****Notes To Condensed Consolidated Financial Statements (Continued)****(Unaudited)**

Financial items carried at fair value as of June 30, 2010 and December 31, 2009 are classified in the tables below in one of the three categories described above:

	<b>June 30, 2010</b>			<b>Total</b>
	<b>U.S. \$ in millions</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Cash and cash equivalents:</b>				
Money markets	\$ 512	\$	\$	\$ 512
Cash deposits and other	4,342			4,342
<b>Marketable securities*:</b>				
Auction rate securities			68	68
Collateral debt obligations	13		1	14
Equity securities	99			99
Structured investment vehicles		82		82
Other	56			56
<b>Derivatives **::</b>				
Liability derivatives mainly options and forward contracts		(220)		(220)
Interest rate swap (liabilities)		(40)		(40)
Interest rate and cross-currency swaps (assets)		46		46
Asset derivatives mainly options and forward contracts		11		11
<b>Total</b>	<b>\$ 5,022</b>	<b>\$ (121)</b>	<b>\$ 69</b>	<b>\$ 4,970</b>

	<b>December 31, 2009</b>			<b>Total</b>
	<b>U.S. \$ in millions</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Cash and cash equivalents:</b>				
Money markets	\$ 512	\$	\$	\$ 512
Cash deposits and other	1,483			1,483
<b>Marketable securities*:</b>				
Auction rate securities			75	75
Collateral debt obligations	13		1	14
Equity securities	104			104
Structured investment vehicles		37		37
Other mainly debt securities	240			240
Derivatives net**		(11)		(11)
<b>Total</b>	<b>\$ 2,352</b>	<b>\$ 26</b>	<b>\$ 76</b>	<b>\$ 2,454</b>

\* 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



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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.

	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>U.S. \$ in millions</b>	
Carrying value as of January 1	\$ 76	\$ 98
Amount realized		(3)
Net change to fair value:		
Loss included in other comprehensive income (loss)	(7)	(20)
Carrying value as of June 30	\$ 69	\$ 75

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**TEVA PHARMACEUTICAL INDUSTRIES LIMITED**

**Notes To Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

Teva's financial instruments 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 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 senior notes, convertible senior debentures and interest rate swap agreements included under long-term liabilities amounted to \$4,313 million and \$2,150 million at June 30, 2010, and December 31, 2009, respectively, based on quoted market values and prevailing market rates. The fair value of interest rate swap agreements included under long term investments and receivables amounted to \$46 million and \$10 million at June 30, 2010 and December 31, 2009, respectively.

The fair values and the carrying amounts of derivatives and convertible senior debentures with an earliest date of redemption within 12 months are assets of \$11 million and \$ 20 million (derivatives) and liabilities of \$1,424 million and \$771 million (convertible senior debentures and derivatives) at June 30, 2010, and December 31, 2009, respectively. The fair value of derivatives generally reflects the estimated amounts that Teva would receive or pay to terminate the contracts at the reporting dates.

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 April 1, 2009, the Company adopted an accounting pronouncement which changes the method for determining whether another-than-temporary impairment exists for debt securities and the amount of the impairment to be recorded in earnings. At December 31, 2009, as well as at June 30, 2010, the credit loss was \$293 million.

In January 2010, the FASB updated its guidance regarding fair value measurements disclosures. More specifically, this update requires (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e. present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value, and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. As applicable to Teva, this guidance is effective as of January 1, 2010, except for the gross presentation of the Level 3 roll forward information, which is required beginning January 1, 2011. As applicable to Teva, the adoption of the new guidance did not have a material impact on its consolidated financial statements.

**NOTE 11 Derivative instruments and hedging activities:**

***a. Interest rate and cross-currency swaps***

During the second quarter of 2010, the Company entered into swap agreements with respect to its \$1 billion principal amount of 1.50% senior notes due in 2012 and its \$1 billion principal amounts of 3.00% senior notes due in 2015.

The purpose of the interest rate swap agreement with respect to Teva's 2012 senior notes was to change the interest rate from fixed to floating rate. As a result of this agreement, Teva is currently paying an effective interest rate of three months LIBOR plus an average 0.41% on the \$1 billion principal amount, as compared to the stated 1.50% fixed rate.

The purpose of the interest rate and cross-currency swap agreement with respect to Teva's 2015 senior notes was to convert these dollar denominated notes to a Euro denomination. As a result of this agreement, Teva pays a fixed rate of 2.36% on the Euro principal amount, as compared to the stated 3.00% fixed rate on the dollar principal amount.

The above transactions qualify for hedge accounting.

***b. Derivative instruments in relation with the ratiopharm acquisition***

In anticipation of the closing of the ratiopharm acquisition, the Company entered into derivative transactions in an amount of 1.5 billion which include forward and option contracts in order to partially hedge the Euro denominated acquisition commitment of 3.6 billion. As these transactions do not qualify for hedge accounting the change in fair value of these transactions is recognized under finance expenses net, resulting in a loss of \$147 million for the six months and three months ended June 30, 2010.

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**Notes To Condensed Consolidated Financial Statements (Continued)**

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***c. Derivative instrument disclosure***

The fair value of derivative instruments is comprised of:

1. Asset derivatives, comprising interest rate and cross-currency swap agreements, designated as hedging instruments. These are reported under long-term investments and receivables, and the fair value amounted to \$46 million and \$10 million at June 30, 2010 and December 31, 2009, respectively.
2. Asset derivatives, comprising primarily foreign exchange contracts, not designated as hedging instruments for accounting purposes. These are reported under deferred taxes and other current assets, and the fair value amounted to \$11 million and \$20 million at June 30, 2010 and December 31, 2009, respectively.
3. Liability derivatives, comprising interest rate swap agreements, designated as hedging instruments. These are reported under senior notes and loans, and the fair value amounted to \$40 million and \$10 million at June 30, 2010 and December 31, 2009, respectively.
4. Liability derivatives, comprising foreign exchange contracts, not designated as hedging instruments for accounting purposes. These are reported under accounts payable, and the fair value amounted to \$220 million and \$31 million at June 30, 2010 and December 31, 2009, respectively.

Derivatives on foreign exchange contracts hedge Teva's balance sheet items from currency exposure but are not designated as hedging instruments for accounting purposes. With respect to such derivatives, losses of \$118 million and \$70 million were recognized under financial expenses-net for the six months ended June 30, 2010 and 2009, respectively, and a loss of \$80 million and a gain of \$56 million were recognized under financial expenses-net for the three months ended June 30, 2010 and June 30, 2009, respectively. Such losses offset the revaluation of the balance sheet items also booked under financial expenses-net.

With respect to the interest rate and cross-currency swap agreements, gains of \$8 million and \$4 million were recognized under financial expenses-net for the six months and three months ended June 30, 2010, respectively. Such gains mainly reflect the differences between the fixed interest rate and the floating interest rate.

**NOTE 12 Recently adopted and issued accounting pronouncements:**

***a. Recently adopted accounting pronouncements:***

In June 2009, the FASB updated accounting guidance relating to variable interest entities. As applicable to Teva, this guidance is effective commencing January 1, 2010. The adoption of the new guidance did not have a material impact on the consolidated financial statements.

***b. Recently issued accounting pronouncements:***

In October 2009, the FASB issued amendments to the accounting and disclosure for revenue recognition. These amendments, effective for fiscal years beginning on or after June 15, 2010 (early adoption is permitted), modify the criteria for recognizing revenue in multiple element arrangements and require companies to develop a best estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. Additionally, the amendments eliminate the residual method for allocating arrangement

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considerations. Teva is currently evaluating the impact that the adoption would have on its consolidated financial statements.

In April 2010, the FASB issued amendment to the accounting and disclosure for revenue recognition milestone method. This amendment, effective for fiscal years beginning on or after June 15, 2010 (early adoption is permitted), provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions. Teva is currently evaluating the impact that the adoption would have on its consolidated financial statements.

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Legal settlements, acquisition and restructuring expenses and impairment consisted of the following:

	Three months ended		Six months ended	
	June 30,		June 30,	
	U.S. \$ in millions			
	2010	2009	2010	2009
Legal settlements	\$ (23)	\$ 42	\$ (6)	\$ 42
Acquisition expenses			15	
Restructuring expenses	11	10	13	22
Impairment of long lived assets	3		3	2
<b>Total</b>	<b>\$ (9)</b>	<b>\$ 52</b>	<b>\$ 25</b>	<b>\$ 66</b>

**NOTE 14 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 such actions, including those described below. Based upon the status of these cases, the advice of counsel, management's assessment of such cases and the potential exposure involved relative to insurance coverage, no provision has been made in Teva's financial statements for any of such actions except as otherwise noted below. Furthermore, based on currently available information, 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 Teva currently has insurance coverage for certain types of damages for patent infringement, a claim for coverage may be subject to a deductible, involve a co-insurance participation, exceed policy limits or be ultimately found to relate to damages that are not covered by Teva's policy. 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. Although the legislation concerning generic pharmaceuticals, 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.

Teva's business inherently exposes it to potential product liability claims. As Teva's portfolio of available products continues to expand, the number of product liability claims asserted against Teva has increased. 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.

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***Intellectual Property Matters***

In 1992, Teva Canada Limited (Teva Canada, which was then known as Novopharm Limited) commenced sales of zidovudine or azidothymidine (AZT), which is a generic version of Retrovir®. Teva Canada ceased sales of AZT in December 2002, when the Supreme Court of Canada upheld the patent as valid and infringed. Although the patent subsequently expired in March 2006, Teva Canada has not resumed sales of AZT. A provision for this matter has been included in the financial statements. The trial to quantify damages is currently scheduled to begin on May 30, 2011.

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 Pharmaceuticals, Inc. (IVAX) also launched its non-AB rated tablets in 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 (the 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 relating to sales of its gabapentin products and be enjoined from selling its gabapentin products until patent expiry. 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 indemnify Alpharma against damages related to a portion of the sales of Alpharma's gabapentin products.

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. In May 2009, the Federal Circuit affirmed the District Court's denial of the preliminary injunction. On January 11, 2010, the United States Supreme Court denied Abbott's petition for certiorari. The case was remanded to the District Court, and has now been settled under terms that are confidential.

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 until patent expiry.

In June 2007, Teva Canada commenced sales 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 data. In June 2007, the Federal Court of Canada denied Lilly's request to prohibit the Minister of Health from issuing Teva Canada's final regulatory approval. Shortly after the launch by Teva Canada, Lilly filed an action for patent infringement. In October 2009, the patent at issue, which was otherwise set to expire on April 24, 2011, was held to be invalid. On July 21, 2010, the Court of Appeal set aside the judgment of the Federal Court, with two grounds of invalidity being sent back to the Federal Court for reconsideration in accordance with the Court of Appeal's instructions. Were Lilly ultimately to be successful with regard to these invalidity issues, Teva Canada could be required to pay damages related to its sales of olanzapine tablets and be enjoined from selling those products until patent expiry.

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 ended September



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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 on the compound patent, based on the record before the Court. In May 2009, the Federal Circuit affirmed the District Court's denial of the preliminary injunction. The patent at issue expired on July 19, 2010, and the innovator has been granted pediatric exclusivity, which expires on January 19, 2011. On April 23, 2010, the jury returned a verdict finding that the patent is not invalid. On July 16, 2010, the Court denied Teva's motion to overturn the verdict. Based on the fact that Teva has defenses remaining at the trial level, including patent misuse, the Court also denied Wyeth/Altana's request that Teva's final approval date be reset to January 2011. A ruling for Teva on the patent misuse claim may render the patent unenforceable. In addition, Teva believes that it has substantial grounds for appeal of the Court's decision on invalidity and intends to pursue its appeals vigorously. Teva does not believe that an award of damages in this matter is probable. In addition, in light of previous rulings denying a preliminary injunction to Wyeth/Altana, Teva believes that the likelihood of treble damages is remote. Wyeth/Altana has requested (i) that the Court lift its stay

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on damages discovery and (ii) permission to renew its motion to strike Teva's remaining patent defenses. 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 until patent expiry.

In May 2010, Teva commenced sales of its drospirenone and ethinyl estradiol tablets under the name Gianvi™. Gianvi™ tablets are the generic version of Bayer's Yasmin® tablets, which had sales of approximately \$782 million for the twelve months ended December 31, 2009, based on IMS data. On June 1, 2010, Teva filed suit against Bayer in the Southern District of New York, seeking declaratory judgment of invalidity and non-infringement of three Orange Book patents that expire on June 30, 2014. On June 7, 2010, Bayer filed suit against Teva in the United States District Court for the District of Nevada alleging infringement of the same three patents. Teva has filed a motion to transfer the Nevada action to New York, where its declaratory judgment action is pending. Were Bayer ultimately to be successful in its allegation of patent infringement, Teva could be required to pay damages relating to the sale of its Gianvi™ tablets and be enjoined from further selling those products until patent expiry. A provision for this matter has been included in the financial statements.

In July 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. 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 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. Sandoz, Inc. and Momenta Pharmaceuticals Inc. filed their answers to Teva's complaint in November 2008, asserting 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. In December 2008, Sandoz International GmbH and Novartis AG brought a motion to dismiss Teva's patent claims on personal jurisdiction grounds, and in December 2009, Sandoz filed a motion for summary judgment of invalidity based on indefiniteness. Both motions are pending. A claim construction hearing was held on January 20, 2010. A trial date has not been scheduled. On December 10, 2009, Teva filed a separate complaint against Sandoz and Momenta alleging infringement of four off-invention non-Orange Book patents, the latest of which expires in February 2020. On January 7, 2010, Sandoz moved to dismiss these claims, arguing that their alleged infringing acts were protected under statute and/or not ripe at the current time.

On October 16, 2009, after learning that Mylan Laboratories, Inc. had filed an ANDA containing Paragraph IV certifications with the FDA for a generic version of Copaxone®, Teva filed a complaint against Mylan in the United States District Court for the Southern District of New York, alleging infringement of each of the seven Orange Book patents. No trial date has been scheduled.

As described above, Copaxone®, Teva's leading innovative product, from which it derives substantial revenues and which contributes disproportionately to its profits, faces intense patent challenges. Although Teva believes that Copaxone® has strong patent protection, should its patents be successfully challenged, Teva may face intense generic competition for Copaxone®, which would adversely affect its results of operations.

***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 5,500 cases have been dismissed, leaving approximately 621 pending. To date, Barr and Duramed products have been identified in 493 of those cases. Additional dismissals are expected. The vast majority of the claims are covered by insurance.

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Teva and its subsidiary Pliva, Inc. have been named as defendants in over 250 product liability lawsuits brought against them and other manufacturers by plaintiffs claiming injuries from the use of metoclopramide (the generic form of Reglan®). Those claims include allegations of neurological disorders, including tardive dyskinesia, as a result of ingesting the product. For over twenty years, the FDA-approved label for metoclopramide has contained warning language about the risk of tardive dyskinesia, and that the risk of developing this syndrome increased with duration of treatment and total cumulative dose. In February 2009, the FDA announced that manufacturers of metoclopramide would be required to revise the label, including the addition of a black box warning about the risk of tardive dyskinesia from long-term exposure to metoclopramide. The vast majority of the cases are in the very early stages and it has not yet been determined how many plaintiffs actually used a Teva or Pliva product. Teva and Pliva expect to be dismissed from at least some of these cases where plaintiffs cannot demonstrate that they used either a Teva or Pliva product. The vast majority of the cases against Teva and Pliva are currently covered by insurance.

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Teva Parenteral Medicines, Inc. has been named as a defendant in almost 250 lawsuits in state court in Las Vegas, Nevada relating to its propofol product. The plaintiffs in these lawsuits claim that they were infected with the hepatitis C virus as a result of the re-use, by medical practitioners at a series of commonly owned endoscopy centers, of single-patient vials of propofol on more than one patient. Teva's propofol product states in its label that it is for single-patient use only and that aseptic techniques must be followed at all times when using the product. Teva is also named as a defendant in almost 100 other cases brought by plaintiffs who were also patients at these endoscopy centers, but who have not contracted the virus. These plaintiffs allege a cause of action based on the fear of contracting an infectious disease. The first trial began on April 12, 2010, and on May 5, 2010, the jury returned a verdict in favor of plaintiffs for \$5.1 million in compensatory damages. On May 7, 2010, the jury awarded \$356 million in punitive damages against Teva and \$144 million in punitive damages against Baxter, the distributor of the product. Teva has filed several post-trial motions, which will be considered by the trial court at a hearing that is currently scheduled for July 29, 2010. In addition, Teva believes that it has numerous grounds for reversal of the jury verdicts and intends to pursue its appeals vigorously. Teva does not believe that an award of damages in this matter is probable. The next trial is scheduled to begin on October 18, 2010.

***Competition Matters***

In April 2006, Teva and its subsidiary Barr Laboratories 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, certain retail chain pharmacies that purchased 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. On March 29, 2010, the Court denied defendants' motions to dismiss the federal antitrust claims and some of the related state law claims. In November 2009, another class action lawsuit with essentially the same allegations was initiated by an independent pharmacy in Tennessee. In May 2010, another independent pharmacy also filed suit in Ohio with the same allegations.

Teva Pharmaceuticals USA, Inc. (Teva USA) was named as 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 cases that were brought individually by alleged direct purchasers were dismissed as to Teva USA pursuant to a settlement agreement between those purchasers and Teva USA. Teva has entered into a settlement agreement with the class plaintiffs for \$10 million, which was preliminarily approved by the court on July 7, 2010.

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 Court of Appeals for the Federal Circuit, while retaining jurisdiction over the appeals of the direct purchaser plaintiffs. In October 2008, the Federal Circuit affirmed the grant of summary judgment in the defendants' favor on all claims by

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the indirect purchaser plaintiffs. The plaintiffs' petition for panel rehearing and rehearing en banc was denied in December 2008. The plaintiffs filed a petition for certiorari to the United States Supreme Court, which was denied in June 2009. On April 29, 2010, the Second Circuit also affirmed the grant of summary judgment in the defendants' favor on all claims by the direct purchaser plaintiffs. On May 19, 2010, plaintiffs filed their petition for a rehearing *en banc*. The Second Circuit has not yet asked defendants for a response to that petition. All but three of the state cases have been dismissed. Following an earlier stay of the California case, the California court granted defendants' summary judgment motions on August 21, 2009, and directed the entry of final judgment on September 24, 2009. Plaintiffs have appealed this decision. The Kansas action is stayed, and the Florida action is in the very early stages, with no hearings or schedule set to date.

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Teva believes that the agreements at issue in the foregoing matters are valid settlements to patent lawsuits and cannot form the basis of an antitrust claim.

***Government Reimbursement Investigations and Drug Pricing Litigation***

Together with many other pharmaceutical manufacturers, Teva and/or its subsidiaries in the United States, including Teva USA, Sicom Inc. ( Sicom ), 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. These 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.

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. In December 2009, the Teva parties reached an agreement in principle to settle this matter and the Florida and Texas matters mentioned below, as well as another previously unserved action in California (which Teva understands was dismissed without prejudice), and provision for the settlement was included in the financial statements for the fourth quarter of 2009. In July 2010, the Teva parties executed a settlement agreement with the plaintiffs, pursuant to which motions to dismiss the actions will be filed shortly.

Additionally, 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 named in one or more actions in numerous states relating to reimbursements under Medicaid or other programs, including Alaska, Florida, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Mississippi, Missouri, New York, South Carolina, Texas, Utah and Wisconsin. In addition to the actions relating to their Medicaid programs, the states of Mississippi and South Carolina have brought actions in their state courts on behalf of their state health plans. In March 2010, the Teva parties reached a settlement in principle with counsel for the New York litigants and the state of Iowa, as well as the states of Hawaii, Alaska and Idaho, and in June 2010, the Teva parties also reached a settlement in principle with counsel for the state of Kentucky. A provision for all of these cases, including the settlements in principle, was included in the financial statements for the fourth quarter of 2009.

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 a hearing for final approval has been postponed for procedural reasons. A provision for these matters, including Sicom's share of the MDL settlement payment, was included in the financial statements.

In December 2009, the United States District Court for the District of Massachusetts unsealed a complaint alleging that numerous drug manufacturers, including Teva USA and other subsidiaries, violated the federal False Claims Act in connection with Medicaid reimbursement for certain vitamins, dietary supplements and DESI products that were allegedly ineligible for reimbursement. The Department of Justice declined to join in the matter.

***Environmental Matters***

Teva's subsidiaries, including those in the United States and its territories, are parties to a number of proceedings, including some 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 compliance or regulatory matters or the investigation and remediation of releases of hazardous substances and for natural resource damages. Many of these proceedings seek to require the generators of hazardous

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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 pertinent 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 a share of the costs, but the amounts have not been, and are not expected to be, material. Teva has taken an active role in identifying those costs, to the extent they

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**Notes To Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

are estimable, which do not include reductions for potential recoveries of cleanup costs from insurers, former site owners or operators. In addition, civil proceedings relating to alleged federal and state regulatory violations at some of Teva's facilities may result in the imposition of significant civil penalties, in amounts not currently determinable, and require that corrective action measures be implemented.



**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>, Protonix<sup>®</sup> and Yaz<sup>®</sup>, current economic conditions, the extent to which any manufacturing or quality control problems damage our reputation for high quality production, 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 legislation affecting the pharmaceutical industry, including the recent U.S. healthcare reforms, 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, any failures to comply with the complex Medicare and Medicaid reporting and payment obligations, the effects of reforms in healthcare regulation, supply interruptions or delays that could result from the complex manufacturing of our products and our global supply chain, interruptions in our supply chain or problems with our information technology systems that adversely affect our complex manufacturing processes, potential tax liabilities that may arise should our agreements (including intercompany arrangements) be challenged successfully by tax authorities, our ability to successfully identify, consummate and integrate acquisitions and other business combinations (including our pending acquisition of ratiopharm), the potential exposure to product liability claims to the extent not covered by insurance, our exposure to fluctuations in currency, exchange and interest rates, as well as to credit risk, 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 increased government scrutiny of our agreements with brand companies in both the U.S. and Europe, the termination or expiration of governmental programs and tax benefits, impairment of intangible assets and goodwill, any failure to retain key personnel or to attract additional executive and managerial talent, environmental risks, and other factors that are discussed in our Annual Report on Form 20-F for the year ended December 31, 2009, 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, 2009. 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, 2010 to Three Months Ended June 30, 2009***Highlights*

Among the highlights of the second quarter of 2010 were:

Net sales reached \$3,800 million, an increase of 12% (\$400 million) over the second quarter of 2009, primarily as a result of increased sales of generics in the U.S. and of Copaxone<sup>®</sup> in the U.S., Canada and Europe;

Net income attributable to Teva reached a record of \$797 million, an increase of 53%, while operating income reached a record of \$1,075 million, an increase of 53%, or \$373 million, compared to the second quarter of 2009. Earnings per fully-diluted share reached a record of \$0.88, an increase of 52% compared to \$0.58 in the second quarter of 2009;

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Sales grew in each of our principal geographic markets: North American sales increased by \$359 million (17% over the comparable quarter), European sales by \$34 million (4% over the comparable quarter) and International sales by \$7 million (an increase of 1%), with growth in local currency terms in our European and International regions of 10% and 6%, respectively;

In the U.S., we launched our generic versions of Cozaar® (losartan potassium), Hyzaar® (losartan potassium - hydrochlorothiazide) and Yaz® (drospirenone and ethinyl estradiol, which we market as Gianvi );

Global in-market sales of Copaxone® reached approximately \$773 million, an increase of 13% over the comparable quarter of 2009, driven mainly by price increases and unit growth in the U.S.;

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Global in-market sales of Azilect® reached approximately \$70 million, an increase of 29% compared to the second quarter of 2009, primarily as a result of increased sales in Europe;

Cash flow from operating activities reached \$954 million, compared to \$658 million in the second quarter of 2009 (an increase of 45%);

We raised \$2.5 billion in a public debt offering (a portion of which was used to prepay \$800 million of bank debt) and secured an additional \$1.5 billion in financing for the ratiopharm acquisition from three banks;

Net financial expenses amounted to \$148 million, almost entirely resulting from activities relating to hedging of the euro-denominated purchase price for the ratiopharm acquisition; and

Exchange rate differences between the second quarter of 2010 and the comparable quarter of 2009 had a negative impact on sales of approximately \$52 million and a negligible positive impact on operating income.

**Acquisitions**

***Ratiopharm***

On March 18, 2010, we entered into a definitive agreement to acquire ratiopharm, Germany's second-largest generic drug company and the sixth-largest generic drug company worldwide, for an enterprise value of 3.625 billion (approximately \$4.7 billion) plus interest accrued from January 1, 2010 and other costs. Ratiopharm is a global pharmaceutical company that operates in more than 20 countries. This acquisition is expected to improve our market share in Germany and further enhance our leadership position in key European markets and Canada.

The closing of the transaction is subject to various conditions, including approval by antitrust authorities in Europe and in Canada. We expect that the closing will take place during the third quarter of 2010.

We have secured financing for the acquisition of ratiopharm through a combination of \$2.5 billion in debt issued in June 2010 (a portion of which was used to prepay \$800 million of bank debt), separate bilateral credit agreements for an aggregate of \$1.5 billion with three banks that were entered into in July 2010 and cash on hand. We have drawn down \$500 million under one of the credit facilities.

**Financial Data**

The following table presents certain financial data as a percentage of net sales for the periods indicated and the percentage change for each item as compared to the second quarter of last year.

	Percentage of Net Sales		Percent Change 2010 from 2009
	Three Months Ended June 30,		
	2010	2009	
	%	%	%
Net sales	100.0	100.0	12
Gross profit	55.8	52.0	20
Research and development expenses	5.7	5.0	28
Selling and marketing expenses	16.9	19.1	(1)
General and administrative expenses	5.0	5.8	(4)
Legal settlements, acquisition and restructuring expenses and impairment	(0.2)	1.5	(117)
Purchase of research and development in process	0.1		
Operating income	28.3	20.6	53
Financial expenses net	3.9	1.8	143

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Income before income taxes	24.4	18.8	45
Provision for income taxes	3.1	2.8	20
Share in losses of associated companies net	0.2	0.6	(55)
Net income attributable to non-controlling interests	0.1	0.1	50
Net income attributable to Teva	21.0	15.3	53

### Sales

#### *General*

Net sales for the three months ended June 30, 2010 reached \$3,800 million, an increase of 12% over the comparable quarter of 2009. The growth in sales was attributable mainly to higher sales of generics in the U.S., higher Copaxone<sup>®</sup> and Azilect<sup>®</sup> sales in North America and Europe, and higher sales of Qvar<sup>®</sup> and ProAir<sup>®</sup> in the U.S., as well as higher sales of API to third parties.

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The following table presents net sales by geographic area for the three months ended June 30, 2010 and 2009.

**Sales by Geographic Area**

	Three Months Ended June 30,		% of 2010	% of 2009	Percent Change 2010 from 2009
	2010	2009			
	U.S. dollars in millions				
North America	\$ 2,467	\$ 2,108	65%	62%	17%
Europe*	811	777	21%	23%	4%
International	522	515	14%	15%	1%
Total	\$ 3,800	\$ 3,400	100%	100%	12%

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

**Sales by Geographic Area****North America**

Sales in North America for the three months ended June 30, 2010 reached \$2,467 million, an increase of 17%, or \$359 million, over the comparable quarter of 2009. The growth in sales was mainly attributable to higher sales of generic pharmaceuticals in both the U.S. and Canada, continued growth in sales of Copaxone<sup>®</sup>, higher sales of Qvar<sup>®</sup> and ProAir<sup>®</sup> and higher sales of API to third parties. These increases were offset in part by a decrease in sales of Plan B<sup>®</sup> and the absence of sales of animal health products and certain injectable products produced in our Irvine, California facility. On April 1, 2010, we settled litigation with Sanofi-Aventis pertaining to our generic version of Eloxatin<sup>®</sup> (oxaliplatin), which was launched in the third quarter of 2009. The settlement enabled us to sell the product through the end of the second quarter of 2010 with certain volume limitations, and permits us to re-enter the market in August 2012 (or earlier under certain circumstances).

The growth in sales of generics in the U.S. was the result of, among other things, the following:

The launch of our generic versions of Cozaar<sup>®</sup> (losartan potassium), Hyzaar<sup>®</sup> (losartan potassium - hydrochlorothiazide) and Yaz<sup>®</sup> (drospirenone and ethinyl estradiol, which we market as Gianvi<sup>®</sup>). As the first company to file abbreviated new drug applications for these products with paragraph IV certifications, we were awarded 180-day exclusivity periods for each product; and

Sales of products not sold in the comparable quarter in the prior year - primarily the generic versions of Pulmicort<sup>®</sup> (budesonide inhalation), which was re-launched in December 2009 pursuant to a settlement agreement with AstraZeneca, Mirapex<sup>®</sup> (pramipexole dihydrochloride), which was launched in the first quarter of 2010 pursuant to an agreement with Boehringer Ingelheim, and Eloxatin<sup>®</sup> (oxaliplatin injection), which was launched in the third quarter of 2009 and was sold through June 30, 2010 pursuant to the settlement with Sanofi-Aventis described above.

The increase in sales of generic products in the U.S. was offset in part by decreased sales of certain products due to loss of exclusivity and/or increased competition, primarily our generic versions of Adderall XR<sup>®</sup> (mixed amphetamine salts ER), which was launched in the second quarter of 2009 pursuant to an agreement with Shire Plc, Lotrel<sup>®</sup> (amlodipine benazapril), which was launched in June 2007, Imitrex<sup>®</sup> (sumatriptan succinate injection and tablet), which was launched in the first quarter of 2009, and Yasmin<sup>®</sup> (drospirenone, which we market as Ocella<sup>®</sup>), which was launched by Barr in the second quarter of 2008 pursuant to an agreement with Bayer Healthcare Pharmaceuticals, due to a decrease in the overall market for this product.

Other factors contributing to the increase in sales in North America include:

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Continued growth in sales of Copaxone® in the U.S., which reached \$531 million this quarter, an increase of \$92 million, or 21%, over the second quarter of 2009, due to price increases and unit growth; and

Sales of specialty respiratory products in the U.S., which reached \$143 million this quarter, an increase of 35% over the comparable quarter in 2009, primarily due to growth in sales of Qvar® and ProAir™.

Among the most significant generic products we sold in U.S. in the second quarter of 2010 were generic versions of Yaz® (drospirenone and ethinyl estradiol, which we market as Gianvi ), Pulmicort® (budesonide inhalation), Cozaar® (losartan potassium), Adderall XR® (mixed amphetamine salts ER), Hyzaar® (losartan potassium - hydrochlorothiazide), Mirapex® (pramipexole dihydrochloride) and Eloxatin® (oxaliplatin).

In the second quarter of 2010, we maintained our U.S.-leading market share, with total prescriptions increasing by over nine million to reach 634 million in the twelve months ended June 30, 2010, or 16.4% of total U.S. prescriptions for such period. In the same twelve-month period, our generic prescriptions increased by over six million to reach 604 million, or 21.5% of total U.S. generic prescriptions.

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During the second quarter of 2010, we launched nine new products in the U.S.: generic versions of Cozaar® (losartan potassium), Hyzaar® (losartan potassium - hydrochlorothiazide), Flomax® (tamsulosin), Activella® (estradiol/norethindrone acetate, which we sell under the tradename Mimvey ), Valtrex® (valacyclovir HCl), Subutex® (buprenorphine HCl), Yaz® (drospirenone and ethinyl estradiol, which we market as Gianvi ), Differin® (adapalene gel) and Arimedx® (anastrozole).

In addition, generic versions of the following eight branded products were sold during the second quarter in the U.S. that were not sold in the comparable quarter of 2009 (listed in order of launch date): Casodex® (bicalutamide), Eloxatin® (oxaliplatin injection), Depakote ER® (divalproex sodium ER), Allegra-D® 12 Hour (fexofenadine HCl & pseudoephedrine HCl ER), Prevacid® Delayed Release (lansoprazole DR), Pulmicort® (budesonide inhalation), Mirapex® (pramipexole dihydrochloride), and Trusopt® (dorzolamide hydrochloride ophthalmic solution).

Below are the abbreviated new drug application ( ANDA ) approvals that we received from the FDA during the second quarter of 2010:

Product	Form	Approval Date	Brand Name	Annual Brand Sales \$ millions (IMS)*
Losartan potassium and hydrochlorothiazide	Tablets	4/6/10	Hyzaar®	695
Losartan potassium	Tablets	4/6/10	Cozaar®	965
Donepezil HCl	OD tablets	4/9/10**	Aricept ODT®	9
Tamsulosin	Capsules	4/27/10	Flomax®	2,291
Buprenorphine HCl	Sublingual tablets	5/7/10	Subutex®	83
Estradiol/norethindrone acetate	Tablets	5/11/10	Activella®	44
Rosuvastatin	Tablets	5/12/10**	Crestor®	3,255
Cinacalcet HCl	Tablets	5/13/10**	Sensipar®	470
Valacyclovir HCl	Tablets	5/24/10	Valtrex®	2,151
Adapalene	Gel	6/2/10	Differin®	87
Venlafaxine	ER capsules	6/28/10	Effexor XR®	2,753
Anastrozole	Tablets	6/28/10	Arimidex®	917

\* For the twelve months ended March 31, 2010.

\*\* Tentative approval.

We expect that our sales in North America will continue to be fueled by our strong U.S. generic pipeline, which, as of July 14, 2010, included 206 product registrations awaiting final FDA approval (including some products through strategic partnerships), 44 of which have received tentative approvals. Collectively, the branded products covered by these applications had annual U.S. sales in 2009 of over \$107 billion. Of these applications, 134 were Paragraph IV applications challenging patents of the branded products. We believe we are the first to file with respect to 82 of these applications, covering branded products that had annual sales in the U.S. of more than \$48 billion in 2009. IMS reported branded product sales are one of the many indicators of the potential future value of a launch, but equally important are the mix and timing of competition, as well as cost-effectiveness. The potential advantages of being the first filer with respect to some of these products may be subject to forfeiture. We take into consideration a variety of legal and commercial factors in determining when to launch an approved product, which may affect the specific launch date.

In Canada, sales increased by 30% in U.S. dollar terms, and by 16% in local currency terms, over the comparable quarter of 2009. In the second quarter of 2010, we launched the generic equivalent of Lipitor® (atorvastatin) in Canada.

On July 31, 2009, we entered into a consent decree with the FDA with respect to the operations of Teva Animal Health. As a result of the consent decree, the FDA mandated that all Teva Animal Health products be recalled and all finished goods inventory be destroyed. As of June 30, 2010, we had approximately \$70 million of intangible assets and approximately \$63 million of fixed assets and API inventory relating to animal health products. Due to uncertainties regarding the ability of Teva Animal Health to produce and sell our products in the future, the above assets are monitored periodically for impairment.

In December 2009, the FDA issued a warning letter relating to our Irvine, California injectable products manufacturing facility. We have voluntarily ceased production at the facility and are executing a remediation plan required by the FDA. We expect manufacturing activity to resume later in the year. During the second quarter, we incurred approximately \$50 million in additional expenses due to uncapitalized production costs, write-offs of inventory and assets relating to propofol, production of which we have decided to cease permanently. If we are unable to resume production and sales of injectable products, there may be further expenses and impairment of tangible and intangible assets.



*Europe*

Total sales in Europe amounted to \$811 million, an increase of 4% over the second quarter of 2009. The growth in sales was attributed to higher sales of generic pharmaceuticals, higher sales of Copaxone® and Azilect®, and higher sales of API. In local currency terms, sales grew by 10%.

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Highlights for the second quarter of 2010 in our European region include the following:

We increased or maintained our market share in the main European markets, including France, Spain, Germany, the U.K., and Hungary;

In local currency terms, our retail sales experienced strong growth, generally above market growth rates, in certain European countries, including France, Italy and Spain;

Healthcare reforms were enacted in Italy and Spain, which reduced gross prices in both countries and, in Spain, restricted the level of discounts; and

We launched TevaGrastim<sup>®</sup>, our first biosimilar product, in Hungary, the Netherlands and Italy.

Among the most significant generic products we sold in Europe in the second quarter of 2010 were generic versions of the following branded products: Vancenase<sup>®</sup> (beclomethasone dipropionate), Losec<sup>®</sup>/Prilosec<sup>®</sup> (omeprazole), Ventolin<sup>®</sup> (salbutamol sulfate), Prevacid<sup>®</sup> (lansoprazole), Zocor<sup>®</sup> (simvastatin), Neurontin<sup>®</sup> (gabapentin), Taxol<sup>®</sup> (paclitaxel), Protonix<sup>®</sup> (pantoprazole sodium), Etalpa<sup>®</sup> (Alfacalcidol), Eloxatin<sup>®</sup> (oxaliplatin), Sublinmaze<sup>®</sup> (fentanyl), Tritace<sup>®</sup> (ramipril), Zithromax<sup>®</sup> (azithromycin), Pravachol<sup>®</sup> (pravastatin sodium), Plavix<sup>®</sup> (clopidogrel hydrobromide), Neupogen<sup>®</sup> (filgrastim) and Temesta<sup>®</sup> (lorazepam).

During the second quarter of 2010, we received 301 generic drug approvals in Europe relating to 75 compounds in 135 formulations, including one European Medicines Agency (EMA) approval valid in all EU member states. In addition, as of June 30, 2010, we had 2,574 marketing authorization applications pending approval in 30 European countries relating to 241 compounds in 470 formulations, including seven applications pending with the EMA.

### ***International***

Our International region includes all countries other than the U.S., Canada, EU member states, Switzerland and Norway. Our sales in these countries reached an aggregate of \$522 million in the second quarter of 2010, an increase of 1% over the second quarter of 2009. The growth in sales was primarily attributable to higher pharmaceutical sales in Israel, as well as higher API sales to third parties, and was partially offset by a decrease in Copaxone<sup>®</sup> sales in Russia, where sales are not evenly spread throughout the year. In local currency terms, sales grew by 6%.

Approximately 37% of our International sales were generated in Latin America, 25% in Israel, 23% in Russia and other Eastern European markets, and 15% in all other markets.

Our sales in the International region in the second quarter of 2010 were primarily influenced by the following factors:

A 10% increase in sales in Israel as compared to the second quarter in 2009, primarily driven by increased sales of third-party products, in addition to medical products and pharmaceuticals sales;

Despite flat sales in dollar terms, a 16% increase in local currency terms in our Latin American region, primarily driven by strong performance in Mexico, Argentina and Brazil; and

A 7% decline in sales from the comparable quarter in 2009 in our Eastern Europe markets, primarily as a result of the timing of tenders in Russia (net of these effects, our pharmaceutical sales in Russia grew by 17% in local currency terms).

Among the most significant launches in our International markets during this quarter were generic versions of Arimidex<sup>®</sup> (anastrozole), Eloxatin<sup>®</sup> (oxaliplatin), Seroquel<sup>®</sup> (quetiapine fumarate), Femara<sup>®</sup> (letrozole), Effexor<sup>®</sup> (venlafaxine), Taxol<sup>®</sup> (paclitaxel) and Evista<sup>®</sup>

(raloxifene).

Among the most significant products we sold in our International markets were Copaxone® and the generic versions of Sumamed® (azithromycin), Beclovent® (beclomethasone dipropionate), Tylenol® (paracetamol) and Mucinex® (guaifenesin).

**Sales by Product Line**

The following table presents the breakdown of net sales by product lines for the three months ended June 30, 2010 and 2009.

**Sales by Product Line**

	Three Months Ended		% of 2010	% of 2009	Percent Change 2010 from 2009
	June 30, 2010	2009			
	U.S. dollars in millions				
Generics and other*	\$ 2,551	\$ 2,335	67%	69%	9%
Innovative products	758	645	20%	19%	18%
Specialty respiratory products	221	189	6%	6%	17%
Active pharmaceutical ingredients	163	135	4%	4%	21%
Women's health	82	80	2%	2%	3%
Biosimilars	25	16	1%	**	56%
<b>Total</b>	<b>\$ 3,800</b>	<b>\$ 3,400</b>	<b>100%</b>	<b>100%</b>	<b>12%</b>

\* Other includes nonpromoted branded products, medical devices, over-the-counter products, distributed products and animal health products.

\*\* Less than 0.5%.

**Table of Contents****Generics and Other**

Sales of generics and other products grew by \$216 million, or 9%, in the second quarter of 2010 over the comparable period in 2009. Our largest market for generics is the U.S., accounting for approximately 59% of the total generics and other sales in the second quarter of 2010, or \$1,502 million, and growing by approximately \$188 million, or 14%, over the comparable quarter in 2009. U.S. sales benefited from approximately \$532 million of products sold in the second quarter of 2010 that were not sold in the comparable quarter of 2009, as discussed above under Sales by Geographic Area North America. Sales of new products were partially offset by declines in sales of previously launched products, primarily those where we had exclusive or semi-exclusive rights in the second quarter of 2009, such as Adderall XR<sup>®</sup> (mixed amphetamine salts ER), Lotrel<sup>®</sup> (amlodipine benazapril), Imitrex<sup>®</sup> (sumatriptan succinate injection and tablet) and Yasmin<sup>®</sup> (drospirenone, which we market as Ocella<sup>®</sup>), as well as the absence of sales of animal health and certain injectable products manufactured in our Irvine, California facility.

Generics and other products from non-U.S. markets grew by \$28 million, or 3%, in the second quarter of 2010 over the comparable period in 2009. This growth was partially offset by the impact of foreign currency exchange differences of approximately \$42 million. In local currency terms, sales grew by 7%.

**Innovative Products**

Teva's sales of Copaxone<sup>®</sup> and Azilect<sup>®</sup> amounted to \$758 million this quarter, an increase of 18% from the second quarter of 2009. Total global in-market sales of Copaxone<sup>®</sup> and Azilect<sup>®</sup> in the quarter were \$844 million, an increase of approximately 15% over the comparable quarter of 2009.

**Copaxone<sup>®</sup>.** In the second quarter of 2010, Copaxone<sup>®</sup> (glatiramer acetate) continued to be the leading multiple sclerosis therapy in the U.S. and globally. During the second quarter of 2010, global in-market sales of Copaxone<sup>®</sup> reached approximately \$773 million, an increase of 13% over the comparable quarter of 2009. U.S. sales increased 21% to \$531 million as a result of both price increases in 2010 and unit growth. In-market sales of Copaxone<sup>®</sup> outside the U.S. totalled \$243 million, flat in dollar terms compared to the second quarter of 2009, largely due to the timing of tenders in Russia. In local currency terms, in-market sales outside the U.S. grew by 2%. Unit growth occurred in several European and Latin American markets, including Germany, Spain, Italy, the U.K., Brazil, and Mexico.

To date, Copaxone<sup>®</sup> has been approved for marketing in 52 countries worldwide, including the U.S., Russia, Canada, Israel, and all EU countries. According to June 2010 IMS data for the U.S. market, Copaxone<sup>®</sup> reached record market share of 39.7% in terms of total prescriptions and 38.4% in terms of new prescriptions.

**Azilect<sup>®</sup>.** Our once-daily treatment for Parkinson's disease, Azilect<sup>®</sup> (rasagiline tablets), continued to establish itself in the U.S. and Europe. Global in-market sales in the quarter reached approximately \$70 million compared to approximately \$55 million in the second quarter of 2009, an increase of 29%, primarily attributable to volume growth in Europe (mainly France, Spain, Italy and Germany). In local currency terms, in-market sales of Azilect<sup>®</sup> grew 33%. Azilect<sup>®</sup> is now approved for marketing in 46 countries worldwide. According to June 2010 IMS data for the U.S. market, Azilect<sup>®</sup> reached a record market share of 4.5% for both new and total prescriptions.

**Specialty Respiratory Products**

Our global respiratory portfolio recorded sales of \$221 million in the second quarter of 2010, an increase of 17% compared to \$189 million in the second quarter of 2009. These figures do not include revenues attributable to respiratory products that are sold in the U.S. as generic drugs (e.g., budesonide). Sales in the U.S. grew to \$143 million, a 35% increase over the comparable quarter in the prior year, due to growth in both Qvar<sup>®</sup> and ProAir<sup>®</sup> sales. ProAir<sup>®</sup> continued to maintain its market leadership in the short-acting beta agonist market in the U.S., with an average market share of 50% during the quarter. Qvar<sup>®</sup>'s average market share in the inhaled corticosteroid market was 19% during this quarter, continuing its second-place position in terms of new and total prescriptions.

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

API sales to third parties amounted to \$163 million this quarter, an increase of 21% from the second quarter of 2009. The increase from the second quarter of 2009 reflected growth in sales to customers located in each of our principal geographical markets: North America, Europe and International.

### ***Women's Health Products***

Our women's health business in the U.S. recorded sales of \$82 million, an increase of 3% from \$80 million in the comparable quarter in 2009. These figures do not include revenues attributable to women's health products that are sold in the U.S. as generic drugs (e.g., drospirenone and ethinyl estradiol, which we market as Gianvi®). The increase was primarily due to increased sales of Seasonique® and ParaGard®. Plan B One-Step®, which was introduced in the third quarter of 2009, was negatively affected by the launch of a generic version of our two-pill version of Plan B®, which we ceased marketing in mid-2009.

### ***Biosimilars***

During the second quarter of 2010, sales of biosimilar pharmaceuticals reached \$25 million, as compared with \$16 million in the comparable quarter of 2009. Approximately 70% of our sales of biosimilars was generated in our European and International markets. We currently sell human growth hormone in the U.S. and granulocyte colony stimulating factor (GCSF) in certain countries in Europe. In addition, in the second quarter of 2010 we launched TevaGrastim® in Hungary, the Netherlands and Italy.

### ***Other Income Statement Line Items***

#### ***Gross Profit***

In the second quarter of 2010, gross profit amounted to \$2,121 million, an increase of 20%, or \$352 million, compared to the second quarter of 2009. The increase in gross profit reflected both higher sales and the absence of inventory step-up charges in the current quarter, as well as a decrease in amortization of purchased intangible assets this quarter.

The increase in gross margins from 52.0% to 55.8% primarily reflects the effect of the significant inventory step-up charges and amortization of purchased intangible assets recorded in the second quarter of 2009, and was also favorably affected by the product mix in the U.S., which included a number of high-margin products, including generic versions of Cozaar® (losartan potassium), Hyzaar® (losartan potassium - hydrochlorothiazide), Pulmicort® (budesonide), Yaz® (drospirenone and ethinyl estradiol, which we market as Gianvi®) and other products.

Exchange rate differences between the second quarter of 2010 and the comparable quarter of 2009, which had a negative impact on sales and a negligible negative impact on gross profit, resulted in an increase in our gross margin.

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

Net R&D spending for the quarter totaled \$217 million, an increase of 28% over the comparable quarter in 2009. As a percentage of sales, R&D spending was 5.7% in the second quarter of 2010, compared to 5.0% in the second quarter of 2009. This increase was driven mainly by our branded and innovative activities. In addition, net R&D expenses in the second quarter of 2009 were lower as a result of the reimbursement of approximately \$38 million made by TL Biopharmaceuticals AG, our joint venture with Lonza Group Ltd., for certain R&D expenses that we incurred prior to the formation of the joint venture. We expect our net R&D expenses to be between 6.0% and 6.5% of net sales for the full year 2010.

Approximately 55% of our R&D expenditures were for generic R&D, and the remainder was for our innovative products, respiratory products, women's health products and biosimilar products.

Part of our R&D activities are conducted through our joint ventures, primarily the Teva-Lonza and the Teva-Kowa joint ventures. Our share in R&D expenses of these joint ventures is reflected in the income statement under share in losses of associated companies net.

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

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S&M expenses in the second quarter of 2010 amounted to \$644 million, a decrease of 1% from the comparable quarter of 2009. As a percentage of sales, S&M expenses decreased to 16.9% for the second quarter of 2010 from 19.1% for the second quarter of 2009. The decrease was primarily due to the termination of the obligation to pay Sanofi-Aventis 25% of the in-market sales of Copaxone® in the U.S. and Canada described below, as well as to changes in foreign exchange rates that decreased our expenses in U.S. dollar terms. The decrease in dollar terms was almost entirely offset by higher royalty payments, relating mainly to generic versions of Pulmicort® (budesonide inhalation), which was re-launched in the fourth quarter of 2009, Yaz® (drospirenone and ethinyl estradiol, which we market as Gianvi ), which we launched this quarter, and Mirapex® (pramipexole dihydrochloride tablets), which was launched in the first quarter of 2010, as well as expenses relating to our increased sales of other products.

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In April 2008, we assumed the distribution of Copaxone® in the U.S. and Canada from our former partner, Sanofi-Aventis. Under the terms of our agreements with Sanofi-Aventis, we were required to pay Sanofi-Aventis 25% of the in-market sales of Copaxone® in the U.S. and Canada through March 31, 2010, which we recorded as a selling and marketing expense. Accordingly, the first quarter of 2010 was the last quarter in which we made such payments to Sanofi-Aventis.

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

G&A expenses were \$189 million in the second quarter of 2010, representing 5.0% of sales, as compared to 5.8% of sales and \$197 million in the second quarter of 2009. Cost synergies from the Barr acquisition contributed to the decline in G&A expenses.

### ***Legal Settlements, Acquisition and Restructuring Expenses and Impairment***

Legal settlements, acquisition and restructuring expenses and impairment resulted in income of \$9 million in the second quarter of 2010, as compared to \$52 million in expenses in the second quarter of 2009. Income of \$23 million from legal settlements resulted in a decrease in these expenses.

### ***Purchase of Research and Development in Process***

During the second quarter of 2010, we purchased \$5 million of research and development in process. No research and development in process was purchased in the comparable period in 2009.

### ***Operating Income***

Operating income reached \$1,075 million in the second quarter of 2010, compared to \$702 million in the second quarter of 2009. As a percentage of sales, operating margin was 28.3% as compared to 20.6% in the second quarter of 2009. The higher operating income was mainly due to higher sales, combined with a mix of more profitable products, the termination of the obligation to pay Sanofi-Aventis 25% of the in-market sales of Copaxone® in the U.S. and Canada and income from legal settlements (as compared to the legal expenses recorded in the second quarter of 2009). In addition, operating income in the comparable quarter of 2009 was influenced significantly by the inventory step up charges recorded in that quarter relating to the Barr acquisition. The increase in operating income was partially offset by higher royalty payments within S&M expenses as well as higher R&D expenses.

### ***Financial Expenses***

Net financial expenses for the second quarter of 2010 amounted to \$148 million, compared with net financial expenses of \$61 million during the comparable quarter in 2009. The increase is primarily attributable to hedging expenses of \$147 million resulting from the hedging of the euro-denominated purchase price for ratiopharm. Since these transactions do not qualify for hedge accounting, the changes in the fair value of these transactions are recognized under finance expenses net. We also recorded a gain of \$24 million, mainly resulting from a sale of marketable securities in this quarter.

During July 2010, in light of the increase in the value of the euro against the U.S. dollar, we were able to settle our ratiopharm hedging transactions at higher rates than would have been possible at June 30, 2010, and therefore a portion of the financial expenses mentioned above will be reversed in the third quarter of 2010.

Other financial expenses in the second quarter of 2010 amounted to \$25 million, a decrease of 59% compared to second quarter of 2009. The decrease primarily reflected lower interest expenses incurred in the second quarter of 2010 as a result of the lower level of debt relating to the Barr acquisition.

### ***Tax Rate***

The provision for taxes for the second quarter of 2010 amounted to \$118 million on pre-tax income of \$927 million, as compared with \$98 million on pre-tax income of \$641 million in the comparable quarter of 2009. The tax rate for the current quarter reflects an estimated annual tax rate of 12% for 2010 as compared with an annual tax rate of 7.5% in 2009. The lower effective tax rate in 2009 was primarily the result of legal settlements, inventory step-up related to the Barr acquisition, impairment of assets and restructuring expenses, which reduced pre-tax income in jurisdictions whose tax rates are above our average tax rate.

*Net Income and Share Count*

Net income attributable to Teva for the second quarter of 2010 amounted to \$797 million, compared to net income attributable to Teva of \$521 million in the second quarter of 2009. This increase is due to the factors previously discussed, including the increase in sales, the termination of the obligation to Sanofi-Aventis relating to sales of Copaxone<sup>®</sup> in the U.S. and Canada, and the charge in the second quarter of 2009 of \$76 million related to an inventory step up related to the Barr acquisition and income from legal settlements, as opposed to legal expenses recorded in the second quarter of 2009. These factors were partially offset by higher financial expenses, higher royalty payments within S&M expenses, as well as higher R&D expenses in this quarter. Net income attributable to Teva as a percentage of sales was 21.0% in the second quarter of 2010, compared to 15.3% in the comparable quarter of 2009. Diluted earnings per share were \$0.88 for the second quarter of 2010, compared to \$0.58 for the second quarter of 2009.



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Net income attributable to Teva, used for computing diluted earnings per share, is calculated after adding back interest expense on convertible senior debentures and issuance costs (net of tax benefits) of \$11 million and \$1 million for the three months ended June 30, 2010 and 2009, respectively.

For the second quarter of 2010, the share count was 921 million, as compared to 895 million for the second quarter of 2009. In computing diluted earnings per share for the three months ended June 30, 2009, 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.

During the second quarter of 2010, an aggregate of \$70 million in principal amount of various tranches of senior convertible debentures was converted, including \$2 million of our 0.5% convertible senior debentures due 2024, \$23 million of our 0.25% convertible senior debentures due 2024) and \$45 million of our 0.25% senior convertible debentures due 2026. As a result of these conversions, approximately 1 million Teva shares were issued. The 0.5% senior convertible debentures due 2026 include a net share settlement feature according to which the principal of the debentures is paid in cash and upon conversion only the value in excess of principal is paid in shares.

**Comparison of Six Months Ended June 30, 2010 to Six Months Ended June 30, 2009****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, 2010 and June 30, 2009. Additional factors affecting the six months comparison are described below.

The following table presents certain financial data as a percentage of net sales for the periods indicated and the percentage change for each item as compared to the six months ended June 30, 2010 and 2009.

	Percentage of Net Sales Six Months		Percent Change 2010 from 2009 %
	Ended June 30, 2010 %	2009 %	
Net sales	100.0	100.0	14
Gross profit	55.5	51.0	24
Research and development expenses	5.7	5.9	9
Selling and marketing expenses	18.8	19.1	11
General and administrative expenses	5.0	6.0	(6)
Legal settlements, acquisition and restructuring expenses and impairment	0.3	1.0	(62)
Purchase of research and development in process	0.1		
Operating income	25.6	19.0	54
Financial expenses net	2.3	1.9	41
Income before income taxes	23.3	17.1	55
Provision for income taxes	2.7	1.9	65
Share in losses of associated companies net	0.2	0.3	(11)
Net income attributable to non-controlling interests	0.1	*	100
Net income attributable to Teva	20.3	14.9	55

\* Less than 0.05%.

**Sales****General**

Net sales for the six months ended June 30, 2010 reached \$7,453 million, an increase of 14% over the comparable period of 2009.



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The following table presents the breakdown of net sales by geographic area for the six months ended June 30, 2010 and 2009.

**Sales by Geographic Area**

	Six Months Ended June 30,				Percent Change 2010 from 2009
	2010	2009	% of 2010	% of 2009	
	U.S. dollars in millions				
North America	\$ 4,776	\$ 4,033	64%	62%	18%
Europe*	1,623	1,516	22%	23%	7%
International	1,054	998	14%	15%	6%
Total	\$ 7,453	\$ 6,547	100%	100%	14%

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

**Sales by Geographic Area****North America**

Sales in North America for the six months ended June 30, 2010 reached \$4,776 million, an increase of 18% over the comparable period of 2009.

Among the most significant generic products we sold in U.S. in the first half of 2010 were generic versions of Pulmicort® (budesonide inhalation), Adderall XR® (mixed amphetamine salts ER), Mirapex® (pramipexole dihydrochloride), Protonix® (pantoprazole), Yaz® (drospirenone and ethinyl estradiol, which we market as Gianvi ), Eloxatin® (oxaliplatin injection), Accutane® (isotretinoin, which we market as Claravis ) and Cozaar® (losartan potassium).

In March 2010, President Obama signed healthcare reform legislation into law. With the passage of the legislation, initial improvements in both access to coverage and market reforms will begin this year. While more significant changes to the U.S. healthcare system and additional improvements in coverage and access will not begin until 2014, most companies have begun to incur costs related to the legislation in 2010. A few of the material provisions that will reduce revenue are an increase in the Medicaid rebate rates for both generic and brand products, and the expansion of coverage under the 340B drug pricing program, both of which became effective January 1, 2010; an extension of rebates to cover Medicaid managed care participants, which became effective in March 2010; an extension of the Medicare coverage gap (the donut hole ) and certain revisions in the definition of average manufacturer price, both of which will become effective on January 1, 2011; and the imposition of a brand manufacturer tax for the next ten years, which will vary between \$2.5 billion and \$4.2 billion per year, with the first payment due in 2011 based on 2010 data. We have incorporated estimates of the effects of healthcare reform in our results of 2010, based on certain assumptions. However, many of the specific determinations necessary to implement the new legislation have yet to be decided. As a result, our actual results may vary from current estimates.

**Europe**

Sales in Europe were \$1,623 million in the first six months of 2010, an increase of 7% over the first six months of 2009.

**International**

Our International region, which includes countries other than the U.S., Canada, EU member states, Norway and Switzerland, had sales of \$1,054 million in the first six months of 2010, an increase of 6% over the comparable period of 2009.

**Sales by Product Line**

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The following table presents a breakdown of net sales by product line for the six months ended June 30, 2010 and 2009.

### Sales by Product Line

	Six Months Ended June 30,				Percent Change 2010 from 2009
	2010		2009		
	U.S. dollars in millions	2010	2009	% of 2010	
Generics and other*	\$ 4,999	\$ 4,432	67%	68%	13%
Innovative products	1,527	1,239	20%	19%	23%
Specialty respiratory products	414	373	6%	6%	11%
Active pharmaceutical ingredients	301	293	4%	4%	3%
Women's health	162	177	2%	3%	(8)%
Biosimilars	50	33	1%	**	52%
<b>Total</b>	<b>\$ 7,453</b>	<b>\$ 6,547</b>	<b>100%</b>	<b>100%</b>	<b>14%</b>

\* Other includes non-promoted branded products, medical devices, over-the-counter products, distributed products, and animal health products.

\*\* Less than 0.5%.

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### ***Generics and Other***

Sales of generics and other products grew by \$567 million, or 13%, in the first half of 2010 over the comparable period in 2009. Our largest market for generics is the U.S., comprising approximately 58% of the total generics and other sales in the first six months of 2010 and growing by approximately \$467 million, or 19%, over the comparable period in 2009.

Generics and other products from non-U.S. markets grew by \$100 million, or 5%, in the first six months of 2010 over the comparable period in 2009.

### ***Innovative Products***

Teva's sales of Copaxone® and Azilect® amounted to \$1,527 million during the first half of 2010, an increase of 23% over the first half of 2009. Total global in-market sales of Copaxone® and Azilect® in the first half of 2010 were \$1,717 million, an increase of approximately 22% over the comparable quarter of 2009.

*Copaxone®*. During the first half of 2010, global in-market sales of Copaxone® reached approximately \$1,570 million, an increase of 20% over the comparable period of 2009.

*Azilect®*. Global in-market sales in the first half reached approximately \$148 million, an increase of 35% over the comparable period of 2009.

### ***Specialty Respiratory Products***

Our global respiratory portfolio recorded sales of \$414 million in the first half of 2010, as compared to sales of \$373 million during the comparable period of 2009, an increase of 11%.

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

API sales to third parties reached \$301 million in the first half of 2010, an increase of 3% from the comparable period of 2009.

### ***Women's Health***

Our proprietary women's health business in the U.S. recorded sales of \$162 million, a decrease of 8% from \$177 million sold in the comparable first six months of 2009.

### ***Biosimilars***

During the first half of 2010, sales of biosimilar pharmaceuticals reached \$50 million, as compared with \$33 million in the comparable period in 2009.

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### **Other Income Statement Line Items**

#### ***Gross Profit***

Gross profit margin was 55.5% in the first six months of 2010, compared to 51.0% for the comparable period of 2009.

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

Net R&D spending for the first six months grew by 9% over the comparable period of 2009 and reached \$424 million.

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

S&M expenses, which represented 18.7% of net sales, amounted to \$1,396 million in the first six months of 2010, as compared to 19.1% of net sales and \$1,253 million in the comparable period of 2009.

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

G&A expenses were \$371 million in the first six months of 2010, or 5% of net sales, compared to 6% of net sales for the same period in 2009.

#### ***Legal Settlements, Acquisition and Restructuring Expenses and Impairment***

Legal settlements, acquisition and restructuring expenses and impairment were \$25 million in the first six months of 2010, as compared to \$66 million in the first six months of 2009. Income of \$23 million from a legal settlement resulted in a decrease in these expenses in 2010.

#### ***Purchase of Research and Development in Process***

During the first six months of 2010, we purchased \$9 million of research and development in process. No research and development in process was purchased in the comparable period in 2009.

#### ***Operating Income***

Operating income reached \$1,909 million in the first six months of 2010, compared to \$1,240 million in the first six months of 2009. As a percentage of sales, operating margins were 25.6% as compared to 19.0% in the comparable period of 2009.

#### ***Financial Expenses***

Net financial expenses for the first six months of 2010 were \$175 million, compared with \$124 million during the first six months of 2009.

#### ***Tax Rate***

The provision for taxes for the first six months of 2010 amounted to \$203 million on pre-tax income of \$1,734 million, as compared with \$123 million on pre-tax income of \$1,116 million in the comparable period of 2009. The tax rate for the first six months of 2010 reflects an estimated annual tax rate for 2010 of 12% as compared with an annual tax rate of 7.5% in 2009. The lower effective tax rate in 2009 was primarily the result of legal settlements, inventory step-up related to the Barr acquisition, impairment of assets and restructuring expenses, which reduced pre-tax income in jurisdictions whose tax rates are above our average tax rate.

#### ***Net Income and Share Count***

Net income attributable to Teva for the first six months ended June 30, 2010 totaled \$1,510 million, compared to \$972 million in the comparable period of 2009. Diluted earnings per share reached \$1.66 for the first six months of 2010, compared to \$1.09 for the comparable period of 2009. Net income attributable to Teva as a percentage of sales was 20.3% in the first six months of 2010.

For the first six months of 2010, the share count was 921 million, as compared to 895 million for the first six months of 2009. In computing diluted earnings per share for the six months ended June 30, 2009, 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.

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**Supplemental Non-GAAP Income Data**

The tables below present supplemental data, in U.S. dollar terms, as a percentage of sales and the change by item as a percentage of the amount for the comparable period, which we believe facilitates an understanding of the factors affecting our business. In these tables, we exclude the below:

In the three months ended June 30, 2010:

\$130 million in charges relating to amortization of purchased intangible assets;

\$147 million of financial hedging expenses in connection with the ratiopharm acquisition;

\$24 million gain from the sale of marketable securities that were previously impaired;

\$23 million in income in connection with legal settlements;

\$11 million in restructuring expenses;

\$5 million related to the purchase of research and development in process; and

\$3 million in charges relating to impairment of long-lived assets and intangible assets; net of a corresponding tax effect of \$65 million.

In the six months ended June 30, 2010:

\$260 million in charges relating to amortization of purchased intangible assets;

\$147 million of financial hedging expenses in connection with the ratiopharm acquisition;

\$24 million gain from the sale of marketable securities that were previously impaired;

\$6 million in income in connection with legal settlements;

\$15 million in acquisition expenses primarily relating to the ratiopharm acquisition;

\$13 million in restructuring expenses;



\$9 million related to the purchase of research and development in process; and

\$3 million in charges relating to impairment of long-lived assets and intangible assets;  
net of a corresponding tax effect of \$116 million.

In the three months ended June 30, 2009:

\$151 million in charges relating to amortization of purchased intangible assets;

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

\$42 million in legal settlements expenses; and

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

In the six months ended June 30, 2009:

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

\$205 million in charges relating to amortization of purchased intangible assets;

\$42 million in legal settlements expenses;

\$22 million in restructuring expenses in connection with the Barr acquisition; and

\$2 million in impairment of intangible assets;  
net of a corresponding tax effect of \$163 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 such plans are prepared on a basis comparable to the presentation below, in that none of the plans take 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 is performance targets tied to the work plan, and thus tied to the same non-GAAP presentation as is set forth below.

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

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of their nature or size, could, were they not singled out, potentially cause investors to extrapolate future performance from an improper base. While not all-inclusive, examples of these items include: legal settlements, including principally settlements in connection with intellectual property lawsuits, purchase accounting adjustments related to acquisitions, including adjustments for write-offs of purchase of research and development in process, amortization of intangible assets and inventory step-ups following acquisitions; restructuring expenses 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.

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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.

**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 Net Sales		Percent Change 2010 from 2009
	June 30,		Three Months Ended		
	2010	2009	2010	2009	
	U.S. dollars and shares in millions				
	(except per share amounts)		%	%	%
Net sales	3,800	3,400	100.0	100.0	12
Gross profit	2,243	1,988	59.0	58.5	13
Operating income	1,201	981	31.6	28.9	22
Income before income taxes	1,176	920	30.9	27.1	28
Provision for income taxes	183	156	4.8	4.6	17
Net income attributable to Teva	981	742	25.8	21.8	32
Diluted earnings per share attributable to Teva	1.08	0.83			30
Weighted average number of shares	921	911			

	Six Months Ended		Percentage of Net Sales		Percent Change 2010 from 2009
	June 30,		Six Months Ended		
	2010	2009	2010	2009	
	U.S. dollars and shares in millions				
	(except per share amounts)		%	%	%
Net sales	7,453	6,547	100.0	100.0	14
Gross profit	4,378	3,825	58.7	58.4	14
Operating income	2,203	1,807	29.6	27.6	22
Income before income taxes	2,151	1,683	28.9	25.7	28
Provision for income taxes	319	286	4.3	4.4	12
Net income attributable to Teva	1,811	1,376	24.3	21.0	32
Diluted earnings per share attributable to Teva	1.99	1.54			29
Weighted average number of shares	921	911			

For the three and six months ended June 30, 2009, the difference between the reported and the non-GAAP diluted weighted average number of shares represents a potential dilution of convertible senior debentures that had an anti-dilutive effect on the reported earnings per share while being dilutive on a non-GAAP basis.

**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 June 30, 2010		Six Months Ended June 30, 2009	
	U.S. dollars in millions			
	(except per share amounts)			
Reported net income attributable to Teva	797	521	1,510	972
Purchase of research and development in process	5		9	
Inventory step-up		76		296
Legal settlements, acquisition and restructuring expenses and impairment	(9)	52	25	66
Amortization of purchased intangible assets	130	151	260	205
Financial hedging expenses net of gain from sale of marketable securities	123		123	
Related tax effect	(65)	(58)	(116)	(163)
Non-GAAP net income attributable to Teva	981	742	1,811	1,376
Diluted earnings per share attributable to Teva:				
Reported (\$)	0.88	0.58	1.66	1.09
Non-GAAP (\$)	1.08	0.83	1.99	1.54
Add back for diluted earnings per share calculation:				
Reported (\$)	11	1	22	2
Non-GAAP (\$)	11	12	22	23
Non-GAAP tax rate	16%	17%	15%	17%

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### ***Non-GAAP Tax Rate***

The provision for non-GAAP taxes for the first six months of 2010 amounted to \$319 million on pre-tax non-GAAP income of \$2,151 million. The provision for taxes in the comparable period of 2009 was \$286 million on pre-tax income of \$1,683 million. The non-GAAP tax rate for the first six months of 2010 reflects our estimated annual non-GAAP tax rate for 2010 of 15% as compared to an annual non-GAAP tax rate of 16% in 2009. The lower expected annual effective tax rate in 2010 as compared to the annual non-GAAP tax rate in 2009 is primarily the result of a different geographical and different back-end mix of products expected to be sold in the second half of 2010. In general, we benefit more from tax incentives on products where we also produce the API.

### **Critical Accounting Policies**

The preparation of our 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 our business activities, certain accounting policies that are important to the presentation of our financial condition and results of operations and that require management's subjective judgments are described in our Annual Report on Form 20-F for the year ended December 31, 2009. We base our judgments on our experience and various assumptions that we believe to be reasonable under the circumstances. The most significant estimates that we make on an ongoing basis relate 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 our Annual Report on Form 20-F for the year ended December 31, 2009 for a summary of all significant accounting policies.

### **Recently Adopted and Issued Accounting Pronouncements**

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

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

Because our results are reported in U.S. dollars, changes in the rate of exchange between the U.S. dollar and the local currencies in the markets in which we operate—mainly the euro, New Israeli shekel, British pound sterling, Russian ruble, Hungarian forint, Canadian dollar, and the Polish zloty—affect our results.

When compared with the second quarter of 2009, certain currencies relevant to our operations declined in value against the U.S. dollar: the euro by 6%, the British pound by 3%, the Hungarian forint by 2%, the Croatian kuna by 5% and the Argentine peso by 5%. The above trend was partially offset by an increase in value of certain other currencies: the Canadian dollar by 14%, the Israeli shekel by 8%, the Russian ruble by 6% and the Chilean peso by 7%. All comparisons are on a quarterly average to quarterly average basis.

As a result, exchange rate movements during the second quarter of 2010 as compared to the comparable quarter in 2009 negatively affected overall sales by approximately \$52 million. We also recorded lower expenses due to these currency fluctuations and, as a result, changes in exchange rates had a negligible positive impact on our operating income.

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### **Liquidity and Capital Resources**

Total assets amounted to \$35.2 billion at June 30, 2010, compared to \$34.1 billion at March 31, 2010. During the second quarter of 2010, the U.S. dollar increased relative to most of the other currencies in which we record balance sheet items, and accordingly those items were adversely affected at June 30, 2010 as compared to March 31, 2010.

Our working capital balances, which include accounts receivable, inventories and other current assets net of sales, reserves and allowances ( SR&A ), accounts payable and other current liabilities, amounted to \$3.3 billion at June 30, 2010, compared to \$3.5 billion in March 31, 2010.

Inventory balances amounted to \$3.1 billion, a slight decrease as compared with \$3.2 billion at March 31, 2010. The ratio of inventory days at June 30, 2010 slightly decreased to 172 compared to 183 at March 31, 2010, mainly reflecting the effect of the exchange rates on our inventory balances at June 30, 2010.

Accounts receivable, net of SR&A, decreased by \$123 million during the quarter to \$2 billion, primarily as a result of currency fluctuations and increased collections. Days sales outstanding (receivables) ( DSO ), net of SR&A, decreased from 53 days at March 31, 2010 to 50 days at June 30, 2010 due to the higher collections achieved during the quarter and a reduction of overdue receivables. Although we record receivables on a gross basis, and record substantially all of the SR&A as a liability, we have used a net figure for the calculation of DSO in order to facilitate a more meaningful comparison with some of our peers, which record receivables net of these reserves.

Accounts payable and accrual days decreased from 149 days at March 31, 2010 to 144 days at June 30, 2010.

Investment in property, plant and equipment in the second quarter of 2010 was \$136 million, compared to \$151 million in the comparable quarter last year and \$719 million for all of 2009. Depreciation amounted to \$102 million in the second quarter of 2010, as compared to \$107 million in the comparable quarter of 2009.

Cash and cash equivalents, short term and long term investments increased by \$2.2 billion to \$5.2 billion, reflecting the cash generated during the second quarter of 2010 as well as the cash received from the senior note offering described below. In anticipation of the ratiopharm acquisition, which we expect to close in the third quarter of 2010, we accumulated cash generated during this quarter. As of June 30, 2010, we have secured the U.S. dollar value of the acquisition, by converting dollars into euro in an aggregate amount of 2.1 billion in addition to hedging 1.5 billion through forward and option transactions.

Total debt increased, as we issued \$2.5 billion in senior notes in June 2010: \$1 billion of 3.0% fixed rate senior notes maturing in June 2015, \$1 billion of 1.5% fixed rate senior notes maturing in June 2012 and \$0.5 billion of LIBOR+0.40% floating rate senior notes maturing in December 2011. We used a portion of the proceeds from these offerings to make a prepayment of approximately \$800 million of existing indebtedness relating to the Barr acquisition. The remainder of the proceeds will be used for the acquisition of ratiopharm. At the time of the issuances, we entered into interest rate and cross-currency swap agreements pursuant to which we (1) converted the denomination of the senior notes due 2015 from U.S. dollars to euro, resulting in an effective interest rate of 2.356%, and (2) changed the interest rate on the senior notes due 2012 from a fixed rate of 1.5% to a floating U.S. dollar-based LIBOR plus a spread of 0.41%.

Total debt was also affected by the conversion of \$25 million of our two series of convertible senior debentures due 2024 and \$45 million of senior convertible debentures due 2026. As of June 30, 2010, the total remaining outstanding principal amount of the two series due 2024 was \$21 million, and of the debentures due 2026 was \$530 million. The convertible senior debentures due 2026 include a net share settlement feature pursuant to which the principal of the debentures is paid in cash and upon conversion only the value in excess of principal is paid in shares.

As a result, our financial leverage ratio increased from approximately 22% at March 31, 2010 to approximately 27% at June 30, 2010. The short-term portion of our total debt decreased from 36% to 28% as a result of the senior note offerings described above, which increased the proportion of Teva's long term debt. The 2026 debentures were reclassified because they are redeemable by both us and the holders beginning on February 1, 2011. The 2024 debentures were reclassified because they are not redeemable by the holders until August 1, 2014.

In 2009 and early 2010, we entered into separate bilateral revolving credit agreements with seven banks under which an aggregate of \$1.08 billion of committed financing was made available. As of June 30, 2010, no borrowings were outstanding under any of such facilities. In July 2010, we entered into separate bilateral credit agreements with three banks, each of which provides for \$500 million in committed financing, for an aggregate of \$1.5 billion, which will be used to pay a portion of the purchase price for the ratiopharm acquisition. We have drawn down \$500 million under one of the loan facilities.

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Our shareholders' equity was \$19.3 billion at June 30, 2010, compared to shareholders' equity of \$19.7 billion as of March 31, 2010. The decrease resulted primarily from \$1,022 million in negative translation differences as a result of the strengthening of the U.S. dollar relative to most of the major currencies during the second quarter of 2010 and dividend payments of \$164 million. The decrease was partially offset by net income attributable to Teva for the quarter of \$797 million, \$53 million from the exercise of employee stock options and the conversion of approximately \$25 million of convertible senior debentures due 2024. In July 2010, most of the currencies strengthened with respect to the U.S. dollar, resulting in a partial reversal of the decrease in shareholders' equity.

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For purposes of calculating our market capitalization at June 30, 2010, we used approximately 898 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 Teva Canada Ltd.

Cash flow generated from operating activities during the second quarter of 2010 amounted to \$954 million, as compared with \$658 million in the second quarter of 2009. The increase in cash flow resulted from a higher net income, in addition to lower increase in working capital.

Cash flow generated from operating activities, net of capital investments and dividends paid, in the second quarter of 2010 amounted to \$700 million, \$324 million higher than the second quarter of 2009. The increase resulted mainly from higher cash flow generated from operating activities. Net capital expenses were lower due to sales of assets. However, dividend payments were higher (an additional \$30 million paid as compared to the second quarter of 2009).

Our principal sources of short-term liquidity are our existing cash investments, liquid securities, and available credit facilities, as well as internally generated funds, which we believe are sufficient to fund the pending acquisition of ratiopharm and to meet our on-going operating needs.

## **RISK FACTORS**

There are no material changes to the risk factors previously disclosed in our Annual Report on Form 20-F for the year ended December 31, 2009.

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

Reference is made to Quantitative and Qualitative Disclosures About Market Risk (Item 11) in our Annual Report on Form 20-F for the year ended December 31, 2009.

## **LEGAL PROCEEDINGS**

We are subject to various litigation and other legal proceedings. For a discussion of these matters, see Contingencies, Note 14 to the consolidated financial statements included in this report.

## **SIGNATURE**

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

TEVA PHARMACEUTICAL INDUSTRIES LIMITED  
(Registrant)

Date: July 27, 2010

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