Cellcom Israel Ltd.
Form 6-K
August 04, 2017
FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

For August 8, 2017

Commission File Number: 001-33271

CELLCOM ISRAEL LTD.

10 Hagavish Street

Netanya, Israel 4250708

(Address of principal executive offices)

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

Form 20-F X Form 40-F

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

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

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

Yes   No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): Not Applicable

Index

1. Cellcom Israel Announces Second Quarter 2017 Results

2. Cellcom Israel Ltd. and Subsidiaries – Condensed Consolidated Interim Financial Statements As at June 30, 2017 (Unaudited)

Item 1

Cellcom Israel announces

second Quarter 2017 Results

Cellcom Israel concludes the second quarter of 2017 with net income of NIS 45 million and EBITDA[1] of NIS 237 million.

Nir Sztern, Cellcom CEO said: "Again in this quarter we maintained the high subscription rates: Cellcom tv with an addition of approximately 13,000 households that chose the best television in Israel and the internet infrastructure field with an addition of 16,000 households. We continue to strengthen our position as the significant recruiters in these markets."

"The results of the second quarter of 2017 reflect an improvement in financial parameters compared with the previous quarter, in a period of intense competition."

Second Quarter 2017 Highlights *(compared to second quarter of 2016):*

§ **Total Revenues** totaled NIS 962 million ($275 million) compared to NIS 1,029 million ($294 million) in the second quarter last year, a decrease of 6.5%

§ **Service revenues** totaled NIS 731 million ($209 million) compared to NIS 782 million ($224 million) in the second quarter last year, a decrease of 6.5%

- **Operating income** totaled NIS 102 million ($29 million) compared to NIS 104 million ($30 million) in the second quarter last year, a decrease of 1.9%

- **Net income** totaled NIS 45 million ($13 million) compared to NIS 44 million ($13 million) in the second quarter last year, an increase of 2.3%

- **Net income margin** 4.7%, an increase from 4.3% in the second quarter last year

- **EBITDA**[1] totaled NIS 237 million ($68 million) compared to NIS 238 million ($68 million) in the second quarter last year, a decrease of 0.4%

[1] Please see "Use of Non-IFRS financial measures" section in this press release.

§ **EBITDA margin** 24.6%, an increase from 23.1% in the second quarter last year

§ **Net cash from operating activities** totaled NIS 278 million ($80 million) compared to NIS 204 million ($58 million) in the second quarter last year, an increase of 36.3%

§ **Free cash flow**[1] totaled NIS 77 million ($22 million) compared to NIS 103 million ($29 million) in the second quarter last year, a decrease of 25.2%

§ **Cellular subscriber base** totaled approximately 2.779 million subscribers (at the end of June 2017)

Nir Sztern, the Company's Chief Executive Officer, referred to the results of the second quarter of 2017:

"The results of the second quarter of 2017 reflect an improvement in the financial parameters compared to the previous quarter, in a period of intense competition. In the current quarter, net income increased to NIS 45 million, compared with NIS 26 million in the previous quarter, and revenues were stable and amounting to NIS 962 million, compared to NIS 959 million in the previous quarter. In addition, in the current quarter, EBITDA amounted to NIS 237 million, compared to NIS 201 million in the previous quarter.

Again in this quarter we continued to present rapid growth in the fixed-line worlds that solidify our position as a communications group. The net increase in television households was approximately 13,000 and the net increase in wholesale market households was approximately 16,000. The addition of content from the prestigious HBO content provider to the Cellcom tv service and the launching of the Quattro package in the previous quarter, were received by our customers as significant value proposals, solidifying their choice of us and reinforcing our strategy."

Shlomi Fruhling, Chief Financial Officer, said:

“The second quarter of 2017 was characterized by continued growth in the fixed-line segment and continued competition in the cellular field. The network sharing agreement with Golan came into force as of the beginning of the second quarter of 2017. According to the terms of the agreement, part of the consideration is recognized as revenues and part is recognized as a reduction of operation costs. In addition, revenues from the agreement are now divided between the cellular and fixed-line segments.

Service revenues from the cellular segment decreased by 5.5% compared to the previous quarter. The decrease resulted from the implementation of the network sharing agreement with Golan and was partly offset by an increase in revenues from customers mainly as a result of seasonality. Excluding the effect of the classification of the consideration according to the network sharing agreement with Golan on the cellular segment revenues, the cellular ARPU increased by NIS 0.8 compared to the previous quarter. The service revenues in the fixed-line segment increased by 4.7% compared to the previous quarter. This increase resulted mainly from revenues from fixed-line communications services provided under the network sharing agreement with Golan, as well as increase in revenues from internet and TV services. The EBITDA of the fixed-line segment increased by 88.1% compared to the previous quarter. The increase resulted from increase in the segment revenues, the recognition of a gain of approximately NIS 10 million from the sale of the Group's holdings in Internet Rimon Israel 2009 Ltd and from decrease in the operating expenses of the segment.

Free cash flow for the second quarter of 2017 totaled NIS 77 million, a 16.7% increase compared to the previous quarter. The increase in free cash flow resulted from higher receipts from customers which was partly offset by higher capital expenditures in fixed assets and intangible assets in the current quarter.

The Company’s Board of Directors decided not to distribute a dividend for the second quarter of 2017, given the continued intensified competition in the market and its effect on the Company's operating results and in order to further strengthen the Company's balance sheet. The Board of Directors will re-evaluate its decision as market conditions develop, and taking into consideration the Company's needs."

Netanya, Israel – August 8, 2017 – Cellcom Israel Ltd. (NYSE: CEL; TASE: CEL) ("Cellcom Israel" or the "Company" or the "Group") announced today its financial results for the second quarter of 2017.

The Company reported that revenues for the second quarter of 2017 totaled NIS 962 million ($275 million); EBITDA for the second quarter of 2017 totaled NIS 237 million ($68 million), or 24.6% of total revenues; net income for the second quarter of 2017 totaled NIS 45 million ($13 million). Basic earnings per share for the second quarter of 2017 totaled NIS 0.45 ($0.13).

Main Consolidated Financial Results:

	Q2/2017	Q2/2016	Change%	Q2/2017	Q2/2016
	NIS million			US$ million (convenience translation)	
Total revenues	**962**	1,029	(6.5%)	**275**	294
Operating Income	**102**	104	(1.9%)	**29**	30
Net Income	**45**	44	2.3%	**13**	13
Free cash flow	**77**	103	(25.2%)	**22**	29
EBITDA	**237**	238	(0.4%)	**68**	68
EBITDA, as percent of total revenues	**24.6%**	23.1%	6.5%		

Main Financial Data by Operating Segments:

	Cellular (*)			Fixed-line (**)			Consolidation adjustments (***)		Consolidated results		
NIS million	**Q2'17**	**Q2'16**	**Change %**	**Q2'17**	**Q2'16**	**Change %**	**Q2'17**	**Q2'16**	**Q2'17**	**Q2'16**	**Change %**
Total revenues	**673**	784	(14.2%)	**331**	294	12.6%	**(42)**	(49)	**962**	1,029	(6.5%)
Service revenues	**481**	567	(15.2%)	**292**	264	10.6%	**(42)**	(49)	**731**	782	(6.5%)
Equipment revenues	**192**	217	(11.5%)	**39**	30	30.0%	**-**	-	**231**	247	(6.5%)
EBITDA	**158**	181	(12.7%)	**79**	57	38.6%	**-**	-	**237**	238	(0.4%)
EBITDA, as percent of total revenues	**23.5%**	23.1%	1.7%	**23.9%**	19.4%	23.2%			**24.6%**	23.1%	6.5%

(*) The segment includes the cellular communications services, end user cellular equipment and supplemental services.

(**) The segment includes landline telephony services, internet infrastructure and connectivity services, television services, end user fixed-line equipment and supplemental services.

(***) Include cancellation of inter-segment revenues between "Cellular" and "Fixed-line" segments.

Financial Review (second quarter of 2017 compared to second quarter of 2016):

Revenues for the second quarter of 2017 decreased 6.5% totaling NIS 962 million ($275 million), compared to NIS 1,029 million ($294 million) in the second quarter last year. The decrease in revenues is attributed to a 6.5% decrease in service revenues and a 6.5% decrease in equipment revenues.

Service revenues totaled NIS 731 million ($209 million) in the second quarter of 2017, a 6.5% decrease from NIS 782 million ($224 million) in the second quarter last year.

Service revenues in the cellular segment totaled NIS 481 million ($138 million) in the second quarter of 2017, a 15.2% decrease from NIS 567 million ($162 million) in the second quarter last year. This decrease resulted from the gap between the national roaming services revenues in the second quarter of 2016 and the revenues for rights of use in cellular networks according to the network sharing agreement with Golan which came into force as the beginning of the second quarter of 2017 and from a decrease in cellular service revenues. The decrease in cellular services revenues resulted from the ongoing erosion in the prices of these services and churn of customers as a result of the competition in the cellular market.

Service revenues in the fixed-line segment totaled NIS 292 million ($84 million) in the second quarter of 2017, a 10.6% increase from NIS 264 million ($76 million) in the second quarter last year. This increase resulted mainly from fixed-line communications services provided according to the network sharing agreement with Golan which came into force as the beginning of the second quarter of 2017 as well as increase in revenues from internet and TV services.

Equipment revenues totaled NIS 231 million ($66 million) in the second quarter of 2017, a 6.5% decrease compared to NIS 247 million ($71 million) in the second quarter last year. This decrease resulted mainly from a decrease in the amount of end user equipment sold in the cellular segment. This decrease was partially offset by an increase in equipment sales in the fixed-line segment.

Cost of revenues for the second quarter of 2017 totaled NIS 665 million ($190 million), compared to NIS 666 million ($191 million) in the second quarter of 2016, a 0.2% decrease. This decrease resulted mainly from Golan's participation in operating costs according to the network sharing agreement which came into force as of the beginning of the second quarter of 2017. The decrease was partially offset by an increase in costs of TV services content and in costs related to internet services in the fixed-line segment.

Gross profit for the second quarter of 2017 decreased 18.2% to NIS 297 million ($85 million), compared to NIS 363 million ($104 million) in the second quarter of 2016. Gross profit margin for the second quarter of 2017 amounted to 30.9%, down from 35.3% in the second quarter of 2016.

Selling, Marketing, General and Administrative Expenses ("SG&A Expenses") for the second quarter of 2017 decreased 15.5% to NIS 207 million ($59 million), compared to NIS 245 million ($70 million) in the second quarter of 2016. This decrease is primarily a result of a decrease in salaries and commissions expenses due to capitalization of part of the customer acquisition costs as a result of early adoption of a new International Financial Reporting Standard (IFRS 15) since the first quarter of 2017. The effect of the adoption of the standard on the second quarter of 2017 expenses is in a total amount of NIS 20 million ($6 million). In addition, the decrease in expenses resulted from the Company's continuous efforts to reduce ongoing operating expenses.

Other income for the second quarter of 2017 totaled NIS 12 million ($3 million), compared with other expenses of NIS 14 million ($4 million) in the second quarter of 2016. Other income for the second quarter of 2017 mainly include a gain from the sale of Internet Rimon Israel 2009 Ltd., an indirect subsidiary of the Company, in the amount of approximately NIS 10 million ($3 million), compared to an expense for employee voluntary retirement plan in the amount of approximately NIS 13 million ($4 million) in the second quarter of 2016.

Operating income for the second quarter of 2017 decreased by 1.9% to NIS 102 million ($29 million) from NIS 104 million ($30 million) in the second quarter of 2016.

EBITDA for the second quarter of 2017 decreased by 0.4% totaling NIS 237 million ($68 million) compared to NIS 238 million ($68 million) in the second quarter of 2016. EBITDA as a percent of revenues for the second quarter of 2017 totaled 24.6%, up from 23.1% in the second quarter of 2016.

Cellular segment EBITDA for the second quarter of 2017 totaled NIS 158 million ($45 million), compared to NIS 181 million ($52 million) in the second quarter last year, a decrease of 12.7%, which resulted mainly from the gap between national roaming services revenues in the second quarter of 2016 and the revenues for rights of use in cellular networks according to the network sharing agreement with Golan which came into force as the beginning of the second quarter of 2017 and from the ongoing erosion in the service revenues. The decrease was partially offset by a decrease in selling and marketing expenses due to the capitalization of part of the customer acquisition costs as a result of early adoption of a new International Financial Reporting Standard (IFRS15) since the first quarter of 2017. Fixed-line segment EBITDA for the second quarter of 2017 totaled NIS 79 million ($23 million), compared to NIS 57 million ($16 million) in the second quarter last year, a 38.6% increase, mainly as a result of a decrease in operating expenses and an increase in revenues from fixed-line communications services provided according to the network sharing agreement with Golan as well as a gain from the sale of Internet Rimon Israel 2009 Ltd., an indirect subsidiary of the Company.

Financing expenses, net for the second quarter of 2017 were similar to the second quarter of 2016 and totaled NIS 44 million ($12 million).

Net Income for the second quarter of 2017 totaled NIS 45 million ($13 million), compared to NIS 44 million ($13 million) in the second quarter of 2016, an increase of 2.3%.

Basic earnings per share for the second quarter of 2017 totaled NIS 0.45 ($0.13), compared to NIS 0.43 ($0.12) in the second quarter last year.

-6-

Operating Review

Main Performance Indicators - Cellular segment:

	Q2/2017	Q2/2016	Change (%)
Cellular subscribers at the end of period (in thousands)	**2,779**	2,812	(1.2%)
Churn Rate for cellular subscribers (in %)	**10.8%**	10.6%	1.9%
Monthly cellular ARPU (in NIS)	**57.0**	66.0	(13.6%)

Cellular subscriber base - at the end of the second quarter of 2017 the Company had approximately 2.779 million cellular subscribers. During the second quarter of 2017 the Company's cellular subscriber base decreased by approximately 13,000 net cellular subscribers.

Cellular Churn Rate for the second quarter of 2017 totaled to 10.8%, compared to 10.6% in the second quarter last year.

The monthly cellular **Average Revenue per User ("ARPU")** for the second quarter of 2017 totaled NIS 57.0 ($16.3), compared to NIS 66.0 ($18.9) in the second quarter last year. The decrease in ARPU resulted from the gap between national roaming services revenues in the second quarter of 2016 and the revenues for rights of use in cellular networks according to the network sharing agreement with Golan which came into force as of the beginning of the second quarter of 2017 and from the ongoing erosion in the prices of cellular services, resulting from the intense competition in the cellular market.

Main Performance Indicators - Fixed-line segment:

	Q2/2017	Q2/2016	Change (%)
Internet infrastructure field- households at the end of period (in thousands)	**189**	136	39.0%
TV field- households at the end of period (in thousands)	**137**	87	57.5%

In the second quarter of 2017, the Company's households base in respect of the internet infrastructure field increased by approximately 16,000 net households, and the Company's households base in the TV field increased by 13,000 net households.

Financing and Investment Review

Cash Flow

Free cash flow for the second quarter of 2017 totaled NIS 77 million ($22 million), compared to NIS 103 million ($29 million) in the second quarter of 2016, a 25.2% decrease. The decrease in free cash flow, resulted mainly from higher cash capital expenditures in fixed assets and intangible assets in the second quarter of 2017 compared to the second quarter of 2016, which was partly offset by decrease in payments to end user equipment suppliers in the cellular segment.

Total Equity

Total Equity as of June 30, 2017 amounted to NIS 1,398 million ($400 million) primarily consisting of undistributed accumulated retained earnings of the Company.

Cash Capital Expenditures in Fixed Assets and Intangible Assets

During the second quarter of 2017, the Company invested NIS 191 million ($55 million) in fixed assets and intangible assets (including, among others, investments in the Company's communications networks, information systems, software and TV set-top boxes and capitalization of part of the customer acquisition costs as a result of early adoption of a new International Financial Reporting Standard (IFRS 15) since the first quarter of 2017), compared to NIS 102 million ($29 million) in the second quarter 2016.

Dividend

On August 7, 2017, the Company's Board of Directors decided not to declare a cash dividend for the second quarter of 2017. In making its decision, the board of directors considered the Company's dividend policy and business status and decided not to distribute a dividend at this time, given the intensified competition and its adverse effect on the Company's results of operations, and in order to strengthen the Company's balance sheet. The board of directors will re-evaluate its decision in future quarters. No future dividend declaration is guaranteed and is subject to the Company's board of directors' sole discretion, as detailed in the Company's annual report for the year ended December 31, 2016 on Form 20-F dated March 20, 2017, or the 2016 Annual Report, under "Item 8 - Financial Information – A. Consolidated Statements and Other Financial Information - Dividend Policy".

Debentures

For information regarding a summary of the Company's financial liabilities and details regarding the Company's outstanding debentures as of June 30, 2017, see "Disclosure for Debenture Holders" as well as section "other developments during the second quarter of 2017 and subsequent to the end of the reporting period- Debt Raising- Private Debentures Placement" in this press release.

Loans from Financial Institutions

According to a loan agreement entered by the Company and two financial institutions in May 2015, in June 2017 the second loan under the agreement in a principal amount of NIS 200 million was provided to the Company. The loan is without linkage and the principal amount bears an annual fixed interest of 5.1%, and will be paid in four equal annual payments on June 30 of each calendar year commencing June 30, 2019 through and including June 30, 2022. The interest will be paid in ten semi-annual installments on June 30 and December 31, of each calendar year commencing December 31, 2017 through and including June 30, 2022.

For details regarding the fulfillment of financial covenants included in the loan agreements, which are identical to those included in the Company's Debentures Series F through K, see comment no.1 to the table of "Aggregation of the information regarding the debenture series issued by the Company" under "Disclosure for Debenture Holders" section in this press release. For additional details regarding the loans see the Company's 2016 Annual Report, under "Item 5B. Liquidity and Capital Resources – Other Credit Facilities".

other developments during the second quarter of 2017 and subsequent to the end of the reporting period

Regulation

Wholesale Market

In June 2017, the Ministry of Communications published the maximum tariffs for Hot Telecom L.P., or Hot, wholesale internet infrastructure services (after a petition filed by Hot against the Ministry of Communications in February 2017, claiming the Ministry of Communications was required to hold another hearing prior to setting maximum tariffs, was dismissed). Due to disagreements with Hot as to the implementation of the service (which await resolution by the Ministry of Communications), it is unclear when the service - which was to be offered by Hot as of February 2015 – will be offered. The maximum tariffs set are higher than those set for Bezeq the Israeli Telecommunications Company Ltd., or Bezeq, the other wholesale internet service provider.

In addition, in June 2017, the Ministry of Communications published regulations setting Bezeq's resale telephony service to be provided by Bezeq as of July 2017, as a temporary 14 month alternative for wholesale landline telephony service. In addition, the Ministry of Communications resolved that Bezeq's obligation to offer wholesale telephony service, which was to be offered by Bezeq as of May 2015, will be postponed until the lapse of said resale telephony service period. The resolution further notes that the Ministry of Communications will consider the resale telephony service as a permanent replacement of the telephony wholesale service. The tariffs set for the resale telephony service

are substantially higher than those set for Bezeq's telephony wholesale service.

-9-

The Ministry of Communications is holding a public hearing in relation to the aforementioned tariffs, to be applied retroactively after its conclusion.

For additional details see the Company's annual report for 2016 under “Item 3. Key Information – D. Risk Factors – Risks Related to our Business – We face intense competition in all aspects of our business” and "Item 4. Information on the Company – B. Business Overview –Competition – Fixed-line Segment – Internet infrastructure and ISP business", "- Landline telephony" and "- Government Regulation – Fixed-line Segment – Wholesale landline market".

Cellular License Amendment

In July 2017, following the previously reported amendment to the Company's cellular license in relation to the requirement that Israeli citizens and residents from among the Company's founding shareholders hold at least 5% of the Company's outstanding shares and other means of control, as of July 2017, the Israeli Ministry of Communications amended the Company's cellular license so as to postpone the application of such requirement until October 31, 2017.

For additional details see the Company's Annual Report for 2016 under “Item 3. Key Information – D. Risk Factors - Risks Related to our Business – There are certain restrictions in our licenses relating to the ownership of our shares" and "Item 4. Information on the Company – B. Business Overview – Government Regulations – Cellular Segment – Our Cellular License".

Change in Independent Auditors

In July 2017, Keselman & Keselman, a member of PricewaterhouseCoopers International Limited, one of the Company's joint independent auditors consensually ceased serving as the Company's joint independent auditor, and Somekh Chaikin, a member of KPMG International, the Company's other joint independent auditor, will continue to serve as the Company's independent auditor until the 2017 annual general meeting of shareholders.

During the tenure of Keselman & Keselman as one of the Company's joint independent auditors, no report on the Company's financial statements contained an adverse opinion or a disclaimer of an opinion, or was qualified or modified as to uncertainty, audit scope or accounting principles. In addition, during such tenure and the subsequent interim period, there were no disagreements on any matter of accounting principles or practices, financial statement disclosure or audit scope or procedure.

Debt Raising

Private Debentures Placement

In June 2017, the Company entered into an agreement with certain Israeli institutional investors, according to which the Company irrevocably undertook to issue to the institutional investors, and the institutional investors irrevocably undertook to purchase from the Company, NIS

-10-

220 million aggregate principal amount of additional debentures of the existing series K debentures (which are listed on the Tel Aviv Stock Exchange, or TASE), on July 1, 2018, or the Agreed Date.

The price was set at NIS 1.011 for each Series K debenture (which bear a stated interest rate of 3.55% per annum) of NIS 1 principal amount, or a total consideration of approximately NIS 222 million, reflecting an effective interest yield of 3.6% per annum. The Company is required to pay a certain commitment fee to the institutional investors. In case the debentures' rating on the Agreed Date shall be il/(A-) or below, the price shall be reduced to NIS 1.001 for each Series K debenture of NIS 1 principal amount.

The closing of the issuance will be subject to certain customary conditions, including: the receipt of the TASE's approval, the absence of any event of default under the series K debentures indenture, the Company having an Israeli shelf prospectus in force, and satisfaction of the conditions set out in the series K debentures indenture for the issuance of additional K debentures (meaning, aside from the no events of default condition detailed above, that the issuance of additional debentures itself will not cause a rating downgrade compared to the rating prior to such issuance, and that the Company meets the financial covenants applicable to the series K debentures on the date of such issuance and thereafter). In June 2017, the TASE granted the Company the said requisite approval.

In relation to the said offering, the Company's rating agency reaffirmed the current rating of ilA+/stable for the Company and its debentures.

The offering described in this press release was made only in Israel and only to residents of Israel. The said debentures will not be registered under the U.S. Securities Act of 1933 and will not be offered or sold in the United States. This press release shall not constitute an offer to sell or the solicitation of an offer to buy any securities.

Loan Agreement

In June 2017, the Company entered into a loan agreement with an Israeli bank that provided the Company a similar loan in August 2015 (the "Lender" and the "2015 Loan Agreement", respectively), according to which the Lender has agreed, subject to certain customary conditions, to provide the Company a deferred loan in a principal amount of NIS 150 million, unlinked, which will be provided to the Company in March 2019, and will bear an annual fixed interest of 4%. The loan's principal amount will be payable in four equal annual payments on March 31 of each of the years 2021 through and including 2024 and the interest will be payable in ten semi-annual installments on March 31 and September 30 of each calendar year commencing September 30,2019 through and including March 31, 2024. Until the provision of the loan, the Company is required to pay the Lender a commitment fee.

The agreement includes similar terms and obligations to those included in the Company's August 2015 loan agreement and applies the right to demand immediate repayment of either or both agreements due to certain events of default under either agreement.

For additional details regarding the Company's existing debentures and existing loan agreements, including the August 2015 loan agreement, see the Company's 2016 Annual Report under "Item 5B. Liquidity and Capital Resources – Debt Service – Public Debentures" and "-Other Credit Facilities" and the Company's current report on Form 6-K dated June 1, 2017.

Sale of Indirect Subsidiary of the company

In June 2017, the previously reported sale of 013 Netvision Ltd. (the Company's wholly owned indirect subsidiary) holdings in Internet Rimon Israel 2009 Ltd. was completed.

For additional details see the Company's current report on Form 6-K dated May 24, 2017 under "Other developments during the first quarter of 2017 and subsequent to the end of the reporting period - Sale of Indirect Subsidiary".

Changes in Management- Vice President of Business Customers

In July 2017, Ms. Keren Shtevy notified the Company of her resignation from her position as the Company's vice president of business customers, and will be leaving the Company on August 15, 2017, after 19 years of successful and extensive tenure in 013 Netvision Ltd. and the Company. The Company's board of directors has nominated Mr. Nadav Amsalem as the Company's vice president of business customers, effective July 20, 2017.

Nadav Amsalem has served as head of the strategic customers department in the Company's business customers division, in charge of the major corporate business customers from 2014. From 2011 to 2014, he served as the director of strategic landline customers and major business customers sector. Mr. Amsalem has been a member of the Company's business customer's division since 2006.

IDB

In May 2017, IDB Development Corporation Ltd., or IDB, the Company's indirect controlling shareholder, announced in connection to the Concentration Law (according to which IDB and Discount Investment Corporation Ltd., or DIC, may not retain control over the Company beyond December 2019 so long as the Company is a third layer company in their pyramidal structure), that after reviewing possible ways to deal with this restriction, IDB is proposing to sell its holdings in DIC to a private company controlled by IDB's controlling shareholder. There can be no assurance of how or when this would occur, if at all.

For information about the Concentration Law, see the Company's 2016 Annual Report, under "Item 3.D - legislation in Israel affecting corporate conglomerates could adversely affect us."

Conference Call Details

The Company will be hosting a conference call regarding its results for the second quarter of 2017 on Tuesday, August 8, 2017 at 09:00 am ET, 06:00 am PT, 14:00 UK time, 16:00 Israel time. On the call, management will review and discuss the results, and will be available to answer questions. To participate, please either access the live webcast on the Company's website, or call one of the following teleconferencing numbers below. Please begin placing your calls at least 10 minutes before the conference call commences. If you are unable to connect using the toll-free numbers, please try the international dial-in number.

US Dial-in Number: 1 866 652 8972 UK Dial-in Number: 0 808 101 2717
Israel Dial-in Number: 03 918 0608 International Dial-in Number: +972 3 918 0608

at: 09:00 am Eastern Time; 06:00 am Pacific Time; 14:00 UK Time; 16:00 Israel Time

To access the **live webcast** of the conference call, please access the investor relations section of Cellcom Israel's website: www.cellcom.co.il. After the call, a **replay** of the call will be available under the same investor relations section.

About Cellcom Israel

Cellcom Israel Ltd., established in 1994, is the largest Israeli cellular provider; Cellcom Israel provides its approximately 2.779 million cellular subscribers (as at June 30, 2017) with a broad range of value added services including cellular telephony, roaming services for tourists in Israel and for its subscribers abroad and additional services in the areas of music, video, mobile office etc., based on Cellcom Israel's technologically advanced infrastructure. The Company operates an LTE 4 generation network and an HSPA 3.5 Generation network enabling advanced high speed broadband multimedia services, in addition to GSM/GPRS/EDGE networks. Cellcom Israel offers Israel's broadest and largest customer service infrastructure including telephone customer service centers, retail stores, and service and sale centers, distributed nationwide. Through its broad customer service network Cellcom Israel offers technical support, account information, direct to the door parcel delivery services, internet and fax services, dedicated centers for hearing impaired, etc. Cellcom Israel further provides OTT TV services (as of December 2014), internet infrastructure (as of February 2015) and connectivity services and international calling services, as well as landline telephone communications services in Israel, in addition to data communications services. Cellcom Israel's shares are traded both on the New York Stock Exchange (CEL) and the Tel Aviv Stock Exchange (CEL). For additional information please visit the Company's website http://investors.cellcom.co.il.

Forward-Looking Statements

The following information contains, or may be deemed to contain forward-looking statements (as defined in the U.S. Private Securities Litigation Reform Act of 1995 and the Israeli Securities Law, 1968). In some cases, you can identify these statements by forward-looking words such as “may,” “might,” “will,” “should,” “expect,” “plan,” “anticipate,” “ “estimate,” “predict,” “potential” or “continue,” the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about the Company, may include projections of the Company's future financial results, its anticipated growth strategies and anticipated trends in its business. These statements are only predictions based on the Company's current expectations and projections about future events. There are important factors that could cause the Company's actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause such differences include, but are not limited to: changes to the terms of the Company's license, new legislation or decisions by the regulator affecting the Company's operations, new competition and changes in the competitive environment, the outcome of legal proceedings to which the Company is a party, particularly class action lawsuits, the Company's ability to maintain or obtain permits to construct and operate cell sites, and other risks and uncertainties detailed from time to time in the Company's filings with the U.S. Securities and Exchange Commission, including under the caption “Risk Factors” in its Annual Report for the year ended December 31, 2016.

Although the Company believes the expectations reflected in the forward-looking statements contained herein are reasonable, it cannot guarantee future results, level of activity, performance or achievements. Moreover, neither the Company nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. The Company assumes no duty to update any of these forward-looking statements after the date hereof to conform its prior statements to actual results or revised expectations, except as otherwise required

by law.

The Company prepares its financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Unless noted specifically otherwise, the dollar denominated figures were converted to US$ using a convenience translation based on the New Israeli Shekel (NIS)/US$ exchange rate of NIS 3.496 = US$ 1 as published by the Bank of Israel for June 30, 2017.

-14-

Use of non-IFRS financial measures

EBITDA is a non-IFRS measure and is defined as income before financing income (expenses), net; other income (expenses), net (excluding expenses related to employee voluntary retirement plans and gain (loss) due to sale of subsidiaries); income tax; depreciation and amortization and share based payments. This is an accepted measure in the communications industry. The Company presents this measure as an additional performance measure as the Company believes that it enables us to compare operating performance between periods and companies, net of any potential differences which may result from differences in capital structure, taxes, age of fixed assets and related depreciation expenses. EBITDA should not be considered in isolation, or as a substitute for operating income, any other performance measures, or cash flow data, which were prepared in accordance with Generally Accepted Accounting Principles as measures of profitability or liquidity. EBITDA does not take into account debt service requirements, or other commitments, including capital expenditures, and therefore, does not necessarily indicate the amounts that may be available for the Company's use. In addition, EBITDA as presented by the Company may not be comparable to similarly titled measures reported by other companies, due to differences in the way these measures are calculated. See the reconciliation of net income to EBITDA under "Reconciliation of Non-IFRS Measures" in the press release.

Free cash flow is a non-IFRS measure and is defined as the net cash provided by operating activities (including the effect of exchange rate fluctuations on cash and cash equivalents) excluding a loan to Golan Telecom, minus the net cash used in investing activities excluding short-term investment in tradable debentures and deposits and proceeds from sales of such debentures (including interest received in relation to such debentures) and deposits. See "Reconciliation of Non-IFRS Measures" below.

Company Contact	Investor Relations Contact
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Financial Tables Follow

-15-

Cellcom Israel Ltd.

(An Israeli Corporation)

Condensed Consolidated Interim Statements of Financial Position

	June 30, 2016	June 30, 2017	Convenience translation into US dollar June 30, 2017	December 31, 2016
	NIS millions		US$ millions	NIS millions
Assets				
Cash and cash equivalents	982	785	225	1,240
Current investments, including derivatives	284	360	103	284
Trade receivables	1,327	1,263	361	1,325
Current tax assets	–	52	15	25
Other receivables	68	88	25	61
Inventory	63	61	18	64
Total current assets	2,724	2,609	747	2,999
Trade and other receivables	813	915	262	796
Property, plant and equipment, net	1,682	1,619	463	1,659
Intangible assets and others, net	1,206	1,228	351	1,207
Deferred tax assets	6	1	–	1
Total non- current assets	3,707	3,763	1,076	3,663
Total assets	6,431	6,372	1,823	6,662
Liabilities				
Current maturities of debentures and of loans from financial institutions	861	792	227	863
Trade payables and accrued expenses	638	622	178	675
Current tax liabilities	49	2	1	–
Provisions	115	108	31	108
Other payables, including derivatives	299	264	75	279
Total current liabilities	1,962	1,788	512	1,925
Long-term loans from financial institutions	200	462	132	340

Debentures	2,796	2,524	722	2,866
Provisions	30	19	5	30
Other long-term liabilities	29	32	9	31
Liability for employee rights upon retirement, net	12	12	4	12
Deferred tax liabilities	112	137	39	118
Total non- current liabilities	3,179	3,186	911	3,397
Total liabilities	5,141	4,974	1,423	5,322
Equity attributable to owners of the Company				
Share capital	1	1	–	1
Cash flow hedge reserve	(2)	(1)	–	(1)
Retained earnings	1,275	1,394	399	1,322
Non-controlling interest	16	4	1	18
Total equity	1,290	1,398	400	1,340
Total liabilities and equity	6,431	6,372	1,823	6,662

Cellcom Israel Ltd.

(An Israeli Corporation)

Condensed Consolidated Interim Statements of Income

	For the six months ended June 30,		Convenience translation into US dollar For the six months ended June 30,	For the three months ended June 30,		Convenience translation into US dollar For the three months ended June 30,	For the year enc Decemb
	2016	2017	2017	2016	2017	2017	2016
	NIS millions		US$ millions	NIS millions		US$ millions	NIS mill
Revenues	2,051	1,921	549	1,029	962	275	4,027
Cost of revenues	(1,336)	(1,330)	(380)	(666)	(665)	(190)	(2,702
Gross profit	715	591	169	363	297	85	1,325
Selling and marketing expenses	(291)	(226)	(65)	(143)	(112)	(32)	(574
General and administrative expenses	(205)	(208)	(59)	(102)	(95)	(27)	(420
Other income (expenses), net	(14)	12	3	(14)	12	3	(21
Operating profit	205	169	48	104	102	29	310
Financing income	28	26	8	16	14	4	46
Financing expenses	(96)	(101)	(29)	(60)	(58)	(16)	(196
Financing expenses, net	(68)	(75)	(21)	(44)	(44)	(12)	(150
Profit before taxes on income	137	94	27	60	58	17	160
Taxes on income	(34)	(23)	(7)	(16)	(13)	(4)	(10
Profit for the period	103	71	20	44	45	13	150
Attributable to:							
Owners of the Company	102	70	20	44	45	13	148
Non-controlling interests	1	1	–	–	–	–	2
Profit for the period	103	71	20	44	45	13	150

Earnings per share Basic earnings per share (in NIS)	1.01	0.70	0.20	0.43	0.45	0.13	1.47
Diluted earnings per share (in NIS)	1.01	0.69	0.20	0.43	0.45	0.13	1.47
Weighted-average number of shares used in the calculation of basic earnings per share (in shares)	100,604,578	100,605,503	100,605,503	100,604,578	100,606,203	100,606,203	100,604
Weighted-average number of shares used in the calculation of diluted earnings per share (in shares)	100,604,578	101,340,873	101,340,873	100,705,952	101,265,547	101,265,547	100,698

Cellcom Israel Ltd.

(An Israeli Corporation)

Condensed Consolidated Interim Statements of Cash Flows

	For the six months ended June 30,		Convenience translation into US dollar For the six months ended June 30,	For the three months ended June 30,		Convenience translation into US dollar For the three months ended June 30,	For the year ended December 31,
	2016	2017	2017	2016	2017	2017	2016
	NIS millions		US$ millions	NIS millions		US$ millions	NIS millions
Cash flows from operating activities							
Profit for the period	103	71	20	44	45	13	150
Adjustments for:							
Depreciation and amortization	267	269	77	132	136	39	534
Share based payments	3	2	1	1	1	–	6
Loss (gain) on sale of property, plant and equipment	3	(2)	(1)	2	(2)	(1)	10
Gain on sale of shares in a consolidated company	–	(10)	(3)	–	(10)	(3)	–
Income tax expenses	34	23	7	16	13	4	10
Financing expenses, net	68	75	21	44	44	12	150
Changes in operating assets and liabilities:							
	22	3	1	15	6	2	21

Change in inventory								
Change in trade receivables (including long-term amounts)	(75)	104	30		(17)	44	13	(28)
Change in other receivables (including long-term amounts)	15	(166	(8)					

						$ 771,847
	365,000		$ 2.375	April 5, 2010		
	250,000		$ 4.00	Oct. 5, 2008		
	125,000		$ 6.00	April 5, 2010		
	125,000		$ 6.00	Oct. 5, 2008		
	375,000		$ 4.0625	Feb. 23, 2009		
	100,000		$ 3.58	April 23, 2013		
	52,500	7,500(7)	$ 5.92	March 10, 2014		
	15,626	9,374(9)	$ 3.70	March 9, 2015		
Thomas F. Farb					170,300(6)	$ 1,176,773
	0	600,000(10)	$ 6.32	Oct. 16, 2016		
Noah D. Beerman					111,700(8)	$ 771,847
	45,000		$ 6.00	Feb. 14, 2009		
	198,484		$ 2.0625	Aug. 14, 2010		
	10,417		$ 1.22	June 14, 2012		
	150,000	50,000(11)	$ 6.93	Sept. 14, 2014		
	15,626	9,374(9)	$ 3.70	March 9, 2015		
Mark S. Butler					111,700(8)	$ 771,847
	60,000		$ 5.00	June 10, 2009		
	550,000		$ 6.1875	June 10, 2009		
	60,000		$ 4.15625	June 10, 2009		
	369,000		$ 2.375	April 5, 2010		
	100,000		$ 3.58	April 23, 2103		
	52,500	7,500(7)	$ 5.92	March 10, 2014		
	15,626	9,374(9)	$ 3.70	March 9, 2015		
Bobby W. Sandage, Jr., Ph.D.					111,700(8)	$ 771,847
	60,000		$ 5.00	June 10, 2009		
	500,000		$ 6.1875	June 10, 2009		
	160,000		$ 4.15625	June 10, 2009		
	434,500		$ 2.375	April 5, 2010		
	100,000		$ 4.15625	Nov. 26, 2011		
	100,000		$ 3.58	April 23, 2013		
	52,500	7,500(7)	$ 5.92	March 10, 2014		
	15,626	9,374(9)	$ 3.70	March 9, 2015		

(1) All awards under this column were granted under our 2004 Equity Incentive Plan. Includes shares underlying performance stock awards granted to the applicable Named Executive Officer as described in the footnotes below. The performance stock awards represent a grant of the right to receive shares of common stock subject to (i) achievement of certain milestones related to the market price of our common stock, and (ii) recipient remaining employed by us on the three-year anniversary of the respective date of grant. The number of shares the recipient is entitled to receive, if any, at such time is dependent on the market price at which our common stock trades for 20 consecutive

business days at any time during the three-year period prior to the vesting date. Subject to certain acceleration events, if such market prices are not attained during such three-year period, the recipient will not receive any shares under the awards. The maximum shares that could be granted under such awards are included in the above table.

(2) The market value was computed by multiplying the closing market price of our common stock on September 28, 2007 ($6.91) by the applicable number of shares or units.

(3) Includes various awards granted under our 2004 Equity Incentive Plan. Includes (i) 71,900 shares of restricted stock granted on March 7, 2006 that vest in equal annual installments such that the transfer restrictions are schedule to be removed relating to the shares as follows: one-third that was scheduled to vest in March 2007 but has been delayed in accordance with the terms of such award as a result of black-out periods of the Company, one-third on March 7, 2008 and the remainder on March 7, 2009, and (ii) 42,000 shares of restricted stock granted on October 30, 2007 that vest in three equal annual installments such that the transfer restrictions are removed relating to the shares one-third annually for three years commencing one year from that date of grant. All restricted stock is subject to transfer restrictions, forfeiture and acceleration. Also includes shares underlying two performance stock awards granted on March 7, 2006 and October 30, 2007. As further described in footnote (1), depending on such prices as may be attained, the recipient could receive (A) either (i) 70,100, (ii) 93,500, (iii) 116,900 or (iv) no shares, under the March 7, 2006 grant, and (B) either (i) 41,300, (ii) 55,000, (iii) 68,800 or (iv) no shares, under the October 30, 2007 grant.

(4) Fully vests on March 10, 2008.

(5) Vests equally over 6 calendar quarters commencing December 9, 2007.

(6) Includes various awards granted under our 2004 Equity Incentive Plan. Includes (i) 50,000 shares of restricted stock granted on October 16, 2006 that vest in equal annual installments such that the transfer restrictions are schedule to be removed relating to the shares as follows: one-third that was scheduled to vest in October 2007 but has been delayed in accordance with the terms of such award as a result of black-out periods of the Company, one-third on October 16, 2008 and the remainder on October 16, 2009, and (ii) 17,300 shares of restricted stock granted on October 30, 2007 that vest in three equal annual installments such that the transfer restrictions are removed relating to the shares one-third annually for three years commencing one year from that date of grant. All restricted stock is subject to transfer restrictions, forfeiture and acceleration. Also includes shares underlying two performance stock awards granted on October 16, 2006 and October 30, 2007. As further described in footnote (1), depending on such prices as may be attained, the recipient could receive (A) either (i) 45,000, (ii) 60,000, (iii) 75,000 or (iv) no shares, under the October 16, 2006 grant, and (B) either (i) 16,800, (ii) 22,400, (iii) 28,000 or (iv) no shares, under the October 30, 2007 grant.

(7) Vests equally over 2 calendar quarters commencing December 10, 2007.

(8) Includes various awards granted under our 2004 Equity Incentive Plan. Includes (i) 28,800 shares of restricted stock granted on March 7, 2006 that vest in equal annual installments such that the transfer restrictions are schedule to be removed relating to the shares as follows: one-third that was scheduled to vest in March 2007 but has been delayed in accordance with the terms of such award as a result of black-out periods of the Company, one-third on March 7, 2008 and the remainder on March 7, 2009, and (ii) 13,500 shares of restricted stock granted on October 30, 2007 that vest in three equal annual installments such that the transfer restrictions are removed relating to the shares one-third annually for three years commencing one year from that date of grant. All restricted stock is subject to transfer restrictions, forfeiture and acceleration. Also includes shares underlying two performance stock awards granted on March 7, 2006 and October 30, 2007. As further described in footnote (1), depending on such prices as may be attained, the recipient could receive (A) either (i) 28,100, (ii) 37,500, (iii) 46,900 or (iv) no shares, under the March 7, 2006 grant, and (B) either (i) 13,500, (ii) 18,000, (iii) 22,500 or (iv) no shares, under the October 30, 2007 grant.

(9) Vests equally over 6 calendar quarters commencing December 9, 2007.

(10) 25% vests on October 16, 2007 and the remainder vests equally over 12 calendar quarters commencing January 16, 2008.

(11) Vests equally over 4 calendar quarters commencing December 14, 2007.

(12) Vests equally over 2 calendar quarters commencing December 10, 2007.

Option Exercises and Stock Vested in Fiscal Year 2007

There were no options exercised by, or stock awards that vested for, the Named Executive Officers during fiscal 2007. The vesting of a portion of restricted stock awards granted under our 2004 Equity Incentive Plan to some of the Named Executive Officers in April 2006 was scheduled to occur in April 2007 but has been delayed in accordance with the terms of such awards as a result of black-out periods of the Company.

Table of Contents

Termination of Employment and Change-in-Control Agreements

I. Employment Agreements.

Effective October 1, 2007, we entered into amended and restated employment agreements with each of our Named Executive Officers (the Employment Agreements). The Employment Agreements provide certain protections to the Named Executive Officers in the event of their termination as summarized in the following table (additional details and definitions can be found in the actual form of employment agreements, which have been filed with the SEC, and which are discussed in more detail below):

Key Elements (1) (2)	CEO	Other Executive Officers
Term	3 years, subject to automatic one-year renewal periods unless notice of termination is given within required timeframes.	3 years, subject to automatic one-year renewal periods unless notice of termination is given within required timeframes.
Severance **Termination due to (i) death or disability, (ii) by us for just cause or (iii) by executive without just cause**	Base salary and bonuses accrued though termination.	Base salary and bonuses accrued though termination.
Severance **Termination (i) by the executive for just cause not related to Change in Control, or (ii) by us without just cause**	18 months of base salary plus bonuses equal to the target bonus as if the targets had been achieved.	12 months of base salary plus bonuses equal to the target bonus as if the targets had been achieved.
Severance **Termination by the executive due to a Change in Control**	24 months of base salary plus bonuses equal to the target bonus as if the targets had been achieved.	18 months of base salary plus bonuses equal to the target bonus as if the targets had been achieved.
Benefit Continuation (health benefits only)	Health benefits coverage for (i) 24 months if terminated due to a Change in Control, (ii) 18 months if terminated by the executive for just cause not related to a Change in Control, and (iii) the longer of 18 months or remaining term of Employment Agreement if terminated by us without just cause .	Health benefits coverage for (i) 18 months if terminated due to a Change in Control, (ii) 12 months if terminated by the executive for just cause not related to a Change in Control, and (iii) the longer of 12 months or remaining term of Employment Agreement if terminated by us without just cause .
Equity Vesting Acceleration	The Employment Agreements do not provide for any acceleration of the vesting of equity upon a Change in Control, however our option and other equity incentive plans do provide for acceleration of vesting for all plan participants under certain circumstances.	

(1) At our discretion (unless the Named Executive Officer elects to receive monthly installments), severance payments are paid by us in either one lump sum or monthly installments. Monthly installments pertaining to the base salary portion of severance may be paid over the remaining term of the applicable Employment Agreement, while monthly installments pertaining to the bonus portion of severance may be paid for up to 24 months from the respective termination date.

Table of Contents

(2) With regards to any payments to be made following a Change in Control, the Employment Agreements each provide that the commencement of the cash payout will be governed by a standard double trigger mechanism. Under this mechanism, the payments commence on the second trigger (as defined in the Employment Agreements), provided further that if such second trigger does not occur no cash payout shall be due under the Employment Agreements. The first trigger is the actual change in control event, while the second trigger relates to the executive either (i) not being offered a comparable position and salary following the change in control, or (ii) being constructively terminated or terminated without just cause during a certain period of time after accepting the new position. Such period of time the executive must be retained is 24 months for the CEO and 12 months for the other Named Executive Officers.

Any severance or other payments to be made to the Named Executive Officers shall be reduced to an amount (not less than zero) which shall not cause any portion of the payments to be subject to any excise taxes that may be imposed by Section 4999 of the Internal Revenue Code, provided that under certain circumstances as described in the employment agreements, each of the Named Executive Officers may be entitled to certain gross-up payments to cover the amount of any excise and related taxes that may incurred due to severance and other payments made to the Named Executive Officer, provided further that any such gross-up payment shall not, under any circumstances, exceed $1,250,000 for the chief executive officer, and $500,000 for the other Named Executive Officers.

The Employment Agreements provide for Named Executive Officers to serve in the following capacities:

Name	Capacity	Salary
Glenn L. Cooper, M.D.	Chief Executive Officer	$ 503,235
Michael W. Rogers	Executive Vice President and Chief Financial Officer	$ 352,265
Thomas F. Farb	President and Chief Operating Officer	$ 425,000
Noah D. Beerman	Executive Vice President and Chief Business Officer	$ 355,000
Mark S. Butler	Executive Vice President, Chief Administrative Officer and General Counsel	$ 352,265
Bobby W. Sandage, Jr., Ph.D.	Executive Vice President, Research and Development and Chief Scientific Officer	$ 375,000

The Employment Agreements also provide for the annual base salaries provided above, subject to an annual review, plus bonuses pursuant to our executive bonus plans and eligibility to receive grants of stock options, restricted stock and other awards pursuant to our incentive plans, as may be granted from time to time by the Compensation Committee or the Board of Directors. We also provide each Named Executive Officer with a $1,000,000 life insurance policy payable to the beneficiary of their choice.

The Employment Agreements also contain customary confidentiality provisions and provide that the Named Executive Officer may not, during the term of the Employment Agreement and for one year from the date of termination of employment, engage in any business competitive with us or our research activities, unless such termination is by the Named Executive Officer for Just Cause, as such term is defined in the Employment Agreement.

Table of Contents

II. Equity Plans

Our option and other equity incentive plans also contain provisions that could trigger benefits for the Named Executive Officers that may differ from salaried employees generally. Pursuant to such benefit plans, following retirement after reaching the age of 55 and having 10 years of service with us, each of the Named Executive Officers will have an extended option exercise period equal to the shorter of (x) the remaining term of the applicable option on the retirement date; or (y) three (3) years from the retirement date, to exercise non-statutory stock options.

III. Quantitative Disclosure

The remainder of this section summarizes quantitative disclosures for each Named Executive Officer regarding estimated payments and other benefits that would have been received by the Named Executive Officer or his estate if his employment terminated as of the last business day of the fiscal year, September 28, 2007, under the following circumstances:

Termination due to (i) death or disability, (ii) by us for just cause or (iii) by executive without just cause .

Termination (i) by the executive for just cause not related to Change in Control, or (ii) by us without just cause .

Termination by the executive due to a Change in Control.

32

Table of Contents

Payments to Glenn L. Cooper, M.D. Assuming a September 28, 2007 Termination (1)

	Cash Severance							
	Base Salary		Bonus		Equity			
Circumstances of Termination:	**Multiple**	**$**	**Multiple**	**$**	**Value of Vested Equity**	**Value of Accelerated Unvested Equity (5)**	**Benefits Continuation**	**Total**
Termination due to (i) by us for just cause or (ii) by executive without just cause (2)	N/A	N/A	N/A	N/A	$ 8,005,956	N/A	N/A	$ 8,005,956
Termination due to death or disability (2)	N/A	N/A	N/A	N/A	$ 8,005,956	$ 928,715(6)	N/A	$ 8,934,671
Termination due to retirement (2)	N/A	N/A	N/A	N/A	$ 8,005,956	$ 545,105(7)	N/A	$ 8,551,061
Termination (i) by the executive for just cause not related to Change in Control, or (ii) by us without just cause (3)	1.5	$ 754,853	1.5	$ 490,655	$ 8,005,956	N/A	$ 0(9)	$ 9,251,464
Termination by the executive due to a Change in Control. (4)	2.0	$ 1,006,470	2.0	$ 654,206	$ 8,005,956	$ 928,715(8)	$ 0(9)	$ 10,595,347

(1) The calculations in the table are based on the event occurring as of September 28, 2007 but are derived using the provisions of the current Employment Agreement of the executive that was effective as of October 1, 2007 as well as the provisions of the Fiscal Year 2008 CEO Bonus Plan.
(2) Under this termination scenario, the executive has the right to receive only base salary and bonuses accrued though termination.
(3) Under these termination scenarios, the executive has a right to receive 18 months of base salary plus bonuses equal to the target bonus as if the targets had been achieved, the maximum of such bonus being 65% of base salary.
(4) Under these termination scenarios, the executive has a right to receive 24 months of base salary plus bonuses equal to the target bonus as if the targets had been achieved, the maximum of such bonus being 65% of base salary.
(5) See Outstanding Equity Awards as of Fiscal Year End table for the vesting status of each executive s equity awards as of 9/30/07.
(6) Pursuant to the provisions of our 2004 Equity Incentive Plan, upon the death or disability of the executive, all then unvested awards issued under such plan automatically accelerate and become fully vested. The amount shown here represents the spread of the such accelerated awards assuming a $6.91 fair market value of our stock (our closing stock price on 9/28/07).
(7) Pursuant to the provisions of our 2004 Equity Incentive Plan and due to the executive having reached age 55 with ten (10) years of service with us, immediately upon the executive s retirement, his then unvested awards issued under such plan automatically accelerate and become fully vested for fifty percent (50%) of the number of shares covered by such unvested awards and for an additional ten percent (10%) of the number of shares covered by such unvested awards for every full year of employment by us beyond ten (10) years, up to the remaining amount of the unvested award. The amount shown here represents the spread of the such accelerated awards assuming a $6.91 fair market value of our stock (our closing stock price on 9/28/07).
(8) All unvested equity is assumed to have accelerated as of 9/28/07. The amount shown here represents the spread of the accelerated awards assuming a $6.91 fair market value of our stock (our closing stock price on 9/28/07).
(9) This is calculated based on the assumption that Dr. Cooper has elected not to carry the health and dental insurance, an election which he in fact made effective as of January 1, 2008.

Table of Contents

Payments to Michael W. Rogers Assuming a September 28, 2007 Termination (1)

	Cash Severance				Equity			
	Base Salary		Bonus					
Circumstances of Termination:	Multiple	$	Multiple	$	Value of Vested Equity	Value of Accelerated Unvested Equity (5)	Benefits Continuation	Total
Termination due to (i) by us for just cause or (ii) by executive without just cause (2)	N/A	N/A	N/A	N/A	$ 4,113,222	N/A	N/A	$ 4,113,222
Termination due to death or disability (2)	N/A	N/A	N/A	N/A	$ 4,113,222	$ 366,087(6)	N/A	$ 4,479,309
Termination due to retirement (2)	N/A	N/A	N/A	N/A	$ 4,113,222	$ N/A(7)	N/A	$ 4,113,222
Termination (i) by the executive for just cause not related to Change in Control, or (ii) by us without just cause (3)	1.0	$ 352,265	1.0	$ 176,133	$ 4,113,222	N/A	$ 16,672(9)	$ 4,658,292
Termination by the executive due to a Change in Control. (4)	1.5	$ 528,398	1.5	$ 264,200	$ 4,113,222	$ 366,087(8)	$ 25,008(9)	$ 5,296,915

(1) The calculations in the table are based on the event occurring as of September 28, 2007 but are derived using the provisions of the current Employment Agreement of the executive that was effective as of October 1, 2007 as well as the Fiscal Year 2008 Senior Executive Bonus Plan.

(2) Under this termination scenario, the executive has the right to receive only base salary and bonuses accrued though termination.

(3) Under these termination scenarios, the executive has a right to receive 12 months of base salary plus bonuses equal to the target bonus as if the targets had been achieved, the maximum of such bonus being 50% of base salary.

(4) Under these termination scenarios, the executive has a right to receive 18 months of base salary plus bonuses equal to the target bonus as if the targets had been achieved, the maximum of such bonus being 50% of base salary.

(5) See Outstanding Equity Awards as of Fiscal Year End table for the vesting status of each executive s equity awards as of 9/30/07.

(6) Pursuant to the provisions of our 2004 Equity Incentive Plan, upon the death or disability of the executive, all then unvested awards issued under such plan automatically accelerate and become fully vested. The amount shown here represents the spread of the such accelerated awards assuming a $6.91 fair market value of our stock (our closing stock price on 9/28/07).

(7) Mr. Rogers is not yet eligible under the provisions of our 2004 Equity Incentive Plan regarding acceleration of awards upon retirement.

(8) All unvested equity is assumed to have accelerated as of 9/28/07. The amount shown here represents the spread of the accelerated awards assuming a $6.91 fair market value of our stock (our closing stock price on 9/28/07).

(9) Health benefits coverage is continued for (i) 18 months if terminated due to a Change in Control, (ii) 12 months if terminated by the executive for just cause not related to a Change in Control, and (iii) the longer of 12 months or remaining term of employment agreement if terminated by us without just cause . The benefits cost includes the employer cost of health and dental insurance only. The executives cost of benefits for months 19-24 of the benefit continuation period are assumed to be equal to the cost for months 1-18. In an actual termination situation, the cost of benefits may change in months 19-24 due to the expiration of Cobra benefits coverage as full group insurance rates may apply.

Table of Contents

Payments to Thomas F. Farb Assuming a September 28, 2007 Termination (1)

	Cash Severance				Equity			
	Base Salary		Bonus			Value of Accelerated		
Circumstances of Termination:	Multiple	$	Multiple	$	Value of Vested Equity	Unvested Equity (5)	Benefits Continuation	Total
Termination due to (i) by us for just cause or (ii) by executive without just cause (2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$ N/A
Termination due to death or disability (2)	N/A	N/A	N/A	N/A	N/A	$ 906,800(6)	N/A	$ 906,800
Termination due to retirement (2)	N/A	N/A	N/A	N/A	N/A	$ N/A(7)	N/A	$ N/A
Termination (i) by the executive for just cause not related to Change in Control, or (ii) by us without just cause (3)	1.0	$ 425,000	1.0	$ 233,750	NA	N/A	$ 16,672(9)	$ 675,422
Termination by the executive due to a Change in Control. (4)	1.5	$ 637,500	1.5	$ 350,625	NA	$ 906,800(8)	$ 25,008(9)	$ 1,919,933

(1) The calculations in the table are based on the event occurring as of September 28, 2007 but are derived using the provisions of the current Employment Agreement of the executive that was effective as of October 1, 2007 as well as the provisions of the Fiscal Year 2008 Senior Executive Bonus Plan.

(2) Under this termination scenario, the executive has the right to receive only base salary and bonuses accrued though termination.

(3) Under these termination scenarios, the executive has a right to receive 12 months of base salary plus bonuses equal to the target bonus as if the targets had been achieved, the maximum of such bonus being 55% of base salary.

(4) Under these termination scenarios, the executive has a right to receive 18 months of base salary plus bonuses equal to the target bonus as if the targets had been achieved, the maximum of such bonus being 55% of base salary.

(5) See Outstanding Equity Awards as of Fiscal Year End table for the vesting status of each executive s equity awards as of 9/30/07.

(6) Pursuant to the provisions of our 2004 Equity Incentive Plan, upon the death or disability of the executive, all then unvested awards issued under such plan automatically accelerate and become fully vested. The amount shown here represents the spread of the such accelerated awards assuming a $6.91 fair market value of our stock (our closing stock price on 9/28/07).

(7) Mr. Farb is not yet eligible under the provisions of our 2004 Equity Incentive Plan regarding acceleration of awards upon retirement.

(8) All unvested equity is assumed to have accelerated as of 9/28/07. The amount shown here represents the spread of the accelerated awards assuming a $6.91 fair market value of our stock (our closing stock price on 9/28/07).

(9) Health benefits coverage is continued for (i) 18 months if terminated due to a Change in Control, (ii) 12 months if terminated by the executive for just cause not related to a Change in Control, and (iii) the longer of 12 months or remaining term of employment agreement if terminated by us without just cause . The benefits cost includes the employer cost of health and dental insurance only. The executives cost of benefits for months 19-24 of the benefit continuation period are assumed to be equal to the cost for months 1-18. In an actual termination situation, the cost of benefits may change in months 19-24 due to the expiration of Cobra benefits coverage as full group insurance rates may apply.

Table of Contents

Payments to Noah D. Beerman Assuming a September 28, 2007 Termination (1)

	Cash Severance				Equity			
	Base Salary		Bonus			Value of		
Circumstances of Termination:	Multiple	$	Multiple	$	Value of Vested Equity	Accelerated Unvested Equity (5)	Benefits Continuation	Total
Termination due to (i) by us for just cause or (ii) by executive without just cause (2)	N/A	N/A	N/A	N/A	$ 1,112,533	N/A	N/A	$ 1,112,533
Termination due to death or disability (2)	N/A	N/A	N/A	N/A	$ 1,112,533	$ 358,662(6)	N/A	$ 1,471,195
Termination due to retirement (2)	N/A	N/A	N/A	N/A	$ 1,112,533	$ N/A(7)	N/A	$ 1,112,533
Termination (i) by the executive for just cause not related to Change in Control, or (ii) by us without just cause (3)	1.0	$ 355,000	1.0	$ 177,500	$ 1,112,533	N/A	$ 16,672(9)	$ 1,661,705
Termination by the executive due to a Change in Control. (4)	1.5	$ 532,500	1.5	$ 266,250	$ 1,112,533	$ 358,662(8)	$ 25,008(9)	$ 2,294,953

(1) The calculations in the table are based on the event occurring as of September 28, 2007 but are derived using the provisions of the current Employment Agreement of the executive that was effective as of October 1, 2007 as well as the Fiscal Year 2008 Senior Executive Bonus Plan.

(2) Under this termination scenario, the executive has the right to receive only base salary and bonuses accrued though termination.

(3) Under these termination scenarios, the executive has a right to receive 12 months of base salary plus bonuses equal to the target bonus as if the targets had been achieved, the maximum of such bonus being 50% of base salary.

(4) Under these termination scenarios, the executive has a right to receive 18 months of base salary plus bonuses equal to the target bonus as if the targets had been achieved, the maximum of such bonus being 50% of base salary.

(5) See Outstanding Equity Awards as of Fiscal Year End table for the vesting status of each executive s equity awards as of 9/30/07.

(6) Pursuant to the provisions of our 2004 Equity Incentive Plan, upon the death or disability of the executive, all then unvested awards issued under such plan automatically accelerate and become fully vested. The amount shown here represents the spread of the such accelerated awards assuming a $6.91 fair market value of our stock (our closing stock price on 9/28/07).

(7) Mr. Beerman is not yet eligible under the provisions of our 2004 Equity Incentive Plan regarding acceleration of awards upon

(8) All unvested equity is assumed to have accelerated as of 9/28/07. The amount shown here represents the spread of the accelerated awards assuming a $6.91 fair market value of our stock (our closing stock price on 9/28/07).

(9) Health benefits coverage is continued for (i) 18 months if terminated due to a Change in Control, (ii) 12 months if terminated by the executive for just cause not related to a Change in Control, and (iii) the longer of 12 months or remaining term of employment agreement if terminated by us without just cause . The benefits cost includes the employer cost of health and dental insurance only. The executives cost of benefits for months 19-24 of the benefit continuation period are assumed to be equal to the cost for months 1-18. In an actual termination situation, the cost of benefits may change in months 19-24 due to the expiration of Cobra benefits coverage as full group insurance rates may apply.

Table of Contents

Payments to Mark S. Butler Assuming a September 28, 2007 Termination (1)

	Cash Severance				Equity			
	Base Salary		Bonus					
Circumstances of Termination:	**Multiple**	**$**	**Multiple**	**$**	**Value of Vested Equity**	**Value of Accelerated Unvested Equity (5)**	**Benefits Continuation**	**Total**
Termination due to (i) by us for just cause or (ii) by executive without just cause (2)	N/A	N/A	N/A	N/A	$ 2,785,749	N/A	N/A	$ 2,785,749
Termination due to death or disability (2)	N/A	N/A	N/A	N/A	$ 2,785,749	$ 366,087(6)	N/A	$ 3,151,836
Termination due to retirement (2)	N/A	N/A	N/A	N/A	$ 2,785,749	$ 189,219(7)	N/A	$ 2,974,968
Termination (i) by the executive for just cause not related to Change in Control, or (ii) by us without just cause (3)	1.0	$ 352,265	1.0	$ 176,133	$ 2,785,749	N/A	$ 16,672(9)	$ 3,330,819
Termination by the executive due to a Change in Control. (4)	1.5	$ 528,398	1.5	$ 264,200	$ 2,785,749	$ 366,087(8)	$ 25,008(9)	$ 3,969,442

(1) The calculations in the table are based on the event occurring as of September 28, 2007 but are derived using the provisions of the current Employment Agreement of the executive that was effective as of October 1, 2007 as well as the Fiscal Year 2008 Senior Executive Bonus Plan.

(2) Under this termination scenario, the executive has the right to receive only base salary and bonuses accrued though termination.

(3) Under these termination scenarios, the executive has a right to receive 12 months of base salary plus bonuses equal to the target bonus as if the targets had been achieved, the maximum of such bonus being 50% of base salary.

(4) Under these termination scenarios, the executive has a right to receive 18 months of base salary plus bonuses equal to the target bonus as if the targets had been achieved, the maximum of such bonus being 50% of base salary.

(5) See Outstanding Equity Awards as of Fiscal Year End table for the vesting status of each executive s equity awards as of 9/30/07.

(6) Pursuant to the provisions of our 2004 Equity Incentive Plan, upon the death or disability of the executive, all then unvested awards issued under such plan automatically accelerate and become fully vested. The amount shown here represents the spread of the such accelerated awards assuming a $6.91 fair market value of our stock (our closing stock price on 9/28/07).

(7) Pursuant to the provisions of our 2004 Equity Incentive Plan and due to the executive having reached age 55 with ten (10) years of service with us, immediately upon the executive s retirement, his then unvested awards issued under such plan automatically accelerate and become fully vested for fifty percent (50%) of the number of shares covered by such unvested awards and for an additional ten percent (10%) of the number of shares covered by such unvested awards for every full year of employment by us beyond ten (10) years, up to the remaining amount of the unvested award. The amount shown here represents the spread of the such accelerated awards assuming a $6.91 fair market value of our stock (our closing stock price on 9/28/07).

(8) All unvested equity is assumed to have accelerated as of 9/28/07. The amount shown here represents the spread of the accelerated awards assuming a $6.91 fair market value of our stock (our closing stock price on 9/28/07).

(9) Health benefits coverage is continued for (i) 18 months if terminated due to a Change in Control, (ii) 12 months if terminated by the executive for just cause not related to a Change in Control, and (iii) the longer of 12 months or remaining term of employment agreement if terminated by us without just cause . The benefits cost includes the employer cost of health and dental insurance only. The executives cost of benefits for months 19-24 of the benefit continuation period are assumed to be equal to the cost for months 1-18. In an actual termination situation, the cost of benefits may change in months 19-24 due to the expiration of Cobra benefits coverage as full group insurance rates may apply.

37

Table of Contents

Payments to Bobby W. Sandage, Jr., Ph.D. Assuming a September 28, 2007 Termination (1)

	Cash Severance				Equity			
	Base Salary		Bonus			Value of Accelerated		
Circumstances of Termination:	**Multiple**	**$**	**Multiple**	**$**	**Value of Vested Equity**	**Unvested Equity (5)**	**Benefits Continuation**	**Total**
Termination due to (i) by us for just cause or (ii) by executive without just cause (2)	N/A	N/A	N/A	N/A	$ 3,597,417	N/A	N/A	$ 3,597,417
Termination due to death or disability (2)	N/A	N/A	N/A	N/A	$ 3,597,417	$ 366,087(6)	N/A	$ 3,963,504
Termination due to retirement (2)	N/A	N/A	N/A	N/A	$ 3,597,417	$ 236,524(7)	N/A	$ 3,833,941
Termination (i) by the executive for just cause not related to Change in Control, or (ii) by us without just cause (3)	1.0	$ 375,000	1.0	$ 187,500	$ 3,597,417	N/A	$ 16,672(9)	$ 4,176,589
Termination by the executive due to a Change in Control. (4)	1.5	$ 562,500	1.5	$ 281,250	$ 3,597,417	$ 366,087(8)	$ 25,008(9)	$ 4,832,262

(1) The calculations in the table are based on the event occurring as of September 28, 2007 but are derived using the provisions of the current Employment Agreement of the executive that was effective as of October 1, 2007 as well as the Fiscal Year 2008 Senior Executive Bonus Plan.

(2) Under this termination scenario, the executive has the right to receive only base salary and bonuses accrued though termination.

(3) Under these termination scenarios, the executive has a right to receive 12 months of base salary plus bonuses equal to the target bonus as if the targets had been achieved, the maximum of such bonus being 50% of base salary.

(4) Under these termination scenarios, the executive has a right to receive 18 months of base salary plus bonuses equal to the target bonus as if the targets had been achieved, the maximum of such bonus being 50% of base salary.

(5) See Outstanding Equity Awards as of Fiscal Year End table for the vesting status of each executive s equity awards as of 9/30/07.

(6) Pursuant to the provisions of our 2004 Equity Incentive Plan, upon the death or disability of the executive, all then unvested awards issued under such plan automatically accelerate and become fully vested. The amount shown here represents the spread of the such accelerated awards assuming a $6.91 fair market value of our stock (our closing stock price on 9/28/07).

(7) Pursuant to the provisions of our 2004 Equity Incentive Plan and due to the executive having reached age 55 with ten (10) years of service with us, immediately upon the executive s retirement, his then unvested awards issued under such plan automatically accelerate and become fully vested for fifty percent (50%) of the number of shares covered by such unvested awards and for an additional ten percent (10%) of the number of shares covered by such unvested awards for every full year of employment by us beyond ten (10) years, up to the remaining amount of the unvested award. The amount shown here represents the spread of the such accelerated awards assuming a $6.91 fair market value of our stock (our closing stock price on 9/28/07).

(8) All unvested equity is assumed to have accelerated as of 9/28/07. The amount shown here represents the spread of the accelerated awards assuming a $6.91 fair market value of our stock (our closing stock price on 9/28/07).

(9) Health benefits coverage is continued for (i) 18 months if terminated due to a Change in Control, (ii) 12 months if terminated by the executive for just cause not related to a Change in Control, and (iii) the longer of 12 months or remaining term of employment agreement if terminated by us without just cause . The benefits cost includes the employer cost of health and dental insurance only. The executives cost of benefits for months 19-24 of the benefit continuation period are assumed to be equal to the cost for months 1-18. In an actual termination situation, the cost of benefits may change in months 19-24 due to the expiration of Cobra benefits coverage as full group insurance rates may apply.

38

Table of Contents

DIRECTOR COMPENSATION

Dr. Cooper is the Chairman of the Board of Directors and is our Chief Executive Officer and, as a result, he receives no additional compensation for serving on the Board. No other Director is an employee of ours.

As part of the review of our Director compensation, the Compensation Committee periodically retains an independent compensation consultant to review whether our non-employee Director compensation practices are competitive with those of other biotechnology, pharmaceutical, and comparable peer companies. Based on the consultant s analyses and recommendations, the Compensation Committee can recommend and the Board can approve changes to the Directors compensation in order to remain competitive with our peer companies. The last such consultant review occurred in August 2006, and certain modifications to the Directors compensation were approved by the Compensation Committee and the Board at that time. The discussion below reflects the current compensation terms for our non-employee Directors.

Cash Compensation

We have established an annual role-based compensation program with respect to the cash component of compensation for members of the Board of Directors. Pursuant to such program, our non-employee Directors receive the annualized fees listed below payable on a quarterly basis with respect to each position held. We do not compensate Directors who are also our employees for their service as Directors.

Role	Annual Cash Component ($)
Board Member	40,000
Presiding Director	20,000 (in addition to Board member component)
Audit Committee Member	10,000
Audit Committee Chair	7,500 (in addition to Committee member component)
Compensation Committee Member	7,500
Compensation Committee Chair	5,000 (in addition to Committee member component)
Nominating and Governance Committee Member	5,000
Nominating and Governance Committee Chair	5,000 (in addition to Committee member component)

In September 2004, the Board of Directors approved a program under the 2004 Equity Incentive Plan to allow Directors to elect to receive, in lieu of the cash compensation payable to Board members and Committee Chairman, deferred stock units. No such elections were made in fiscal 2007.

Options and Deferred Stock Units

Upon becoming a Director, each new Director of ours is entitled to receive a one-time initial grant of an option to purchase 50,000 shares of common stock exercisable at a price equal to the fair market value of our Common Stock as determined on the date of grant. We made an initial option grant of 50,000 shares to James C. Gale when he became a Director in April 2007.

Subject to the discretion of the Compensation Committee, on the date following each annual meeting of the stockholders, each of our Directors (except Dr. Cooper) may also receive annual grants of a number of deferred stock units determined by the Committee at the time of grant based on current market conditions and the fair market value of our common stock. In fiscal 2007, an aggregate of 48,000 deferred stock units were issued to six Directors in accordance with such policy.

We also provide director and officer insurance for all Directors. Each non-employee director is also reimbursed for expenses actually incurred to attend meetings.

The following table summarizes all compensation paid to or earned by Directors for fulfillment of their duties as our Directors in fiscal year 2007.

Table of Contents

Director Compensation Paid for the 2007 Fiscal Year

Name	Fees Earned or Paid in Cash ($)(1)	Option Awards ($)(2)	All Other Compensation ($) (3)	Total ($)
(a)	(b)	(d)	(g)	(h)
Andrew Ferrara	$ 47,000		$ 8,011	$ 55,011
James C. Gale (4)	$ 35,302	$ 22,551		$ 57,853
Michael E. Hanson	$ 65,500		$ 8,011	$ 73,511
Stephen C. McCluski	$ 59,500		$ 8,011	$ 67,511
Cheryl P. Morley	$ 82,000		$ 8,011	$ 90,011
Malcolm Morville, Ph.D.	$ 55,500		$ 8,011	$ 63,511
David Sharrock (4)	$ 50,500		$ 8,011	$ 58,511

(1) Reflects cash compensation paid or earned in fiscal year 2007. Amounts include the following fees paid in fiscal 2007 but earned in fiscal 2006: for Mr. Ferrara, $2,000; for Mr. Sharrock, $3,000; for Ms. Morley, $2,000; for Dr. Morville, $3,000; for Mr. Hanson, $3,000; for Mr. McCluski, $2,000.

(2) Pertains to the initial option grant of 50,000 shares made by us to Mr. Gale when he became a Director in April 2007. The total grant date fair value of $235,065 or $4.7013 per share was derived using the Black-Scholes model with assumptions of: volatility 56%, risk-free rate 4.98%, dividend yield 0%, and expected term 8 years.

(3) Pertains to 8,000 deferred stock units issued to six non-employee Directors during fiscal 2007.

(4) Mr. Gale became a Director in April 2007 and Mr. Sharrock retired as a Director during fiscal 2008 on October 22, 2007.

Table of Contents

COMPENSATION COMMITTEE REPORT(1)

The Compensation Committee has reviewed the Compensation Discussion and Analysis and discussed that Analysis with management. Based on its review and discussions with management, the committee recommended to the Board of Directors of Indevus Pharmaceuticals, Inc. (the Company) that the Compensation Discussion and Analysis be included in this Proxy Statement. This report is provided by the following independent Directors, who comprise the committee:

Michael E. Hanson, (Chairman)

Malcolm Morville, Ph.D.

Andrew Ferrara

(1) Notwithstanding anything to the contrary set forth in any of the previous filings of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings, including this Proxy Statement, in whole or in part, the Compensation Committee Report shall not be incorporated by reference into any such filings.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During fiscal 2007, the members of the Compensation Committee were: Mr. Hanson, its Chairman, Dr. Morville and Mr. Sharrock (a former Director who retired from the Board in October 2007). In fiscal 2007, none of the members of the Compensation Committee was an officer or employee of ours or any of our subsidiaries.

Table of Contents

TRANSACTIONS WITH RELATED PERSONS

Mr. Gale has been nominated for re-election to our Board of Directors at the Annual Meeting. Mr. Gale is chief investment officer of the Corporate Opportunities Funds and Life Sciences Opportunity Fund, affiliates of Sanders Morris Harris, referred to herein as SMH, and former shareholders of Valera Pharmaceuticals, Inc. Mr. Gale is also manager of SMH Hydro Med, LLC, SMH Hydro Med II, LLC, SMH Valera, LLC, affiliates of SMH and former shareholders of Valera Pharmaceuticals, Inc. Mr. Gale is a managing director of SMH. In connection with our merger with Valera Pharmaceuticals, Inc. that was approved by us and our Board of Directors, we granted registration rights covering the shares of our common stock acquired by SMH in connection with the merger for resale under the Securities Act on a Registration Statement on Form S-3.

CODE OF ETHICS

We have adopted our Code of Ethics and Conduct which is applicable to all directors, officers and employees. We have also adopted our Code of Ethics Senior Financial Officers including the Chief Executive Officer, a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer, Corporate Controller and other senior financial officers. Each of these codes of ethics may be accessed and reviewed through our website: http://www.indevus.com. If we make any substantive amendments to the code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer, Corporate Controller and other senior financial officers or grant any waiver, including any implicit waiver, from a provision of such code to our Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer or Corporate Controller, we will disclose the nature of such amendment or waiver in a report on Form 8-K.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 (the 1934 Act) requires our Executive Officers and Directors and other persons who beneficially own more than 10% of a registered class of our equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of our shares and other equity securities. Such Executive Officers, Directors, and greater than 10% beneficial owners are required by SEC regulations to furnish us with copies of all Section 16(a) forms filed by such reporting persons.

Based solely on our review of such forms furnished to us, we believe that all filing requirements applicable to our Executive Officers, Directors and greater than 10% beneficial owners were complied with for fiscal 2007.

Table of Contents

RELATIONSHIP WITH INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP was our independent registered public accounting firm for fiscal 2007 and has no direct or indirect financial interest in us.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM S FEES

During the last two fiscal years, PricewaterhouseCoopers LLP billed us the following fees for its services:

	Fiscal year ended September 30, 2006	Fiscal year ended September 30, 2007
Audit Fees (a)	$ 490,000	$ 750,200
Audit-Related Fees (b)	95,000	292,000
Tax Fees (c)	144,000	142,800
All Other Fees (d)	20,000	355,234
Total	$ 749,000	$ 1,540,234

(a) Includes fees for professional services provided in connection with the annual audit of our financial statements, audits of internal control over financial reporting (Sarbanes-Oxley Section 404), quarterly reviews of our financial statements, consents required to complete the year-end audits of the financial statements and SEC filings.
(b) Includes fees for accounting consultation, SEC filings associated with equity offerings and related comfort letter work.
(c) Includes fees for tax consulting, compliance, planning and advice.
(d) Includes fees for accounting and SEC reference materials, preparation of Form 5500 filings and due diligence related to the April 2007 Valera acquisition.

The Audit Committee of our Board of Directors has considered whether the provision of the above services other than audit services by of PricewaterhouseCoopers LLP is compatible with maintaining such public accounting firm s independence and the Audit Committee has satisfied itself as to the public accounting firm s independence. See also Report of Audit Committee.

POLICY ON AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND

PERMISSIBLE NON-AUDIT SERVICES OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

Consistent with policies of the SEC regarding auditor independence and the Audit Committee charter, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent registered public accounting firm. The Audit Committee s policy is to pre-approve all audit and permissible non-audit services provided or proposed to be taken by the independent registered public accounting firm, except where such services are determined to be *de minimis*. Pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The Audit Committee may also pre-approve particular services on a case-by-case basis. In assessing requests for services by the independent registered public accounting firm, the Audit Committee considers whether such services are consistent with the public accounting firm s independence; whether the independent registered public accounting firm is likely to provide the most effective and efficient service based upon their familiarity with us; and whether the service could enhance our ability to manage or control risk or improve audit quality.

All of the audit, audit-related, tax and other services provided by PricewaterhouseCoopers LLP in fiscal 2007 (described in the footnotes to the table above) and related fees were approved in advance by the Audit Committee.

Table of Contents

AUDIT COMMITTEE REPORT (2)

The Audit Committee consists of Mr. McCluski, the Chairman of the Committee, Mr. Gale, Mr. Hanson and Ms. Morley. The Board has determined that Mr. McCluski, Ms. Morley and Mr. Gale are audit committee financial experts, as defined by SEC rules, and that each of the members of the Audit Committee is independent pursuant to Nasdaq listing standards. The Audit Committee operates in accordance with its written charter which was adopted by the Board of Directors on December 17, 2002. The Audit Committee met six times during fiscal 2007.

Independent Registered Public Accounting Firm

The Audit Committee assists the Board by overseeing the performance of the independent registered public accounting firm and the quality and integrity of the internal accounting, auditing and financial reporting practices of Indevus Pharmaceuticals, Inc. (the Company). The Audit Committee s primary duties and responsibilities are to: (1) serve as an independent and objective party to monitor the Company s financial reporting process and internal control system; (2) be directly responsible for the selection of the Company s independent registered public accounting firm and their compensation; (3) review and appraise the audit efforts of the Company s independent registered public accounting firm; and (4) provide an open avenue of communication among the independent registered public accounting firm, the Company s financial and senior management and the Board of Directors.

In discharging its oversight responsibility of the audit process, the Audit Committee obtained from the independent registered public accounting firm, PricewaterhouseCoopers LLP, a written statement relating to such accounting firm s independence from the Company, consistent with Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, discussed with the auditors any relationships that may impact their objectivity and independence, and satisfied itself as to the accounting firm s independence.

The Audit Committee discussed and reviewed the audited financial statements of the Company as of and for the fiscal year ended September 30, 2007 with management. The Audit Committee has discussed with its independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended Communication with Audit Committees and, with and without management present, discussed and reviewed the results of the independent registered public accounting firm s examination of the financial statements.

Based on the above-mentioned review and discussions with management and the independent registered public accounting firm, the Audit Committee recommended to the Board that the Company s audited financial statements be included in its Annual Report on Form 10-K for the fiscal year ended September 30, 2007, for filing with the SEC. The Audit Committee also recommended the reappointment, subject to stockholder ratification, of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm, and the Board concurred in such recommendation.

Stephen C. McCluski, Chairman

James C. Gale

Michael E. Hanson

Cheryl P. Morley

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(2) The material in this report is not soliciting material, is not deemed filed with the SEC and is not incorporated by reference in any filing of the Company under the Securities Act or the Exchange Act, whether made before or after the date of this proxy statement and irrespective of any general incorporation language in such filing.

Table of Contents

STOCK PR ICE PERFORMANCE PRESENTATION (*)

The following chart compares the cumulative total stockholder return on shares of our common stock with the cumulative total stockholder return of (i) the Nasdaq Market Index and (ii) a peer group index consisting of companies reporting under the Standard Industrial Classification Code 2834 (Pharmaceutical Preparations):

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Among Indevus Pharmaceuticals, Inc., The NASDAQ Composite Index

And A Peer Group

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* Assumes $100 invested on September 30, 2002 and assumes dividends reinvested, although dividends have never been declared on our common stock. Measurement points are at the last trading day of the fiscal years ended September 30, 2002, 2003, 2004, 2005, 2006 and 2007. The material in this chart is not soliciting material, is not deemed filed with the SEC and is not incorporated by reference in any filing of ours under the 1933 Act or the 1934 Act, whether made before or after the date of this Proxy Statement and irrespective of any general incorporation language in such filing. A list of the companies included in the Peer Group will be furnished by us to any stockholder upon written request to the Chief Financial Officer.

Table of Contents

PROPO SAL #1 ELECTION OF DIRECTORS

At the Annual Meeting, seven Directors will be elected by the stockholders to serve until the next Annual Meeting of stockholders or until their successors are elected and shall qualify. Each of the nominees is currently a Director of ours. We have no reason to believe that any of the nominees will not be a candidate or will be unable to serve.

The following sets forth certain information relating to the seven nominees for election to the Board of Directors.

Glenn L. Cooper, M.D. (55) is the Chairman and Chief Executive Officer of Indevus. Dr. Cooper has been Chairman since January 2000, Chief Executive Officer since May 1993, and was President until Thomas F. Farb s election as President in 2006. Dr. Cooper joined Indevus in May 1993 as President, Chief Executive Officer and a member of the Board of Directors. In January 2000, Dr. Cooper was appointed Chairman of the Board of Directors. From September 1992 to June 1994, Dr. Cooper was also President and Chief Executive Officer of Progenitor, Inc. Prior to joining Progenitor, Dr. Cooper was Executive Vice President and Chief Operating Officer of Sphinx Pharmaceuticals Corporation from August 1990. Prior to Sphinx, Dr. Cooper had been associated with Eli Lilly since 1985, from June 1987 to July 1990 as Director, Clinical Research, Europe, of Lilly Research Center Limited; from October 1986 to May 1987 as International Medical Advisor, International Research Coordination of Lilly Research Laboratories; and from June 1985 to September 1986 as Medical Advisor, Regulatory Affairs, Chemotherapy Division at Lilly Research Laboratories. Dr. Cooper received an M.D. from Tufts University School of Medicine, performed his postdoctoral training in Internal Medicine and Infectious Diseases at the New England Deaconess Hospital and Massachusetts General Hospital and received a B.A. from Harvard College.

Andrew Ferrara (68) has been a Director of Indevus since April 2006. In 1993, Mr. Ferrara founded Boston Healthcare Associates, a healthcare consulting company where he continues to serve as president. During the thirteen years since the inception of Boston Healthcare Associates, Mr. Ferrara has advised and been involved in the development of a variety of public and private companies. Prior to founding Boston Healthcare Associates, in 1984 Mr. Ferrara co-founded and served as executive vice president at Polygen Corporation, a computer software company focused on the chemical and pharmaceutical research industries. During Mr. Ferrara s tenure at Polygen, he was responsible for business development, sales and product development and initiated a number of research and licensing agreements with academic institutions and major healthcare corporations in the U.S., Europe and Japan. Prior to co-founding Polygen, Mr. Ferrara spent the first twenty years of his career with Eli Lilly & Company where he held a number of positions in the U.S. and Europe in business areas including sales and sales management, marketing and public relations. During his last four years at Eli Lilly, he held the position of corporate director of new product planning and licensing. Following Eli Lilly and prior to Polygen, Mr. Ferrara served as group vice president of sales and marketing at Collaborative Research, Inc.

James C. Gale (57) has been a Director of Indevus since April 2007. Prior to Indevus acquisition of Valera Pharmaceuticals, Mr. Gale was the Chairman of the board of directors of Valera and served as a member of the Valera board since December 2001. Since 1998, Mr. Gale has been managing director of Signet Healthcare Partners, an affiliate of SMH Capital, Inc., or SMH. From 1998 to January 2008, Mr. Gale was managing director of SMH, an investment management and investment banking company. From 1992 to 1998, Mr. Gale was head of investment banking at Gruntal & Co., L.L.C., a brokerage and investment banking company. Prior to joining Gruntal, Mr. Gale originated and managed private equity investments for the Home Insurance Co., Gruntal s parent, from 1989 to 1992. Mr. Gale also serves on the board of directors of several private companies.

Michael E. Hanson (60) has been a Director of Indevus since December 2004. Mr. Hanson is a founding partner of Barnard Life Sciences, a health care consulting company founded in 2001. From 2002 to 2006, Mr. Hanson was a member of the board of directors, compensation and audit committees of GlycoGenesis, an

Table of Contents

oncology-focused company. From 1998-2001, he was a member of the board of directors, compensation and audit committees of MGI Pharma, Inc. Between 1973 and 1997 he was employed in various positions by Eli Lilly and Co., including President of the Internal Medicine Business Unit: Oncology and Cardiovascular Products and a member of the Operations Committee from 1994-1997. Mr. Hanson also serves on the Board of Directors of Z-92 Pharma and Eleos, Inc. Mr. Hanson received his B.S. in Pharmacy from North Dakota State University in 1970 and his M.S. in Hospital Pharmacy Administration from the University of Minnesota in 1973. He also attended the Babson Consortium at Babson College in 1984 and the Advanced Management Program at Harvard Business School in 1989.

Stephen C. McCluski (55) has been a Director of Indevus since June 2003. Mr. McCluski was Senior Vice President and Chief Financial Officer of Bausch and Lomb Incorporated, a manufacturer of health care products for the eye, from 1995 through his retirement in 2007. During 1994, he was corporate controller of Bausch and Lomb and, in 1993, he was President of Outlook Eyewear, a wholly-owned subsidiary of Bausch and Lomb. Mr. McCluski also serves on the Board of Directors of Immunogen, Inc. and has served on the Board of Directors of both Charles River Laboratories and Control Delivery Systems. Mr. McCluski received his B.S. in Accounting from Ithaca College in 1974.

Cheryl P. Morley (53) has been a Director of Indevus since June 2003 and Presiding Director since December 2004. Ms. Morley has been Senior Vice President for Corporate Strategy at Monsanto Company since June 2003, and prior to that served as president of the Animal Agricultural Group at Monsanto Company since 1997. She previously led the marketing and business development efforts for Monsanto s NutraSweet product and prior to that held a number of positions that involve strategic planning, commercial development and financial analysis at G.D. Searle and Nabisco Brands. Ms. Morley was formerly a Certified Public Accountant with Ernst & Young. She holds a B.S.B.A from the University of Arizona.

Malcolm Morville, Ph.D. (62) has been a Director of Indevus since February 1993. Dr. Morville has been President and Chief Executive Officer and a director of Ariston Pharmaceuticals, Inc., formerly VitaMed, Inc., a biotechnology company, since December 2003. Dr. Morville has also been a director of Phytera, Inc., a biotechnology company, since March 1993. From March 1993 until February 2004, Dr. Morville was President and Chief Executive Officer of Phytera, Inc. From June 1988 through January 1993, Dr. Morville held various positions with ImmuLogic Pharmaceutical Corporation, including Senior Vice President, Allergic Diseases Strategic Business Unit and Senior Vice President, Development and Preclinical Research. From 1970 to June 1988, Dr. Morville held various positions with Pfizer Central Research, including Director, Immunology and Infectious Diseases and Assistant Director, Metabolic Diseases and General Pharmacology. Dr. Morville received his Ph.D. and his B.Sc. in Biochemistry at the University of Manchester Institute of Science and Technology (U.K.).

PROPOSAL #1 REQUIRED VOTE

The affirmative vote of a plurality of votes cast by the holders of shares of our common stock represented at the Annual Meeting and entitled to vote is necessary to elect the Directors. Broker non-votes and abstentions will not be counted for any purpose in determining whether a Director has been elected. Unless marked to the contrary, proxies received will be voted FOR the election as Directors of each of the seven persons named above.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR EACH OF THE NOMINEES FOR ELECTION AS DIRECTORS.

Table of Contents

PROPOSAL #2 APPROVAL AND RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our Board of Directors recommends a vote for the ratification of the appointment, by the Audit Committee of the Board of Directors, of PricewaterhouseCoopers LLP, Certified Public Accountants, as our independent registered public accounting firm for the fiscal year ending September 30, 2008.

A representative of PricewaterhouseCoopers LLP is expected to be present at the Annual Meeting of stockholders with the opportunity to make a statement if he or she desires to do so, and will be available to respond to appropriate questions.

PROPOSAL #2 REQUIRED VOTE

The affirmative vote of the holders of a majority of the total votes cast at the Annual Meeting on Proposal #2 (with holders of common stock and preferred stock voting together as a single class) is required for the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm. Abstentions will not count for any purpose in determining whether such proposal has been approved. Unless marked to the contrary, proxies received will be voted FOR this proposal.

THE BOARD OF DIRECTORS HAS DETERMINED THAT THE RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM IS IN THE BEST INTERESTS OF THE COMPANY AND OUR STOCKHOLDERS AND UNANIMOUSLY RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT.

Table of Contents

S TOCKHOLDER PROPOSALS

2009 Annual Meeting of Stockholders

If a stockholder wants us to include a proposal in our proxy statement and form of proxy for presentation at our 2009 Annual Meeting of stockholders, including a proposal for the election of a Director, the proposal must be received by us no later than September 30, 2008 and must comply with the requirements established by the SEC and with the laws of the State of Delaware.

In the event we receive notice of a stockholder proposal to take action at next year s annual meeting of stockholders that is not submitted for inclusion in our proxy materials, or is submitted for inclusion but is properly excluded from the proxy material, the persons named in the proxy sent or provided by us to our stockholders intend to exercise their discretion to vote on such stockholder proposal in accordance with their best judgment.

By Order of the Board of Directors,

Glenn L. Cooper, M.D.

President and Chairman

Dated: January 24, 2008

49

Table of Contents

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: INDEV1 KEEP THIS PORTION FOR YOUR RECORDS
DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

INDEVUS PHARMACEUTICALS, INC.

02 0000000000 214958286016

Vote On Directors

	For All	Withhold All	For All Except	
1. Election of Directors: **Nominees:** 01) Glenn L. Cooper, M.D. 05) Stephen C. McCluski 02) Andrew Ferrara 06) Cheryl P. Morley 03) James C. Gale 07) Malcolm Morville, Ph.D. 04) Michael E. Hanson	¨	¨	¨	To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below.

Vote On Proposal

	For	Against	Abstain
2. To ratify the appointment of PricewaterhouseCoopers LLP as Indevus independent registered public accounting firm.	¨	¨	¨

3. In their discretion, proxies are authorized to vote upon such other business as may properly come before the meeting.

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

Signature [PLEASE SIGN WITHIN BOX] Date **P55429** Signature (Joint Owners) Date

Table of Contents

ANNUAL MEETING OF STOCKHOLDERS OF

INDEVUS PHARMACEUTICALS, INC.

March 11, 2008

Please date, sign and mail

your proxy card in the

envelope provided as soon

as possible.

Please detach along perforated line and mail in the envelope provided.

INDEVUS PHARMACEUTICALS, INC.

PROXY

ANNUAL MEETING OF STOCKHOLDERS

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Glenn L. Cooper, M.D. or Michael W. Rogers as proxy to represent the undersigned at the Annual Meeting of Stockholders to be held at The Conference Center at Waltham Woods, 860 Winter Street, Waltham, Massachusetts 02451 on March 11, 2008 at 10:00 a.m. and at any adjournment thereof, and to vote the shares of Common Stock or Preferred Stock, as applicable (the Shares) the undersigned would be entitled to vote if personally present, as indicated on the reverse side of this card.

The Shares represented by this proxy will be voted as directed. If no contrary instruction is given, the Shares will be voted **FOR** the election of the nominees; and **FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company.

(Continued and to be signed on the reverse side)