TEVA PHARMACEUTICAL INDUSTRIES LTD
Form 6-K
May 09, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

under the Securities Exchange Act of 1934

For the month of May 2016

Commission File Number 001-16174

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

(Translation of registrant s name into English)

5 Basel Street, P.O. Box 3190

Petach Tikva 4951033 Israel

(Address of principal executive offices)

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

Form 20-F x Form 40-F ¨

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

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

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Exhibits

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

USE OF CERTAIN TERMS

Unless otherwise indicated, all references to the Company, we, our and Teva refer to Teva Pharmaceutical Industrie Limited and its subsidiaries, and references to revenues refer to net revenues. References to U.S. dollars, U.S.$ and $ are to the lawful currency of the United States of America, and references to NIS are to new Israeli shekels. References to MS are to multiple sclerosis. Market data, including both sales and share data, are based on information provided by IMS Health Inc., a provider of market research to the pharmaceutical industry (IMS), unless otherwise stated. References to ROW are to our Rest of the World markets. References to P&G are to The Procter & Gamble Company, and references to PGT are to PGT Healthcare, the joint venture we formed with P&G. References to R&D are to Research and Development, to S&M are to Selling and Marketing and to G&A are to General and Administrative.

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED BALANCE SHEETS

(U.S. dollars in millions)

(Unaudited)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,964	$ 6,946
Accounts receivable	5,188	5,350
Inventories	3,963	3,966
Deferred income taxes	805	735
Other current assets	1,074	1,401
Total current assets	16,994	18,398
Other non-current assets	2,661	2,591
Property, plant and equipment, net	6,632	6,544
Identifiable intangible assets, net	8,566	7,675
Goodwill	20,273	19,025
Total assets	$ 55,126	$ 54,233
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	$ 1,581	$ 1,585
Sales reserves and allowances	6,443	6,601
Accounts payable and accruals	3,528	3,594
Other current liabilities	1,353	1,225
Total current liabilities	12,905	13,005
Long-term liabilities:		
Deferred income taxes	1,698	1,748
Other taxes and long-term liabilities	1,313	1,195
Senior notes and loans	8,619	8,358
Total long-term liabilities	11,630	11,301
Commitments and contingencies, see note 13		
Total liabilities	24,535	24,306
Equity:		
Teva shareholders equity:		

Preferred shares of NIS 0.10 par value per mandatory convertible preferred share; March 31, 2016 and December 31, 2015: authorized 5.0 million shares; issued 3.7 million shares and 3.4 million shares, respectively	3,620	3,291
Ordinary shares of NIS 0.10 par value per share; March 31, 2016 and December 31, 2015: authorized 2,500 million shares; issued 1,022 million shares and 1,016 million shares, respectively	52	52
Additional paid-in capital	18,096	17,757
Retained earnings	15,110	14,851
Accumulated other comprehensive loss	(2,236)	(1,955)
Treasury shares as of March 31, 2016 and December 31, 2015 108 million ordinary shares	(4,207)	(4,227)
	30,435	29,769
Non-controlling interests	156	158
Total equity	30,591	29,927
Total liabilities and equity	$ 55,126	$ 54,233

/s/ E. VIGODMAN
E.Vigodman
President and Chief Executive Officer

/s/ E. DESHEH
E. Desheh
Group Executive Vice President, Chief Financial Officer

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF INCOME

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

(Unaudited)

	Three months ended March 31,	
	2016	**2015**
Net revenues	$ 4,810	$ 4,982
Cost of sales	2,019	2,146
Gross profit	2,791	2,836
Research and development expenses	389	332
Selling and marketing expenses	839	922
General and administrative expenses	304	307
Impairments, restructuring and others	119	299
Legal settlements and loss contingencies	(25)	227
Operating income	1,165	749
Financial expenses net	298	192
Income before income taxes	867	557
Income taxes	228	104
Share in losses of associated companies net	6	9
Net income	633	444
Net loss attributable to non-controlling interests	(3)	(2)
Net income attributable to Teva	636	446
Dividends on preferred shares	66	
Net income attributable to ordinary shareholders	$ 570	$ 446
Earnings per share attributable to ordinary shareholders:		
Basic	$ 0.62	$ 0.52
Diluted	$ 0.62	$ 0.52
Weighted average number of shares (in millions):		
Basic	913	851
Diluted	920	859

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(U.S. dollars in millions)

(Unaudited)

	Three months ended March 31,	
	2016	**2015**
Net income	$ 633	$ 444
Other comprehensive (income) loss, net of tax:		
Currency translation adjustment	(255)	800
Unrealized (gain) loss from derivative financial instruments, net	336	(208)
Unrealized (gain) loss from available-for-sale securities, net	199	(11)
Unrealized gain on defined benefit plans		(3)
Total other comprehensive loss	280	578
Total comprehensive income (loss)	353	(134)
Comprehensive loss attributable to the non-controlling interests	(2)	(1)
Comprehensive income (loss) attributable to Teva	$ 355	$ (133)

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in millions)

(Unaudited)

	Three months ended March 31,	
	2016	**2015**
Operating activities:		
Net income	$ 633	$ 444
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	305	335
Venezuela impairment of net monetary assets	246	
Net change in operating assets and liabilities	189	557
Deferred income taxes net and uncertain tax positions	(51)	(190)
Stock-based compensation	24	29
Impairment of long-lived assets	13	67
Research and development in process	10	
Other items	7	128
Net gain from sale of long-lived assets and investments		(16)
Net cash provided by operating activities	1,376	1,354
Investing activities:		
Acquisitions of subsidiaries, net of cash acquired	(2,236)	
Purchases of property, plant and equipment	(172)	(185)
Purchases of investments and other assets	(29)	(118)
Other investing activities	18	2
Proceeds from sales of long-lived assets and investments	2	82
Net cash used in investing activities	(2,417)	(219)
Financing activities:		
Proceeds from issuance of ordinary shares, net of issuance costs	329	
Proceeds from issuance of mandatory convertible preferred shares, net of issuance costs	329	
Dividends paid on ordinary shares	(307)	(290)
Dividends paid on preferred shares	(60)	
Repayment of long-term loans and other long-term liabilities	(41)	(1,458)
Net change in short-term debt	38	17
Other financing activities	(31)	(48)
Proceeds from exercise of options by employees	13	166
Proceeds from long-term loans and other long-term liabilities	(3)	2,145
Purchases of treasury shares		(439)

Net cash provided by financing activities	267	93
Translation adjustment on cash and cash equivalents	(208)	(58)
Net change in cash and cash equivalents	(982)	1,170
Balance of cash and cash equivalents at beginning of period	6,946	2,226
Balance of cash and cash equivalents at end of period	$ 5,964	$ 3,396

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 Basis of presentation:

The accompanying unaudited consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements. In the opinion of management, the financial statements reflect all adjustments necessary to fairly state the financial position and results of operations of Teva Pharmaceutical Industries Limited (Teva or the Company). These consolidated financial statements and notes thereto are unaudited and should be read in conjunction with the Company s audited financial statements included in its Annual Report on Form 20-F for the year ended December 31, 2015, as filed with the Securities and Exchange Commission (SEC). Amounts at December 31, 2015 were derived from the audited balance sheet at that date, but not all disclosures required by accounting principles generally accepted in the United States are included. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of results that could be expected for the entire fiscal year.

NOTE 2 Recently adopted and issued accounting pronouncements:

In March 2016, the Financial Accounting Standards Board (FASB) issued guidance on stock compensation. The guidance is intended to simplify several aspects of the accounting for share-based payments, including income tax consequences, classification of awards as either equity or liabilities, and classification in the statement of cash flows. The guidance will be effective for fiscal years beginning after December 15, 2016, including interim periods within that year. Teva is currently evaluating the potential effect of the guidance on its consolidated financial statements.

In February 2016, the FASB issued guidance on leases. The guidance requires entities to record lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. The guidance will become effective for interim and annual periods beginning after December 15, 2018 (early adoption is permitted) and is required to be adopted at the earliest period presented using a modified retrospective approach. Teva is currently evaluating the potential effect of the guidance on its consolidated financial statements.

In January 2016, the FASB issued guidance which updates certain aspects of recognition, measurement, presentation and disclosure of equity investments. The guidance requires entities to recognize changes in fair value in net income rather than in accumulated other comprehensive income. The guidance is effective for interim and annual periods beginning after December 15, 2017 (early adoption is permitted). Teva is currently evaluating the potential effect of the guidance on its consolidated financial statements.

In November 2015, the FASB issued guidance on balance sheet classification of deferred taxes. The guidance requires entities to present all deferred tax assets and liabilities, along with any related valuation allowance, as non-current on the balance sheet. The guidance is effective for interim and annual periods beginning after December 15, 2016 (early adoption is permitted). Teva is currently evaluating the potential effect of the guidance on its consolidated financial statements.

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue upon the transfer of goods or services to customers in an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to

determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity s contracts with customers. In March and April 2016, the FASB issued additional guidance regarding identifying performance obligations and licensing, and certain principal versus agent considerations. The guidance is effective for the interim and annual periods beginning on or after December 15, 2017 (early adoption is permitted for the interim and annual periods beginning on or after December 15, 2016). The guidance permits the use of either a retrospective or cumulative effect transition method. Teva is currently evaluating the impact of the guidance on its consolidated financial statements.

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Notes to Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 3 Certain transactions:

Japanese business venture:

On April 1, 2016, Teva and Takeda established Teva Takeda Yakuhin Ltd., a new business venture in Japan. The business venture combines Teva s Japanese generics business along with Takeda s portfolio of non-exclusive products. The business venture seeks to leverage Takeda s leading brand reputation and strong distribution presence in Japan with Teva s expertise in supply chain, operational network, infrastructure and R&D, to meet the wide-ranging needs of patients and growing importance of generics in Japan through the provision of off-patent medicines.

Teva assigned 49% in the business venture to Takeda in consideration of the contribution of its off-patented products business in Japan. The business venture will be consolidated in Teva s financial statements commencing April 1, 2016, and is expected to increase Teva s sales in the Japanese market. Takeda s interest in the business venture will be accounted for under net income (loss) attributable to non-controlling interests.

Rimsa acquisition:

On March 3, 2016, Teva completed the acquisition of Representaciones e Investigaciones Médicas, S.A. de C.V. (Rimsa), a leading pharmaceutical manufacturing and distribution company in Mexico, along with a portfolio of products and companies, intellectual property, assets and pharmaceutical patents in Latin America and Europe, for an amount of $2.3 billion, in a cash free, debt free set of transactions. Teva financed the transaction using cash on hand.

The table below summarizes the preliminary estimates of the fair value of the assets acquired and liabilities assumed and resulting goodwill. These preliminary estimates are subject to revision, which may result in adjustments to the preliminary values presented below, when the appraisals are finalized.

	U.S.$ in millions
Current assets	$ 113
Deferred taxes and other assets	590
Identifiable intangible assets:	
Product rights	781
Research and development in-process	177
Trade names / customer relationships	49
Goodwill	1,074
Total assets acquired	2,784

Current liabilities	56
Other liabilities	401
Total liabilities assumed	457
Net assets acquired	$ 2,327

Pro forma information giving effect to the acquisition has not been provided as the results would not be material.

Actavis Generics acquisition:

On July 27, 2015, Teva announced that it entered into a definitive agreement with Allergan plc to acquire Allergan s worldwide generic pharmaceutical business (Actavis Generics). Teva will pay total consideration of $33.75 billion in cash and approximately 100 million Teva shares, to be issued to Allergan at the closing of the transaction. At the time of the announcement, total consideration was estimated to be $40.5 billion. However, the final consideration will be based on the closing price of Teva s ordinary shares at the date of acquisition. Teva expects that closing will occur in June 2016, based upon its current estimate of the timing to obtain clearance from the U.S. Federal Trade Commission. Teva previously received regulatory approval from the European Commission for the acquisition, subject to certain divestitures.

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(Unaudited)

Teva entered into a $22 billion bridge loan credit agreement and a separate $5 billion term loan facility with various banks, to finance a portion of the Actavis Generics acquisition. Any loan under the bridge facility would bear an interest rate of LIBOR plus a margin ranging from 0.30% to 1.65%, so long as Teva maintains an investment-grade credit rating. The term facility contemplates two tranches of $2.5 billion each, with the first tranche maturing in full after three years and bearing an interest rate of LIBOR plus a margin ranging from 1.000% to 1.375% based on Teva s credit rating from time to time and the second tranche maturing in five years with payment installments each year and bearing an interest rate of LIBOR plus a margin ranging from 1.125% to 1.5%, based on Teva s credit rating from time to time. To date, Teva has not drawn any funds under the bridge loan or the term facility. Teva expects to offer various tranches of debt securities, either in lieu of drawing under the bridge loan facility or to repay amounts borrowed thereunder.

NOTE 4 Inventories:

Inventories consisted of the following:

	March 31, 2016	December 31, 2015
	U.S. $ in millions	
Finished products	$ 2,010	$ 2,050
Raw and packaging materials	1,227	1,195
Products in process	525	535
Materials in transit and payments on account	201	186
	$ 3,963	$ 3,966

NOTE 5 Earnings per share:

Basic earnings per share is computed by dividing net income attributable to Teva s ordinary shareholders by the weighted average number of ordinary shares outstanding (including fully vested restricted share units (RSUs)) during the period, net of treasury shares.

In computing diluted earnings per share for the three months ended March 31, 2016 and 2015, basic earnings per share was adjusted to take into account the potential dilution that could occur upon the exercise of options and non-vested RSUs granted under employee stock compensation plans, and convertible senior debentures, using the treasury stock method.

Additionally, for the three months ended March 31, 2016, no account was taken of the potential dilution of the mandatory convertible preferred shares amounting to 59 million weighted average shares, since they had an

anti-dilutive effect on earnings per share.

NOTE 6 Revenue recognition:

The Company recognizes revenues from product sales, including sales to distributors when persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed or determinable and collectability is reasonably assured. This generally occurs when products are shipped and title and risk and rewards for the products are transferred to the customer.

Revenues from product sales are recorded net of provisions for estimated chargebacks, rebates, returns, prompt pay discounts and other deductions, such as shelf stock adjustments, which can be reasonably estimated. When sales provisions are not considered reasonably estimable by Teva, the revenue is deferred to a future period when more information is available to evaluate the impact.

Provisions for chargebacks, rebates including Medicaid and other governmental program discounts and other promotional items, such as shelf stock adjustments, are included in sales reserves and allowances (SR&A) under current liabilities. These provisions are recognized concurrently with the sales of products. Prompt payment discounts are netted against accounts receivable.

Calculations for these deductions from sales are based on historical experience and the specific terms in the individual agreements. Chargebacks and rebates are the largest components of sales reserves and allowances. Provisions

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(Unaudited)

for chargebacks are determined using historical chargeback experience, expected chargeback levels and wholesaler sales information for new products, which are compared to externally obtained distribution channel reports for reasonableness. Rebates are recognized based on contractual obligations in place at the time of sales with consideration given to relevant factors that may affect the payment as well as historical experience for estimated market activity. Shelf-stock adjustments are granted to customers based on the existing inventory of a customer following decreases in the invoice or contract price of the related product and are estimated based on expected market performance. Teva records a reserve for estimated sales returns by applying historical experience of customer returns to the amounts invoiced and the amount of returned products to be destroyed versus products that can be placed back in inventory for resale.

Revenue resulting from the achievement of milestone events stipulated in agreements is recognized when the milestone is achieved. Milestones are based upon the occurrence of a substantive element specified in the contract or as a measure of substantive progress towards completion under the contract.

Revenues from licensees, sales of licensed products and technology are recorded in accordance with the contract terms, when third-party sales can be reliably measured and collection of the funds is reasonably assured.

Sales reserves and allowances consisted of the following:

	March 31, 2016	December 31, 2015
	U.S. $ in millions	
Rebates	$ 3,194	$ 3,382
Medicaid	1,402	1,319
Chargebacks	1,023	1,091
Returns	608	598
Other	216	211
	$ 6,443	$ 6,601

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Notes to Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 7 Equity:

Accumulated other comprehensive loss

The following tables present the changes in the components of accumulated other comprehensive loss for the three months ended March 31, 2016 and 2015:

		Three months ended March 31, 2016				
Components of accumulated other comprehensive loss	**Description of the reclassification to the statement of income**	**Other comprehensive (income) loss before reclassifications**	**Amounts reclassified to the statement of income**	**Net other comprehensive (income) loss before tax**	**Corresponding income tax**	**Net other comprehensive (income) loss after tax**
		U.S.$ in millions				
Currency translation adjustment	Currency translation adjustment, reclassified to share in losses of associated companies-net	$ (253)	$ (3)	$ (256)	$ 1	$ (255)
Unrealized (gain) loss from available-for-sale securities		201		201	(2)	199
Unrealized (gain) loss from derivative financial instruments		336		336		336
Unrealized (gain) loss on defined benefit plans			*	*	*	*
Total accumulated other comprehensive (income) loss		$ 284	$ (3)	$ 281	$ (1)	$ 280

		Three months ended March 31, 2015				
Components of accumulated other	**Description of the reclassification to the**	**Other comprehensive (income)**	**Amounts reclassified to the statement**	**Net other comprehensive**	**Corresponding income tax**	**Net other comprehensive**

comprehensive loss	statement of income	loss before reclassifications	of income	(income) loss before tax		(income) loss after tax
		U.S.$ in millions				
Currency translation adjustment		$ 800	$	$ 800	$	$ 800
Unrealized (gain) loss from available-for-sale securities		(10)		(10)	(1)	(11)
Unrealized (gain) loss from derivative financial instruments	Loss on derivative financial instruments**	(192)	(16)	(208)		(208)
Unrealized (gain) loss on defined benefit plans	Loss on defined benefit plans, reclassified to various statement of income items***		(1)	(1)	(2)	(3)
Total accumulated other comprehensive (income) loss		$ 598	$ (17)	$ 581	$ (3)	$ 578

* Represents an amount less than $0.5 million.

** $26 million loss reclassified to financial expenses - net and $10 million gain reclassified to net revenues.

*** Reclassified to cost of sales, research and development expenses, selling and marketing expenses and general and administrative expenses.

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Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Share repurchase program

In October 2014, Teva s board of directors authorized the Company to increase its share repurchase program to up to $3 billion of its ordinary shares and American Depositary Shares. As of March 31, 2016, $2.1 billion remained available for repurchases. This repurchase authorization has no time limit. Repurchases may be commenced or suspended at any time.

Teva did not repurchase any of its shares during the first quarter of 2016, and as of March 31, 2016 and December 31, 2015, Teva s treasury share balance amounted to 108 million shares.

The following table summarizes the shares repurchased and the amount Teva spent on these repurchases:

	Three months ended March 31,	
	2016	2015
	in millions	
Amount spent on shares repurchased	$	$ 439
Number of shares repurchased		7.7

NOTE 8 Debt obligations

Short-term debt is mainly comprised of current maturities of long-term liabilities and convertible debentures.

Long-term debt includes the following:

	Weighted average interest rate as of March 31, 2016	Maturity	March 31, 2016	December 31, 2015
	%		(U.S. $ in millions)	
Senior notes EUR 1,300 million	1.25%	2023	$ 1,462	$ 1,409
Senior notes EUR 1,000 million	2.88%	2019	1,132	1,092
Senior notes EUR 700 million	1.88%	2027	790	762
Senior notes USD 950 million	2.40%	2016	950	950
Senior notes USD 844 million	2.95%	2022	843	843

Senior notes USD 789 million	6.15%	2036	780	780
Senior notes USD 700 million	2.25%	2020	700	700
Senior notes USD 613 million	3.65%	2021	612	611
Senior notes USD 588 million	3.65%	2021	586	586
Senior notes CHF 450 million	1.50%	2018	466	455
Fair value hedge accounting adjustments			44	(10)
Total senior notes			8,365	8,178
Term loan JPY 65 billion	0.99%	2017	583	544
Term loan JPY 35 billion	1.42%	2019	311	290
Term loan JPY 35 billion	LIBOR +0.3%	2018	311	290
Other loans JPY 5 billion	1.67%	2016		39
Total loans			1,205	1,163
Debentures USD 15 million	7.20%	2018	15	15
Other	7.48%	2026	8	5
Total debentures and others			23	20
Less current maturities			(950)	(989)
Derivative instruments				11
Less debt issuance cost*			(24)	(25)
Total long-term debt			$ 8,619	$ 8,358

* In accordance with FASB guidance, effective January 1, 2016, some debt issuance costs are presented net of long-term debt. Prior periods were adjusted to conform with the guidance.

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Notes to Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 9 Fair value measurement:

Teva s financial instruments consist mainly of cash and cash equivalents, investment in securities, current and non-current receivables, short-term credit, accounts payable and accruals, long-term loans and other long-term senior notes and loans, convertible senior debentures and derivatives.

The fair value of the financial instruments included in working capital and non-current receivables approximates their carrying value. The fair value of long-term bank loans mostly approximates their carrying value, since they bear interest at rates close to the prevailing market rates.

Financial instruments measured at fair value

The Company measures fair value and discloses fair value measurements for financial assets and liabilities. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

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

Financial items carried at fair value as of March 31, 2016 and December 31, 2015 are classified in the tables below in one of the three categories described above:

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
	U.S. $ in millions			

Cash and cash equivalents:				
Money markets	$ 134	$	$	$ 134
Cash deposits and other	5,830			5,830
Investment in securities:				
Equity securities	1,150			1,150
Structured investment vehicles		95		95
Other	12		1	13
Derivatives:				
Asset derivatives - options and forward contracts		31		31
Asset derivatives - treasury locks, interest rate, cross currency and forward starting interest rate swaps		107		107
Liabilities derivatives - options and forward contracts		(16)		(16)
Liabilities derivatives - treasury locks, interest rate and forward starting interest rate swaps		(33)		(33)
Contingent consideration*			(824)	(824)
Total	$ 7,126	$ 184	$ (823)	$ 6,487

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Notes to Consolidated Financial Statements (Continued)

(Unaudited)

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	U.S. $ in millions			
Cash and cash equivalents:				
Money markets	$ 162	$	$	$ 162
Cash deposits and other	6,784			6,784
Investment in securities:				
Equity securities	1,352			1,352
Structured investment vehicles		94		94
Other	11		1	12
Derivatives:				
Asset derivatives - options and forward contracts		25		25
Asset derivatives - interest rate, cross-currency and forward starting interest rate swaps		105		105
Liability derivatives - options and forward contracts		(11)		(11)
Liability derivatives - treasury locks, interest rate and forward starting interest rate swaps		(26)		(26)
Contingent consideration*			(812)	(812)
Total	$ 8,309	$ 187	$ (811)	$ 7,685

* Contingent consideration represents either liabilities or assets recorded at fair value in connection with acquisitions. Teva determined the fair value of the liability or asset for the contingent consideration based on a probability-weighted discounted cash flow analysis. This fair value measurement is based on significant unobservable inputs in the market and thus represents a Level 3 measurement within the fair value hierarchy. The fair value of the contingent consideration is based on several factors, such as: the cash flows projected from the success of unapproved product candidates; the probability of success for product candidates including risks associated with uncertainty regarding achievement and payment of milestone events; the time and resources needed to complete the development and approval of product candidates; the life of the potential commercialized products and associated risks of obtaining regulatory approvals in the U.S. and Europe and the risk adjusted discount rate for fair value measurement.

The contingent consideration is evaluated quarterly or more frequently if circumstances dictate. Changes in the fair value of contingent consideration are recorded in earnings.

Significant changes in unobservable inputs, mainly the probability of success and cash flows projected, could result in material changes to the contingent consideration liability.

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

	Three months ended March 31, 2016	Year ended December 31, 2015
	U.S. $ in millions	
Fair value at the beginning of the period	$ (811)	$ (616)
Auction-rate securities realized		(13)
Additional contingent consideration resulting from:		
Eagle license		(128)
Gecko acquisition		(5)
Adjustments to provisions for contingent consideration:		
Labrys acquisition		(311)
Eagle license	(37)	(63)
MicroDose acquisition	(3)	(10)
Cephalon acquisition	(11)	(5)
NuPathe acquisition		(10)
Settlement of contingent consideration:		
Labrys acquisition	25	350
Eagle acquisition	15	
Adjustments to contingent considerations due to changes in purchase price allocations and others	(1)	
Fair value at the end of the period	$ (823)	$ (811)

Financial instruments not measured at fair value

Financial instruments measured on a basis other than fair value are mostly comprised of senior notes and convertible senior debentures, and are presented in the below table in terms of fair value:

	Estimated fair value*	
	March 31, 2016	December 31, 2015
	U.S. $ in millions	

Senior notes included under long-term liabilities	$ 7,659	$ 7,305
Senior notes and convertible senior debentures included under short-term liabilities	1,625	1,778
Total	$ 9,284	$ 9,083

* The fair value was estimated based on quoted market prices, where available.

Investment in securities

The fair value, amortized cost and gross unrealized holding gains and losses of such securities are presented in the below table:

	Fair value	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses
	U.S. $ in millions			
March 31, 2016	$ 1,392	$ 1,276	$ 151	$ 35
December 31, 2015	$ 1,620	$ 1,303	$ 338	$ 21

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Devaluation in Venezuela

Venezuela has experienced hyperinflation in recent years. The government of Venezuela currently has two official exchange rates: the DIPRO rate of 10 bolivars per U.S. dollar (which replaced the CENCOEX rate of 6.3 in March 2016) and the DICOM rate, which fluctuates and is currently approximately 200 bolivars per U.S. dollar (which replaced the SIMADI rate in March 2016; also in March 2016, the SICAD rate of 13.5 was eliminated). In addition, remittance of cash outside of Venezuela is limited.

Following the announcement of the Venezuelan Central Bank and the Ministry for Banking and Finance of FX Regulation 35, effective March 10, 2016, the DIPRO rate will be used to settle transactions involving the importation, manufacture and distribution of pharmaceutical products. Teva used the CENCOEX rate until March 2016 and then replaced it with the DIPRO rate to report its Venezuelan financial position, results of operations and cash flows, since it believes that the nature of its business operations in Venezuela, which include the importation, manufacture and distribution of pharmaceutical products, qualifies for the most preferential rates permitted by law.

As a result of the new regulation, Teva impaired its monetary balance sheet items as of March 31, 2016 using the new DIPRO rate (instead of the CENCOEX rate it previously used), with the net difference of $246 million recorded in financial expenses net.

In the event of an additional devaluation or if a less favorable exchange rate is used, Teva would be exposed to further potential impairments of net monetary assets in Venezuela, which, as of March 31, 2016, amounted to approximately $346 million.

NOTE 10 Derivative instruments and hedging activities:

The following table summarizes the notional amounts for hedged items, when transactions are designated as hedge accounting:

	March 31, 2016	December 31, 2015
	U.S. $ in millions	
Forward starting interest rate swap - cash flow hedge	$ 3,750	$ 3,500
Treasury lock - cash flow hedge	1,500	500
Interest rate swap - fair value hedge	1,294	1,294
Cross-currency swap - cash flow hedge	588	588

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The following table summarizes the classification and fair values of derivative instruments:

	Fair value			
	Designated as hedging instruments		Not designated as hedging instruments	
Reported under	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
	U.S. $ in millions			
Asset derivatives:				
Other current assets:				
Forward starting interest rate swap- cash flow hedge	$ 5	$ 26	$	$
Treasury locks - cash flow hedge	1			
Option and forward contracts			31	25
Other non-current assets:				
Cross-currency swaps - cash flow hedge	57	78		
Interest rate swaps - fair value hedge	44	1		
Liability derivatives:				
Other current liabilities:				
Forward starting interest rate swaps-cash flow hedge	(11)	(10)		
Treasury locks - cash flow hedge	(22)	(5)		
Option and forward contracts			(16)	(11)
Senior notes and loans:				
Interest rate swaps - fair value hedge		(11)		

Derivatives on foreign exchange contracts mainly hedge Teva s balance sheet items from currency exposure, but are not designated as hedging instruments for accounting purposes. With respect to such derivatives, gains of $14 million and $26 million were recognized under financial expenses-net for the three months ended March 31, 2016 and 2015, respectively. Such gains offset the revaluation of the balance sheet items also recorded under financial expenses-net.

With respect to the interest rate and cross-currency swap agreements, gains of $5 million and $9 million were recognized under financial expenses-net for the three months ended March 31, 2016 and 2015, respectively. Such gains mainly reflect the differences between the fixed interest rate and the floating interest rate.

In the second half of 2015 and the first quarter of 2016, Teva entered into forward starting interest rate swap and treasury lock agreements designated as cash flow hedges of future debt issuances, anticipated in connection with the Actavis Generics acquisition, with respect to $3.75 billion and $1.5 billion notional amounts, respectively. These

agreements hedge the variability in anticipated future interest payments due to possible changes in the benchmark interest rate between the date the agreements were entered into and the expected date of future debt issuances in 2016, at which time these agreements are intended to be settled. Upon completion of a debt issuance and settlement of the swap and treasury lock agreements, the change in fair value of these instruments recorded as part of other comprehensive income will be amortized under financial expenses-net over the life of the debt.

Certain of the forward starting interest rate swaps and treasury lock agreements matured during the first quarter of 2016, generating a loss of $275 million due to a decline in interest rates, and will be settled by June 30, 2016. This loss is recorded in other comprehensive income. In the first quarter of 2016, Teva entered into similar transactions designated as cash flow hedge to effectively continue the original cash flow hedge transactions.

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NOTE 11 Other expenses:

a. Impairments, restructuring and others consisted of the following:

	Three months ended March 31,	
	2016	2015
Contingent consideration	$ 51	$ 244
Acquisition expenses	24	1
Restructuring expenses	19	3
Impairments of long-lived assets	13	65
Integration expenses	13	
Other	(1)	(14)
Total	$ 119	$ 299

b. Possible impairment of Teva s in-process R&D:

As of March 31, 2016, the carrying value of Teva s in-process R&D asset Revascor® (mesenchymal precursor cells), which was in-licensed from Mesoblast Ltd., was $258 million. This drug candidate is in a phase 3 trial for congestive heart failure. Under Teva s agreement with Mesoblast, in the second quarter of 2016 Teva may have the right to terminate its participation in the development of Revascor®. If Teva chooses not to continue with the trial, a full impairment of the in-process R&D asset would be recorded in the second quarter of 2016. Such an event would likely lead Teva to reassess the carrying value of its equity interest in Mesoblast, which is currently $75 million, and the related balance in other comprehensive income related to currency translation of $72 million.

NOTE 12 Legal settlements and loss contingencies:

Legal settlements and loss contingencies for the three months ended March 31, 2016 amounted to income of $25 million, compared to expenses of $227 million for the three months ended March 31, 2015. The expenses in 2015 were mainly related to $282 million in additional reserves related to the settlement of the modafinil antitrust litigation, partially offset by insurance proceeds relating to the settlement of the pantoprazole patent litigation.

NOTE 13 Contingencies:

General

From time to time, Teva and/or its subsidiaries are subject to claims for damages and/or equitable relief arising in the ordinary course of business. In addition, as described below, in large part as a result of the nature of its business, Teva is frequently subject to litigation. Teva believes that it has meritorious defenses to all actions brought against it and vigorously pursues the defense or settlement of each such action. Except as described below, Teva does not currently have a reasonable basis to estimate the loss, or range of loss, that is reasonably possible with respect to matters disclosed in this note.

Teva records a provision in its financial statements to the extent that it concludes that a contingent liability is probable and the amount thereof is estimable. Based upon the status of these cases, management s assessments of the likelihood of damages, and the advice of counsel, no provisions have been made regarding the matters disclosed in this note, except as noted below. Litigation outcomes and contingencies are unpredictable, and excessive verdicts can occur. Accordingly, management s assessments involve complex judgments about future events and often rely heavily on estimates and assumptions.

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Based on currently available information, Teva believes that none of the proceedings brought against it described below is likely to have a material adverse effect on its financial condition. However, if one or more of such proceedings were to result in final judgments against Teva, such judgments could be material to its results of operations and cash flows in a given period. In addition, Teva incurs significant legal fees and related expenses in the course of defending its positions even if the facts and circumstances of a particular litigation do not give rise to a provision in the financial statements.

In connection with third-party agreements, Teva may under certain circumstances be required to indemnify, and may be indemnified by, in unspecified amounts, the parties to such agreements against third-party claims. Teva s agreements with third parties may require Teva to indemnify them, or require them to indemnify Teva, for the costs and damages incurred in connection with product liability claims, in specified or unspecified amounts.

Except as otherwise noted, all of the litigation matters disclosed below involve claims arising in the United States. All third-party sales figures given below are based on IMS data.

Intellectual Property Litigation

From time to time, Teva seeks to develop generic versions of patent-protected pharmaceuticals for sale prior to patent expiration in various markets. In the United States, to obtain approval for most generics prior to the expiration of the originator s patents, Teva must challenge the patents under the procedures set forth in the Hatch-Waxman Act of 1984, as amended. To the extent that Teva seeks to utilize such patent challenge procedures, Teva is and expects to be involved in patent litigation regarding the validity, enforceability or infringement of the originator s patents. Teva may also be involved in patent litigation involving the extent to which its product or manufacturing process techniques may infringe other originator or third-party patents.

Additionally, depending upon a complex analysis of a variety of legal and commercial factors, Teva may, in certain circumstances, elect to market a generic version even though litigation is still pending. This could be before any court decision is rendered or while an appeal of a lower court decision is pending. To the extent Teva elects to proceed in this manner, it could face substantial liability for patent infringement if the final court decision is adverse to Teva.

The general rule for damages in patent infringement cases in the United States is that the patentee should be compensated by no less than a reasonable royalty, and it may also be able in certain circumstances to be compensated for its lost profits. The amount of a reasonable royalty award would be calculated based on the sales of Teva s generic product. The amount of lost profits would be based on the lost sales of the branded product. The launch of an authorized generic and other generic competition may be relevant to the damages calculation. In addition, the patentee may seek consequential damages as well as enhanced damages of up to three times the profits lost by the patent holder for willful infringement, although courts have typically awarded much lower multiples.

Teva is also involved in litigation regarding patents in other countries where it does business, particularly in Europe, where Teva has in recent years increased the number of launches of its generic versions of branded pharmaceuticals

prior to the expiration of the innovator s patents. The laws concerning generic pharmaceuticals and patents differ from country to country. Damages for patent infringement in Europe may include lost profits or a reasonable royalty, but enhanced damages for willful infringement are generally not available.

On April 28, 2015, Teva launched its 2 mg, 5 mg, 10 mg, 15 mg, 20 mg, and 30 mg aripiprazole tablets, which are the AB-rated versions of Otsuka s Abilify®, which had annual sales according to IMS of approximately $7.8 billion for the twelve months ending December 2014. Otsuka has sued Teva in New Jersey federal court for infringement of patents that expire in March 2023 and March 2027. On April 16, 2015, the court denied Otsuka s motion for a temporary restraining order based on one of the patents in suit. On January 20, 2016, the court issued an order granting summary judgment on the grounds that Teva s generic product does not infringe Otsuka s patent directed to using aripriprazole in combination with certain anti-depressants. Otsuka plans to seek interlocutory appeal of this decision. The court has not yet issued decisions on the other patents in suit. No trial date has been scheduled. Were Otsuka ultimately to be successful in its allegation of patent infringement, Teva could be required to pay damages relating to past sales of its aripiprazole products and enjoined from future sales until patent expiry. The amount of damages, if any, would be determined through a separate trial.

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Product Liability Litigation

Teva s business inherently exposes it to potential product liability claims, and in recent years the number of product liability claims asserted against Teva has increased. Teva maintains a program of insurance, which may include commercial insurance, self-insurance (including direct risk retention), or a combination of both approaches, in amounts and on terms that it believes are reasonable and prudent in light of its business and related risks. However, Teva sells, and will continue to sell, pharmaceuticals that are not covered by insurance; in addition, it may be subject to claims for which insurance coverage is denied as well as claims that exceed its policy limits. Product liability coverage for pharmaceutical companies is becoming more expensive and increasingly difficult to obtain. As a result, Teva may not be able to obtain the type and amount of commercial insurance it desires, or any commercial insurance on reasonable terms, in all of its markets.

Teva and/or its subsidiaries have been named as defendants in approximately 4,000 product liability lawsuits brought against them and other manufacturers by approximately 4,400 plaintiffs claiming injuries (including allegations of neurological disorders, such as tardive dyskinesia) from the long-term use of metoclopramide (the generic form of Reglan®). Certain of these claims are covered by insurance. For over 20 years, the FDA-approved label for metoclopramide has contained warning language about the risk of tardive dyskinesia, and that the risk of developing the disorder increases with duration of treatment and total cumulative dose. In February 2009, the FDA announced that manufacturers of metoclopramide would be required to revise the label, including the addition of a black box warning about the risk of tardive dyskinesia resulting from long-term usage. The cases of approximately 500 of the plaintiffs have been dismissed or otherwise resolved to date. Teva expects to be dismissed from at least some of the remaining cases on the basis that some plaintiffs cannot demonstrate that they used a Teva product.

Approximately 40% of the plaintiffs are parties to cases against Teva that are part of a mass tort proceeding in the Philadelphia Court of Common Pleas. In addition, there are mass tort proceedings under way in state courts in California and New Jersey. The California litigation includes about half of the total plaintiffs. In the New Jersey proceeding, the trial court granted the defendants motion to dismiss, on federal preemption grounds, all claims other than those based on an alleged failure to timely update the label. The appellate court affirmed this dismissal. In addition, on April 11, 2016, the New Jersey Supreme Court heard oral argument on Teva s further appeal of the decision with respect to the update claims. All of the cases in the New Jersey proceeding with respect to the generic defendants have been stayed pending resolution of the appeal.

Competition Matters

As part of its generic pharmaceuticals business, Teva has challenged a number of patents covering branded pharmaceuticals, some of which are among the most widely-prescribed and well-known drugs on the market. Many of Teva s patent challenges have resulted in litigation relating to Teva s attempts to market generic versions of such pharmaceuticals under the federal Hatch-Waxman Act. Some of this litigation has been resolved through settlement agreements in which Teva obtained a license to market a generic version of the drug, often years before the patents expire. Occasionally, Teva and its subsidiaries have been named as defendants in cases that allege antitrust violations

arising from such settlement agreements. Teva believes that its settlement agreements are lawful and serve to increase competition, and intends to defend them vigorously. However, the plaintiffs in these cases typically allege (1) that Teva received something of value from the innovator in exchange for an agreement to delay generic entry, and (2) that they would have realized significant savings if there had been no settlement and competition had commenced earlier. These cases seek various forms of injunctive and monetary relief, including damages based on the difference between the brand price and what the generic price allegedly would have been, and disgorgement of profits, trebled under the relevant statutes, plus attorneys fees and costs. The damages allegedly caused by the alleged delays in generic entry generally depend on the size of the branded market and the length of the alleged delay, and can be substantial, particularly where the alleged delays are lengthy or branded drugs with sales in the billions of dollars are involved.

On June 17, 2013, the United States Supreme Court held, in *Federal Trade Commission v. Actavis, Inc*. (the AndroGel case), that a rule of reason test should be applied in analyzing whether such settlements potentially violate the federal antitrust laws. The Supreme Court held that a trial court must analyze each agreement in its entirety in order to determine whether it violates the antitrust laws. This new test may lead to increased scrutiny of Teva s patent settlements, additional action by the Federal Trade Commission (FTC), and an increased risk of liability in Teva s currently pending antitrust litigations.

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In April 2006, certain subsidiaries of Teva were named in a class action lawsuit filed in the United States District Court for the Eastern District of Pennsylvania. The case alleges that the settlement agreements entered into between Cephalon, Inc., now a Teva subsidiary (Cephalon), and various generic pharmaceutical companies in late 2005 and early 2006 to resolve patent litigation involving certain finished modafinil products (marketed as Provigil®) were unlawful because they had the effect of excluding generic competition. The case also alleges that Cephalon improperly asserted its Provigil® patent against the generic pharmaceutical companies. The first lawsuit was brought by King Drug Company of Florence, Inc. on behalf of itself and as a proposed class action on behalf of any other person or entity that purchased Provigil® directly from Cephalon (the Direct Purchaser Class). Similar allegations have been made in a number of additional complaints, including those filed on behalf of a proposed class of end payors of Provigil (the End Payor Class), by certain individual end payors, by certain retail chain pharmacies and by Apotex, Inc. (collectively, these cases are referred to as the Philadelphia Modafinil Action). Separately, Apotex challenged Cephalon s Provigil® patent, and in October 2011, the Court found the patent to be invalid and unenforceable based on inequitable conduct. This decision was affirmed on appeal in April 2013. Teva has either settled or reached agreements in principle to settle with all of the plaintiffs in the Philadelphia Modafinil Action.

In February 2008, following an investigation, the FTC sued Cephalon only, alleging that Cephalon violated Section 5 of the Federal Trade Commission Act, which prohibits unfair or deceptive acts or practices in the marketplace, by unlawfully maintaining a monopoly in the sale of Provigil® and improperly excluding generic competition (the FTC Modafinil Action).

In addition to the Philadelphia Modafinil Action and the FTC Modafinil Action, the City of Providence, Rhode Island and the State of Louisiana have also filed lawsuits against Cephalon and other Teva subsidiaries. Cephalon and other Teva subsidiaries have also received notices of potential claims related to the Provigil® settlement agreements by certain other claimants. Annual sales of Provigil® were approximately $500 million at the time of the settlement agreements, and approximately $1 billion when the first generic modafinil product was launched in March 2012.

On May 28, 2015, Cephalon entered into a consent decree with the FTC under which the FTC dismissed its claims against Cephalon in the FTC Modafinil Action in exchange for payment of $1.2 billion (less set-offs for prior settlements) by Cephalon and Teva into a settlement fund. The net amount paid into the settlement fund may be used to settle certain other related cases, including the claims still pending in the litigation described above, as well as other government investigations. Under the consent decree, Teva also agreed to certain injunctive relief with respect to the types of settlement agreements Teva may enter into to resolve patent litigation in the United States for a period of ten years. If, at the end of the ten years, the entire settlement fund has not been fully disbursed, any amount remaining will be paid to the Treasurer of the United States. On July 16, 2015, Teva made a payment into the settlement fund for the difference of $1.2 billion less the amount of the agreed-upon settlements reached as of that date. Management recorded an additional charge of $398 million in the second quarter of 2015 as a result of the settlement with the FTC.

In April 2011, the European Commission opened a formal investigation against both Cephalon and Teva to assess whether the 2005 settlement agreement between the parties might have had the object or effect of hindering the entry of generic modafinil. The opening of proceedings indicates that the Commission will investigate the case as a matter

of priority, but does not mean that there has been a definitive finding of violation of law.

Barr Laboratories, Inc., a subsidiary of Teva (Barr), is a defendant in actions in California, Florida and Kansas alleging that a January 1997 patent litigation settlement agreement between Barr and Bayer Corporation was anticompetitive and violated state antitrust and consumer protection laws. In the California case, the trial court granted defendants summary judgment motions, and the California Court of Appeal affirmed in October 2011. While an appeal was pending before the California Supreme Court, the trial court approved a $74 million class settlement with Bayer. On May 7, 2015, the California Supreme Court reversed and remanded the case back to the trial court for a rule of reason inquiry as to the remaining defendants, including Barr. A trial has been scheduled for October 2016. Based on the plaintiffs expert testimony in a prior federal multidistrict litigation, estimated sales of ciprofloxacin in California were approximately $500 million during the alleged damages period.

Barr remains a party to both the California and Florida actions. In the Kansas action, the court granted preliminary approval of the settlement Bayer entered into with plaintiffs on June 5, 2015. On July 22, 2015, Barr and the remaining co-defendants also agreed to settle with the plaintiffs. The settlement has been submitted to the court for approval, following which the case will be dismissed.

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In December 2011, three groups of plaintiffs sued Wyeth and Teva for alleged violations of the antitrust laws in connection with their settlement of patent litigation involving extended release venlafaxine (generic Effexor® XR) entered into in November 2005. The cases were filed by a purported class of direct purchasers, by a purported class of indirect purchasers and by certain chain pharmacies. The plaintiffs claim that the settlement agreement between Wyeth and Teva unlawfully delayed generic entry. On October 7, 2014, the court granted Teva s motion to dismiss in the direct purchaser cases, after which the parties agreed that the court s reasoning applied equally to the indirect purchaser cases. Plaintiffs filed notices of appeal, and the Third Circuit has consolidated the appeal with a separate antitrust case in which Teva is not a party, *In re Lipitor Antitrust Litigation*, solely for purposes of disposition by the same appellate panel. Annual sales of Effexor® XR were approximately $2.6 billion at the time of settlement and at the time generic versions were launched in July 2010.

In February 2012, two purported classes of direct-purchaser plaintiffs sued GlaxoSmithKline (GSK) and Teva for alleged violations of the antitrust laws in connection with their settlement of patent litigation involving lamotrigine (generic Lamictal®) entered into in February 2005. In August 2012, a purported class of indirect purchaser plaintiffs filed a nearly identical complaint against GSK and Teva. The plaintiffs claim that the settlement agreement unlawfully delayed generic entry and seek unspecified damages. In December 2012, the District Court dismissed the cases. On January 24, 2014, the District Court denied the direct purchaser plaintiffs motion for reconsideration and affirmed its original dismissal of the cases. On June 26, 2015, the Third Circuit reversed and remanded for further proceedings. The defendants petitions for review by the full court were denied on September 23, 2015. On February 19, 2016, Teva and GSK filed a petition for a writ of certiorari in the United States Supreme Court. Litigation has resumed in the district court in both the direct purchaser and indirect purchaser actions. Teva and GSK filed a motion for judgment on the pleadings in the indirect purchaser action on December 28, 2015, which the District Court granted in part and denied in part on March 22, 2016. Annual sales of Lamictal® were approximately $950 million at the time of the settlement, and approximately $2.3 billion at the time generic competition commenced in July 2008.

On June 18, 2014, two groups of end payors sued AstraZeneca and Teva, as well as Ranbaxy and Dr. Reddy s, in the Philadelphia Court of Common Pleas for violating the antitrust laws by entering into settlement agreements to resolve the esomeprazole (generic Nexium®) patent litigation (the Philadelphia Esomeprazole Actions). These end payors had opted out of a class action that was filed in the Massachusetts federal court in September 2012 and resulted in a jury verdict in December 2014 in favor of AstraZeneca and Ranbaxy (the Massachusetts Action). Prior to the jury verdict, Teva settled with all plaintiffs for $24 million. The allegations in the Philadelphia Esomeprazole Actions are nearly identical to those in the Massachusetts Action. The Philadelphia Esomeprazole Actions are stayed pending resolution of the Massachusetts Action, which is currently on appeal to the First Circuit with respect to the claims against the non-settling defendants AstraZeneca and Ranbaxy.

In April 2013, purported classes of direct purchasers of, and end payors for, Niaspan® (extended release niacin) sued Teva and Abbott for violating the antitrust laws by entering into a settlement agreement in April 2005 to resolve patent litigation over the product. A multidistrict litigation has been established in the United States District Court for the Eastern District of Pennsylvania. Teva and Abbott s motion to dismiss was denied on September 8, 2014. In March, April and December 2015 and in January 2016, several individual direct purchaser opt-out plaintiffs filed

complaints with allegations nearly identical to those of the direct purchaser class. Annual sales of Niaspan® were approximately $416 million at the time of the settlement and approximately $1.1 billion at the time generic competition commenced in September 2013.

Since July 2013, numerous lawsuits have been filed in several federal courts by purported classes of end payors for, and direct purchasers of, Solodyn® ER (minocycline hydrochloride) against Medicis, the innovator, and several generic manufacturers, including Teva. The lawsuits allege, among other things, that the settlement agreements between Medicis and the generic manufacturers violated the antitrust laws. Teva entered into its agreement with Medicis in March 2009. A multidistrict litigation has been established in the United States District Court for the District of Massachusetts. On September 12, 2014, plaintiffs filed an amended complaint that did not name Teva as a defendant. Annual sales of Solodyn® ER were approximately $380 million at the time Teva settled, and approximately $765 million at the time generic competition entered the market on a permanent basis in November 2011.

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Since November 2013, numerous lawsuits have been filed in several federal courts by purported classes of end payors for, and direct purchasers of, Aggrenox® (dipyridamole/aspirin tablets) against Boehringer Ingelheim (BI), the innovator, and several Teva subsidiaries. The lawsuits allege, among other things, that the settlement agreement between BI and Barr entered into in August 2008 violated the antitrust laws. A multidistrict litigation has been established in the United States District Court for the District of Connecticut. Teva and BI s motion to dismiss was denied on March 23, 2015. Defendants motion for certification for an immediate appeal of that decision was granted on July 21, 2015, but the Second Circuit denied hearing the appeal. Annual sales of Aggrenox® were approximately $340 million at the time of the settlement, and were approximately $455 million at the time generic competition began in July 2015. Teva launched a generic version of Aggrenox® in July 2015.

Since January 2014, numerous lawsuits have been filed in the United States District Court for the Southern District of New York by purported classes of end payors for and direct purchasers of ACTOS® and ACTO*plus* Met® (pioglitazone and pioglitazone plus metformin) against Takeda, the innovator, and several generic manufacturers, including Teva. The lawsuits allege, among other things, that the settlement agreements between Takeda and the generic manufacturers violated the antitrust laws. Teva entered into its agreement with Takeda in December 2010. Defendants motions to dismiss with respect to the end payor lawsuits were granted on September 23, 2015. On October 22, 2015, the end payors filed a notice of appeal of this ruling, and on March 22, 2016, a stipulation was filed dismissing Teva and the other generic defendants from the appeal. The lawsuits brought by the direct purchasers were stayed pending a ruling on the motions to dismiss the end payor lawsuits. Following the ruling on the motions to dismiss in the end payor lawsuits, the direct purchaser plaintiffs amended their complaint. Defendants have moved to dismiss that complaint. At the time of the settlement, annual sales of ACTOS® were approximately $3.7 billion and annual sales of ACTO*plus* Met® were approximately $500 million. At the time generic competition commenced in August 2012, annual sales of ACTOS® were approximately $2.8 billion and annual sales of ACTO*plus* Met® were approximately $430 million.

On September 8, 2014, the FTC sued AbbVie Inc. and certain of its affiliates (AbbVie) and Teva in the United States District Court for the Eastern District of Pennsylvania alleging that they violated the antitrust laws when they entered into a settlement agreement to resolve the AndroGel® patent litigation and a supply agreement under which AbbVie would supply authorized generic product for TriCor® to Teva. The FTC alleges that Teva agreed to delay the entry of its generic testosterone gel product in exchange for entering into the TriCor supply agreement. On May 6, 2015, the court granted Teva s motion to dismiss the FTC s claim as to Teva. The FTC s motions for reconsideration and for entry of partial final judgment to permit an immediate appeal were denied.

Since May 29, 2015, two lawsuits have been filed in the United States District Court for the Southern District of New York by a purported class of direct purchasers of, and a purported class of end payors for, Namenda IR® (memantine hydrochloride) against Forest Laboratories, LLC and Actavis PLC, the innovator, and several generic manufacturers, including Teva. The direct purchasers withdrew their complaint and filed an amended complaint that did not name Teva as a defendant. Defendants have moved to dismiss the claims made by the end payors. The lawsuits allege, among other things, that the settlement agreements between Forest and the generic manufacturers violated the antitrust laws. Teva entered into its agreement with Forest in November 2009. Annual sales of Namenda IR® at the time of the

settlement were approximately $1.1 billion, and are currently approximately $1.4 billion.

Government Investigations and Litigation Relating to Pricing and Marketing

Teva is involved in government investigations and litigation arising from the marketing and promotion of its specialty pharmaceutical products in the United States. Many of these investigations originate through what are known as *qui tam* complaints, in which the government reviews a complaint filed under seal by a whistleblower (a relator) that alleges violations of the federal False Claims Act. The government considers whether to investigate the allegations and will, in many cases, issue subpoenas requesting documents and other information, including conducting witness interviews. The government must decide whether to intervene and pursue the claims as the plaintiff. Once a decision is made by the government, the complaint is unsealed. If the government decides not to intervene, then the relator may decide to pursue the lawsuit on his own without the active participation of the government.

Under the federal False Claims Act, the government (or relators who pursue the claims without the participation of the government in the case) may seek to recover up to three times the amount of damages in addition to a civil penalty of $5,500 to $11,000 for each allegedly false claim submitted to the government for payment. Generally speaking, these

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cases take several years for the investigation to be completed and, ultimately, to be resolved (either through litigation or settlement) after the complaint is unsealed. In addition, some states have pursued investigations under state false claims statutes or consumer protection laws, either in conjunction with a government investigation or separately. There is often collateral litigation that arises from public disclosures of government investigations, including the filing of class action lawsuits by third party payors alleging fraud-based claims or by shareholders alleging violations of the securities laws.

A number of state attorneys general and others have filed various actions against Teva and/or certain of its subsidiaries in the United States relating to reimbursements or drug price reporting under Medicaid or other programs. Such price reporting is alleged to have caused governments and others to pay inflated reimbursements for covered drugs. Teva and its subsidiaries have reached settlements in most of these cases, and remain parties to litigation in Illinois. A provision for the cases has been included in the financial statements. Trial in the Illinois case concluded in the fourth quarter of 2013, and post-trial briefing has been submitted and is under consideration. The State of Illinois is seeking approximately $100 million in compensatory damages. Any such damages ultimately awarded by the court (which would be determined through a separate trial) are subject to automatic trebling. In addition, the state is seeking unspecified statutory penalties that could range, depending on the method used for calculation, from a de minimis amount to well over $100 million. Teva denies any liability, and will argue that even if the court finds liability, compensatory damages and penalties should be significantly less than the amount sought by the state.

Several *qui tam* complaints have been unsealed in recent years as a result of government decisions not to participate in the cases. The following is a summary of certain government investigations, *qui tam* actions and related matters.

In December 2009, the United States District Court for the District of Massachusetts unsealed a complaint alleging that numerous drug manufacturers, including certain Teva subsidiaries, violated the federal False Claims Act in connection with Medicaid reimbursement for certain vitamins, dietary supplements and DESI products that were allegedly ineligible for reimbursement. The Department of Justice declined to join in the matter. The defendants, including Teva, filed a motion to dismiss, which was granted on February 25, 2013. The plaintiffs deadline to appeal the dismissal has not yet expired.

In September 2013, the State of Louisiana filed a complaint seeking unspecified damages against 54 pharmaceutical companies, including several Teva subsidiaries. The complaint asserts that each of the defendants allegedly defrauded the state by falsely representing that its products were FDA-approved drugs, which allegedly caused the state Medicaid program to pay millions of dollars in reimbursement claims for products that it would not otherwise have covered. The case was dismissed without prejudice in September 2015, with the court finding that the state was not a proper plaintiff. The state has appealed this decision.

Cephalon has received and responded to subpoenas related to Treanda®, Nuvigil® and Fentora®. In March 2013, a federal False Claims Act complaint filed against Cephalon in the United States District Court for the Southern District of New York was unsealed. The case was transferred to the Eastern District of Pennsylvania. The complaint alleges off-label promotion of Treanda® and Fentora®. The court granted Cephalon s motion to dismiss the Fentora claims and

denied Cephalon s motion to dismiss the Treanda® claims. In January 2014, a separate federal False Claims Act complaint that had been filed in the United States District Court for the Eastern District of Pennsylvania was served on Cephalon. The complaint alleges off-label promotion of Fentora®, Nuvigil® and Provigil®. The court dismissed the Fentora® claims and denied Cephalon s motion to dismiss the Provigil® and Nuvigil® claims. On August 13, 2015, Cephalon submitted a motion to modify the court s order denying its motion to dismiss the relators Provigil® claims. On February 2, 2016, the District Court granted Cephalon s motion for judgment on the pleadings as to Provigil® claims that allegedly occurred prior to February 28, 2008. Relators motion for reconsideration is pending.

In May 2014, counsel for Santa Clara County and Orange County, purportedly on behalf of the People of California, filed a complaint in the Superior Court for Orange County, California against Teva and Cephalon, along with several other pharmaceutical companies, contending that defendants allegedly engaged in improper marketing of opioids, including Actiq® and Fentora®. In June 2014, the City of Chicago filed a similar complaint against Teva and Cephalon in the Circuit Court of Cook County, Illinois, which has been removed to the Northern District of Illinois. Both complaints assert claims under state law based upon alleged improper marketing of opioids, and both seek a variety of damages, including restitution, civil penalties, disgorgement of profits, treble damages, attorneys fees and injunctive relief. Neither complaint specifies the exact amount of damages at issue. Teva and Cephalon filed motions to dismiss in both the

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California and Chicago actions. In the California action, in August 2015, the Court granted the defendants demurrer, or motion to dismiss, on primary jurisdiction grounds and the case has been stayed. In the Chicago action, all claims against Teva and Cephalon were dismissed without prejudice. In August 2015, the City of Chicago filed a second amended complaint and defendants have filed motions to dismiss the second amended complaint. The City filed its opposition to the motion to dismiss on February 18, 2016, and the defendants replied on April 15, 2016.

In December 2015, the Mississippi Attorney General filed a lawsuit against Teva Pharmaceuticals USA, Inc. and Cephalon along with the same defendants named in the California and Chicago actions described above. The Mississippi complaint is similar to the California and Chicago complaints, asserts claims under Mississippi state law based upon alleged improper marketing of opioids, including Actiq® and Fentora®, and seeks a variety of damages including restitution, civil penalties, disgorgement of profits, treble damages, attorneys fees and injunctive relief. The complaint does not specify the exact amount of damages at issue. Teva Pharmaceuticals USA, Inc. and Cephalon, along with the co-defendants named in the action, filed joint and individual motions to dismiss on March 8, 2016.

On January 8, 2014, Teva received a civil investigative demand from the United States Attorney for the Southern District of New York seeking documents and information from January 1, 2006 related to sales, marketing and promotion of Copaxone® and Azilect®. The demand states that the government is investigating possible civil violations of the federal False Claims Act. On March 12, 2015, the docket in this matter and a False Claims Act civil *qui tam* complaint concerning this matter were unsealed by the court, which revealed that the United States Attorney had notified the court on November 18, 2014 that it had declined to intervene in and proceed with the lawsuit. The *qui tam* relators, however, are moving forward with the lawsuit. On June 5, 2015, Teva filed motions to dismiss the complaint. On February 22, 2016, the Court stayed its decision on the relators claims based on state and local laws, denied Teva s motions to dismiss the False Claims Act claims, and instructed the relators to amend their complaint with additional information. On March 23, 2016, the relators filed an amended complaint. On April 11, 2016, Teva filed an answer.

For several years, Teva has been conducting a voluntary worldwide investigation into business practices that may have implications under the U.S. Foreign Corrupt Practices Act (FCPA). Teva has engaged outside counsel to assist in its investigation, which was prompted by the receipt, beginning in 2012, of subpoenas and informal document requests from the SEC and the Department of Justice (DOJ) to produce documents with respect to compliance with the FCPA in certain countries. Teva has provided and will continue to provide documents and other information to the SEC and the DOJ, and is cooperating with these agencies in their investigations of these matters. In the course of its investigation, which is substantially complete, Teva has identified certain business practices and transactions in Russia, certain European countries, certain Latin American countries and other countries in which it conducts business, which likely constitute violations of the FCPA and/or local law. In connection with its investigation, Teva has also become aware that Teva affiliates in certain countries under investigation provided to local authorities inaccurate or altered information relating to marketing or promotional practices. Teva has brought and continues to bring these issues to the attention of the SEC and the DOJ. Teva cannot predict at this time the impact on the Company as a result of these matters, which may include material fines in amounts that are not currently estimable, limitations on the Company s conduct, the imposition of a compliance monitor and/or other civil and criminal

penalties.

Environmental Matters

Teva and some of its subsidiaries are party to a number of environmental proceedings, or has received claims, including some brought pursuant to the Comprehensive Environmental Response, Compensation and Liability Act (commonly known as the Superfund law) or other national, federal, provincial or state and local laws imposing liability for alleged noncompliance with various environmental laws and regulations or for the investigation and remediation of releases of hazardous substances and for natural resource damages. Many of these proceedings and claims seek to require the generators of hazardous wastes disposed of at a third-party-owned site, or the party responsible for a release of hazardous substances into the environment that impacted a site, to investigate and clean up the site or to pay for such activities, including for oversight by governmental authorities, the response costs associated with such oversight and any related damages to natural resources. Teva has received claims, or has been made a party to these proceedings, along with other potentially responsible parties, as an alleged generator of wastes that were disposed of or treated at third-party waste disposal sites, or as a result of an alleged release from one of Teva s facilities or former facilities that may have adversely impacted the environment.

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In many of these cases, the government or private litigants allege that the responsible parties are jointly and severally liable for the investigation and cleanup costs. Although the liability among the responsible parties, under certain circumstances, may be joint and several, these proceedings are frequently resolved so that the allocation of cleanup and other costs among the parties reflects the relative contributions of the parties to the site conditions and takes into account other pertinent factors. Teva s potential liability varies greatly at each of the sites in the proceedings or for which claims have been asserted; for some sites the costs of the investigation, cleanup and natural resource damages have not yet been determined, and for others Teva s allocable share of liability has not been determined. At other sites, Teva has been paying a share of the costs, the amounts of which have not been, and are not expected to be, material. Teva has taken an active role in identifying those costs, to the extent they are identifiable and estimable, which do not include reductions for potential recoveries of cleanup costs from insurers, indemnitors, former site owners or operators or other potentially responsible parties. In addition, enforcement proceedings relating to alleged federal, state, commonwealth or local regulatory violations at some of Teva s facilities have resulted, or may result, in the imposition of significant penalties (in amounts not expected to materially adversely affect Teva s results of operations) and the recovery of certain state or commonwealth costs and natural resource damages, and have required, or may require, that corrective measures and enhanced compliance measures be implemented.

NOTE 14 Segments:

Teva has two reportable segments: generic and specialty medicines. The generics segment develops, manufactures, sells and distributes generic or branded generic medicines as well as active pharmaceutical ingredients (API). The specialty segment engages in the development, manufacture, sale and distribution of branded specialty medicines such as those for central nervous system and respiratory indications, as well as those marketed in the women s health, oncology and other specialty businesses.

Teva s other activities include the over-the-counter (OTC) medicines business, distribution activity mainly in Israel and Hungary and medical devices. The OTC activity is primarily conducted through a joint venture with P&G, which combines Teva s production capabilities and market reach with P&G s marketing expertise and expansive global platform.

Teva s chief executive officer, who is the chief operating decision maker (CODM), reviews financial information prepared on a consolidated basis, accompanied by disaggregated information about revenues and contributed profit by the two identified reportable segments, namely generic and specialty medicines, and revenues by geographical markets.

The accounting policies of the individual segments are the same as those described in the summary of significant accounting policies in Note 1 to the annual consolidated financial statements included in Teva s Annual Report on Form 20-F for the year ended December 31, 2015.

Segment profit consists of gross profit, less S&M and R&D expenses related to the segment. Segment profit does not include G&A expenses, amortization and certain other items.

Teva manages its assets on a total company basis, not by segments, as many of its assets are shared or commingled. Teva s CODM does not regularly review asset information by reportable segment, and therefore Teva does not report asset information by reportable segment.

Teva s chief executive officer reviews the Company s strategy and organizational structure on a continuing basis. Any changes in strategy may lead to a reevaluation of Teva s current segments and goodwill assignment.

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Segment information

The following tables present profit by segments and a reconciliation of Teva s segment profit to Teva s consolidated income before income taxes, for the three months ended March 31, 2016 and 2015:

	Generics		Specialty	
	Three months ended March 31,		Three months ended March 31,	
	2016	2015	2016	2015
	U.S.$ in millions		U.S.$ in millions	
Revenues	$ 2,170	$ 2,621	$ 2,152	$ 1,956
Gross profit	999	1,284	1,871	1,678
R&D expenses	136	111	229	215
S&M expenses	279	374	457	486
Segment profit	$ 584	$ 799	$ 1,185	$ 977

	Three months ended March 31,	
	2016	2015
	U.S.$ in millions	
Generic medicines profit	$ 584	$ 799
Specialty medicines profit	1,185	977
Total segment profit	1,769	1,776
Profit of other activities	51	50
Total profit	1,820	1,826
Amounts not allocated to segments:		
Amortization	189	220
General and administrative expenses	30	