TEVA PHARMACEUTICAL INDUSTRIES LTD
Form 6-K
November 02, 2011
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

under the Securities Exchange Act of 1934

For the month of November 2011

Commission File Number 0-16174

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

(Translation of registrant s name into English)

5 Basel Street, P.O. Box 3190

Petach Tikva 49131 Israel

(Address of principal executive offices)

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

Form 20-F x Form 40-F ¨

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

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

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Exhibits

As listed below, attached as Exhibit 101 to this Report on Form 6-K is certain information contained in this Report on Form 6-K of Teva Pharmaceutical Industries Limited relating to the three and nine months ended September 30, 2011, formatted in XBRL (Extensible Business Reporting Language). Users of this data are advised, in accordance with Rule 406T of Regulation S-T promulgated by the Securities and Exchange Commission, that this Interactive Data File is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Exhibit No.	Description
Exhibit 2.1	Bridge Loan Agreement dated as of September 9, 2011 among Teva Pharmaceutical Industries Limited, Teva Pharmaceuticals USA, Inc. and Teva Pharmaceutical Finance Company B.V., as borrowers, Barclays Bank PLC, as administrative agent, and the Lenders party thereto
Exhibit 2.2	Loan Agreement dated as of October 7, 2011 among Teva Pharmaceutical Industries Limited, Teva Pharmaceuticals USA, Inc. and Teva Finance Services B.V., as borrowers, HSBC Bank USA National Association, as administrative agent and as documentation agent and the Lenders party thereto
EX-101.INS	XBRL Taxonomy Instance Document
EX-101.SCH	XBRL Taxonomy Extension Schema Document
EX-101.CAL	XBRL Taxonomy Calculation Linkbase Document
EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
EX-101.LAB	XBRL Taxonomy Label Linkbase Document
EX-101.PRE	XBRL Taxonomy Presentation Linkbase Document

INTRODUCTION AND USE OF CERTAIN TERMS

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

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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 September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net sales	$ 4,344	$ 4,250	$ 12,636	$ 11,703
Cost of sales	2,098	1,783	6,002	5,102
Gross profit	2,246	2,467	6,634	6,601
Research and development expenses net	227	239	709	663
Selling and marketing expenses	806	751	2,442	2,147
General and administrative expenses	112	236	617	607
Legal settlements, acquisition and restructuring expenses and impairment	51	53	352	78
Purchase of research and development in process	15		15	9
Operating income	1,035	1,188	2,499	3,097
Financial expenses net	67	3	85	178
Income before income taxes	968	1,185	2,414	2,919
Provision for income taxes	33	133	109	336
	935	1,052	2,305	2,583
Share in losses of associated companies net	17	*	42	17
Net income	918	1,052	2,263	2,566
Net income attributable to non-controlling interests	2	2	10	6
Net income attributable to Teva	$ 916	$ 1,050	$ 2,253	$ 2,560
Earnings per share attributable to Teva:				
Basic	$ 1.03	$ 1.17	$ 2.52	$ 2.86
Diluted	$ 1.03	$ 1.15	$ 2.51	$ 2.82
Weighted average number of shares (in millions):				
Basic	888	899	892	895
Diluted	890	921	896	921

* Represents an amount of less than $0.5 million.

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED BALANCE SHEETS

(U.S. dollars in millions)

	September 30, 2011 Unaudited	December 31, 2010 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,085	$ 1,248
Short-term investments	38	36
Accounts receivable	5,605	5,476
Inventories	4,670	3,866
Deferred taxes and other current assets	1,620	1,416
Total current assets	13,018	12,042
Long-term investments and receivables	589	632
Deferred taxes, deferred charges and other assets	76	138
Property, plant and equipment, net	5,560	4,357
Identifiable intangible assets, net	6,248	5,751
Goodwill	15,787	15,232
Total assets	$ 41,278	$ 38,152
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt and current maturities of long term liabilities	$ 3,283	$ 1,432
Convertible senior debentures short term	531	1,339
Sales reserves and allowances	3,877	3,403
Accounts payable and accruals	2,743	2,467
Other current liabilities	1,046	1,053
Total current liabilities	11,480	9,694
Long-term liabilities:		
Deferred income taxes	1,453	1,348
Other taxes and long term payables	828	777
Employee related obligations	213	221
Senior notes and loans	4,365	4,097
Convertible senior debentures long term		13
Total long term liabilities	6,859	6,456
Contingencies, see note 14		
Total liabilities	18,339	16,150
Equity:		
Teva shareholders equity:		
Ordinary shares as of September 30, 2011 and December 31, 2010: authorized 2,500		
million shares; issued 941 million shares and 937 million shares, respectively	50	49
Additional paid-in capital	13,331	13,246
Retained earnings	10,968	9,325

Accumulated other comprehensive income		286	350
Treasury shares as of September 30, 2011 and December 31, 2010 40 million ordinary shares, respectively	56 million ordinary shares and	(1,772)	(1,023)
		22,863	21,947
Non-controlling interests		76	55
Total equity		22,939	22,002
Total liabilities and equity		$ 41,278	$ 38,152

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOW

(U.S. dollars in millions)

(Unaudited)

	Nine months ended September 30,	
	2011	**2010**
Operating activities:		
Net income	$ 2,263	$ 2,566
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	737	727
Deferred income taxes net and uncertain tax positions	(222)	(79)
Gain from revaluation of investments	(135)	
Gain from sale of long lived assets and investments	(80)	(43)
Stock-based compensation	69	59
Impairment of long lived assets	30	30
Purchase of research and development in process	15	9
Change in working capital items	(7)	(274)
Other items net	36	39
Net cash provided by operating activities	2,706	3,034
Investing activities:		
Acquisitions of subsidiaries, net of cash acquired	(1,360)	(4,962)
Purchase of property, plant and equipment	(736)	(476)
Proceeds from sale of long lived assets and investments	175	659
Purchase of investments and other assets	(142)	(415)
Other items net	(47)	(45)
Net cash used in investing activities	(2,110)	(5,239)
Financing activities:		
Change in short-term credit	905	971
Redemption of convertible debentures	(814)	(45)
Purchase of treasury shares	(749)	
Proceeds from senior notes, net of issuance costs of $2 million and $6 million in the nine months ended September 30, 2011 and 2010, respectively	748	2,492
Dividends paid	(610)	(496)
Repayment of long-term loans and other long-term liabilities	(220)	(1,968)
Purchase of non-controlling interest	(75)	
Proceeds from exercise of options by employees	55	137
Proceeds from long-term loans and other long-term liabilities	1	44
Other items net	3	11
Net cash (used in) provided by financing activities	(756)	1,146
Translation adjustment on cash and cash equivalents	(3)	(1)
Net change in cash and cash equivalents	(163)	(1,060)
Balance of cash and cash equivalents at beginning of period	1,248	1,995

Balance of cash and cash equivalents at end of period	$ 1,085	$ 935

Supplemental disclosure of non-cash financing activities:

During the nine months ended September 30, 2011 and 2010, $12 million and $90 million, respectively, principal amount of convertible senior debentures was converted into approximately 0.3 million and 2.8 million Teva shares.

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes To Condensed Consolidated Financial Statements

(Unaudited)

NOTE 1 Basis of presentation:

The accompanying unaudited condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements. In the opinion of management, the financial statements reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position and results of operations of Teva Pharmaceutical Industries Limited (Teva or the Company). These consolidated financial statements and notes thereto are unaudited and should be read in conjunction with the Company s audited financial statements included in its Annual Report on Form 20-F for the year ended December 31, 2010, as filed with the Securities and Exchange Commission. The results of operations for the nine months ended September 30, 2011 are not necessarily indicative of results that could be expected for the entire fiscal year.

Following recent acquisitions as from 2011, the Company reassessed its estimates of the useful lives of property and machinery used in the determination of depreciation, based on management s review of actual physical condition and usage, normal wear and tear, technological change, and industry practice. Following this change in estimates, the estimated useful life of buildings was changed from a range of 25 to 50 years to an aggregate useful life of 40 years, and the estimated useful life of machinery was changed to a range of useful life of 15 to 20 years from a range of 7 to 15 years. The impact of the change in estimates is not material to the financial statements.

NOTE 2 Certain transactions:

a. Cephalon acquisition

On October 14, 2011, Teva acquired the total shareholdings and control of Cephalon, Inc. (Cephalon) for total cash consideration of $6.5 billion. Cephalon is a global biopharmaceutical company with a strong marketed portfolio and a pipeline of branded products. The acquisition will diversify Teva s branded portfolio and is expected to enhance Teva s late-stage innovative pipeline.

The acquisition was financed by borrowing under credit facilities, which Teva plans to repay with the proceeds of new long term debt.

At the closing, Cephalon had two outstanding series of convertible debt: $820 million of 2.0% notes due 2015 and $500 million of 2.5% notes due 2014. Both series became convertible as a result of the merger at specified conversion ratios. In addition, holders of both series are generally eligible to receive make-whole premiums and interest upon conversion. The aggregate amount payable upon conversion, assuming all notes are converted on a timely basis, is approximately $2.1 billion. Teva expects that both series of notes will be fully converted by the end of 2011.

Cephalon s results of operations and balance sheet will be included in Teva s consolidated reports commencing October 2011.

As the acquisition was consummated subsequent to September 30, 2011, the table below presents preliminary estimates of the fair value of assets acquired and liabilities assumed and resulting goodwill. These estimates are subject to revision, which may result in significant adjustments to the values presented below, when the appraisals are finalized.

	U.S. $ in millions
Current assets	$ 2,378
Investment and non-current assets	482
Property, plant and equipment	534
Goodwill and identifiable intangible assets	7,733
Total assets acquired	11,127
Current liabilities	2,733

Long-term liabilities, including deferred taxes	1,821
Total liabilities assumed	4,554
Net assets acquired	$ 6,573

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes To Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Due to the complexity and magnitude of the acquisition and since the acquisition was closed after the reporting date and a short period of time prior to publishing these financial statements, it is impracticable to disclose supplemental pro forma information as well as other information required.

b. Taiyo acquisition

On July 14, 2011, Teva acquired effectively 100% of Taiyo Pharmaceutical Industry Co. Ltd. (Taiyo) outstanding shares for $1,090 million in cash. Taiyo has developed a large portfolio of generic products in Japan with over 550 marketed products and its advanced production facilities enable it to produce a wide range of dosage forms on a large scale.

The acquisition consideration was attributed to net assets on the basis of the fair value of assets acquired and liabilities assumed based on an appraisal performed by management, which included a number of factors, including the assistance of independent appraisers.

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

Taiyo s results of operations were included in Teva s consolidated financial statements commencing July 2011.

c. Japanese venture

On September 26, 2011, Teva acquired from Kowa Company Ltd. the remaining 50% of the Japanese venture for a purchase price of $150 million. This acquisition, together with the Taiyo acquisition described above, will enable Teva to expand its Japanese operations.

Part of Teva s existing investment in Teva Kowa, which was accounted for using the equity method, was remeasured to fair value on the acquisition date, with an increase of $57 million over the book value recognized as part of general and administrative expenses. The gain is a result of an increase in the venture s value. Teva is currently evaluating the fair value of assets acquired and liabilities assumed in the acquisition.

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

d. CureTech

On September 28, 2011, Teva exercised its option to invest $19 million in CureTech Ltd. (Curetech), a biotechnology company developing novel, broad-spectrum, immune modulating products for the treatment and control of cancer. In addition, Teva is obligated to invest up to $50 million in CureTech s research and development activity. Teva s holding in CureTech after the exercise of the option increased from 33% to 75%. Teva holds an option to acquire full ownership of CureTech.

Teva s existing investment in CureTech, which was accounted for using the equity method, was remeasured to fair value on the acquisition date, with an increase of $78 million over the book value recognized as part of general and administrative expenses. The gain reflects an increase in CureTech s value and represents the progress in CureTech s research through the day Teva acquired control.

An amount of $127 million was allocated to research and development in process, representing an estimate of the fair value of purchased in-process technology for two products.

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

e. Laboratoire Theramex acquisition

On January 5, 2011, Teva completed the acquisition of Theramex, Merck KGaA s European-based women s health business, for 267 million in cash (approximately $355 million) and certain limited performance-based milestone payments. Theramex has a broad portfolio of women s health and gynecology products sold in over 50 countries, primarily France and Italy.

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

As of September 30, 2011, no significant adjustments were recorded to the assets acquired or to the liabilities assumed and the resulting goodwill.

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes To Condensed Consolidated Financial Statements (Continued)

(Unaudited)

f. Corporación Infarmasa acquisition

On January 26, 2011, Teva acquired Corporación Infarmasa (Infarmasa), a top ten pharmaceutical company in Peru, from The Rohatyn Group and Altra Investments.

Infarmasa manufactures and commercializes branded and unbranded generic drugs, primarily corticosteroids, antihistamines, analgesics and antibiotics. Infarmasa s product offerings has enhanced Teva s portfolio in the market, especially in the area of antibiotics, where Infarmasa has the leading brand in Peru.

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

As of September 30, 2011, no significant adjustments were recorded to the assets acquired or to the liabilities assumed and the resulting goodwill.

g. Consumer health care partnership with Procter & Gamble

On March 24, 2011, Teva and The Procter & Gamble Company (P&G) announced the signing of a master agreement to create a consumer health care partnership combining the companies over-the-counter pharmaceutical businesses (OTC) in all markets outside North America. In addition, Teva will manufacture products to supply the joint venture s markets as well as P&G s existing North American OTC business. The partnership is commencing activities in the beginning of November 2011.

h. Ratiopharm acquisition

On August 10, 2010, Teva acquired Merckle ratiopharm Group (ratiopharm) for a total cash consideration of $5.2 billion. The transaction was accounted for as a business combination. Ratiopharm s results of operations were included in Teva s consolidated financial statements commencing August 2010.

The cash consideration was financed through Teva s internal resources, the issuance of $2.5 billion in senior notes and credit lines, including credit agreements for an aggregate amount of $1.5 billion that were repaid by June 30, 2011.

No major adjustments were recorded to the assets acquired or to the liabilities assumed and the resulting goodwill throughout the measurement period.

i. Securitization

During the third quarter of 2011, Teva securitized approximately $200 million of its trade receivables. The deal was accounted for as a sale type transaction.

NOTE 3 Issuance of senior notes:

In March 2011, a finance subsidiary of the Company issued an aggregate of $750 million principal amount of senior notes as described in the table below. All such notes are guaranteed by Teva.

	Annual	Principal

Issuer	interest rate %	amount issued (U.S. $ in millions)	Due
Teva Pharmaceutical Finance III, B.V.	LIBOR plus 0.5	$ 500	March 2014
Teva Pharmaceutical Finance III, B.V. *	1.70	$ 250	March 2014

* In March 2011, the Company entered into interest rate swap agreements with respect to these notes (see note 11).

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes To Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 4 Inventories:

Inventories consisted of the following:

	September 30, 2011	December 31, 2010
	U.S. $ in millions	
	Unaudited	Audited
Finished products	$ 2,378	$ 1,948
Raw and packaging materials	1,483	1,237
Products in process	679	579
	4,540	3,764
Materials in transit and payments on account	130	102
	$ 4,670	$ 3,866

NOTE 5 Convertible senior debentures:

During the nine months ended September 30, 2011, convertible senior debentures were redeemed or converted as follows:

	Nine months ended September 30, 2011	
	Principal amount redeemed/converted (U.S. $ in millions)	Number of shares converted into (In millions)
1.75% convertible senior debentures due 2026	$ 814	1.2
0.25% convertible senior debentures due 2024	9	0.2
0.50% convertible senior debentures due 2024	3	0.1
0.25% convertible senior debentures due 2026	*	*
	$ 826	1.5

* Less than $0.5 million of principal amount was converted into less than 0.05 million shares.

NOTE 6 Earnings per share:

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

In computing diluted earnings per share for the three and nine months ended September 30, 2011 and 2010, respectively, basic earnings per share was adjusted to take into account the potential dilution that could occur upon: (i) the exercise of options and non-vested restricted stock units (RSUs) granted under employee stock compensation plans and one series of convertible senior debentures, using the treasury stock method; and (ii) the conversion of the remaining convertible senior debentures using the if-converted method, by adding to net income interest expense on the debentures and amortization of issuance costs, net of tax benefits, and by adding the weighted average number of shares issuable upon assumed conversion of the debentures.

In computing diluted earnings per share for the nine months ended September 30, 2011, no account was taken of the potential dilution of the 1.75% convertible senior debentures due 2026, amounting to 1 million weighted average shares, since they had an anti-dilutive effect on earnings per share.

The net income and the weighted average number of shares used in the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2011 and 2010 are as follows:

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes To Condensed Consolidated Financial Statements (Continued)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Net income attributable to Teva	$916	$1,050	$2,253	$2,560
Interest expense on convertible senior debentures and issuance costs, net of tax benefits	*	11	*	33
Net income used for the computation of diluted earnings per share	$916	$1,061	$2,253	$2,593
Weighted average number of shares used in the computation of basic earnings per share	888	899	892	895
Add:				
Additional shares from the assumed exercise of employee stock options and unvested RSUs	2	4	3	6
Weighted average number of additional shares issued upon the assumed conversion of convertible senior debentures	**	18	1	20
Weighted average number of shares used in the computation of diluted earnings per share	890	921	896	921

* Less than $0.5 million.
** Less than 0.5 million.

NOTE 7 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, cash 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, including those required by the U.S. health care reform, rebates and other promotional items, such as shelf stock adjustments, are included in sales reserves and allowances under current liabilities . These provisions are recognized concurrently with the sales of products. Provisions for doubtful debts and 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 for estimating chargebacks are determined using historical chargeback experience, or expected chargeback levels and wholesaler sales information for new products, which are compared to externally obtained distribution channel reports for reasonableness. 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.

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes To Condensed Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 8 Equity:

a. Comprehensive income (loss)

Comprehensive income (loss) is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	U.S. $ in millions			
	2011	2010	2011	2010
Net income	$ 918	$ 1,052	$ 2,263	$ 2,566
Other comprehensive income (loss), net of tax:				
Currency translation adjustment, net of tax	(1,300)	1,500	(19)	156
Unrealized gain (loss) on derivative financial instruments	54	(85)	1	(78)
Unrealized gain (loss) from available-for-sale securities, net of tax	(23)	(3)	(44)	26
Realization and reclassification adjustment on available for sales securities, net of tax	(1)	2	(2)	(24)
Total comprehensive income (loss)	(352)	2,466	2,199	2,646
Comprehensive income attributable to the non-controlling interests	(2)	2	(10)	(2)
Comprehensive income (loss) attributable to Teva	$ (354)	$ 2,468	$ 2,189	$ 2,644

b. Share repurchase program

In December 2010, Teva s board of directors authorized the Company to repurchase up to an aggregate of $1 billion of its ordinary shares/ADSs over a period of 12 months.

During the three and nine months ended September 30, 2011, Teva spent approximately $254 million and $749 million, respectively, to repurchase approximately 6.1 million and 16.0 million of its shares.

NOTE 9 Entity-wide disclosures:

Net sales by geographic area were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	U.S. $ in millions			
	2011	2010	2011	2010
North America	$ 2,183	$ 2,724	$ 6,346	$ 7,500
Europe	1,344	1,001	4,166	2,624
International markets	817	525	2,124	1,579

$ 4,344	$ 4,250	$ 12,636	$ 11,703

NOTE 10 Fair value measurement:

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

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

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

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

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes To Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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 September 30, 2011 and December 31, 2010 are classified in the tables below in one of the three categories described above:

	September 30, 2011 U.S. $ in millions			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Money markets	$ 198	$	$	$ 198
Cash deposits and other	887			887
Marketable securities*:				
Auction rate securities			40	40
Collateral debt obligations	5		1	6
Equity securities	91			91
Structured investment vehicles		97		97
Other	29			29
Derivatives **:				
Liabilities derivatives - mainly options and forward contracts		(94)		(94)
Interest rate and cross-currency swaps (liabilities)		(72)		(72)
Asset derivatives mainly options and forward contracts		59		59
Interest rate swaps		4		4
Total	$ 1,210	$ (6)	$ 41	$ 1,245

	December 31, 2010 U.S. $ in millions			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Money markets	$ 389	$	$	$ 389
Cash deposits and other	859			859
Marketable securities*:				
Auction rate securities			77	77
Collateral debt obligations	9		1	10
Equity securities	109			109
Structured investment vehicles		82		82
Other mainly debt securities	23			23
Derivatives **:				
Liabilities derivatives mainly options and forward contracts		(16)		(16)
Interest rate and cross currency swaps (liabilities)		(70)		(70)
Assets derivatives mainly options and forward contracts		17		17
Total	$ 1,389	$ 13	$ 78	$ 1,480

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

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes To Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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

	September 30, 2011	December 31, 2010
	U.S. $ in millions	
Carrying value at the beginning of the period	$ 78	$ 76
Amount realized	(59)	(9)
Net change to fair value:		
Included in earnings finance expense net	22	7
Included in other comprehensive income (loss)		4
Carrying value at the end of the period	$ 41	$ 78

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

The fair value of the financial instruments included in working capital and non-current receivables is usually identical or close to their carrying value. The fair value of long-term bank loans and senior notes also approximates their carrying value, since they bear interest at rates close to the prevailing market rates. The fair value of the senior notes and the interest rate and cross currency swap agreements included under long-term liabilities amounted to $3,676 million and $3,787 million at September 30, 2011 and December 31, 2010, respectively, based on quoted market values and prevailing market rates. The fair value of interest rate swap agreements included under long term investments and receivables amounted to $4 million at September 30, 2011.

The fair values and the carrying amounts of derivatives, senior notes and convertible senior debentures with an earliest date of redemption within 12 months are assets of $59 million and $17 million (derivatives) and liabilities of $2,140 million and $1,734 million (senior notes, convertible senior debentures and derivatives) at September 30, 2011 and December 31, 2010, respectively. The fair value of derivatives generally reflects the estimated amounts that Teva would receive or pay to terminate the contracts at the reporting dates.

Changes in fair value of available for sale securities, net of taxes, are reflected in other comprehensive income. Unrealized losses considered to be temporary are reflected in other comprehensive income; unrealized losses that are considered to be other-than-temporary are charged to income as an impairment charge. At September 30, 2011 and December 31, 2010, the credit loss was $164 million and $266 million, respectively.

NOTE 11 Derivative instruments and hedging activities:

a. Interest rate and cross-currency swaps

During the second quarter of 2010, the Company entered into swap agreements with respect to its $1 billion principal amount of 3.00% Senior Notes due 2015. The purpose of these interest rate and cross-currency swap agreements was to convert the notes denomination from dollars to euros. As a result of these agreements, Teva pays a fixed rate of 2.36% on the euro principal amount, as compared to the stated 3.00% fixed rate on the dollar principal amount.

During the first quarter of 2011, the Company entered into swap agreements with respect to its $250 million principal amount of 1.70% Senior Notes due 2014. The purpose of these interest rate swap agreements was to change the interest rate from fixed to floating rate. As a result of these agreements, Teva is currently paying an effective interest rate of three months LIBOR plus an average 0.39% on the $250 million principal

amount, as compared to the stated 1.70% fixed rate.

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In April 2011, Teva entered into short term hedge transactions to reduce the exposure resulting mainly from payroll costs denominated in New Israeli Shekel.

The above transactions qualify for hedge accounting.

In April 2011, Teva entered into interest rate swap agreements with respect to its 6.15% Senior Notes due 2036. As a result, Teva was to pay an effective interest rate of three months LIBOR plus an average 1.88% on the $986 million principal amount and receive a fixed rate of 6.15% on such amount. The transaction was terminated in May 2011 with a net gain of $53 million, which is reflected in financial expenses-net.

In May 2011, Teva entered into economic hedge transactions to help protect Teva s European subsidiaries from anticipated sales exposure resulting from the fluctuation of the US dollar against the Euro, the result of which is reflected in financial expenses net.

b. Derivative instrument disclosure

The fair value of derivative instruments consists of:

	Reported under	September 30, 2011	December 31, 2010
		U.S. $ in millions	
Asset derivatives, comprising interest rate swap agreements, designated as hedging instruments	Long-term investments and receivables	$ 4	$
Asset derivatives, comprising primarily foreign exchange contracts, not designated as hedging instruments	Deferred taxes and other current assets	59	17
Liability derivatives, comprising interest rate and cross currency swap agreements, designated as hedging instruments	Senior notes and loans	72	70
Liability derivatives, comprising foreign exchange contracts, not designated as hedging instruments	Accounts payable	94	16

Derivatives on foreign exchange contracts hedge Teva s balance sheet items from currency exposure but are not designated as hedging instruments for accounting purposes. With respect to such derivatives, gains of $66 million and losses of $14 million were recognized under financial expenses net for the nine months ended September 30, 2011 and 2010, respectively, and losses of $55 million and gains of $104 million were recognized under financial expenses-net for the three months ended September 30, 2011 and 2010, respectively. Such losses offset the revaluation of the balance sheet items also booked under financial expenses net.

With respect to the interest rate and cross-currency swap agreements, gains of $14 million were recognized under financial expenses net for the nine months ended September 30, 2011 and 2010, and gains of $4 million and $6 million were recognized under financial expenses net for the three months ended September 30, 2011 and 2010, respectively. Such gains mainly reflect the differences between the fixed interest rate and the floating interest rate.

NOTE 12 Recently adopted and issued accounting pronouncements:

In September 2011, the Financial Accounting Standard Board (FASB) amended the guidance for goodwill impairment testing. The amendment provides entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of the reporting unit. If, on the basis of qualitative factors, it is not more likely than not that the fair value of the reporting unit is less than the carrying

amount, further testing of goodwill for

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impairment would not be required. The amendment also removes the carry forward option of the reporting unit fair value from one year to the next. The amendment is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011. Early adoption is permitted. Teva decided to adopt the amendment and believes that the adoption will not have a significant impact on its consolidated financial statements.

In June 2011, the FASB amended its comprehensive income presentation guidance. The amendment requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. The guidance is effective for interim and annual periods beginning after December 15, 2011. Teva believes that the adoption will not have a material impact on its consolidated financial statements.

In May 2011, the FASB amended its fair value measurements and disclosures guidance. The amendment clarifies the existing guidance and adds new disclosure requirements. The guidance is effective for interim and annual periods beginning after December 15, 2011. Teva believes that the adoption will not have a material impact on its consolidated financial statements.

In December 2010, the FASB issued amendments to the disclosure of pro forma information for business combinations. These amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The amendments clarify the acquisition date that should be used for reporting the pro forma financial information disclosures when comparative financial statements are presented. The amendments also improve the usefulness of the pro forma revenue and earnings disclosures by requiring a description of the nature and amount of material, nonrecurring pro forma adjustments that are directly attributable to the business combination(s).

In December 2010, the FASB issued a clarification of the accounting treatment of fees paid to the federal U.S. government by pharmaceutical manufacturers. These amendments were effective on January 1, 2011, when the fee initially became effective. According to the clarification, these fees are recorded as an operating expense in the consolidated financial statements of income. Implementing this clarification did not have a material effect on our consolidated financial statements.

In October 2009, the FASB issued amendments to the accounting and disclosure for revenue recognition. These amendments, effective for fiscal years beginning on or after June 15, 2010, modify the criteria for recognizing revenue in multiple element arrangements and require companies to develop a best estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. Additionally, the amendments eliminate the residual method for allocating arrangement considerations. The provisions of the amendment were adopted on January 1, 2011, with no significant impact on our consolidated financial statements.

NOTE 13 Legal settlements, acquisition and restructuring expenses and impairment:

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

	Three months ended September 30,		Nine months ended September 30,	
	U.S. $ in millions			
	2011	2010	2011	2010
Restructuring expenses	$ 29	$ 21	$ 89	$ 34
Impairment of long-lived assets	16	27	30	30
Acquisition expenses	7	6	17	21
Legal settlements and reserves	(1)	(1)	216	(7)

Total	$ 51	$ 53	$ 352	$ 78

On May 31, 2011, Teva announced that it had reached a settlement with Pfizer Inc. of patent litigation related to generic versions of Pfizer s Neurontin® (gabapentin) capsules and tablets sold by Teva and its subsidiary IVAX Pharmaceuticals. The settlement between the parties provides for a full release of Teva and its subsidiaries, and a one-time payment to Pfizer, which was made in the second quarter. The financial terms of the settlement are confidential.

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On July 20, 2011, Teva signed a settlement agreement with Novartis regarding patent litigation related to amlodipine/benazepril (Lotrel®). The settlement provides for a full release for past sales and a royalty-free license for future sales of all strengths. The financial terms of the settlement are confidential. During the second quarter of 2011, Teva established a provision fully covering the settlement.

Teva has reached a settlement in principle with the plaintiffs in approximately one-third of the propofol product liability cases where hepatitis C infection was alleged, and has established a provision in the financial statements covering both the settlement and the estimated cost of the remainder of these cases.

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NOTE 14 Contingencies:

General

From time to time, Teva and 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 patent litigation. Teva believes it has meritorious defenses to the actions to which it is a party and vigorously pursues the defense or settlement of each such action, including those described below. Based upon the status of these cases, management s assessment of the likelihood of damages, the potential exposure involved relative to insurance coverage (if any) and the advice of counsel, no provision has been made in Teva s financial statements for any of such actions except as otherwise noted below.

Teva records a provision to the extent that it concludes that a contingent liability is probable and the amount thereof is estimable. Because litigation outcomes and contingencies are unpredictable, and because excessive verdicts can occur, these assessments involve complex judgments about future events and can rely heavily on estimates and assumptions. Based on currently available information, Teva believes that none of the proceedings brought against the Company 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 flow in a given period. In addition, Teva may incur significant legal 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.

From time to time, Teva seeks to develop generic products for sale prior to patent expiration in various territories. In the United States, to obtain approval for most generic products prior to the expiration of the originator s patent(s), Teva must challenge the patent(s) under the procedures set forth in the Hatch-Waxman Act of 1984, as amended by the Medicare Prescription Drug Improvement and Modernization Act of 2003. To the extent that it seeks to utilize such patent challenge procedures, Teva is and expects to be involved in patent litigation regarding the validity, enforceability or infringement of the originator s patent(s). Teva may also be involved in patent litigation involving the extent to which alternate manufacturing process techniques may infringe originator or third-party process patents.

Additionally, depending upon a complex analysis of a variety of legal and commercial factors, Teva may, in certain circumstances, elect to market a generic product even though litigation is still pending. This could be before any court decision is rendered or while an appeal of a lower court decision is pending. To the extent Teva elects to proceed in this manner, it could face substantial liability for patent infringement if the final court decision is adverse to Teva. Although Teva currently has insurance coverage for certain products and types of damages for patent infringement, a claim for coverage may be subject to a deductible, involve a co-insurance participation, exceed policy limits or be ultimately found to relate to damages that are not covered by Teva s policy. Furthermore, insurance for additional products may be difficult to obtain.

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 such patent infringement cases. However, if Teva were to be required to pay damages in any such case, courts would generally calculate the amount of any such damages based on a reasonable royalty or lost profits of the patentee. If damages were based on a reasonable royalty, the amount would be related to a percentage of the sales of Teva s generic product. If damages were determined based on lost profits, the amount would be related to the sales of the branded product. All such sales figures given below are based on IMS data. In addition, the launch of an authorized generic and other generic competition may be relevant to the damages estimation. Except as otherwise noted, all of the litigation matters disclosed below involve claims arising in the U.S. Although the legislation concerning generic pharmaceuticals, as well as patent law, is different in countries other than the U.S. where Teva does business, from time to time Teva is also involved in litigation regarding corresponding patents in those countries.

Teva s business inherently exposes it to potential product liability claims. As Teva s portfolio of available products continues to expand, the number of product liability claims asserted against Teva has increased. Teva believes that it maintains product liability insurance coverage in amounts and with terms that are reasonable and prudent in light of its business and related risks. However, Teva sells, and will continue to sell, pharmaceutical products that are not covered by

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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 coverage it desires.

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

Intellectual Property Matters

In October 2004, Alpharma and Teva launched their 100 mg, 300 mg and 400 mg gabapentin capsule products and, in December 2004, Alpharma and Teva launched their 600 mg and 800 mg gabapentin tablet products. Gabapentin capsules and tablets are the AB-rated generic versions of Pfizer s anticonvulsant Neurontin® capsules and tablets, which had annual sales of approximately $2.7 billion for the twelve months ended September 2004. Teva s subsidiary IVAX Pharmaceuticals, Inc. (IVAX) also launched its non-AB rated tablets in August 2004 and its AB-rated capsules and tablets in March and April 2005, respectively. In August 2005, the United States District Court for the District of New Jersey granted summary judgment in favor of Teva, Alpharma and IVAX, finding that their products did not infringe Pfizer s patent. In September 2007, the Court of Appeals for the Federal Circuit (the Federal Circuit) reversed the summary judgment decision and remanded the case for further proceedings. On April 5, 2011, the District Court denied Teva s motion for summary judgment, in which Teva had asserted that Pfizer should be precluded from claiming lost profits damages and should instead be limited to seeking a reasonable royalty. The patent at issue expires in 2017. On May 16, 2011, a trial in this matter commenced. On May 31, 2011, this case was dismissed pursuant to a settlement between the parties, which provides for a full release of Teva and a one-time payment to Pfizer. The financial terms of the settlement are confidential. Alpharma also entered into a settlement with Pfizer, toward which Teva contributed a portion pursuant to the terms of Teva s agreement with Alpharma.

In May 2007, Teva commenced sales of its 2.5mg/10mg, 5mg/10mg, 5mg/20mg, and 10mg/20mg amlodipine besylate/benazepril capsules. Amlodipine besylate/benazepril capsules are the AB-rated generic versions of Novartis Lotrel®, which had annual sales of approximately $1.4 billion for the twelve months ended March 2007. In June 2007, the United States District Court for the District of New Jersey denied Novartis motion for a preliminary injunction, finding that Novartis was not likely to succeed on its allegations of infringement. The patent at issue expires in 2017. On July 20, 2011, this case was dismissed pursuant to a settlement between the parties, which provides for a full release of Teva. The financial terms of the settlement are confidential, and a provision has been included in the financial statements.

In June 2007, Teva Canada commenced sales of its 2.5 mg, 5 mg, 7.5 mg, 10 mg and 15 mg olanzapine tablets, which are the generic versions of Eli Lilly s Zyprexa®. Zyprexa® had annual sales in Canada of approximately $180 million for the twelve months ended May 2007. In June 2007, the Federal Court denied Lilly s request to prohibit the Minister of Health from issuing Teva Canada s final regulatory approval. Shortly after the launch by Teva Canada, Lilly filed an action for patent infringement. In October 2009, the patent at issue, which expired on April 24, 2011, was held by the Federal Court to be invalid. In July 2010, the Federal Court of Appeal set aside the judgment, with two grounds of invalidity being sent back to the Federal Court for reconsideration in accordance with the Court of Appeal s instructions. The hearing on the two remaining grounds of invalidity took place in January 2011, and judgment has been reserved. On February 10, 2011, the Supreme Court of Canada denied Teva Canada s application for leave to appeal the decision of the Federal Court of Appeal. Were Lilly ultimately to be successful, Teva Canada could be required to pay damages related to its sales of olanzapine tablets.

In December 2007, Teva commenced sales of its 20 mg and 40 mg pantoprazole sodium tablets. Pantoprazole sodium tablets are the AB-rated generic versions of Wyeth s Protonix®, which had annual sales of approximately $2.5 billion for the twelve months ended September 2007. Teva s sales of its pantoprazole sodium tablets to date are approximately $1.1 billion. In September 2007, the United States District Court for the District of New Jersey denied Wyeth/Altana s motion for a preliminary injunction, finding that Wyeth/Altana was not likely to prevail on the merits as to Teva s invalidity defense on the compound patent, based on the record before the Court. In May 2009, the Federal Circuit affirmed the District Court s denial of the preliminary injunction. The patent at issue expired on July 19, 2010, and the innovator has been granted pediatric exclusivity, which expired on January 19, 2011. In April 2010, the jury returned a verdict finding that the patent is not invalid, and in July 2010, the District Court denied Teva s motion to overturn the verdict. Teva believes that it has substantial grounds for appeal of the District

Court s decision on invalidity and intends to pursue its appeals vigorously. On March 3, 2011, the District Court granted Wyeth s motion to strike the patent misuse

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defenses, but granted Teva leave to replead, which Teva did on April 1, 2011. On September 29, 2011, the District Court granted Wyeth/Altana s motion to strike the patent misuse defense in part, leaving one aspect of the defense in the case, and denied the motion to dismiss the counterclaim against Wyeth/Altana. Were Teva to prevail on the patent misuse claim, the patent may be rendered unenforceable. Were Wyeth/Altana ultimately to be successful in its allegation of patent infringement, however, Teva could be required to pay damages relating to the sale of its pantoprazole sodium tablets. The parties are in discovery on the remaining patent and damages issues. While an award of damages is reasonably possible, Teva continues to believe that it is not probable that it will be liable for damages in this matter.

In January 2011, APP Pharmaceuticals and Teva launched gemcitabine HCl for injection in 200 mg and 1 g single dose vials. Gemcitabine HCl for injection is the generic version of Eli Lilly and Company s Gemzar®, which had sales of approximately $785 million for the twelve months ended December 2010. In March 2010, the United States District Court for the District of Indiana ruled that Lilly could not enforce its method of use patent against Teva based on a ruling in a separate case by Lilly against Sun finding Lilly s patent invalid due to double patenting. Lilly s appeal of the ruling in Teva s case was stayed pending the Federal Circuit s consideration of the appeal in the Sun case. In July 2010, the Federal Circuit affirmed the ruling in the Sun case and in November 2010 denied Lilly s petition for *en banc* review of that decision. On January 28, 2011, Lilly filed a petition for *certiorari* in the Sun case with the United States Supreme Court. On May 16, 2011, the United States Supreme Court denied Lilly s petition. On July 5, 2011, the Federal Circuit issued a mandate summarily affirming the District Court s order, thereby effectively ending Lilly s infringement case against Teva.

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Teva s leading innovative product, Copaxone® (glatiramer acetate), from which it derives substantial revenues and which contributes disproportionately to its profits, faces intense patent challenges in various jurisdictions, as described below. Although Teva believes that Copaxone® has strong patent protection and that an equivalent generic version would be difficult to develop, if the FDA were to approve one or more generic versions of Copaxone® and Teva s patents were successfully challenged, or if there were a launch at risk, Teva would face generic competition for Copaxone®, which is likely to affect its results of operations adversely.

In July 2008, Teva learned that Sandoz Inc., the U.S. generic drug division of Novartis AG, in conjunction with Momenta Pharmaceuticals, Inc., had filed an ANDA with the FDA for a generic version of Copaxone® containing Paragraph IV certifications to each of the patents that Teva has listed in the FDA s Orange Book for the product. In August 2008, Teva filed a complaint against Sandoz, Inc., Sandoz International GmbH, Novartis AG and Momenta Pharmaceuticals, Inc. in the United States District Court for the Southern District of New York, alleging infringement of four Orange Book patents. The patents, which expire on May 24, 2014, cover the chemical composition of Copaxone®, pharmaceutical compositions containing it and methods of using it. The lawsuit triggered a stay of any FDA approval of the Sandoz ANDA for a period of 30 months. Although the 30-month stay expired in January 2011, Teva has not moved for a preliminary injunction because it does not believe that FDA approval of the Sandoz ANDA is likely in the near future. Sandoz and Momenta filed their answers to Teva s complaint in November 2008, asserting several affirmative defenses to Teva s patent infringement claims, including non-infringement, invalidity and unenforceability of the asserted Orange Book patents. The answers also seek declaratory judgments of non-infringement, invalidity and unenforceability with respect to three unasserted Orange Book patents and two non-Orange Book patents. In December 2009, Sandoz filed a motion for summary judgment of invalidity based on indefiniteness, which was denied in September 2010. In December 2009, Teva filed a separate complaint against Sandoz and Momenta alleging infringement of four marker non-Orange Book patents, the last of which expires in February 2020. In January 2010, Sandoz moved to dismiss these claims, arguing that their alleged infringing acts were protected under statute and/or not ripe at the current time, and a hearing on the motion was held on January 19, 2011. This case has been consolidated with the ANDA litigation against Mylan and Natco described below.

In October 2009, after learning that Mylan Laboratories, Inc. had filed an ANDA containing Paragraph IV certifications with the FDA for a generic version of Copaxone®, Teva filed a complaint against Mylan and Natco Pharma Limited in the United States District Court for the Southern District of New York, alleging infringement of each of the seven Orange Book patents. Mylan and Natco s answers to the complaint also included declaratory judgment claims with respect to two non-Orange Book patents. In September 2010, Teva filed a separate complaint against Mylan and Natco alleging infringement of the four marker patents. Mylan has moved to dismiss this complaint. In November 2010, Mylan filed a motion for summary judgment of invalidity based on indefiniteness, which was denied on August 24, 2011.

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Teva s motion for summary judgment of no inequitable conduct was denied on June 17, 2011. A bench trial on this issue, which began on July 11, 2011, concluded on July 22, 2011. On August 24, 2011, the District Court issued its claim construction opinion, in which it adopted all relevant Teva claim construction interpretations and rejected all of the claim construction interpretations put forth by Sandoz/Momenta and Mylan/Natco. A trial on the issues of validity and infringement took place from September 7 to 21, 2011. Post-trial briefing concluded on October 31, 2011, and a ruling is expected in the coming months.

On March 1, 2011, Generics [UK] Limited initiated a revocation action against Yeda in respect of a U.K. patent relating to Copaxone®. Teva, the exclusive licensee of the patent, is not a party to the action. Generics [UK] Limited has also requested a declaration that a generic glatiramer acetate product meeting certain specifications would not infringe that patent. Pursuant to a case management order agreed by the parties and made by the Court on May 6, 2011, a trial has been set to begin on May 8, 2012. The action is currently in the discovery stage.

On August 4, 2011, Mylan initiated revocation proceedings against Yeda in respect of a French patent relating to Copaxone®. A trial date has not yet been scheduled.

Product Liability Matters

On June 23, 2011, the United States Supreme Court held, in *Pliva, Inc. et al. v. Mensing*, one of the metoclopramide cases mentioned below, that product liability claims brought under a failure to warn theory against generic pharmaceutical manufacturers are preempted by federal law, which requires that a generic drug have the same label as the branded drug. Teva believes that this decision is likely to reduce its aggregate exposure in currently pending product liability lawsuits, including those described below, although the extent of such effect is uncertain at this time.

Barr and Duramed have been named as defendants in approximately 6,000 personal injury product liability cases brought against them and other manufacturers by plaintiffs claiming injuries from the use of certain estrogen and progestin products. The cases primarily involve medroxyprogesterone acetate (a progestin that has been prescribed to women receiving estrogen-containing hormone therapy), and a much smaller number involve Cenestin® (an estrogen-containing product sometimes prescribed to treat symptoms associated with menopause). A high percentage of the plaintiffs were unable to demonstrate actual use of a Barr or Duramed product. As a result, approximately 5,500 cases have been dismissed, leaving approximately 471 pending. To date, Barr and Duramed products have been identified in 458 of those cases. Additional dismissals are possible. The vast majority of the claims are covered by insurance.

Teva and its subsidiaries have been named as defendants in approximately 2,000 product liability lawsuits brought against them and other manufacturers, including Watson Laboratories, Inc., by plaintiffs claiming injuries from the use of metoclopramide (the generic form of Reglan®). Certain of these claims are covered by insurance. One of Teva s subsidiaries has conditionally agreed to indemnify Watson for certain of the claims that have been asserted against it. The claims in such lawsuits include allegations of neurological disorders, including tardive dyskinesia, as a result of ingesting the product. For over twenty years, the FDA-approved label for metoclopramide has contained warning language about the risk of tardive dyskinesia, and that the risk of developing this syndrome increased with duration of treatment and total cumulative dose. In February 2009, the FDA announced that manufacturers of metoclopramide would be required to revise the label, including the addition of a black box warning about the risk of tardive dyskinesia from long-term exposure to metoclopramide. It has not yet been determined how many plaintiffs actually used a Teva product. If the plaintiffs cannot demonstrate that they used a Teva product, Teva expects to be dismissed from at least some of those cases. The first trial is currently scheduled to begin on March 5, 2012 in Dallas County, Texas.

Teva Parenteral Medicines, Inc. is a defendant in approximately 185 lawsuits in state court in Las Vegas, Nevada relating to its propofol product. The plaintiffs in these lawsuits claim that they were infected with the hepatitis C virus as a result of the re-use by medical practitioners at a number of commonly owned endoscopy centers of single-patient vials of propofol on more than one patient. The medical practitioners are currently the subject of criminal proceedings relating to their re-use of single patient vials. Teva s propofol product states in its label that it is for single-patient use only and that aseptic techniques must be followed at all times when using the product. Teva has reached a settlement in principle with the plaintiffs in approximately one-third of these cases, and has established a provision in the financial statements covering both the settled cases and the remainder of these cases (based on the assumption that they settle on similar financial terms). Teva is also named as a

defendant in approximately 100 other cases brought on behalf of over 4,000 additional plaintiffs who were patients at these endoscopy centers, but who have not contracted the virus. These plaintiffs allege a cause of action based on the fear of contracting an infectious disease. Almost all of these cases have been consolidated into a single proceeding.

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In May 2010, the jury in the first propofol trial returned a verdict in favor of plaintiffs for $5.1 million in compensatory damages and awarded $356 million in punitive damages against Teva and $144 million in punitive damages against Baxter, the distributor of the product. The trial judge ordered Teva to post a bond of approximately $580 million (covering both Teva and Baxter s damages together with estimated post-judgment interest for three years) to stay execution of the judgment pending appeal, and Teva did so in August 2010. Teva has appealed this verdict, and the appeal has been fully briefed. The Nevada Supreme Court has decided that the *en banc* panel will hear the appeal. An oral argument date has not yet been scheduled.

On October 7, 2011, the jury in the second propofol trial returned a verdict in favor of the plaintiffs for a total of $20.1 milion in compensatory damages against Teva, Baxter and McKesson (a subsequent distributor of the product). On October 10, 2011, the jury awarded $89.375 million in punitive damages against Teva, $55.25 million in punitive damages against Baxter and $830 million in punitive damages against McKesson.

On October 10, 2011, the jury in the third propofol trial returned a verdict in favor of the plaintiffs for a total of $14 million in compensatory damages against Teva and Baxter. On October 12, 2011, the jury awarded $60 million in punitive damages against Teva and $30 million in punitive damages against Baxter.

Teva believes that it has numerous grounds for reversal of all of these jury verdicts on appeal and does not believe that an award of damages in these matters is probable.

On June 13, 2011, an arbitration panel issued a final ruling, by a 2-1 vote, that Baxter is entitled to indemnification from Teva for the punitive damages awarded by the juries in these trials, in addition to the compensatory damages. On September 15, 2011, the Delaware Chancery Court entered an order confirming the arbitration panel s ruling.

Competition Matters