

TEVA PHARMACEUTICAL INDUSTRIES LTD

Form 6-K

October 31, 2013

Table of Contents

**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 October 2013**

**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  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):

**Table of Contents****TEVA PHARMACEUTICAL INDUSTRIES LIMITED****INDEX**

	<b>Page</b>
<u>Consolidated Statements of Income (Loss)</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income</u>	3
<u>Consolidated Balance Sheets</u>	4
<u>Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Operating and Financial Review and Prospects</u>	24
<u>Risk Factors</u>	49
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	50
<u>Legal Proceedings</u>	50

**Exhibits**

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

**INTRODUCTION AND USE OF CERTAIN TERMS**

Unless otherwise indicated or the context otherwise requires, all references to the Company, we, our and Teva refer to Teva Pharmaceutical Industries Limited and its subsidiaries and references to revenue refer to net revenue. 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. References to our 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.

**Table of Contents**

**TEVA PHARMACEUTICAL INDUSTRIES LIMITED**  
**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**  
**(U.S. dollars in millions, except share and per share data)**  
**(Unaudited)**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net revenues	\$ 5,059	\$ 4,972	\$ 14,884	\$ 15,068
Cost of sales	2,429	2,371	7,071	7,201
Gross profit	2,630	2,601	7,813	7,867
Research and development expenses	348	324	1,016	914
Selling and marketing expenses	971	914	2,948	2,823
General and administrative expenses	297	292	923	920
Legal settlements, impairments, restructuring and others	213	1,131	1,837	1,335
Operating income (loss)	801	(60)	1,089	1,875
Financial expenses net	76	73	340	240
Income (loss) before income taxes	725	(133)	749	1,635
Income taxes	12	(57)	(157)	(27)
Share in losses of associated companies net	7	8	30	32
Net income (loss)	706	(84)	876	1,630
Net loss attributable to non-controlling interests	(5)	(5)	(13)	(13)
Net income (loss) attributable to Teva	\$ 711	\$ (79)	\$ 889	\$ 1,643
Earnings (loss) per share attributable to Teva:				
Basic	\$ 0.84	\$ (0.09)	\$ 1.05	\$ 1.88
Diluted	\$ 0.84	\$ (0.09)	\$ 1.04	\$ 1.88
Weighted average number of shares (in millions):				
Basic	845	869	850	873
Diluted	846	869	851	875

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



Table of Contents

**TEVA PHARMACEUTICAL INDUSTRIES LIMITED**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(U.S. dollars in millions)

(Unaudited)

	Three months ended		Nine months ended	
	September 30, 2013	2012	September 30, 2013	2012
Net income (loss)	\$ 706	\$ (84)	\$ 876	\$ 1,630
Other comprehensive income, net of tax:				
Currency translation adjustment	359	449	(96)	374
Unrealized gain (loss) on derivative financial instruments, net	(76)	(28)	(64)	12
Unrealized gain (loss) from available-for-sale securities, net	5	24	*	(21)
Other	11	6	20	(9)
<b>Total comprehensive income</b>	<b>1,005</b>	<b>367</b>	<b>736</b>	<b>1,986</b>
Comprehensive loss attributable to the non-controlling interests	2	5	12	13
<b>Comprehensive income attributable to Teva</b>	<b>\$ 1,007</b>	<b>\$ 372</b>	<b>\$ 748</b>	<b>\$ 1,999</b>

\* Less than \$0.5 million.

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

Table of Contents

## TEVA PHARMACEUTICAL INDUSTRIES LIMITED

## CONSOLIDATED BALANCE SHEETS

(U.S. dollars in millions)

(Unaudited)

	September 30, 2013	December 31, 2012
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,148	\$ 2,879
Accounts receivable	5,191	5,572
Inventories, see note 4	5,244	5,502
Deferred taxes	1,062	1,142
Other current assets	1,261	1,260
<b>Total current assets</b>	13,906	16,355
<b>Other non current assets</b>	1,532	1,338
<b>Property, plant and equipment, net</b>	6,501	6,315
<b>Identifiable intangible assets, net</b>	7,004	7,745
<b>Goodwill</b>	18,907	18,856
<b>Total assets</b>	\$ 47,850	\$ 50,609
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Short-term debt and current maturities of long term liabilities	\$ 2,536	\$ 3,006
Sales reserves and allowances, see note 6	4,658	4,934
Accounts payable and accruals	3,049	3,376
Other current liabilities	1,917	1,572
<b>Total current liabilities</b>	12,160	12,888
<b>Long-term liabilities:</b>		
Deferred income taxes	1,424	1,849
Other taxes and long term payables	1,817	1,293
Senior notes and loans	10,061	11,712
<b>Total long term liabilities</b>	13,302	14,854
<b>Contingencies, see note 12</b>		
<b>Total liabilities</b>	25,462	27,742

**Equity:**

**Teva shareholders equity:**

Ordinary shares of NIS 0.10 par value per share; September 30, 2013 and December 31, 2012: authorized 2,500 million shares; issued 944 million shares	50	50
Additional paid-in capital	13,551	13,474
Retained earnings	12,432	12,346
Accumulated other comprehensive loss	(157)	(17)
Treasury shares as of September 30, 2013 and December 31, 2012 99 million ordinary shares and 87 million ordinary shares, respectively	(3,568)	(3,085)
	22,308	22,768
<b>Non-controlling interests</b>	80	99
<b>Total equity</b>	22,388	22,867
<b>Total liabilities and equity</b>	\$ 47,850	\$ 50,609

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



Table of Contents**TEVA PHARMACEUTICAL INDUSTRIES LIMITED****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(U.S. dollars in millions)

(Unaudited)

	<b>Nine months ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities:</b>		
Net income	\$ 876	\$ 1,630
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	1,206	1,315
Deferred income taxes net and uncertain tax positions	(666)	(503)
Net change in operating assets and liabilities	609	(34)
Impairment of long lived assets	195	576
Other items	138	(38)
Stock-based compensation	42	61
Loss (gain) from sale of long lived assets and investments	21	(12)
<b>Net cash provided by operating activities</b>	<b>2,421</b>	<b>2,995</b>
<b>Investing activities:</b>		
Purchases of property, plant and equipment	(717)	(777)
Proceeds from sales of long lived assets and investments	173	200
Purchases of investments and other assets	(157)	(73)
Other investing activities	(91)	(75)
Acquisitions of subsidiaries, net of cash acquired	(39)	
<b>Net cash used in investing activities</b>	<b>(831)</b>	<b>(725)</b>
<b>Financing activities:</b>		
Repayment of long-term loans and other long-term liabilities	(2,005)	(1,184)
Dividends paid	(813)	(641)
Purchases of treasury shares	(497)	(667)
Proceeds from exercise of options by employees	29	24
Other financing activities	20	
Proceeds from long-term loans and other long-term liabilities	2	1,240
Net change in short-term credit		(2,514)
Proceeds from senior notes-net		1,798
<b>Net cash used in financing activities</b>	<b>(3,264)</b>	<b>(1,944)</b>
<b>Translation adjustment on cash and cash equivalents</b>	<b>(57)</b>	<b>10</b>

<b>Net change in cash and cash equivalents</b>	(1,731)	336
<b>Balance of cash and cash equivalents at beginning of period</b>	2,879	1,096
<b>Balance of cash and cash equivalents at end of period</b>	\$ 1,148	\$ 1,432

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

**Table of Contents**

**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 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, 2012, as filed with the Securities and Exchange Commission. Amounts at December 31, 2012 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 nine months ended September 30, 2013 are not necessarily indicative of results that could be expected for the entire fiscal year.

**NOTE 2 Recently adopted and issued accounting pronouncements:**

In July 2013, the Financial Accounting Standards Board (FASB) issued ASU 2013-11, which requires that a non-recognized tax benefit be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. This net presentation is required unless a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset to settle any additional income tax that would result from the disallowance of the unrecognized tax benefit. ASU 2013-11 is effective for fiscal years beginning after December 15, 2013, with early adoption permitted. Teva is assessing whether the adoption of this standard will have a material impact on its consolidated financial statements.

In March 2013, the FASB issued ASU 2013-05, which provides further guidance on accounting for the release of a cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets and provides guidance for the acquisition in stages of a controlling interest in a foreign entity. ASU 2013-05 is effective for fiscal years beginning after December 15, 2013, with early adoption permitted. Teva believes that the adoption of this standard will not have a material impact on its consolidated financial statements.

In February 2013, the FASB issued ASU 2013-04, which provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, except for obligations addressed within existing guidance under U.S. generally accepted accounting principles. The update is effective for annual and interim reporting periods for fiscal years beginning after December 15, 2013, with early adoption permitted. Teva believes that the adoption of this standard will not have a material impact on its consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, which relates to additional reporting and disclosure of amounts reclassified out of accumulated other comprehensive income (OCI). Under this guidance, companies are required to disclose the amount of income (or loss) reclassified out of OCI to each line item on the income statement where net income is presented. The guidance allows companies to elect whether to disclose the reclassification in the notes to the

financial statements or in the income statement. This update was effective for annual and interim reporting periods for fiscal years beginning after December 15, 2012.

In January 2013, the FASB issued ASU 2013-01, which clarifies that a previous update applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. This update was effective for annual and interim reporting periods for fiscal years beginning on or after January 1, 2013. Teva's adoption of this standard did not have a material impact on its consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, which amends previous guidance on testing certain indefinite-lived intangible assets, other than goodwill, for impairment by allowing an entity to perform a qualitative impairment assessment. If the entity determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is not more likely than not (i.e., a likelihood of more than 50 percent) impaired, the entity would not need to

**Table of Contents**

**TEVA PHARMACEUTICAL INDUSTRIES LIMITED**

**Notes To Condensed Consolidated Financial Statements**

**(Unaudited)**

calculate the fair value of the asset and perform a quantitative impairment test. In addition, the standard does not amend the requirement to test these assets for impairment between annual tests if there is a change in events or circumstances; however, it does revise the examples of events and circumstances that an entity should consider in interim periods. ASU 2012-02 was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Teva's adoption of this standard did not have a material impact on its consolidated financial statements.

**NOTE 3 Certain transactions:**

***MicroDose Therapeutx:***

On July 8, 2013, Teva acquired MicroDose Therapeutx, Inc. ( MicroDose ), a pharmaceutical and drug delivery company focused on inhalation technologies and products for lung diseases and infections. MicroDose's portfolio includes MDT-637, a phase-2 candidate, and an early stage asthma/COPD drug candidate. Under the terms of the agreement, Teva acquired all of MicroDose's outstanding shares for a payment at closing of approximately \$40 million.

Teva may make additional milestone payments, sales-based milestone payments and tiered royalty payments upon commercialization, which currently have a fair value of approximately \$230 million, based on a preliminary purchase price allocation.

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

***Debt repayment:***

During the first quarter of 2013, Teva prepaid a total of approximately \$1.8 billion of debt, consisting of \$1 billion principal amount of its 1.7% senior notes due 2014, \$500 million principal amount of its 5.55% senior notes due 2016, and \$248 million of the European Investment Bank floating rate loan due 2015. During the second quarter of 2013, Teva repaid the \$200 million principal amount of floating-rate senior notes issued in November 2011 as part of the financing of the Cephalon acquisition, which matured in May 2013.

***Amendment 69 to the Israeli Law for the Encouragement of Capital Investments:***

During the second quarter of 2013, Teva paid taxes in the amount of 336 million new Israeli shekels (approximately \$91 million) under Amendment 69 to the Israeli Law for the Encouragement of Capital Investments. This amendment permits an Israeli company to pay a reduced tax rate on its tax-exempt profits accumulated prior to the end of 2011, which the company can then distribute to its shareholders without paying additional corporate tax. The payment was made by one of Teva's Israeli subsidiaries with respect to its own tax-exempt profits.

Should Teva decide, prior to November 11, 2013, to pay additional amounts under the amendment with respect to its remaining Israeli tax-exempt profits, such payments could amount to up to approximately \$650 million. See note 14f to our consolidated financial statements for the year ended December 31, 2012.

**NOTE 4 Inventories:**

Inventories consisted of the following:

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
	<b>U.S. \$ in millions</b>	
Finished products	\$ 2,736	\$ 2,871
Raw and packaging materials	1,592	1,754
Products in process	718	751
Goods in transit	198	126
	<b>\$ 5,244</b>	<b>\$ 5,502</b>

**Table of Contents**

**TEVA PHARMACEUTICAL INDUSTRIES LIMITED**

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

**(Unaudited)**

**NOTE 5 Earnings (loss) per share:**

Basic earnings (loss) per share is computed by dividing net income (loss) 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 nine months ended September 30, 2013 and 2012, respectively, and the three months ended September 30, 2013, 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 interest expense on the debentures and amortization of issuance costs, net of tax benefits to net income, and by adding the weighted average number of shares issuable upon assumed conversion of the debentures to the weighted average number of ordinary shares outstanding during the period.

In computing the loss per share for the three months ended September 30, 2012, no adjustment was made to take into account any possible dilution to the basic loss per share in light of the loss.

**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, 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 until more information is available to evaluate the impact.

Provisions for rebates and chargebacks, including Medicaid and other governmental program discounts (including those required by U.S. health care reform laws), 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. Rebates and chargebacks are the largest components of sales reserves and allowances. 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. Provisions for estimating chargebacks are determined using historical chargeback experience, or expected chargeback levels and wholesaler

sales information for new products, which are compared to externally obtained distribution channel reports for reasonableness. Shelf-stock adjustments are granted to customers based on the existing inventory of a customer following 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 the 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 and other arrangements 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.



Table of Contents

## TEVA PHARMACEUTICAL INDUSTRIES LIMITED

## Notes To Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Sales reserves and allowances consisted of the following:

	September 30, 2013	December 31, 2012
	U.S. \$ in millions	
Rebates	\$ 2,879	\$ 2,983
Chargebacks	1,045	1,273
Returns	513	506
Other	221	172
	\$ 4,658	\$ 4,934

**NOTE 7 Equity:***Accumulated other comprehensive loss*

The following table provides details about reclassifications out of accumulated other comprehensive loss to the statement of income (loss):

Details about Accumulated Other Comprehensive Components	These months ended		Affected Line Item in the Statement of Income (Loss)
	September 30, 2013	September 30, 2012	
	U.S. \$ in millions		
Currency translation adjustment	\$ 17	\$ 17	Financial expenses net
Loss on defined benefit plans	16	17	Various *
Gains on marketable securities	(6)	(6)	Financial expenses net
Loss on derivative financial instruments		5	Net revenues
	10	33	
Tax adjustment	(4)	2	Income taxes
Total reclassifications for the period	\$ 6	\$ 35	

\*

Affected mostly general and administrative expenses, as well as cost of sales, research and development expenses, and selling and marketing expenses.

***Share repurchase program***

In December 2011, Teva's board of directors authorized the Company to repurchase up to an aggregate of \$3 billion of its ordinary shares and American depository shares, of which, as of September 30, 2013, \$1.33 billion remains available for repurchases. This repurchase authorization has no time limit. Repurchases may be commenced or suspended at any time or from time to time.

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>in millions</b>			
Amount spent on shares repurchased	\$	\$	\$ 497	\$ 667
Number of shares repurchased			12.8	15.4

**Table of Contents****TEVA PHARMACEUTICAL INDUSTRIES LIMITED****Notes To Condensed Consolidated Financial Statements (Continued)****(Unaudited)****NOTE 8 Entity-wide disclosure:**

Financial reports to Teva's chief operating decision makers evolve over time as Teva's business develops, as well as following major acquisitions. In past years, Teva has reported under a notion of "One Teva." In 2012, following the appointment of Teva's former Chief Executive Officer, Dr. Jeremy M. Levin, and with the support and approval of the board, Teva completed a comprehensive review of its strategy, organizational and business structure and began implementing changes to support the new strategy and to align the organization. Upon the completion of certain organizational changes anticipated by the end of 2013, the Company intends to re-evaluate its entity-wide disclosure and segment reporting.

Impairment tests on goodwill are performed at the level of the reporting unit. The determination of reporting units is largely dependent on how the business is managed and its reporting structure. In completing the re-evaluation of its segment reporting, the allocation of goodwill to reporting units will also be re-evaluated, which might result in impairment.

For the purposes of these unaudited financial statements for the period ended September 30, 2013, Teva has continued to report under a single segment, as in the past.

Revenues by geographic area were as follows:

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	U.S. \$ in millions			
United States:				
Generic	\$ 1,138	\$ 1,074	\$ 3,003	\$ 3,347
Specialty	1,509	1,468	4,486	4,330
Others	64	59	185	140
<b>Total United States</b>	<b>2,711</b>	<b>2,601</b>	<b>7,674</b>	<b>7,817</b>
Europe*:				
Generic	812	821	2,545	2,527
Specialty	426	379	1,243	1,153
Others	200	187	601	560
<b>Total Europe</b>	<b>1,438</b>	<b>1,387</b>	<b>4,389</b>	<b>4,240</b>
Rest of the World:				
Generic	533	597	1,661	1,849

Specialty	144	174	469	561
Others	233	213	691	601
Total Rest of the World	910	984	2,821	3,011
Total revenues	\$ 5,059	\$ 4,972	\$ 14,884	\$ 15,068

\* All members of the European Union, Switzerland, Norway and certain South Eastern Europe countries.

**NOTE 9 Fair value measurement:**

*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.

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

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

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

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

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

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

Unrealized gains 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.

Financial items carried at fair value as of September 30, 2013 and December 31, 2012 are classified in the tables below in one of the three categories described above:

	<b>September 30, 2013</b>			
	<b>U.S. \$ in millions</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Cash and cash equivalents:</b>				
Money market securities	\$ 22	\$	\$	\$ 22
Cash deposits and other	1,126			1,126
<b>Marketable securities*:</b>				
Auction rate securities			17	17
Collateral debt obligations			1	1
Equity securities	76			76
Structured investment vehicles		91		91
Other	31			31
<b>Derivatives **::</b>				
Liabilities derivatives - mainly options and forward contracts		(25)		(25)
Interest rate and cross-currency swaps (liabilities)		(341)		(341)

Edgar Filing: TEVA PHARMACEUTICAL INDUSTRIES LTD - Form 6-K

Asset derivatives - mainly options and forward contracts	24	24
Interest rate swaps (assets)	1	1
Contingent consideration ***	(366)	(366)
Total	\$ 1,255	\$ (250)
	\$ (348)	\$ 657

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

	<b>December 31, 2012</b>			<b>Total</b>
	<b>U.S. \$ in millions</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Cash and cash equivalents:				
Money market securities	\$ 331	\$	\$	\$ 331
Cash deposits and other	2,548			2,548
Marketable securities*:				
Auction rate securities			32	32
Collateral debt obligations			1	1
Equity securities	72			72
Structured investment vehicles		100		100
Other	5			5
Derivatives **::				
Liability derivatives - mainly options and forward contracts		(29)		(29)
Interest rate and cross-currency swaps (liabilities)		(109)		(109)
Asset derivatives - mainly options and forward contracts		20		20
Interest rate swaps (assets)		4		4
Contingent consideration ***			(131)	(131)
<b>Total</b>	<b>\$ 2,956</b>	<b>\$ (14)</b>	<b>\$ (98)</b>	<b>\$ 2,844</b>

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

\*\*\* Contingent consideration represents either liabilities or assets recorded at fair value as part of transactions entered into with Cephalon, MicroDose and Bayer.

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.



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

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

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
	<b>U.S. \$ in millions</b>	
Fair value at the beginning of the period	\$ (98)	\$ (139)
Amount realized	(16)	(10)
Change in contingent consideration	(235)	40
Net change to fair value:		
Included in earnings - financial expense - net	1	4
Included in accumulated other comprehensive loss		7
Fair value at the end of the period	\$ (348)	\$ (98)

***Financial instruments not measured at fair value***

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 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.

The fair value of the financial instruments that are measured on a basis other than fair value are presented in the below table:

	<b>Estimated fair value*</b>	
	<b>September 30, 2013</b>	<b>December 31, 2012</b>
	<b>U.S. \$ in millions</b>	
Senior notes included under long term liabilities	\$ (8,633)	\$ (10,494)
Senior notes and convertible senior debentures included under short term liabilities	(2,405)	(2,870)

Fair value at the end of the period	\$ (11,038)	\$ (13,364)
-------------------------------------	-------------	-------------

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

***Marketable 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			
September 30, 2013	\$ 237	\$ 235	\$ 25	\$ 23
December 31, 2012	541	533	27	19

**Table of Contents****TEVA PHARMACEUTICAL INDUSTRIES LIMITED****Notes To Condensed Consolidated Financial Statements (Continued)****(Unaudited)****Note 10 Derivative instruments and hedging activities:**

The group carries out transactions involving derivative financial instruments (mainly forward exchange contracts, written and purchased currency options, cross-currency swap contracts and interest rate swap contracts). The transactions are designed to hedge the Company's currency exposure and interest exposure.

The Company does not enter into derivative transactions for trading purposes.

Derivatives that do not qualify for hedge accounting are recognized on the balance sheet at their fair value, with changes in the fair value recognized as a component of financial expenses - net in the statements of income. The cash flows associated with these derivatives are reflected as cash flows from operating activities in the consolidated statements of cash flows.

Derivatives that qualify as a fair value hedge are recognized on the balance sheet at their fair value, with changes in the fair value reported with the carrying amount of the hedged asset or liability.

For derivatives that qualify as cash-flow hedges, the effective portion of these derivatives' fair value is initially reported as a component of other comprehensive income.

For derivatives that qualify for hedge accounting, the cash flows associated with these derivatives are reported in the consolidated statements of cash flows consistently with the classification of cash flows from the underlying hedged items that these derivatives are hedging.

**Derivative instrument disclosure**

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

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
	<b>U.S. \$ in millions</b>	
Interest rate swap - cash flow hedge	\$ 1,100	\$ 1,100
Interest rate swap - fair value hedge	2,500	1,550
Cross currency swap - cash flow hedge	1,875	1,875
Forecasted transactions - cash flow hedge	285	200



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

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

	Reported under	Fair value	
		September 30, 2013	December 31, 2012
U.S. \$ in millions			
Asset derivatives - interest rate swap - fair value hedge designated as hedging instruments	Other current assets	\$ 1	\$ 4
Liability derivatives - interest rate swap - cash flow hedge designated as hedging instruments	Other current liabilities	(1)	(4)
Liability derivatives - interest rate swap - fair value hedge designated as hedging instruments	Senior notes and loans	(180)	(14)
Liability derivatives - cross currency swap - cash flow hedge designated as hedging instruments	Senior notes and loans	(160)	(91)
Liability derivatives, comprising mainly option and forward contracts, not designated as hedging instruments	Other current liabilities	(25)	(29)
Asset derivatives, comprising mainly option and forward contracts, not designated as hedging instruments	Other current assets	24	20

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 \$48 million and losses of \$32 million were recognized under financial expenses-net for the nine months ended September 30, 2013 and 2012, respectively, and gains of \$7 million and losses of \$27 million were recognized under financial expenses-net for the three months ended September 30, 2013 and 2012, 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 \$26 million and \$14 million were recognized under financial expenses-net for the nine months ended September 30, 2013 and 2012, respectively, and gains of \$7 million and \$4 million were recognized under financial expenses-net for the three months ended September 30, 2013 and 2012, respectively. Such gains mainly reflect the differences between the fixed interest rate

and the floating interest rate.

**NOTE 11 Legal settlements, impairments, restructuring and others:**

Legal settlements, impairments, restructuring and others consisted of the following:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>U.S. \$ in millions</b>			
Legal settlements and reserves	\$ 47	\$ 689	\$ 1,509	\$ 707
Impairments of long-lived assets	131	481	195	576
Restructuring	33	20	97	81
Other expenses	2	(59)	36	(29)
<b>Total</b>	<b>\$ 213</b>	<b>\$ 1,131</b>	<b>\$ 1,837</b>	<b>\$ 1,335</b>

For the nine months ended September 30, 2013, Teva recorded an additional provision of \$930 million relating to the settlement of the pantoprazole patent litigation. See **Intellectual Property Matters** in note 12. Teva further recorded a provision of \$495 million for loss contingencies relating to the modafinil antitrust litigation. See **Competition Matters** in note 12.

**Table of Contents**

Impairments of long-lived assets for the nine months ended September 30, 2013, amounted to \$195 million, comprising impairments of:

1. Identifiable intangible assets of \$159 million, including:
  - a. In-process R&D impairment of \$99 million of armodafinil (Nuvigil®) for the treatment of bi-polar disorder following the results of the third pivotal clinical trial; and
  - b. Impairment of existing product rights of \$60 million, including a \$23 million impairment of product rights for Cenestin® synthetic conjugated estrogens tablets related to API constraints, which may lead to the discontinuance of the product.
2. Non-current investments of \$26 million.
3. Other write downs of property, plant and equipment of \$10 million.

**NOTE 12 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 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 such actions.

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 assessment of the likelihood of damages, and the advice of counsel, no provisions have been made except as noted below. 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 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 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 versions of patent-protected pharmaceuticals for sale prior to patent expiration in various territories. In the United States, to obtain approval for most generics 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. 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 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. From time to time, Teva is also involved in litigation regarding patents in other countries where it does business. The laws concerning generic pharmaceuticals and patents differ from country to country.

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 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, in some jurisdictions, such as the United States, 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.



## **Table of Contents**

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 ultimately be found to relate to damages that are not covered by Teva's policy, and insurance for additional products may be difficult to obtain. Furthermore, any insurance recovery would not be recognized for financial statement purposes until collection is assured.

Teva's business inherently exposes it to potential product liability claims. As Teva's portfolio of available medicines continues to expand, the number of product liability claims asserted against Teva has increased. Teva maintains product liability insurance coverage in amounts and with 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 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. 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 Matters***

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®. Following the launch, Lilly sued Teva Canada for patent infringement. Lilly's patent (which expired in April 2011) was found invalid in October 2009, and again in November 2011 following reconsideration. Lilly's appeal was dismissed in September 2012, and on May 16, 2013, the Supreme Court of Canada dismissed Lilly's application for leave to appeal the dismissal. This matter is now concluded.

In December 2007, Teva commenced sales of its 20 mg and 40 mg pantoprazole sodium tablets, which are the AB-rated generic versions of Wyeth's Protonix®. Altana Pharma and Wyeth Pharmaceuticals (collectively, Wyeth) sued Teva for patent infringement, and in April 2010, following a jury trial, the jury returned a verdict finding that the patent, which Teva had infringed, was not invalid.

The trial in the damages phase of the case began on June 3, 2013. On June 11, 2013, Teva entered into a settlement agreement with Wyeth, which was announced on June 12, 2013. As part of the settlement, which provides for the release of all claims against Teva and its subsidiaries, Teva agreed to pay \$1.6 billion to Wyeth. Teva has paid \$800 million to date and is obligated to pay the remainder in 2014. As a result of the settlement, management recorded a provision of \$930 million in the second quarter of 2013, in addition to the \$670 million provision previously recorded in the 2012 financial statements. Teva believes that it may have up to approximately \$560 million of net insurance coverage available to defray the payments, subject to recovery from the insurance carriers, which are disputing both their obligation to cover and the claimed limits of coverage.

### ***Product Liability Matters***

On June 23, 2011, the United States Supreme Court held, in *Pliva, Inc. v. Mensing*, one of the metoclopramide cases mentioned below, that federal law preempts state law product liability claims brought against generic pharmaceutical

manufacturers under a failure to warn theory. On June 24, 2013, the United States Supreme Court held, in *Mutual Pharmaceutical Company, Inc. v. Bartlett*, that design defect claims against a generic manufacturer are also preempted by federal law because they are essentially failure to warn claims and therefore are preempted on the same grounds as the claims in *Mensing*. Teva believes that these decisions are likely to reduce its aggregate exposure in currently pending product liability lawsuits involving generic products, including those described below, although the extent of such reduction is uncertain at this time.

Teva subsidiaries Barr Pharmaceuticals 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 involved medroxyprogesterone acetate (a progestin prescribed to women receiving estrogen-containing hormone therapy), although a small number involved Cenestin® (an estrogen-containing medicine sometimes prescribed to treat symptoms associated with menopause). Over 5,900 cases have been dismissed, either because the plaintiffs were unable to demonstrate actual use of a Barr or Duramed product or as a result of the *Mensing* decision. There are approximately 33 remaining cases, and additional dismissals are possible.

**Table of Contents**

Of these cases, 15 involve the alleged ingestion of Cenestin® and are part of a multidistrict litigation in an Arkansas federal court. Of the 18 other pending cases, all of which involve the alleged ingestion of generic drugs, eight are part of a mass tort proceeding in the Philadelphia Court of Common Pleas; nine are part of a multicounty proceeding in a New Jersey state court; and one case is pending in the United States District Court for the Western District of Wisconsin. The vast majority of the claims are covered by insurance.

Teva and 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 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. All of the cases in the Philadelphia court have been stayed with respect to the generic defendants pending resolution of appeals regarding whether the claims should be dismissed due to federal preemption. On July 29, 2013, the Pennsylvania Superior Court affirmed, in part, and reversed, in part, the trial court's denial of the generic defendants' preemption motion. This ruling substantially allows the cases to proceed. Teva intends to seek further review of this decision. In the California litigation, which now includes about half of the total plaintiffs, the defendants' motion to dismiss has been denied. 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. Teva has filed a motion for leave to appeal to the New Jersey Supreme Court. A federal case in the District of Vermont against Pliva, a subsidiary of Teva, had been scheduled for trial in July 2013 based solely on the claim that the plaintiff's injuries were caused by the absence from Pliva's product label of language in the Indications, Usage and Dosing and Administration sections of the label of the brand drug (Reglan®) that was approved by the FDA in July 2004. This case was settled on July 8, 2013. Another federal case against Pliva, in the Eastern District of North Carolina, in which the plaintiffs are attempting to pursue private enforcement of claims for alleged violations of federal regulations regarding post-market surveillance and adverse event reporting, may be scheduled for trial later this year.

***Competition Matters***

As part of its generic pharmaceuticals business, Teva has challenged a number of patents on 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.

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. In doing so, the Supreme Court reversed a decision of the United States Court of Appeals for the Eleventh Circuit that found that settlement agreements should be analyzed under a scope of the patent test. The Supreme Court declined to hold that such agreements should be per se illegal or presumptively unlawful, instead

adopting an approach in which a trial court must analyze each agreement in its entirety in order to determine whether it violates the antitrust laws. This new rule of reason test may lead to increased scrutiny of Teva's patent settlements, additional administrative action by the FTC, and an increased risk of liability in Teva's currently pending antitrust litigations. Teva believes that its settlement agreements are lawful and serve to increase competition. Nevertheless, the damages allegedly caused by the asserted delays in generic entry can be substantial, particularly when they involve branded drugs with sales in the billions of dollars. Nonetheless, as in the modafinil opt-out case described below, many such cases may be resolved through settlement for amounts considerably less than the damages initially alleged.

In April 2006, Teva Pharmaceuticals USA, Inc. (Teva USA), Barr Laboratories, Inc. and Cephalon, Inc. (all subsidiaries of Teva) were named, along with Mylan Laboratories, Inc., Ranbaxy Laboratories Ltd. and Ranbaxy Pharmaceuticals, Inc., in a class action lawsuit filed in the United States District Court for the Eastern District of

## Table of Contents

Pennsylvania. The case alleges that the settlement agreements involving finished modafinil products (the generic version of Provigil®) that Cephalon entered into with the various generic pharmaceutical companies in late 2005 and early 2006 were unlawful because they had the effect of excluding generic competition. 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 from January 2006 until the alleged unlawful conduct ceases. The first generic modafinil product was launched in March 2012. Similar allegations have been made in a number of additional complaints, including those filed on behalf of proposed classes of direct and indirect purchasers, by an individual indirect purchaser, by certain retail chain pharmacies and by Apotex, Inc. 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 would have been, and disgorgement of profits, trebled under the relevant statutes, plus attorneys' fees and costs. At the time the settlement agreements were entered into, annual sales of Provigil® were approximately \$500 million. Annual sales of Provigil® in March 2012, when the first generic modafinil product was launched, were approximately \$1 billion.

In February 2008, following an investigation, the FTC sued Cephalon, alleging that Cephalon violated Section 5 of the Federal Trade Commission Act, which prohibits unfair or deceptive acts or practices in the marketplace, by unlawfully maintaining a monopoly in the sale of Provigil® and improperly excluding generic competition. In March 2010, the District Court denied defendants' motions to dismiss the federal antitrust claims and some of the related state law claims. Because the FTC lawsuit does not currently seek monetary damages, and no fines or penalties have been asserted against Cephalon, no provision has been recorded for this matter. The FTC has indicated that it may file a motion seeking to add Teva as a defendant and that it may seek disgorgement of profits, but it has not done so at this time.

Another class action lawsuit with essentially the same allegations was initiated by an independent pharmacy in Tennessee in November 2009 and dismissed in December 2010. In May 2010, another independent pharmacy also filed suit in Ohio with the same allegations. This case has been transferred to the Eastern District of Pennsylvania.

Teva has settled with certain of the retail chain pharmacies (representing approximately half of the direct purchases of Provigil® from Cephalon) and, given the significant similarities in the claims asserted and damages claimed by certain other purchaser plaintiffs, has concluded that a provision for certain other parts of the litigation is warranted. Accordingly, management recorded a provision of \$495 million in the financial statements in the second quarter of 2013 for these matters. Management expects that the settlement demands of the remaining parties could be significantly higher, and there can be no assurance that Teva will be able to reach settlements with the remaining parties on these terms.

In October 2011, the District Court hearing the antitrust cases described above, as well as patent claims brought by plaintiff Apotex, issued its decision regarding Apotex's invalidity claims as to Cephalon's Patent No. RE 37,516, finding the patent to be invalid based on obviousness, among other things, and unenforceable based on inequitable conduct. In March 2012, the District Court ruled that Apotex's product does not infringe Cephalon's patent. On April 8, 2013, the United States Court of Appeals for the Federal Circuit affirmed the District Court's rulings of invalidity and inequitable conduct in a *per curiam* decision. Cephalon's petition for a rehearing before an *en banc* panel of the Federal Circuit was denied on May 31, 2013. The plaintiffs in the antitrust case have filed motions for summary judgment asking the District Court (1) to apply the inequitable conduct and invalidity findings to the antitrust cases in an effort to establish antitrust liability, and (2) to find a conspiracy between and among Cephalon and the generic companies.

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 has been named as a co-defendant with Bayer Corporation, The Rugby Group, Inc. and others in approximately 38 class action complaints filed in state and federal courts by direct and indirect purchasers of ciprofloxacin (Cipro<sup>®</sup>) from 1997 to the present. The complaints allege that a 1997 Bayer-Barr patent litigation settlement agreement was anticompetitive and violated federal antitrust laws and/or state antitrust and consumer protection laws. In March 2005, the court in the federal multidistrict litigation granted summary judgment in Barr's favor and dismissed all of the federal actions before it. Following unsuccessful appeals and petitions for *certiorari* that were denied by the United States Supreme Court, the federal actions have effectively ended. In addition, all but three state cases (California, Kansas and Florida) have been dismissed. In the California case, the trial court granted defendants' summary judgment motions, and the California Court of Appeal affirmed in October 2011. The plaintiffs petitioned for review by the California Supreme Court, which decided to hear the appeal, but then suspended the case before completion of briefing, pending the United States Supreme Court's disposition of the AndroGel case. The plaintiffs moved to maintain the stay in order for the trial court to evaluate a proposed \$74 million class settlement with Bayer, and on July 16, 2013, the California Supreme Court granted the stay and directed the trial court to review the settlement. Based on the plaintiff's expert testimony in the non-terminated federal multidistrict litigation, estimated sales of ciprofloxacin in California were approximately \$500 million during the alleged damages period. The Kansas action has been reopened, and the Florida action is in the very early stages, with no hearings or schedule set to date.

## **Table of Contents**

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® ER). 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. The plaintiffs also have asserted claims against Wyeth alone for fraud on the United States Patent Office. Teva filed motions to dismiss in April 2012. The case was stayed pending the decision in the AndroGel case, and has now been re-opened. The defendants' motions to dismiss were heard on September 10, 2013.

In February 2012, two purported classes of direct-purchaser plaintiffs sued GlaxoSmithKline and Teva for alleged violations of the antitrust laws in connection with their settlement of patent litigation involving lamotrigine (generic Lamictal®). 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. The plaintiffs' appeal was stayed pending the decision in the AndroGel case. The case has been remanded for further proceedings. The parties are awaiting a decision on a motion for reconsideration of the dismissal order.

Starting in September 2012, plaintiffs in 11 cases, including overlapping purported class actions, sued AstraZeneca and Teva, as well as Ranbaxy and Dr. Reddy's, for violating the antitrust laws by entering into settlement agreements to resolve the esomeprazole (generic Nexium®) patent litigation. These cases have been consolidated and transferred to the District of Massachusetts. The defendants' motions to dismiss were denied on April 18, 2013. At the time the settlement agreements were entered into, annual sales of Nexium® were approximately \$2.7 billion. Summary judgment motions are anticipated in November 2013 and trial is scheduled for March 2014.

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 to resolve patent litigation over the product. A multidistrict litigation was formed in the United States District Court for the Eastern District of Pennsylvania.

Starting in July 2013, 12 lawsuits have been filed in several United States District 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.

In January 2013, GlaxoSmithKline (GSK) filed a lawsuit against Teva for violations of the Lanham Act in the marketing of its Budeprion XL 300 mg product. The lawsuit alleges that Teva made false representations when it said that its Budeprion XL 300 mg product was bioequivalent to GSK's Wellbutrin® XL 300 mg and implicitly communicated that the product was as safe and efficacious as GSK's product. At the time Teva began selling Budeprion XL 300 mg, annual sales of Wellbutrin® XL 300 mg were approximately \$1 billion. Teva has filed a motion to dismiss the complaint on the grounds that GSK cannot challenge a determination of bioequivalence made by the FDA retroactively through the Lanham Act and that Teva's alleged statements were not false or misleading as a matter of law. Oral argument on the motion to dismiss, which had been scheduled for July 2, 2013, has been postponed.

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

Together with many other pharmaceutical manufacturers, Teva and/or its subsidiaries in the United States, including Teva USA, Sicor Inc., IVAX Pharmaceuticals, Inc. and Barr (collectively, the Teva parties), were named as defendants in a number of cases in state and federal courts throughout the country that relate generally to drug price

reporting by manufacturers. Such price reporting is alleged to have caused governments and others to pay inflated reimbursements for covered drugs. These drug pricing cases, which seek unspecified amounts in money damages, civil penalties, treble damages, punitive damages, attorneys' fees and/or administrative, injunctive, equitable or other relief, are at various stages of litigation.

A number of state attorneys general and others have filed various actions against the Teva parties (either collectively or individually) relating to reimbursements or drug price reporting under Medicaid or other programs. The Teva parties reached settlements in most of these cases, and remain parties to litigation in Illinois, Missouri and Wisconsin. A settlement in principle has been reached in the Missouri case. Trial in the Illinois case began on October 28, 2013. In this case, the State of Illinois seeks approximately \$100 million in compensatory damages. Any such damages ultimately awarded by the court are subject to automatic



## **Table of Contents**

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 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. A provision for the cases, including the settlements and settlements in principle, was included in the financial statements.

In December 2009, the United States District Court for the District of Massachusetts unsealed a complaint alleging that numerous drug manufacturers, including Teva USA and other 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 USA, filed a motion to dismiss, which was granted on February 25, 2013. The plaintiffs' deadline to appeal the dismissal has not yet expired.

On September 11, 2013, the State of Louisiana filed a complaint seeking unspecified damages against 54 pharmaceutical companies, including Teva USA, Goldline Laboratories, Inc., Copley Pharmaceuticals, Inc., and Teva Women's Health, Inc. The complaint asserts that each of the defendants allegedly defrauded the state by falsely representing that its products were FDA-approved drugs when they were not, which allegedly caused the state Medicaid program to pay millions of dollars in reimbursement claims for defendants' products that it would not otherwise have covered.

### ***Other Government Investigations***

In 2008, Cephalon entered into settlement agreements with the U.S. government and various parties and states relating to allegations of off-label promotion of Actiq<sup>®</sup>, Provigil<sup>®</sup> and Gabitril<sup>®</sup>. In connection with the settlements, Cephalon agreed to plead guilty to one misdemeanor violation of the U.S. Food, Drug, and Cosmetic Act, pay a fine and settlement, and enter into a five-year corporate integrity agreement with the Office of the Inspector General of the Department of Justice. Cephalon continues to defend against putative class action and other complaints regarding its sales and marketing practices with respect to such products. For example, Cephalon is a defendant in a putative class action filed in United States District Court for the Eastern District of Pennsylvania claiming that the plaintiffs suffered monetary losses because Actiq<sup>®</sup> was promoted and prescribed for uses not approved by the FDA when there were allegedly less expensive pain management drugs that were more appropriate for patients' conditions. A hearing on the plaintiffs' motion for class certification was held on July 24, 2013. A separate set of plaintiffs alleges similar claims against Cephalon involving the drugs Provigil<sup>®</sup> and Gabitril<sup>®</sup>. Cephalon is also a defendant in a lawsuit filed by the State of South Carolina alleging violations of the state's unfair trade practices law and common law in connection with the alleged off-label promotion of Actiq<sup>®</sup>, Provigil<sup>®</sup> and Gabitril<sup>®</sup>. Cephalon filed a motion for summary judgment in the South Carolina action, contending that the claims are time-barred under the governing statutes of limitations. Additionally, Cephalon has received and has responded to subpoenas related to Treanda<sup>®</sup>, Nuvigil<sup>®</sup> and Fentora<sup>®</sup>. On March 15, 2013, a federal False Claims Act complaint filed against Cephalon in the Southern District of New York was unsealed. The complaint alleges off-label promotion of Treanda<sup>®</sup> and Fentora<sup>®</sup>. Although the government declined to intervene in the action, the qui tam relator is proceeding with the matter and has filed a second amended complaint. Cephalon's motion to dismiss was filed on July 31, 2013. Cephalon filed a motion to dismiss the relator's Fentora<sup>®</sup> claims based upon lack of jurisdiction on September 30, 2013.

Beginning in 2012, Teva received subpoenas and informal document requests from the SEC and the Department of Justice (DOJ) to produce documents with respect to compliance with the Foreign Corrupt Practices Act (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 the government in their investigations of these matters. Teva is also conducting a voluntary investigation into certain business practices that may have FCPA implications and has engaged independent

counsel to assist in its investigation. In the course of its investigation, which is continuing, Teva has identified in Russia, certain Eastern European countries, and certain Latin American countries issues that could potentially rise to the level of FCPA violations and/or violations of local law. Teva has brought these issues to the attention of the SEC and the DOJ. No conclusion can be drawn at this time as to any likely outcomes in these matters.

***Environmental Matters***

Teva's subsidiaries, including those in the United States and its territories, are parties to a number of proceedings, 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 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

---

**Table of Contents**

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 and/or certain of its subsidiaries have 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 and/or its subsidiaries (or its predecessors') facilities or former facilities that may have adversely impacted the environment.

In many of these cases, the government or private litigants allege that the responsible parties are jointly and severally liable for the investigation and cleanup costs. Although the liability among the responsible parties may be joint and several, these proceedings are frequently resolved so that the allocation of cleanup 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; 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 and state regulatory violations at some of Teva's facilities have resulted, and 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 costs and natural resource damages, and have required, and may require, that corrective measures and enhanced compliance measures be implemented.

***Other Litigation***

Teva's leading specialty medicine, Copaxone® (glatiramer acetate), which is responsible for a very significant contribution to profits and cash flow from operations, faces patent challenges in the United States and other countries. Teva believes that Copaxone® has strong patent protection and that an equivalent generic version would be difficult to develop. However, if one or more generic versions of Copaxone® were to be approved and Teva's patents were successfully challenged, or if there were a launch at risk, Teva would face generic competition for Copaxone® prior to the expiration of its patents. Earlier than expected generic competition would adversely affect Teva's results of operations.

In August 2008, following the submission by Sandoz Inc. and Momenta Pharmaceuticals, Inc. of an ANDA for a generic version of Copaxone®, Teva sued Sandoz, its parent Novartis AG and Momenta in the United States District Court for the Southern District of New York for infringement of four Orange Book patents, which expire on May 21, 2014. An additional five patents are at issue in the litigation, including one process patent that expires on September 1, 2015. This case has been consolidated with a subsequently filed patent infringement suit against Mylan Laboratories and Natco Pharma Limited. In August 2011, the District Court issued its claim construction opinion, which adopted all relevant interpretations by Teva and rejected all of the interpretations put forth by Sandoz/ Momenta and Mylan/Natco (collectively, the Defendants). A trial on inequitable conduct took place in June 2011, and a trial on validity and infringement took place in September 2011. In June 2012, the District Court issued its trial decision, in which it upheld the validity and enforceability of the nine patents at issue and found that Defendants' purported generic products would infringe all nine patents. As a result of this decision, in July 2012, the District Court enjoined the FDA from granting final approval to the Defendants' ANDAs prior to May 24, 2014, and enjoined the Defendants from selling their purported generic products until September 1, 2015. The Defendants appealed the District Court's rulings, and oral argument was heard on May 7, 2013. On July 26, 2013, the United States Court of Appeals for the Federal Circuit affirmed the District Court's judgment regarding the validity and infringement of four patents that expire in May 2014. The appellate court, however, reversed the trial court and declared the other patents expiring in May 2014

and the patent expiring in September 2015 to be invalid. In response, Teva filed a petition for rehearing, which was denied on October 18, 2013. On October 24, 2013, Teva filed with the Federal Circuit a motion to stay the mandate from issuing pending the filing of a petition for certiorari to the United States Supreme Court. Unless the issuance of the mandate is stayed, the District Court's injunction will likely be amended so that it would only prohibit generic competition in the United States until May 24, 2014.

In April 2012, Teva filed suit in the United States District Court for the Southern District of New York against Synthon Pharmaceuticals (Synthon) following Synthon's submission of an ANDA for a generic version of Copaxone®. The filing of this action led to a 30-month stay of FDA approval of Synthon's ANDA. The litigation against Synthon remains stayed pending the resolution of the appeal in the Sandoz and Mylan action.

**Table of Contents**

Mylan has also challenged the patents on Copaxone® in Europe and in Canada. In March 2011, Generics UK Limited (a Mylan subsidiary) initiated proceedings before the UK High Court challenging the validity of the U.K. counterpart to the Orange Book patents, which expires on May 23, 2015, and asserting that its proposed product does not infringe. In July 2012, the court ruled in favor of Teva, and on July 29, 2013, the Court of Appeal for England and Wales found in favor of Teva, upholding the validity of the asserted claims of the U.K. patent and denying Mylan's application for a declaration of noninfringement.

In September 2012, Mylan B.V. initiated revocation proceedings challenging the validity of the Dutch counterpart to the Orange Book patents, which expires on May 23, 2015. A trial on the validity of the Dutch patent took place on June 28, 2013. On October 2, 2013, the District Court of The Hague in the Netherlands issued its decision upholding the validity of the Dutch counterpart patent. Mylan has the right to appeal. Mylan has also applied for a declaration of noninfringement for its proposed product in the Netherlands, and a trial is scheduled for November 2013.

In August 2011, Mylan SAS initiated revocation proceedings challenging the validity of the French counterpart to the Orange Book patents, which expires on May 23, 2015. No trial date has been scheduled.

On June 2, 2013, Synthon filed an action in Spain to contest the grant of an approximate three-month term extension of the Spanish patent, which corresponds to the Orange Book patents for Copaxone®. The Spanish action is currently stayed.

In response to the filing of a generic application and corresponding patent challenge in Canada, Teva initiated patent infringement proceedings against Mylan based on the Canadian counterpart to the Orange Book patents, which expires on May 23, 2015, and such action triggered a 24-month stay of Mylan's regulatory approval.

Other Teva innovative, branded or specialty medicines, including Azilect®, Nuvigil®, Fentora®, ProAir® HFA and Treanda®, are also subjects of patent challenges.

---

**Table of Contents**

**OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**Forward-Looking Statements**

The following discussion and analysis contains forward-looking statements, which express the current beliefs and expectations of management. Such statements involve a number of known and unknown risks and uncertainties that could cause our future results, performance or achievements to differ significantly from the results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause or contribute to such differences include risks relating to: our ability to develop and commercialize additional pharmaceutical products, including our ability to develop, manufacture, market and sell biopharmaceutical products, competition for our innovative medicines, especially Copaxone® (including competition from innovative orally-administered alternatives as well as from potential purported generic equivalents), competition for our generic products (including from other pharmaceutical companies and as a result of increased governmental pricing pressures), competition for our specialty pharmaceutical businesses, our ability to achieve expected results through our specialty, including innovative, R&D efforts, the effectiveness of our patents and other protections for innovative products, decreasing opportunities to obtain U.S. market exclusivity for significant new generic products, our ability to identify, consummate and successfully integrate acquisitions and license products, our ability to reduce operating expenses to the extent and during the timeframe intended by our cost restructuring program, uncertainties relating to the transition to a new Chief Executive Officer, the effects of increased leverage as a result of recent acquisitions, the extent to which any manufacturing or quality control problems damage our reputation for high quality production and require costly remediation, our potential exposure to product liability claims to the extent not covered by insurance, increased government scrutiny in both the U.S. and Europe of our settlement agreements with brand companies and liabilities arising from class action litigation and other third-party claims relating to such agreements, potential liability for sales of generic medicines prior to a final resolution of outstanding patent litigation, our exposure to currency fluctuations and restrictions as well as credit risks, the effects of reforms in healthcare regulation and pharmaceutical pricing and reimbursement, any failures to comply with the complex Medicare and Medicaid reporting and payment obligations, governmental investigations into sales and marketing practices, particularly for our specialty pharmaceutical products (and our ongoing FCPA investigations and related matters), uncertainties surrounding the legislative and regulatory pathways for the registration and approval of biotechnology-based medicines, adverse effects of political or economic instability, corruption, major hostilities or acts of terrorism on our significant worldwide operations, interruptions in our supply chain or problems with our information technology systems that adversely affect our complex manufacturing processes, any failure to retain key personnel or to attract additional executive and managerial talent, the impact of continuing consolidation of our distributors and customers, variations in patent laws that may adversely affect our ability to manufacture our products in the most efficient manner, potentially significant impairments of intangible assets and goodwill, potential increases in tax liabilities resulting from challenges to our intercompany arrangements, the termination or expiration of governmental programs or tax benefits, environmental risks, and other factors that are discussed in our Annual Report on Form 20-F for the year ended December 31, 2012, in this report and in our other filings with the U.S. Securities and Exchange Commission ( SEC ).

Forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update any forward-looking statements or other information contained in this report, whether as a result of new information, future events or otherwise. You are advised, however, to consult any additional disclosures we make in our reports to the SEC on Form 6-K. Also note that we provide a cautionary discussion of risks and uncertainties under Risk Factors in our Annual Report on Form 20-F for the year ended December 31, 2012. These are factors that we believe could cause our actual results to differ materially from expected results. Other factors besides those listed could also adversely affect us. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

## **Introduction**

We are a fully-integrated global pharmaceutical company. Our business includes three primary areas: generic, specialty and over-the-counter ( OTC ) medicines. As the world's largest generic company with an established specialty medicines portfolio, we are strategically positioned to benefit from the current changes in the global healthcare environment.

On October 30, 2013, we announced that our Board of Directors had agreed with Dr. Jeremy Levin that he would step down as President and Chief Executive Officer. Eyal Desheh, our Group Executive Vice President and Chief Financial Officer, was named Acting President and Chief Executive Officer, effective immediately. The Board has formed a committee to search for a permanent successor, which will begin its work promptly and will consider both internal and external candidates. The Board and management remain fully committed to the implementation of our strategy. To this end, we will continue focusing our efforts on our generics business and core research and development programs, including high-value complex generics and new therapeutic entities, expanding our presence in emerging markets and broadening our portfolio. We will also divest non-core assets and increase organizational effectiveness through our cost reduction program to ensure our growth and the continuation of our role as pharmaceutical industry leader.

Our business strategy seeks to capitalize on the growing global need for medicines and evolving market, economic and legislative dynamics. These changes include aging populations, increased spending on pharmaceuticals in emerging market countries, economic pressures on governments and private payors to provide cost-effective healthcare solutions, global evolution in healthcare, legislative reforms, unmet patient needs, an increase in patient awareness and the growing importance of OTC medicines.

## **Table of Contents**

We believe that our strategy, dedicated employees, world-leading generic expertise and portfolio, global reach, integrated R&D capabilities and global infrastructure and scale position us at the forefront of a changing industry and enable us to take advantage of opportunities created by these dynamics.

## **Results of Operations**

### **Comparison of Three Months Ended September 30, 2013 to Three Months Ended September 30, 2012**

#### **Highlights**

Our revenues amounted to \$5.1 billion, an increase of 2% compared to the third quarter of 2012. In local currency terms, revenues also increased 2%. The increase in local currency terms was primarily attributable to higher sales of generic medicines in the United States, higher revenues from global sales of our specialty and OTC medicines and higher revenues from generic medicines (exclusive of APIs) in our ROW markets. This increase was partially offset by a decrease in global API sales to third parties and lower revenues from generic medicines in Europe.

Revenues in the United States increased 4% due to growth in both generic and specialty medicines sales. Revenues in Europe increased 4% mainly reflecting higher sales of specialty medicines and the effects of foreign currency fluctuations. In our ROW markets, revenues decreased 8%, mainly due to foreign currency fluctuations.

Global generic medicines revenues amounted to \$2.5 billion, in line with revenues in the third quarter of 2012. Our specialty medicines portfolio generated revenues of \$2.1 billion, 3% higher than in the third quarter of 2012.

Our sales of Copaxone<sup>®</sup> reached \$1.1 billion, a 1% increase compared to the third quarter of 2012.

On July 8, 2013, we acquired MicroDose Therapeutx, Inc., a pharmaceutical and drug delivery company focused on inhalation technologies and products for lung diseases and infections, for approximately \$40 million at closing and additional payments of up to \$125 million upon achievement of regulatory and development milestones, plus sales-based milestones and tiered royalty payments.

Gross profit amounted to \$2.6 billion, an increase of 1%, or \$29 million, compared to the third quarter of 2012. Gross margin decreased to 52.0% from 52.3%.

In October 2013, we announced the acceleration of our company-wide cost-savings plan, which will include several initiatives including a reduction in the number of employees. Expenses for the corporate restructuring program are estimated to be approximately \$1.1 billion. Most of these expenses are likely to be incurred throughout 2014 as the details of the plan are finalized and accounting criteria for expense



recognition are met.

Operating income amounted to \$801 million compared to an operating loss of \$60 million in the third quarter of 2012, primarily due to the legal provisions recorded in the third quarter of 2012, primarily related to the pantoprazole litigation settlement.

Net income attributable to Teva amounted to \$711 million, compared to net loss attributable to Teva of \$79 million in the comparable quarter of 2012, in line with the change in operating income.

Cash flow from operating activities amounted to \$444 million, compared to \$1.0 billion in the third quarter of 2012, primarily due to the payments of \$890 million made during the quarter in connection with litigation settlements.

Exchange rate differences between the current quarter and the third quarter of 2012 had a negative impact of \$24 million on revenues and a net negative impact of \$36 million on operating income. Compared to June 30, 2013, exchange rate differences had a positive impact of \$0.4 billion on our equity.

**Table of Contents****Financial Data**

The following table presents certain financial data as a percentage of net revenues for the period indicated and the percentage change for each item as compared to the third quarter of last year:

	Percentage of Net Revenues		Percentage Change 2013 from 2012 %
	Three Months Ended		
	September 30, 2013 %	2012 %	
Net revenues	100.0	100.0	2
Gross profit	52.0	52.3	1
Research and development expenses	6.9	6.5	7
Selling and marketing expenses	19.2	18.4	6
General and administrative expenses	5.9	5.9	2
Legal settlements, impairments, restructuring and others	4.2	22.7	(81)
Operating income (loss)	15.8	(1.2)	n/a
Financial expenses net	1.5	1.5	4
Income (loss) before income taxes	14.3	(2.7)	n/a
Income taxes	0.2	(1.1)	n/a
Share in losses of associated companies net	0.1	0.2	(13)
Net loss attributable to non-controlling interests	(0.1)	(0.1)	
Net income (loss) attributable to Teva	14.1	(1.7)	n/a

**Revenues****General**

Revenues for the three months ended September 30, 2013, amounted to \$5.1 billion, an increase of 2% compared to the third quarter of 2012. In local currencies, revenues went up 2%. The increase in local currency terms was primarily attributable to higher sales of generic medicines in the United States, higher revenues from global sales of our specialty and OTC medicines and higher revenues from generic medicines (exclusive of APIs) in the ROW markets. This increase was partially offset by a decrease in global API sales to third parties and lower revenues from generic medicines in Europe.

**Table of Contents****Revenues by Geographic Area**

The following table presents revenues by geographic area for the three months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		% of 2013	% of 2012	Percentage Change 2013 from 2012
	2013	2012			
	U.S. \$ in millions				
United States:					
Generic	\$ 1,138	\$ 1,074	23%	22%	6%
Specialty	1,509	1,468	30%	29%	3%
Others	64	59	1%	1%	8%
Total United States	2,711	2,601	54%	52%	4%
Europe*:					
Generic	812	821	16%	16%	(1%)
Specialty	426	379	8%	8%	12%
Others	200	187	4%	4%	7%
Total Europe	1,438	1,387	28%	28%	4%
Rest of the World:					
Generic	533	597	10%	12%	(11%)
Specialty	144	174	3%	4%	(17%)
Others	233	213	5%	4%	9%
Total Rest of the World	910	984	18%	20%	(8%)
Total Revenues	\$ 5,059	\$ 4,972	100%	100%	2%

\* All members of the European Union, Switzerland, Norway and certain South Eastern Europe countries.

**United States**

In the third quarter of 2013, we had revenues of \$2.7 billion, a 4% increase compared to the third quarter of 2012. Total prescriptions in the twelve months ended September 30, 2013 amounted to 570 million, representing 14.0% of total U.S. prescriptions, and new prescriptions amounted to 312 million. We expect that our U.S. market leadership position will continue to increase as a result of the enhancement of our specialty business, our ability to introduce new generic equivalents for brand-name products on a timely basis, our emphasis on customer service, the breadth of our product line, our commitment to regulatory compliance and quality and our cost-effective production. We will continue to seek to capitalize on Paragraph IV launches, and we intend to establish a leading position in high-value generics by pursuing first-to-market opportunities and by developing complex generic products, as well as by enhancing the value of our portfolio by concentrating on high-margin, low competition markets.

***Generic Medicines***

Revenues from generic medicines in the United States during the third quarter of 2013 amounted to \$1.1 billion, an increase of 6% compared to the third quarter of 2012. The increase resulted mainly from the exclusive launches of niacin ER, the generic equivalent of Niaspan® and temozolomide, the generic equivalent of Temodar®, as well as higher sales of amphetamine salts IR, and products that were sold in the third quarter of 2013 that were not sold in the third quarter of 2012, the largest of which was fenofibrate, the generic equivalent of Tricor®. The increase was partially offset by a decline in sales of escitalopram oxalate, for which we had exclusive rights in the third quarter of 2012, and a decline in sales of pioglitazone and pioglitazone/metformin, which were launched in the third quarter of 2012.

**Table of Contents**

Among the most significant generic medicines we sold in the U.S. during the third quarter of 2013 were generic versions of Pulmicort® (budesonide inhalation), Niaspan® (niacin ER), Adderall IR® (amphetamine salts IR), Adderall XR® (mixed amphetamine salts ER), Temodar® (temozolomide), Accutane® (isotretinoin, which we market as Claravis ), Provigil® (modafinil) and Tricor® (fenofibrate).

Our budesonide product, which is currently the sole generic in the marketplace, is distributed under a license agreement with AstraZeneca. AstraZeneca is involved in patent litigation against other generic manufacturers (Actavis, Apotex and Sandoz) which are currently enjoined from selling their generic versions. On October 30, 2013, the appeals court issued a decision in the litigation, ordering further proceedings at the lower court on infringement and validity of AstraZeneca's patent. We believe that the resolution of such proceedings will take from a few months to a year, during which time we expect that the other generic manufacturers will likely continue to be enjoined from selling their budesonide products.

**Launches.** In the third quarter of 2013, we launched generic versions of the following branded medicines in the U.S. (listed by month of launch):

Generic Name	Brand Name	Month of Launch	Total U.S. Annual Branded Medicines Market at Time of Generic Launch	
			\$	millions (IMS)*
Acitretin capsules 10, 17.5 & 25 mg	Soriatane®	July	\$	133
Temozolamide capsules 5, 20, 100, 140, 180 & 250 mg	Temodar®	August	\$	430
Amoxicillin/clarithromycin/lansoprazole ER tablets 500/30/500 mg	Prevpak® Kit	September	\$	75
Niacin ER tablets 500, 750 & 1000 mg	Niaspan® ER	September	\$	1,121
Adenosine injection 3 mg/mL 20 & 30 mL vials	Adenoscan®	September	\$	63
Paricalcitol capsules 1, 2 & 4 mg	Zemlar®	September	\$	115

\* Branded medicines annual market size as quoted by IMS is a commonly used measurement of the relative significance of a potential generic product. The figures given are for the twelve months ended in the calendar quarter closest to our launch. Generic equivalents of any given product are typically sold at prices substantially lower than the branded product price.

We expect that our revenues in the U.S. will continue to benefit from our strong generic pipeline, which, as of October 14, 2013, had 137 product registrations awaiting FDA approval, including 37 tentative approvals. Collectively, the branded versions of these 137 products had annual U.S. sales exceeding \$88 billion. Of these applications, 98 were Paragraph IV applications challenging patents of branded medicines. We believe we are first to file with respect to 57 of these products, the branded versions of which had annual U.S. sales of more than \$46 billion. IMS-reported brand sales are one of the many indicators of future potential value of a launch, but equally important are the mix and timing of competition, as well as cost effectiveness. However, potential advantages of being the first filer with respect to some of these products may be subject to forfeiture and/or shared exclusivity.

The FDA requires companies to submit abbreviated new drug applications (ANDAs) for approval to manufacture and market generic forms of brand-name drugs. In most instances, FDA approval is granted upon the expiration of the underlying patents. However, companies may be rewarded with a 180-day period of marketing exclusivity, as provided by law, for being the first generic applicant to successfully challenge these patents. As part of our strategy, we actively review pharmaceutical patents and seek opportunities to challenge patents that we believe are either invalid or not infringed by our generic version. In addition to the commercial benefit of obtaining marketing exclusivity, we believe that our patent challenges ultimately improve healthcare by allowing consumers earlier access to more affordable, high-quality medications.

During the third quarter of 2013, we received the below tentative approval. A tentative approval letter indicates that the FDA has substantially completed its review of an application and final approval is expected once the relevant patent expires, a court decision is reached, a 30-month regulatory stay lapses or a 180-day exclusivity period awarded to another manufacturer either expires or is forfeited.

<b>Generic Name</b>	<b>Brand Name</b>	<b>Total U.S. Branded Market \$ millions (IMS)*</b>
Varenicline tablets 0.5 & 1 mg	Chantix®	\$ 373

\* Figure given is for the twelve months ended June 30, 2013.

## **Table of Contents**

### ***Specialty Medicines***

In the third quarter of 2013, our revenues from specialty medicines in the United States amounted to \$1.5 billion, an increase of 3% compared to the third quarter of 2012. The main factors affecting our specialty medicines revenues were:

Price increases across the portfolio, including Copaxone<sup>®</sup>, which continues to be the most significant contributor to our profits and cash flow from operations; and

Volume growth driven by market demand, mainly for Treanda<sup>®</sup>, Qnasl<sup>®</sup>, which was launched in the second quarter of 2012, Qvar<sup>®</sup> and ProAir<sup>®</sup>; partially offset by

A reduction in revenues of our wake portfolio, following the introduction of generic competition beginning March 2012.

### ***Other Revenues***

In the third quarter of 2013, other revenues in the United States amounted to \$64 million, compared to \$59 million in the comparable quarter of 2012. These revenues were generated from sales of OTC products to P&G pursuant to a manufacturing agreement.

### ***Europe***

Europe, which as of January 1, 2013 we define as the countries in the European Union, Norway, Switzerland and certain countries in South Eastern Europe, is a diverse region that has a population of over 500 million people. Revenues presented include those from all 36 countries currently in our European region.

Revenues in Europe in the third quarter of 2013 amounted to \$1.4 billion, an increase of 4% compared to the comparable quarter of 2012. In local currency terms, revenues were flat. The European specialty business increased by 12%, primarily driven by strong performance in our CNS franchise. This was partially offset by a small decline in our generics business as a result of our focus on profitable and sustainable business.

As in previous years, European regulatory measures aimed at reducing healthcare and drug expenditures have continued to exert pressure on prices of generic medicines, but have also increased generic penetration in several European markets.

### ***Generic Medicines***

Revenues from generic medicines in Europe in the third quarter of 2013 were \$812 million, a decrease of 1%. In local currency terms, revenues decreased 5%. The decrease in revenues was mainly due to our strategic focus on profitable and sustainable business, as well as lower sales of API. We maintained our market position in major markets.

We currently have approximately 1,467 marketing authorization applications pending approval in various European countries, relating to 214 compounds in 423 formulations, including two applications pending with the European Medicines Agency. We will continue to register products in the EU, using both the mutual recognition procedure

(submission of applications in other member states following approval by a so-called reference member state) and the decentralized procedure (simultaneous submission of applications to chosen member states). We continue to use the centralized procedure to register our generic equivalent version of reference products that originally used this procedure.

### ***Specialty Medicines***

In the third quarter of 2013, sales of specialty medicines in Europe amounted to \$426 million, an increase of 12% compared to the third quarter of 2012. In local currency terms, revenues increased 7%. Results reflect higher sales of Copaxone® and higher revenues from our women's health products, mainly in France and Spain. This increase was partially offset by lower revenues of our respiratory products in certain markets.

### ***Other Revenues***

Other revenues, mainly from OTC medicines and our distribution activities in Hungary, amounted to \$200 million in the third quarter of 2013, up 7% compared to the third quarter of 2012. This increase was mainly due to higher OTC sales, which outpaced OTC market growth, reflecting our increased market presence and expanded portfolio. Revenues from our distribution activities in Hungary declined compared to the third quarter of 2012.



**Table of Contents**

***Highlights for the third quarter of 2013 in our largest European markets:***

**Germany:** Revenues in the third quarter of 2013 remained flat but decreased 6% in local currency terms, compared to the third quarter of 2012. Our results were primarily due to lower sales of generic medicines as we maintain our strategic focus on sustainable and profitable business and lower sales of local brands following label changes, which were partially offset by higher sales of Copaxone® due to patient gains.

**France:** Revenues in the third quarter of 2013 decreased 5%, or 10% in local currency terms, compared to the third quarter of 2012. The decrease was mainly driven by lower revenues from our generic medicines as a result of competitive market conditions and our continued focus on sustainable business. Specialty revenues, which accounted for almost half of our revenues in France for the quarter, declined slightly due to increased pricing pressures and competition.

**United Kingdom:** Revenues in the third quarter of 2013 decreased 2%, but remained flat in local currency terms, compared to the third quarter of 2012. We maintained our position as the largest generic pharmaceutical company in the U.K.

**Italy:** Revenues in the third quarter of 2013 increased 50%, or 42% in local currency terms, compared to the third quarter of 2012. The increase is primarily the result of higher sales of our generic medicines due to improvements in inventory management.

**Spain:** Revenues in the third quarter of 2013 increased 7%, or 1% in local currency terms, compared to the third quarter of 2012. The increase was mainly due to higher sales of Copaxone®, pain medicines and oral contraceptives. Sales of our generic medicines decreased as a result of our strategy to focus on profitable and sustainable business.

***Rest of the World ( ROW ) Markets***

These markets include all countries other than the United States and those in our European region. We began including, as of January 1, 2013, certain South Eastern European countries in Europe . The comparable revenues in 2012 have been presented according to the new definition.

Our ROW region includes both pure generic markets, such as Canada and Israel, and markets in which generic medicines are sold under brand names, such as several Asian and Latin American countries. Sales of branded generic medicines usually generate higher gross margins, but involve higher marketing expenditures than non-branded generics. These markets also vary widely in size, growth rates and the importance and acceptance of OTC products.

We consider Japan, Russia and the Latin American countries to be the major emerging generics markets, which are characterized by rapid growth and relatively high revenues of branded generics and OTC products, while Canada and Israel are mature generics markets that have higher generic penetration rates and therefore lower growth rates.

In the third quarter of 2013, our revenues in ROW markets were \$910 million, a decrease of 8% compared to the third quarter of 2012. In local currency terms revenues were flat compared to the third quarter of 2012. Revenues from all

product lines in our emerging generics markets for the third quarter of 2013 amounted to \$590 million, which includes \$488 million of revenues from Japan, Russia and Latin America and \$102 million of revenues from all other ROW emerging markets. Total revenues from our mature generics markets, Canada and Israel, amounted to \$320 million for the third quarter of 2013.

Revenues of generic products amounted to \$533 million, which represented 58% of the total revenues in the region; revenues of specialty products amounted to \$144 million or 16% of total revenues in the region; and other revenues were \$233 million, or 26% of total revenues in the region.

In Japan, our revenues in the third quarter of 2013 decreased 21%, but remained flat in local currency terms, compared to the third quarter of 2012.

Our revenues in Russia in the third quarter of 2013 decreased 10%, or 7% in local currency terms, compared to the third quarter of 2012. This decrease was mainly attributable to the timing of tenders for Copaxone<sup>®</sup>. We maintained our leading position and market share in the Russian generic pharmaceutical market.

**Table of Contents**

In Latin America, revenues in the third quarter of 2013 declined 10%, but increased 8% in local currency terms, as compared to the third quarter of 2012. The growth in local currency terms primarily resulted from higher sales of generic medicines and the launch of the Vicks® brand in Peru, partially offset by lower Copaxone® sales.

We continue to expect revenues to be negatively affected by drug price legislation in certain Latin American markets in the near future. Revenues may be further negatively affected by exchange rate fluctuations in certain Latin American markets which may significantly reduce our sales in the region.

In Canada, where we are second in the generic pharmaceutical market, revenues in the third quarter of 2013 decreased 1%. The decrease reflects the effect of government-imposed price reforms.

Revenues in Israel in the third quarter of 2013 increased 12%, or 3% in local currency terms, as compared to the third quarter of 2012.

**Revenues by Product Line**

The following table presents a breakdown of revenues by product line for the three months ended September 30, 2013 and 2012:

	Three Months Ended		Percentage		Change 2013 from 2012
	September 30,		% of 2013	% of 2012	
	2013	2012			
	U.S. \$ in millions				
<b>Generic Medicines</b>	<b>\$ 2,483</b>	<b>\$ 2,492</b>	<b>49%</b>	<b>50%</b>	<b>\$</b>
<i>API</i>	162	195	3%	4%	(17%)
<b>Specialty Medicines</b>	<b>2,079</b>	<b>2,021</b>	<b>41%</b>	<b>41%</b>	<b>3%</b>
<i>CNS</i>	1,356	1,366	27%	28%	(1%)
Copaxone®	1,052	1,046	21%	21%	1%
Azilect®	93	77	2%	2%	21%
Nuvigil®	87	94	2%	2%	(7%)
Provigil®	22	53	§	1%	(58%)
<i>Oncology</i>	248	221	5%	4%	12%
Treanda®	184	160	4%	3%	15%
<i>Respiratory</i>	222	201	4%	4%	10%
ProAir®	112	109	2%	2%	3%
Qvar®	69	62	1%	1%	11%
<i>Women s Health</i>	126	96	2%	2%	31%
<i>Other Specialty</i>	127	137	3%	3%	(7%)
<b>All Others</b>	<b>497</b>	<b>459</b>	<b>10%</b>	<b>9%</b>	<b>8%</b>
<i>OTC</i>	286	252	6%	5%	13%
<i>Other Revenues</i>	211	207	4%	4%	2%
<b>Total</b>	<b>\$ 5,059</b>	<b>\$ 4,972</b>	<b>100%</b>	<b>100%</b>	<b>2%</b>

§ Less than 0.5%.

## **Table of Contents**

### **Generic Medicines**

Our generics category includes sales of generic medicines as well as API sales to third parties.

In the third quarter of 2013, revenues from our generic medicines amounted to \$2.5 billion, flat compared to the third quarter of 2012.

Our largest market for generics is the United States, with revenues of \$1.1 billion, up 6% from the third quarter of 2012. The increase resulted mainly from the exclusive launches of niacin ER, the generic equivalent of Niaspan<sup>®</sup>, and temozolomide, the generic equivalent of Temodar<sup>®</sup>, as well as higher sales of amphetamine salts IR, and products that were sold in the third quarter of 2013 that were not sold in the third quarter of 2012, the largest of which was fenofibrate, the generic equivalent of Tricor<sup>®</sup>. The increase was partially offset by a decline in sales of escitalopram oxalate, for which we had exclusive rights in the third quarter of 2012, and a decline in sales of pioglitazone and pioglitazone/metformin, which were launched in the third quarter of 2012.

The U.S. market generated 46% of total generics revenues in the third quarter of 2013.

Revenues from generic medicines in Europe in the third quarter of 2013 amounted to \$812 million, a decrease of 1% compared to the third quarter of 2012. In local currency terms, sales decreased 5%. The decrease was primarily the result of our strategic focus on sustainable and profitable business. In addition, there were no major launches of generic medications during the current quarter. The European market generated approximately 33% of our global generics revenues in the third quarter of 2013.

In our ROW markets, revenues from generic medicines amounted to \$533 million, a decrease of 11% compared to \$597 million in the third quarter of 2012. The decrease was mainly due to lower revenues in Japan and certain Latin American markets, as well as lower API sales to third parties. The decrease was partially offset by higher revenues from generic medicines in Russia. In local currency terms, revenues increased 1%. The ROW markets generated approximately 21% of total generics revenues in the third quarter of 2013.

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

API sales to third parties in the third quarter of 2013 amounted to \$162 million, a decrease of 17% compared to the third quarter of 2012. The decrease resulted from lower sales in each of our three geographical areas, the United States, Europe and our ROW markets.

### **Specialty Medicines**

Our revenues from specialty medicines reached \$2.1 billion in the third quarter of 2013, an increase of 3% compared to the third quarter of 2012. Increased revenues of women's health, oncology and respiratory products as well as Azilect<sup>®</sup> were partially offset by lower revenues of Provigil<sup>®</sup> and Nuvigil<sup>®</sup>.

### ***Central Nervous System ( CNS )***

Our central nervous system line includes Copaxone<sup>®</sup> for multiple sclerosis ( MS ), Azilect<sup>®</sup> for Parkinson's disease, Provigil<sup>®</sup> and Nuvigil<sup>®</sup> for sleep disorders, Fentora<sup>®</sup> for the treatment of pain, and several other medicines. In the third quarter of 2013, our CNS sales were \$1.4 billion, a decrease of 1% from the comparable quarter of 2012 due to a decline in both Provigil<sup>®</sup> and Nuvigil<sup>®</sup> revenues following the introduction of generic modafinil in the United States in March 2012. This decrease was partly offset by growth in Azilect<sup>®</sup> and Copaxone<sup>®</sup> revenues.

**Copaxone®.** In the third quarter of 2013, Copaxone® (glatiramer acetate injection) continued to be the leading MS therapy in the U.S. and globally. Our sales of Copaxone® during the period amounted to \$1.1 billion, a 1% increase compared to the third quarter of 2012. In local currency terms, sales of Copaxone® were flat.

In the third quarter of 2013, sales of Copaxone® in the United States increased 3% to \$798 million due to price increases of 4.9% in October 2012 and 9.9% in January 2013 that were partially offset by a volume decline. Our U.S. market shares in terms of new and total prescriptions were 28.5% and 34.3%, respectively, according to September 2013 IMS data.

Revenues in the United States accounted for 76% of global Copaxone® revenues in the third quarter of 2013, an increase from 74% in the third quarter of 2012.

---

**Table of Contents**

In May 2013, the U.S. Food and Drug Administration accepted for review our sNDA for Copaxone® 40mg/1mL, a higher concentration dose of Copaxone® with a three times a week dosing regimen for patients with relapsing-remitting multiple sclerosis ( RRMS ).

Our non-U.S. Copaxone® revenues amounted to \$254 million during the quarter, 6% lower than the third quarter of 2012. The decrease reflects the timing of tenders in Russia, which led to unusually high sales in the comparable quarter of 2012, and was partially offset by higher sales in Europe.

A purported generic glatiramer acetate was approved and launched in Argentina during the first quarter of 2013. We do not expect this launch to materially affect our sales of Copaxone®.

In the first quarter of 2013, as part of a government tender procedure in Mexico, a local manufacturer was allowed to bid to provide a purported generic glatiramer acetate and was awarded part of the tender. We are pursuing legal action seeking to revoke the local manufacturer approval. We do not expect the award to materially affect our sales of Copaxone®.

Copaxone®, our leading innovative medicine, was responsible for \$1.1 billion (including \$798 million in the U.S.), or approximately 21%, of our revenues during the three months ended September 2013, and a significantly higher percentage contribution to our profits and cash flow from operations during such period. Copaxone® faces competition from existing injectable products, such as the beta-interferons Avonex®, Betaseron®, Rebif® and Extavia®, as well as from Tysabri®, a monoclonal antibody. In addition, we expect that the market for MS treatments will change significantly as a result of new and emerging therapies. In particular, the increasing number of oral treatments, such as Gilenya®, which was introduced in 2010 by Novartis, Biogen's Tecfidera, which was launched in the United States in the second quarter of 2013, and Genzyme's Aubagio, which has been approved in some markets, including the United States, are expected to present especially intense competition due to the convenience of oral administration.

Our U.S. Orange Book patents covering Copaxone® expire in May 2014, with an additional non-Orange Book patent expiring in September 2015; we have patents expiring in May 2015 in most of the rest of the world. A number of our competitors in the U.S., including Momenta/Sandoz, Mylan/Natco and Synthron, have filed ANDAs for purported generic versions of Copaxone® challenging our patents. A recent Federal Circuit decision affirmed the lower court's decision upholding the validity and infringement of four patents that expire in May 2014, but reversed the court's decision with respect to the other patents at issue, finding the other four patents expiring in May 2014 and the patent expiring in September 2015 to be invalid. The appellate court's decision, unless reversed on appeal, would thus permit generic competition in the United States as early as May 2014, assuming FDA approval.

The FDA is enjoined from granting final approval to any purported generics prior to May 24, 2014, and competitors are enjoined from selling their purported generics until September 1, 2015, and given the inability of even the most state-of-the-art analytical techniques to fully characterize active ingredients of Copaxone®, as well as published results showing significant differences in gene expression between Copaxone® and purported generic versions, the regulatory pathway for their approval is uncertain. We believe that any purported generic version should be studied in pre-clinical testing and full-scale, placebo-controlled clinical trials with measured clinical endpoints (such as relapse rate) in RRMS patients to establish safety, efficacy and immunogenicity. Furthermore, because of the chemical complexity of Copaxone®, we believe that it can only be safely manufactured using a series of proprietary methods that have been perfected by Teva for more than 20 years.

**Azilect®.** We jointly market Azilect® (rasagiline tablets) with Lundbeck in certain key European countries. We exclusively market Azilect® in the United States and Germany and certain other markets, while Lundbeck exclusively markets Azilect® in the remaining European countries and certain other international markets.

Global in-market sales, which represent sales from Lundbeck and Teva to third parties, reached \$122 million in the third quarter of 2013, compared to \$103 million in the third quarter of 2012, an increase of 18%. The increase in sales is attributable to higher sales in both the United States and Europe.

Our sales of Azilect® amounted to \$93 million, an increase of 21% compared to the third quarter of 2012, in line with the increase of in-market sales.

**Nuvigil®.** Our Nuvigil® (armodafinil) sales amounted to \$87 million in the third quarter of 2013, compared to \$94 million in the third quarter of 2012. Nuvigil®'s market share in terms of total prescriptions of the U.S. wake category was 43%.



## **Table of Contents**

**Provigil®.** Our sales of Provigil® (modafinil) amounted to \$22 million in the third quarter of 2013 compared to \$53 million in the third quarter of 2012. Provigil® began to face generic competition in the United States in March 2012 and as a result sales decreased substantially.

### ***Oncology***

Our specialty oncology line includes traditional oncology medicines as well as biosimilars that are indicated mainly for the supportive treatment of oncology patients. Sales of these medicines reached \$248 million in the third quarter of 2013 as compared to \$221 million in the comparable quarter of 2012. The increase resulted primarily from higher sales of Treanda®.

Sales of **Treanda®** amounted to \$184 million in the third quarter of 2013, an increase of 15%, due to increases of both volume and price.

During the period, sales of biosimilar oncology pharmaceuticals amounted to approximately \$24 million, \$7 million lower than in the third quarter of 2012.

### ***Respiratory Products***

Our respiratory product line includes revenues from our branded respiratory products, the main ones being ProAir® and Qvar® and, in our European and ROW markets, revenues from promoted medicines for treatment of respiratory disease. (In the United States, revenues from generic medicines for respiratory disease are included in our generics revenues.)

Revenues from our respiratory branded medicines amounted to \$222 million in the third quarter of 2013, an increase of 10% compared to the third quarter of 2012, primarily due to higher revenues of Qnasl® in the United States.

**ProAir®** (albuterol HFA), which we sell only in the United States, is a short-acting beta-agonist (SABA) for the treatment of bronchial spasms linked to asthma or COPD and exercise-induced bronchospasm. ProAir® revenues in the third quarter of 2013 were \$112 million, an increase of 3% compared to the third quarter of 2012. ProAir® maintained its leadership in the SABA market, with an exit market share of 53.3% in terms of total number of branded prescriptions during the period, up 1.6 points from the third quarter of 2012.

**Qvar®** (beclomethasone dipropionate HFA) is an inhaled corticosteroid for long-term control of chronic bronchial asthma. Qvar® global revenues amounted to \$69 million, an increase of 11% from the comparable quarter of 2012. In the United States, Qvar® maintained its second-place position in the inhaled corticosteroids category with a significant growth in exit market share to 30.7% of total branded prescriptions. In Europe, sales decreased slightly.

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

This product line includes our specialty women s health medicines, which had revenues of \$126 million in the third quarter of 2013, an increase of 31% from \$96 million in the comparable quarter of 2012. The increase was primarily due to higher revenues from oral contraceptives in Europe and higher revenues in the United States.

During the quarter, we launched Quartette , an oral extended regimen ascending dose contraceptive, and Plan B One-Step® OTC in the United States.

### **All Others**

*OTC*

Our revenues from OTC products for the third quarter of 2013 amounted to \$286 million compared to \$252 million in the third quarter of 2012. Our revenues related to PGT amounted to \$222 million, an increase of 14%, compared to \$195 million in the comparable quarter of 2012. The increase was mainly due to higher sales of our existing PGT portfolio products. During the quarter we launched a new analgesic gel under the ratiopharm brand in Germany. In addition, as of December 2012, the OTC products of Cephalon (Mepha) were included in the PGT joint venture.

## **Table of Contents**

PGT's in-market sales for the third quarter of 2013 amounted to \$374 million. This amount represents sales of the combined OTC portfolios of Teva and P&G outside North America. Sales grew in Europe and Eastern Europe, but declined in Latin America and Asia.

Revenues from the sales of OTC products in the United States to P&G amounted to \$64 million in the third quarter of 2013, compared to \$57 million in the third quarter of 2012.

### ***Other Revenues***

Other revenues include sales of third party products for which we act as distributors (mostly in Israel and Hungary), as well as miscellaneous items.

In the third quarter of 2013, our revenues in this category amounted to \$211 million, up 2% from \$207 million in the third quarter of 2012 mainly due to exchange rate fluctuations. In the third quarter of 2012, our other revenues included \$3 million of revenues from our animal health unit, which was sold on January 2, 2013.

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

#### **Gross Profit**

In the third quarter of 2013, gross profit amounted to \$2.6 billion, an increase of \$29 million, or 1%, compared to the third quarter of 2012.

Gross margin decreased to 52.0% in the current quarter from 52.3% in the third quarter of 2012. This 0.3% decrease in gross margin was primarily due to lower profit from specialty medicines (which decreased gross margin by approximately 0.6 points) and lower profit from generic medicines (which decreased gross margin by approximately 0.1 points). This decrease was partially offset by lower costs related to regulatory actions taken in various manufacturing facilities and profit from other revenues (which, in the aggregate, increased gross margin by approximately 0.4 points).

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

R&D spending for the quarter totaled \$348 million, an increase of 7% compared to the third quarter of 2012, mainly driven by increased spending on specialty medicines and new therapeutic entities. As a percentage of revenues, R&D spending was 6.9% in the third quarter of 2013, compared to 6.5% in the third quarter of 2012.

Approximately 64% of our R&D expenditures were for our specialty medicines, and the remainder was for generic and other R&D.

A portion of our R&D activities is conducted through joint ventures. Our share in R&D expenses of these joint ventures is reflected in the income statement under share in losses of associated companies net.

In July 2013, we announced jointly with Lonza Group that following a strategic review of the Teva-Lonza joint venture, the companies have decided to discontinue their collaboration for the development, manufacturing and marketing of biosimilars, which began in 2009.

Teva Global R&D is currently creating the infrastructure for the development of new therapeutic entities (NTEs), which are known molecules that are formulated, delivered or used in a novel way to address unmet patient needs. To

date, several NTEs have been internally approved for development and additional NTE candidates have been identified and are currently under assessment.

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

Selling and marketing expenses in the third quarter of 2013 amounted to \$971 million, compared to \$914 million in the third quarter of 2012. As a percentage of revenues, selling and marketing expenses increased to 19.2% in the third quarter of 2013 from 18.4% in the third quarter of 2012.

Expenses primarily reflect higher expenses related to our specialty medicines and OTC products, as well as higher expenses related to royalty payments for generic medicines in the United States, partially offset by lower non-royalty expenses related to generic medicines.

The increase in selling and marketing expenses as a percentage of revenues resulted from higher expenses related to the sale of our specialty and OTC medicines which increased selling and marketing expenses as a percentage of specialty and OTC revenues, partially offset by lower selling and marketing expenses for our generic medicines which resulted in lower selling and marketing expenses as a percentage of generics revenues.

## **Table of Contents**

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

G&A expenses amounted to \$297 million in the third quarter of 2013, representing 5.9% of revenues, as compared to \$292 million and 5.9% of revenues in the third quarter of 2012.

### **Legal Settlements, Impairments, Restructuring and Others**

Legal settlements, impairments, restructuring and others amounted to \$213 million in the third quarter of 2013, as compared to \$1.1 billion in the third quarter of 2012.

The amount of \$213 million is mainly comprised of an in-process R&D impairment of \$99 million of armodafinil (Nuvigil®) for the treatment of bi-polar disorder following the results of the third pivotal clinical trial, and other impairments of \$32 million, as well as legal settlements and reserves of \$47 million and restructuring and other expenses of \$35 million.

The decrease mainly reflects lower provisions relating to litigation and settlements recorded in the third quarter of 2013. In the third quarter of 2012, we recorded an amount of \$689 million primarily relating to a provision of \$670 million in connection with the settlement of our pantoprazole patent litigation, as well as an impairment of \$481 million primarily relating to in-process R&D purchased in the Cephalon acquisition.

In October 2013, management announced the acceleration of its company-wide cost-savings plan, which will include several initiatives including a reduction in the number of employees. Expenses for the corporate restructuring program are estimated to be approximately \$1.1 billion. Most costs are likely to be incurred throughout 2014 as the details of the plan are finalized and accounting criteria for expense recognition are met.

### **Operating Income (Loss)**

Operating income was \$801 million in the third quarter of 2013, compared to operating loss of \$60 million in the third quarter of 2012.

The increase in operating income was due to factors previously discussed, primarily higher revenues and gross profit, lower expenses in connection with legal settlements and reserves and lower impairment of long-lived assets, partially offset by higher selling and marketing expenses and higher R&D expenses, as well as by higher general and administrative expenses. Foreign exchange rate fluctuations had a net negative effect of \$36 million, compared to the third quarter of 2012.

The increase of 17.0 points in operating income as a percentage of revenues was mainly due to changes in the following items as a percentage of revenues: Decreased expenses in connection with legal settlements and reserves (12.9 points), lower impairment of long-lived assets (7.1 points), partially offset by higher restructuring, acquisition and other expenses (1.5 points), higher selling and marketing expenses (0.8 points), higher R&D expenses (0.4 points), as well as lower gross margin (0.3 points).

### **Financial Expenses**

Net financial expenses for the third quarter of 2013 amounted to \$76 million, compared to \$73 million during the third quarter of 2012.

Teva operates in certain territories where the official exchange rates deviate significantly from unofficial market rates and remittance of cash outside the country is limited. As a result, Teva is exposed to a potential income statement devaluation loss on its total monetary balances in these territories, which, as of September 30, 2013, amounted to approximately \$200 million.

### **Tax Rate**

Tax expenses for the third quarter of 2013 amounted to \$12 million, on pre-tax income of \$725 million, compared with a tax benefit of \$57 million on pre-tax loss of \$133 million in the comparable quarter of 2012.

We expect an annual tax benefit rate of 12% (tax benefit as a percentage of pre-tax income) for 2013, compared to an annual tax benefit rate of 7.5% in 2012. The 2013 expected annual tax benefit rate reflects the effects of legal settlements, amortization, impairments, restructuring and others, as well as tax benefits from planned mergers of certain subsidiaries, some of which occur in jurisdictions with a higher tax rate than our average group tax rate.

**Table of Contents****Net Income (Loss) and Share Count**

Net income attributable to Teva for the third quarter of 2013 amounted to \$711 million, compared to net loss attributable to Teva of \$79 million in the third quarter of 2012. This increase was due to the factors previously discussed, primarily our operating income, as compared to operating loss in the third quarter of 2012, partially offset by a provision for income tax expense for the quarter, as compared to tax benefit in the third quarter of 2012, and slightly higher financial expenses, compared to the third quarter of 2012.

Diluted earnings per share were \$0.84 for the third quarter of 2013, compared to diluted loss per share of \$0.09 for the third quarter of 2012.

For the third quarter of 2013, the weighted average fully diluted share count was 846 million, compared to 869 million for the third quarter of 2012, primarily due to share repurchases during 2012 and 2013. At September 30, 2013, the share count for calculating Teva's market capitalization was approximately 845 million.

During 2012, we repurchased approximately 28.1 million shares at a weighted average price of \$41.64 per share, for an aggregate amount of approximately \$1.2 billion.

During the six months ended June 30, 2013, we repurchased approximately 12.8 million shares at a weighted average price of \$38.87 per share, for an aggregate amount of approximately \$497 million.

No shares were repurchased during the third quarter of 2013.

These purchases were made pursuant to a repurchase plan of up to \$3 billion authorized by our board of directors in December 2011. As of September 30, 2013, \$1.33 billion remains available under the plan for repurchases. The repurchase program has no specified term. Repurchases may be commenced or suspended at any time or from time to time.

**Comparison of Nine Months Ended September 30, 2013 to Nine Months Ended September 30, 2012****General**

In general, the factors mentioned above that explain quarterly changes on a year-over-year basis are also relevant to a comparison of the results for the nine months ended September 30, 2013 and 2012. Additional factors affecting the nine months comparison are described below.

The following table presents certain financial data as a percentage of net revenues for the periods indicated and the percentage change for each item, as compared to the nine months ended September 30, 2012:

	<b>Percentage of Net Revenues</b>		
	<b>Nine Months Ended</b>		<b>Percentage Change</b>
	<b>September 30,</b>		
	<b>2013</b>	<b>2012</b>	<b>2013 from</b>
	<b>%</b>	<b>%</b>	<b>2012</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Net revenues	100.0	100.0	(1)

Edgar Filing: TEVA PHARMACEUTICAL INDUSTRIES LTD - Form 6-K

Gross profit	52.5	52.2	(1)
Research and development expenses net	6.8	6.1	11
Selling and marketing expenses	19.8	18.7	4
General and administrative expenses	6.2	6.1	*
Legal settlements, impairments, restructuring and others	12.4	8.9	38
Operating income	7.3	12.4	(42)
Financial expenses net	2.3	1.6	42
Income before income taxes	5.0	10.8	(54)
Provision for income taxes	(1.1)	(0.2)	481
Share in losses of associated companies net	0.2	0.2	(6)
Net loss attributable to non-controlling interests	(0.1)	(0.1)	
Net income attributable to Teva	6.0	10.9	(46)

\* Less than 0.5%.



**Table of Contents****Revenues****General**

Revenues for the nine months ended September 30, 2013 amounted to \$14.9 billion, a decrease of 1% from the comparable period of 2012. The decline was primarily attributable to the loss of exclusivity for Provigil<sup>®</sup>, lower revenues from generic medicines, lower API sales to third parties as well as exchange rate fluctuations, largely offset by higher revenues from specialty medicines, mainly Copaxone<sup>®</sup>, Treanda<sup>®</sup>, Qvar<sup>®</sup>, ProAir<sup>®</sup> and Azilect<sup>®</sup>, as well as higher revenues from our OTC products.

**Revenues by Geographic Area**

The following table presents revenues by geographic area for the nine months ended September 30, 2013 and 2012:

	Nine Months Ended September 30,		% of 2013	% of 2012	Percentage Change 2013 from 2012
	2013	2012			
	U.S. \$ in millions				
United States:					
Generic	\$ 3,003	\$ 3,347	20%	22%	(10%)
Specialty	4,486	4,330	30%	29%	4%
Others	185	140	1%	1%	32%
Total United States	7,674	7,817	51%	52%	(2%)
Europe*:					
Generic	2,545	2,527	17%	17%	1%
Specialty	1,243	1,153	9%	7%	8%
Others	601	560	4%	4%	7%
Total Europe	4,389	4,240	30%	28%	4%
Rest of the World:					
Generic	1,661	1,849	11%	12%	(10%)
Specialty	469	561	3%	4%	(16%)
Others	691	601	5%	4%	15%
Total Rest of the World	2,821	3,011	19%	20%	(6%)
Total Revenues	\$ 14,884	\$ 15,068	100%	100%	(1%)

\* All members of the European Union, Switzerland, Norway and certain South Eastern Europe countries.

**United States**

In the nine months ended September 30, 2013, we had revenues of \$7.7 billion, a 2% decrease from the comparable period of 2012.

***Generic Medicines***

Revenues from generic medicines in the United States in the nine months ended September 30, 2013 amounted to \$3.0 billion, a decrease of 10%, compared to \$3.3 billion in the same period of 2012.

Among the most significant generic medicines sold in the United States during the nine months ended September 30, 2013 were generic versions of Pulmicort® (budesonide inhalation), Adderall IR® (amphetamine salts IR), Niaspan® (niacin ER), Tricor® (fenofibrate), Adderall XR® (mixed amphetamine salts ER), Provigil® (modafinil) and Accutane® (isotretinoin, which we market as Claravis ).

## **Table of Contents**

### ***Specialty Medicines***

In the nine months ended September 30, 2013, our revenues from specialty medicines in the United States amounted to \$4.5 billion, an increase of 4% over the comparable period of 2012.

Revenues for the period were affected by reductions of inventory by wholesalers in 2012 resulting from the renegotiation of our distribution service agreements. These inventory reductions had an adverse impact on sales in the comparable period of 2012.

### ***Other Revenues***

In the nine months ended September 30, 2013, other revenues in the United States amounted to \$185 million, compared to \$140 million in the comparable period of 2012.

### ***Europe***

Total revenues in Europe in the nine months ended September 30, 2013 amounted to \$4.4 billion, compared to \$4.2 billion in the comparable period of 2012. In local currency terms, revenues increased 2%.

### ***Generic Medicines***

Revenues for generic medicines in Europe in the nine months ended September 30, 2013 were \$2.5 billion, an increase of 1%. In local currency terms, revenues decreased 1%.

### ***Specialty Medicines***

In the nine months ended September 30, 2013, sales of specialty medicines in Europe amounted to \$1.2 billion, an increase of 8%, compared to the first nine months of 2012. In local currency terms, revenues increased by 6%. The change was driven by increased sales of Copaxone<sup>®</sup>, which were partially due to the transition of the distribution and marketing rights for Copaxone<sup>®</sup> to us from Sanofi in several European countries, completed on February 1, 2012, as well as the resulting higher sales.

### ***Other Revenues***

Other revenues, mainly from our distribution activities in Hungary and from our consumer healthcare partnership with P&G, amounted to \$601 million, for the nine months ended September 30, 2013, compared to \$560 million in the comparable period of 2012. In local currency terms revenues increased by 6%.

### ***Rest of the World ( ROW ) Markets***

Our revenues in the nine months ended September 30, 2013 in our ROW markets amounted to \$2.8 billion, a decrease of 6%, as compared to the comparable period of 2012. In local currency terms, revenues were flat. Revenues from all product lines in our emerging generics markets amounted to \$1.9 billion for the nine months ended September 30, 2013. These include \$1.5 billion of revenues from Japan, Russia, and Latin American countries and \$377 million of revenues from all other emerging ROW markets. Total revenues from our mature generics markets, Canada and Israel, amounted to \$935 million.

Sales of generic medicines amounted to \$1.7 billion, which were 59% of the total revenues in the region; sales of specialty medicines amounted to \$469 million, or 17% of total revenues in the region; and other revenues were \$691 million, or 24% of total sales in the region.

Our sales in Japan in the nine months ended September 30, 2013 decreased 19%, or 2% in local currency terms, compared to the same period in 2012.

Our revenues in Russia in the nine months ended September 30, 2013 decreased 4%, or 3% in local currency terms, compared to the same period of 2012, mainly as a result of the timing of Copaxone® tenders.

In Latin America, revenues in the first nine months of 2013 declined 7%, but increased 6% in local currency terms, compared to the same period of 2012.

In Canada, revenues in the nine months ended September 30, 2013 decreased 8%, compared to the first nine months of 2012.

Revenues in Israel in the nine months ended September 30, 2013 increased 6%, or 2% in local currency terms, compared to the comparable period of 2012.

**Table of Contents****Revenues by Product Line**

The following table presents a breakdown of revenues by product line for the nine months ended September 30, 2013 and 2012:

	Nine Months Ended September 30,		% of 2013	% of 2012	Percentage Change 2013 from 2012
	2013	2012			
	U.S. \$ in millions				
<b>Generic Medicines</b>	<b>\$ 7,209</b>	<b>\$ 7,723</b>	<b>48%</b>	<b>51%</b>	<b>(7%)</b>
<i>API</i>	529	594	4%	4%	(11%)
<b>Specialty Medicines</b>	<b>6,198</b>	<b>6,044</b>	<b>42%</b>	<b>40%</b>	<b>3%</b>
<i>CNS</i>	4,049	4,124	27%	27%	(2%)
<i>Copaxone®</i>	3,186	2,937	21%	19%	8%
<i>Azilect®</i>	273	244	2%	2%	12%
<i>Nuvigil®</i>	244	269	2%	2%	(9%)
<i>Provigil®</i>	65	392	§	3%	(83%)
<i>Oncology</i>	721	627	5%	4%	15%
<i>Treanda®</i>	532	447	4%	3%	19%
<i>Respiratory</i>	667	600	5%	4%	11%
<i>ProAir®</i>	315	286	2%	2%	10%
<i>Qvar®</i>	239	205	2%	1%	17%
<i>Women s Health</i>	336	316	2%	2%	6%
<i>Other Specialty</i>	425	377	3%	3%	13%
<b>All Others</b>	<b>1,477</b>	<b>1,301</b>	<b>10%</b>	<b>9%</b>	<b>14%</b>
<i>OTC</i>	849	667	6%	5%	27%
<i>Other Revenues</i>	628	634	4%	4%	(1%)
<b>Total</b>	<b>\$ 14,884</b>	<b>\$ 15,068</b>	<b>100%</b>	<b>100%</b>	<b>(1%)</b>

§ Less than 0.5%.

**Generic Medicines**

Revenues from our generic medicines declined by \$514 million, or 7%, in the first nine months of 2013 over the comparable period of 2012.

Our largest market for generics is the United States, with revenues of \$3.0 billion for the period, down 10%.

Revenues from generic medicines in Europe in the nine months ended September 30, 2013 amounted to \$2.5 billion, an increase of 1% from the comparable period of 2012. In local currency terms, revenues from generic medicines decreased 1%.

In our ROW markets, revenues from generic medicines in the nine months ended September 30, 2013 amounted to \$1.7 billion, a decrease of 10% from the comparable period of 2012. In local currency terms, revenues decreased 1%.

## **Table of Contents**

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

API sales to third parties in the nine months ended September 30, 2013 amounted to \$529 million, a decrease of 11% from the comparable period of 2012.

### **Specialty Medicines**

Our revenues from specialty medicines amounted to \$6.2 billion in the nine months ended September 30, 2013, an increase of 3% over the comparable period of 2012.

### ***Central Nervous System ( CNS )***

In the nine months ended September 30, 2013, our CNS revenues amounted to \$4.0 billion, a decrease of 2% from the comparable period of 2012, primarily due to lower sales of Provigil<sup>®</sup>, which were offset by an increase in Copaxone<sup>®</sup> revenues.

**Copaxone<sup>®</sup>**. Our sales of Copaxone<sup>®</sup> during the period amounted to \$3.2 billion, compared to \$2.9 billion in the comparable period of 2012.

Until February 2012, global in-market revenues represented sales of Copaxone<sup>®</sup> from Sanofi and Teva to third parties. In February 2012, the transition of marketing and distribution rights of Copaxone<sup>®</sup> from Sanofi to Teva was completed. Therefore, commencing with the second quarter of 2012, all global sales were made by Teva. Global in-market sales for the period amounted to \$3.2 billion, an increase of 7% over the in-market sales of the comparable period.

Sales of Copaxone<sup>®</sup> for the nine months ended September 30, 2013, in the United States, amounted to \$2.4 billion.

**Azilect<sup>®</sup>**. Our sales of Azilect<sup>®</sup> amounted to \$273 million, an increase of 12%, compared to the comparable period of 2012. Global in-market sales of Azilect<sup>®</sup> reached \$360 million in the nine months ended September 30, 2013, compared to \$307 million in the comparable period of 2012, an increase of 17%.

**Nuvigil<sup>®</sup>**. Sales of Nuvigil<sup>®</sup> were \$244 million in the nine months ended September 30, 2013, as compared to \$269 million in the same period of 2012.

**Provigil<sup>®</sup>**. Sales of Provigil<sup>®</sup> were \$65 million in the nine months ended September 30, 2013, as compared to \$392 million in the same period of 2012. Provigil<sup>®</sup> began to face generic competition in the United States in March 2012, and as a result, sales decreased substantially.

### ***Oncology Products***

Sales of our specialty oncology products reached \$721 million in the first nine months of 2013, as compared to \$627 million in the comparable period of 2012.

Sales of **Treanda<sup>®</sup>** amounted to \$532 million, as compared to \$447 million in the same period of 2012.

### ***Respiratory Products***

In the nine months ended September 30, 2013, revenues from our respiratory specialty products were \$667 million, as compared to \$600 million in the comparable period of 2012.

**ProAir**<sup>®</sup> sales were \$315 million, as compared to \$286 million in the first nine months of 2012.

**Qvar**<sup>®</sup> global sales were \$239 million, as compared to \$205 million in the first nine months of 2012, an increase of 17%.

***Women s Health Products***

Our global women s health specialty medicines had revenues of \$336 million in the nine months ended September 30, 2013, an increase of 6% from \$316 million from the comparable period of 2012.



## **Table of Contents**

### **All Others**

#### ***OTC***

Our revenues from OTC products for the first nine months of 2013 amounted to \$849 million, compared to \$667 million in the first nine months of 2012. Our revenues related to PGT amounted to \$664 million, an increase of 24%, compared to \$535 million in the comparable period of 2012. In local currency terms, our revenues grew by 27%.

PGT's in-market sales for the first nine months of 2013 amounted to \$1.1 billion. This amount represents sales of the combined OTC portfolios of Teva and P&G outside North America.

Revenues from the sales of OTC products in the United States to P&G amounted to \$185 million in the first nine months of 2013, compared to \$132 million in the first nine months of 2012.

#### ***Other Revenues***

Other revenues include sales of third party products for which we act as distributors (mostly in Israel and Hungary), animal health products and medical products, as well as miscellaneous items. On January 2, 2013 we sold our U.S.-based animal health unit and, effective December 31, 2012, stopped consolidating its results.

In the first nine months of 2013, our revenues in this category amounted to \$628 million, down from \$634 million in the comparable period of 2012.

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

#### **Gross Profit**

Gross profit amounted to \$7.8 billion in the first nine months of 2013, compared to \$7.9 billion in the comparable period of 2012. Gross margin was 52.5% in the first nine months of 2013, compared to 52.2% for the comparable period of 2012.

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

R&D spending for the first nine months grew by 11% over the comparable period of 2012 and reached \$1.0 billion.

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

Selling and marketing expenses amounted to \$2.9 billion in the first nine months of 2013, compared to \$2.8 billion in the comparable period of 2012. Selling and marketing expenses as a percentage of net revenues increased to 19.8% in the current period, as compared to 18.7% in the comparable period of last year.

In February 2012, we completed the assumption of distribution and marketing responsibility for Copaxone® in Europe from Sanofi. Sanofi is entitled to receive 6% of the in-market sales of Copaxone® in the applicable European countries for a period of two years from our assumption of the distribution and marketing responsibilities. As of March 1, 2012, Sanofi no longer shares any of our Copaxone® selling and marketing expenses.

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

G&A expenses were \$923 million in the first nine months of 2013, or 6.2% of net revenues, compared to \$920 million, or 6.1% of net revenues for the same period in 2012.

### **Legal Settlements, Impairments, Restructuring and Others**

Legal settlements, impairments, restructuring and others were \$1.8 billion in the first nine months of 2013, as compared to \$1.3 billion in the first nine months of 2012.

The increase mainly reflects higher expenses relating to litigation and settlements in the first nine months of 2013, including an additional \$930 million in connection with the settlement of our pantoprazole patent litigation and an expense of \$495 million relating to our modafinil antitrust litigation. This increase was partially offset by a decrease in impairments. In the first nine months of 2013, Teva recorded an impairment expense of \$195 million, compared with a \$576 million expense in the comparable period of 2012.

**Table of Contents****Operating Income**

Operating income amounted to \$1.1 billion in the first nine months of 2013, compared to \$1.9 billion in the first nine months of 2012. As a percentage of sales, operating margin was 7.3%, as compared to 12.4% in the comparable period of 2012.

**Financial Expenses**

Net financial expenses for the first nine months of 2013 were \$340 million, compared with \$240 million during the first nine months of 2012. The increase was mainly due to a make-whole payment in connection with the redemption of the \$500 million principal amount of our 5.55% senior notes due 2016 and foreign currency effects, which were recorded mostly in the first quarter of 2013.

**Tax Rate**

Tax benefits for the first nine months of 2013 amounted to \$157 million on pre-tax income of \$749 million, compared with a tax benefit of \$27 million on pre-tax income of \$1.6 billion in the comparable period of 2012.

We expect an annual tax benefit rate of 12% (tax benefit as a percentage of pre-tax income) for 2013, compared to an annual tax benefit rate of 7.5% in 2012. The 2013 expected annual tax benefit rate reflects the effects of legal settlements, amortization, impairments, restructuring and others, as well as tax benefits from planned mergers of certain subsidiaries, some of which occur in jurisdictions with a higher tax rate than our average group tax rate.

**Net Income and Share Count**

Net income attributable to Teva for the nine months ended September 30, 2013 amounted to \$889 million, compared to \$1.6 billion in the comparable period of 2012. Diluted earnings per share was \$1.04 for the first nine months of 2013, compared to \$1.88 for the comparable period of 2012. Net income attributable to Teva as a percentage of revenues was 6.0% in the first nine months of 2013, compared to 10.9% in the comparable period of 2012.

For the first nine months of 2013, the weighted average fully diluted share count was 851 million, as compared to 875 million for the first nine months of 2012.

The weighted average fully diluted share count for the nine months ended September 30, 2013 has been reduced by approximately 8.0 million shares as a result of share repurchases made since the beginning of the year.

**Supplemental Non-GAAP Income Data**

The tables below present supplemental data, in U.S. dollar terms and as a percentage of net revenues, which we believe facilitates an understanding of the factors affecting our business.

In these tables, we exclude the items listed below in the respective time periods:

<b>Three months ended</b>		<b>Nine months ended</b>	
<b>September 30,</b>		<b>September 30,</b>	
<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>

**U.S. \$ in millions**

Amortization of purchased intangible assets	\$ 300	\$ 299	\$ 867	\$ 988
Impairment of long-lived assets	131	481	195	576
Expense in connection with legal settlements and reserves	47	689	1,509	707
Restructuring	33	20	97	81
Costs related to regulatory actions taken in facilities	10	25	38	103
Accelerated depreciation and other expenses	8	(59)	42	(29)
Purchase of research and development in process		5	3	5
Inventory step-up				63
Financial expenses in connection with early redemption of senior notes and others	5		106	
Net of corresponding tax benefit	(173)	(269)	(696)	(608)

The data so presented after these exclusions are the results used by management and our board of directors to evaluate our operational performance, to compare against work plans and budgets, and ultimately to evaluate the performance of management. For example, each year we prepare a detailed work plan for the next fiscal year. This work

---

**Table of Contents**

plan is used to manage the business and is the plan against which management's performance is measured. All such plans are prepared on a basis comparable to the presentation below, in that none of the plans take into account those elements that are factored out in our non-GAAP presentations. In addition, at quarterly meetings of the Board at which management provides financial updates to the Board, presentations are made comparing the current fiscal quarterly results against: (a) the comparable quarter of the prior year, (b) the immediately preceding fiscal quarter and (c) the work plan. Such presentations are based upon the non-GAAP approach reflected in the table below. Moreover, while there are always qualitative factors and elements of judgment involved in the granting of annual cash bonuses, the principal quantitative element in the determination of such bonuses is performance targets tied to the work plan, and thus tied to the same non-GAAP presentation as is set forth below.

In arriving at our non-GAAP presentation, we have in the past factored out items, and would expect in the future to continue to factor out items, that either have a non-recurring impact on the income statement or which, in the judgment of our management, are items that, either as a result of their nature or size, could, were they not singled out, potentially cause investors to extrapolate future performance from an improper base. While not all inclusive, examples of these items include: legal settlements and reserves, purchase accounting expense adjustments related to acquisitions, including adjustments for write-offs of R&D in-process, amortization of intangible assets and inventory step-ups following acquisitions; changes in the fair value of contingent consideration related to business combination; restructuring expenses related to efforts to rationalize and integrate operations on a global basis; material tax and other awards or settlements both in terms of amounts paid or amounts received; impairment charges related to intangible and other assets such as intellectual property, product rights or goodwill; the income tax effects of the foregoing types of items when they occur; and costs related to regulatory actions taken at our facilities (such as uncapitalized production costs, consulting expenses or write-offs of inventory related to remediation). Included in restructuring expenses are severance, shut down costs, contract termination costs and other costs that we believe are sufficiently large that their exclusion is important to understanding trends in our financial results.

These data are non-GAAP financial measures and should not be considered replacements for GAAP results. We provide such non-GAAP data because management believes that such data provide useful information to investors. However, investors are cautioned that, unlike financial measures prepared in accordance with GAAP, non-GAAP measures may not be comparable with the calculation of similar measures for other companies. These non-GAAP financial measures are presented solely to permit investors to more fully understand how management assesses our performance. The limitations of using these non-GAAP financial measures as performance measures are that they provide a view of our results of operations without including all events during a period, such as the effects of acquisition, merger-related, restructuring and other charges, and may not provide a comparable view of our performance to other companies in the pharmaceutical industry.

**Investors should consider non-GAAP financial measures in addition to, and not as replacements for, or superior to, measures of financial performance prepared in accordance with GAAP.**

**Table of Contents**

The following table presents the GAAP measures, the corresponding non-GAAP amounts and related non-GAAP adjustments for the applicable periods:

	Three months ended September 30, 2013				Three months ended September 30, 2012			
	U.S. \$ and shares in millions (except per share amounts)							
	GAAP	Non-GAAP Adjustments	Non-GAAP	% of Net Revenues	GAAP	Non-GAAP Adjustments	Non-GAAP	% of Net Revenues
Gross profit <sup>1</sup>	2,630	306	2,936	58%	2,601	313	2,914	59%
Operating income (loss) <sup>1,2</sup>	801	529	1,330	26%	(60)	1,460	1,400	28%
Net income (loss) attributable to Teva <sup>1,2,3</sup>	711	361	1,072	21%	(79)	1,191	1,112	22%
Earnings (loss) per share attributable to Teva Diluted <sup>4</sup>	0.84	0.43	1.27		(0.09)	1.37	1.28	
(1) Amortization of purchased intangible assets		290				288		
Costs related to regulatory actions taken in facilities		10				25		
Accelerated depreciation		6						
Gross profit adjustments		306				313		
(2) Expense in connection with legal settlements and reserves		47				689		
Restructuring, acquisition and other expenses		35				(34)		
Impairment of long-lived assets		131				481		
Amortization of purchased intangible assets		10				11		
Operating income adjustments		529				1,460		
(3) Financial expense		5						
Tax benefit		(173)				(269)		
Net income adjustments		361				1,191		

(4) The weighted average number of shares was 846 and 870 million for the three months ended September 30, 2013 and 2012, respectively. Non-GAAP earnings per share can be reconciled with GAAP earnings (loss) per share by dividing each of the amounts included in footnotes 1-3 above by the applicable weighted average share number.



**Table of Contents**

	Nine months ended September 30, 2013				Nine months ended September 30, 2012			
	U.S. \$ and shares in millions (except per share amounts)							
	Non-GAAP		Non- % of Net		Non-GAAP		Non- % of Net	
	GAAP	Adjustments	GAAP	Revenues	GAAP	Adjustments	GAAP	Revenues
Gross profit <sup>1</sup>	7,813	882	8,695	58%	7,867	1,123	8,990	60%
Operating income <sup>1,2</sup>	1,089	2,751	3,840	26%	1,875	2,494	4,369	29%
Net income attributable to Teva <sup>1,2,3</sup>	889	2,161	3,050	20%	1,643	1,886	3,529	23%
Earnings per share attributable to Teva Diluted <sup>4</sup>	1.04	2.54	3.58		1.88	2.15	4.03	

(1)	Amortization of purchased intangible assets		838			957		
	Costs related to regulatory actions taken in facilities		38			103		
	Accelerated depreciation		6					
	Inventory step-up					63		
	Gross profit adjustments		882			1,123		
(2)	Expense in connection with legal settlements and reserves		1,509			707		
	Restructuring, acquisition and other expenses		136			57		
	Impairment of long-lived assets		195			576		
	Amortization of purchased intangible assets		29			31		
	Operating profit adjustments		1,869			1,371		
	Operating profit adjustments		2,751			2,494		
(3)	Financial expense		106					
	Tax benefit		(696)			(608)		
	Net income adjustments		2,161			1,886		

- (4) The weighted average number of shares was 851 and 875 million for the nine months ended September 30, 2013 and 2012, respectively. Non-GAAP earnings per share can be reconciled with GAAP earnings per share by dividing each of the amounts included in footnotes 1-3 above by the applicable weighted average share number.

**Non-GAAP Tax Rate**

Non-GAAP tax expenses for the third quarter of 2013 amounted to \$185 million on pre-tax non-GAAP income of \$1.3 billion. The expenses in the comparable quarter of 2012 were \$212 million on pre-tax income of \$1.3 billion.

Non-GAAP tax expenses for the first nine months of 2013 amounted to \$539 million on pre-tax non-GAAP income of \$3.6 billion. The expenses in the comparable period of 2012 were \$581 million on pre-tax income of \$4.1 billion.



We expect our annual non-GAAP tax rate for 2013 to be 14.5%, higher than our 2012 non-GAAP tax rate of 12%. The rate for 2013 is mainly affected by the geographical mix of the products we expect to sell this year and by tax benefits from planned mergers of certain subsidiaries.

### **Critical Accounting Policies**

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions in certain circumstances that affect the amounts

## **Table of Contents**

reported in the accompanying consolidated financial statements and related footnotes. Actual results may differ from these estimates. To facilitate the understanding of our business activities, certain accounting policies that are important to the presentation of our financial condition and results of operations and that require management's subjective judgments are described in our Annual Report on Form 20-F for the year ended December 31, 2012. We base our judgments on our experience and various assumptions that we believe to be reasonable under the circumstances. The most significant estimates that we make on an ongoing basis relate to revenue recognition, sales reserves and allowances, income taxes, contingencies, inventories, and valuation of intangible assets, marketable securities and long-lived assets, including reassessment of useful lives. Please refer to Note 1 to the Consolidated Financial Statements included in our Annual Report on Form 20-F for the year ended December 31, 2012 for a summary of all significant accounting policies.

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

See the Notes to the Condensed Consolidated Financial Statements included in this report.

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

Because our results are reported in U.S. dollars, changes in the rates of exchange between the U.S. dollar and the local currencies in the markets in which we operate (primarily the euro, new Israeli shekel, Russian ruble, Japanese yen, Hungarian forint, Canadian dollar, British pound sterling, and certain Latin American currencies) affect our results.

When compared with the third quarter of 2012, certain currencies relevant to our operations decreased in value against the U.S. dollar: the Japanese yen by 21%, the Russian ruble by 1%, the British pound sterling by 3%, the Canadian dollar by 3%, and certain Latin American currencies that decreased in value overall against the U.S. dollar by 21%. Other significant currencies increased in value against the U.S. dollar: the euro by 4%, and the new Israeli shekel by 10% and the Polish zloty by 2%. All comparisons are on a quarterly average to quarterly average basis.

As a result, exchange rate movements during the third quarter of 2013, as compared to the third quarter of 2012, negatively affected overall revenues by approximately \$24 million. Exchange rate fluctuations had a net adverse effect on the operating expenses as a result of the mix of currency exposures and so, together with the impact on sales, there was an overall net negative impact on our operating income of approximately \$36 million.

Exchange rates also had a significant impact on our balance sheet, as approximately 46% of our net assets in the quarter (including both non-monetary and monetary assets) were in currencies other than the U.S. dollar. When compared to June 30, 2013, changes in currency rates had a positive impact of \$0.4 billion on our equity as of September 30, 2013, mainly due to increases in value against the U.S. dollar by the euro (4%), the Polish zloty (6%), the Hungarian forint (3%), the Canadian dollar (2%) and the British pound (6%), which were partially offset by a decrease in value against the U.S. dollar by the Indian rupee (5%). All comparisons are on a quarter-end to quarter-end basis.

## **Liquidity and Capital Resources**

Total balance sheet assets amounted to \$47.8 billion at September 30, 2013, compared to \$47.5 billion at June 30, 2013. The increase was mainly due to foreign exchange fluctuations of \$0.6 billion, partially offset by a reduction in working capital of \$0.3 billion.

Inventory balances for September 30, 2013 amounted to \$5.2 billion, compared to \$5.3 billion at June 30, 2013. The decrease resulted from lower inventory balances in the United States and Germany following inventory optimization

activities and was partially offset by foreign exchange fluctuations.

Our working capital balance, which includes accounts receivable, inventories, deferred taxes and other current assets net of sales, reserves and allowances ( SR&A ), accounts payable and other current liabilities, was \$3.1 billion at September 30, 2013, compared to \$2.5 billion at June 30, 2013. The increase in working capital is mainly due to the payments made in connection with litigation settlements.

Accounts receivable at September 30, 2013, net of SR&A, remained constant at \$0.5 billion, as compared to June 30, 2013. We are monitoring closely, on an ongoing basis, the accounts receivable balances in countries which, based on our internal assessment, are experiencing significant economic stress, and are taking action to limit our exposure in these countries. Among these are Greece, Italy, Portugal, and Spain, which have been significantly affected by the crisis in Europe and where we face an increase in the length of time it takes to collect receivables. We are taking measures to limit our risks in some of these countries by securitizing receivables without recourse and purchasing credit insurance. In addition, we have prepared, and are updating periodically, contingency plans for various Euro zone crisis scenarios of different severity.

## **Table of Contents**

Accounts payables and accruals decreased to \$3.0 billion at September 30, 2013, as compared to \$3.1 billion at June 30, 2013.

Investment in property, plant and equipment in the third quarter of 2013 was approximately \$228 million, compared to \$249 million in the comparable quarter last year. Depreciation amounted to \$115 million in the third quarter of 2013, compared to \$111 million in the comparable quarter of 2012.

Cash and cash equivalents and short term and long term investments at September 30, 2013 remained constant at \$1.4 billion, as compared to previous quarter, mainly due to long term equity investments as well as negative free cash flow and debt repayment, partially offset by changes in exchange rates and proceeds from exercise of options.

## **2013 Debt Movements**

At December 31, 2012 our debt was \$14.7 billion. Since the beginning of 2013 our debt has decreased by \$2.1 billion to \$12.6 billion at September 30, 2013. The decrease was mainly due to the repayment of \$2.0 billion of debt, consisting of:

\$1 billion principal amount of our 1.7% senior notes due 2014 prepaid during the first quarter;

\$500 million principal amount of our 5.55% senior notes due 2016 prepaid during the first quarter;

\$248 million of the European Investment Bank floating rate loan due 2015 prepaid during the first quarter;  
and

repayment at maturity in May 2013 of the \$200 million floating rate senior notes issued in November 2011 as part of the financing of the Cephalon acquisition.

Our debt at September 30, 2013 is denominated in the following currencies: 58% U.S. dollars, 27% euro, 11% Japanese yen and 4% Swiss francs.

The portion of total debt classified as short term has remained stable at 20% at September 30, 2013.

Our financial leverage remained stable at 36% at September 30, 2013.

Our average debt maturity is approximately six years as of September 30, 2013.

In November 2013, \$1.1 billion principal amount of floating rate senior notes issued by a finance subsidiary mature. We anticipate repaying such notes with funds borrowed under our revolving credit facility.

## **Shareholders Equity and Cash Flow**

Our shareholders equity was \$22.4 billion at September 30, 2013, compared to \$21.6 billion at June 30, 2013. The increase primarily reflects net income of \$0.7 billion and the positive impact of currency fluctuations of \$0.4 billion, which was partially offset by dividend payments of \$0.3 billion.

Cash flow generated from operating activities during the third quarter of 2013 amounted to \$444 million, compared to \$1.0 billion in the third quarter of 2012. The decrease was mainly due to the payments made in connection with litigation settlements, which were partially offset by a decrease in inventory levels.

In connection with litigation settlements, we have paid \$1.0 billion during the quarter and through the date of this report. An additional \$800 million will be paid throughout 2014.

Cash flow generated from operating activities in the third quarter of 2013, net of cash used for capital investments and dividends paid, resulted in a negative amount of \$34 million, a decrease of \$611 million from the third quarter of 2012. The decrease resulted mainly from lower cash flow generated from operating activities, along with higher dividend payments, partially offset by lower capital expenditures.

In Europe, a significant portion of our profits is at risk due to the potential depreciation of the euro. Starting in the third quarter of 2012 and throughout 2013, we entered into hedging transactions to protect our European subsidiaries from exposure resulting from the strengthening of the U.S. dollar against the euro in 2013 and in the first half of 2014.

### **Commitments**

In addition to financing obligations under short-term debt and long-term senior notes and loans, debentures and convertible debentures, our major contractual obligations and commercial commitments include leases, royalty payments and participation in joint ventures associated with research and development activities.

## **Table of Contents**

We are committed to pay royalties to owners of know-how, partners in alliances and certain other arrangements and to parties that financed research and development, at a wide range of rates as a percentage of sales of certain products, as defined in the agreements. In some cases, the royalty period is not defined; in other cases, royalties will be paid over various periods not exceeding 20 years.

In connection with certain development, supply and marketing, and research and collaboration or services agreements, we are required to indemnify, in unspecified amounts, the parties to such agreements against third-party claims relating to (1) infringement or violation of intellectual property or other rights of such third party; or (2) damages to users of the related products. Except as described in our financial statements, we are not aware of any material pending action that may result in the counterparties to these agreements claiming such indemnification.

Certain of our loan agreements and debentures contain restrictive covenants, mainly the requirement to maintain certain financial ratios. We are currently in compliance with all applicable financial ratios.

Our principal sources of short-term liquidity are our existing cash investments, liquid securities, and available credit facilities; primarily our \$3 billion syndicated revolving line of credit, as well as internally generated funds, which we believe are sufficient to meet our on-going operating needs. Our cash in hand is generally invested in bank deposits as well as liquid securities that bear fixed and floating rates.

## **RISK FACTORS**

There are no material changes to the risk factors previously disclosed in our Annual Report on Form 20-F for the year ended December 31, 2012, except as set forth below:

### ***Uncertainties related to our recent management changes may adversely affect our business, strategy and financial results.***

On October 30, 2013, we announced that Dr. Jeremy Levin had agreed to leave his position as President and Chief Executive Officer, and that Eyal Desheh, Group Executive Vice President and Chief Financial Officer, was named Acting President and Chief Executive Officer, effective immediately. The process of searching for a permanent successor has begun; however, there can be no assurances as to the timing of the conclusion of this search. Moreover, the Company may experience difficulties attracting, selecting and hiring a permanent President and Chief Executive Officer.

During this period of management transition, we may face uncertainties regarding our future business strategy and direction. These uncertainties may cause or result in disruption of our business or distraction of our employees and management; difficulty in recruiting, hiring, motivating, and retaining talented and skilled personnel, including current members of management; and difficulty in negotiating, maintaining, or consummating business or strategic relationships or transactions. If we are unable to mitigate these or other potential risks, our revenue, operating results, and financial condition may be adversely impacted.

### ***We have significant operations in countries that may be adversely affected by political or economic instability, corruption (including as a result of our ongoing FCPA investigation and related matters), major hostilities or acts of terrorism.***

We are a global pharmaceutical company with worldwide operations. Although over 78% of our sales are in North America and Western Europe, we expect to derive an increasing portion of our sales and future growth from other regions such as Latin America and Central and Eastern Europe, which may be more susceptible to political and

economic instability and corruption. There has been a substantial increase in law enforcement activity related to the U.S. Foreign Corrupt Practices Act (the FCPA ) and similar anti-corruption laws in other jurisdictions. Our policies mandate compliance with these laws, but our internal controls may not always protect us from actions taken by our employees or third-party intermediaries that may violate the FCPA or other anti-corruption laws. Any violations by our employees or third-party intermediaries of anti-corruption laws during the performance of their obligations for us may have a material adverse effect on our reputation and our business, financial condition or results of operations.

As previously reported, beginning in 2012, we received 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. We have provided and will continue to provide documents and other information to the SEC and DOJ, and we are cooperating with their investigation of these matters. We are also conducting a voluntary investigation into certain business practices that may have FCPA implications and have engaged independent counsel to assist in our investigation. In the course of our investigation, which is continuing, we have identified issues in Russia, certain Eastern European countries, and certain Latin American countries that could potentially rise to the level of FCPA violations and/or violations of local law. We have brought these issues to the attention of the SEC and the DOJ. At this time we cannot predict any likely outcomes in these matters, and accordingly no assurances can be given that we will not be materially and adversely affected. Our operations in the affected countries may be negatively impacted, and we may be required to pay material fines, be subject to injunctions on future conduct and/or the imposition of a compliance monitor, or suffer other criminal or civil penalties or adverse impacts, including lawsuits by private litigants.

## **Table of Contents**

Significant portions of our operations are conducted outside the markets in which our products are sold, and accordingly we often import a substantial number of products into such markets. We may, therefore, be denied access to our customers or suppliers or denied the ability to ship products from any of our sites as a result of a closing of the borders of the countries in which we sell our products, or in which our operations are located, due to economic, legislative, political and military conditions, including hostilities and acts of terror, in such countries.

Our executive offices and a substantial percentage of our manufacturing capabilities are located in Israel. Our Israeli operations are dependent upon materials imported from outside Israel. We also export significant amounts of products from Israel. Accordingly, our operations could be materially and adversely affected by acts of terrorism or if major hostilities were to occur in the Middle East or trade between Israel and its present trading partners were curtailed, including as a result of acts of terrorism in the U.S. or elsewhere.

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

Reference is made to Quantitative and Qualitative Disclosures About Market Risk (Item 11) in our Annual Report on Form 20-F for the year ended December 31, 2012.

## **LEGAL PROCEEDINGS**

We are subject to various litigation and other legal proceedings. For a discussion of certain of these matters that we deem to be material to Teva, see Contingencies, Note 12 to the Condensed Consolidated Financial Statements included in this report.



Table of Contents

**SIGNATURE**

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

TEVA PHARMACEUTICAL INDUSTRIES LIMITED  
(Registrant)

Date: October 31, 2013

By: /S/ EYAL DESHEH  
Name: **Eyal Desheh**  
Title: **Acting President and Chief Executive Officer,  
Group Executive Vice President and Chief  
Financial Officer**