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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

under the Securities Exchange Act of 1934

For the month of May 2016

Commission File Number 001-16174

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

(Translation of registrant s name into English)

5 Basel Street, P.O. Box 3190

Petach Tikva 4951033 Israel

(Address of principal executive offices)

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

Form 20-F x Form 40-F ¨

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

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

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Exhibits

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

USE OF CERTAIN TERMS

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED BALANCE SHEETS

(U.S. dollars in millions)

(Unaudited)

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

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

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

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

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF INCOME

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

(Unaudited)

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

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(U.S. dollars in millions)

(Unaudited)

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

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in millions)

(Unaudited)

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

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

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

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 Basis of presentation:

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

NOTE 2 Recently adopted and issued accounting pronouncements:

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

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

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

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

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue upon the transfer of goods or services to customers in an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity s contracts with customers. In March and April 2016, the FASB issued additional guidance regarding identifying performance obligations and licensing, and certain principal versus agent considerations. The guidance is effective for the interim and annual periods beginning on or after December 15, 2017 (early adoption is permitted for the interim and annual periods beginning on or after December 15, 2016). The guidance permits the use of either a retrospective or cumulative effect transition method. Teva is currently evaluating the impact of the guidance on its consolidated financial statements.

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 3 Certain transactions:

Japanese business venture:

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

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

Rimsa acquisition:

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

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

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

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

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

Actavis Generics acquisition:

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

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

NOTE 4 Inventories:

Inventories consisted of the following:

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

NOTE 5 Earnings per share:

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

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

Additionally, for the three months ended March 31, 2016, no account was taken of the potential dilution of the mandatory convertible preferred shares amounting to 59 million weighted average shares, since they had an anti-dilutive effect on earnings per share.

NOTE 6 Revenue recognition:

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

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

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

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

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Notes to Consolidated Financial Statements (Continued)

(Unaudited)

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

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

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

Sales reserves and allowances consisted of the following:

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 7 Equity:

Accumulated other comprehensive loss

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

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

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

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

* Represents an amount less than $0.5 million.

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

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Share repurchase program

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

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

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

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

NOTE 8 Debt obligations

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

Long-term debt includes the following:

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

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

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 9 Fair value measurement:

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

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

Financial instruments measured at fair value

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

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

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

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

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

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

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

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

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

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Notes to Consolidated Financial Statements (Continued)

(Unaudited)

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

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

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

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

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

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