

TEVA PHARMACEUTICAL INDUSTRIES LTD

Form 6-K

October 30, 2014

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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 October 2014

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):

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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

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 markets 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.

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED BALANCE SHEETS

(U.S. dollars in millions)

(Unaudited)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,473	\$ 1,038
Accounts receivable	5,410	5,338
Inventories	4,591	5,053
Deferred income taxes	1,060	1,084
Other current assets	1,388	1,207
Total current assets	13,922	13,720
Other non-current assets	1,479	1,696
Property, plant and equipment, net	6,551	6,635
Identifiable intangible assets, net	5,936	6,476
Goodwill	18,720	18,981
Total assets	\$ 46,608	\$ 47,508
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ 1,832	\$ 1,804
Sales reserves and allowances	5,578	4,918
Accounts payable and accruals	2,894	3,317
Other current liabilities	1,365	1,926
Total current liabilities	11,669	11,965
Long-term liabilities:		
Deferred income taxes	1,229	1,247
Other taxes and long-term liabilities	1,222	1,273
Senior notes and loans	8,818	10,387
Total long-term liabilities	11,269	12,907
Contingencies, see note 11		
Total liabilities	22,938	24,872
Equity:		
Teva shareholders equity:		

Ordinary shares of NIS 0.10 par value per share; September 30, 2014 and December 31, 2013: authorized 2,500 million shares; issued 952 million shares and 947 million shares, respectively	50	50
Additional paid-in capital	13,913	13,628
Retained earnings	14,017	12,535
Accumulated other comprehensive loss	(836)	(91)
Treasury shares as of September 30, 2014 and December 31, 2013 97 million ordinary shares and 99 million ordinary shares, respectively	(3,511)	(3,557)
	23,633	22,565
Non-controlling interests	37	71
Total equity	23,670	22,636
Total liabilities and equity	\$ 46,608	\$ 47,508

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

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net revenues	\$ 5,058	\$ 5,059	\$ 15,104	\$ 14,884
Cost of sales	2,249	2,429	6,937	7,071
Gross profit	2,809	2,630	8,167	7,813
Research and development expenses	412	348	1,109	1,016
Selling and marketing expenses	950	971	2,855	2,948
General and administrative expenses	293	297	897	923
Legal settlements and loss contingencies	(122)	47	(67)	1,509
Impairments, restructuring and others	164	166	364	328
Operating income	1,112	801	3,009	1,089
Financial expenses net	84	76	243	340
Income before income taxes	1,028	725	2,766	749
Income taxes	160	12	405	(157)
Share in losses of associated companies net	5	7	13	30
Net income	863	706	2,348	876
Net loss attributable to non-controlling interests	(13)	(5)	(20)	(13)
Net income attributable to Teva	\$ 876	\$ 711	\$ 2,368	\$ 889
Earnings per share attributable to Teva:				
Basic	\$ 1.02	\$ 0.84	\$ 2.78	\$ 1.05
Diluted	\$ 1.02	\$ 0.84	\$ 2.76	\$ 1.04
Weighted average number of shares (in millions):				
Basic	855	845	852	850
Diluted	861	846	857	851

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(U.S. dollars in millions)

(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income	\$ 863	\$ 706	\$ 2,348	\$ 876
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	(717)	359	(889)	(96)
Unrealized gain (loss) on derivative financial instruments, net	156	(76)	151	(64)
Unrealized gain (loss) from available-for-sale securities, net	(23)	5	(17)	*
Unrealized gain (loss) on defined benefit plans	*	11	6	20
Total other comprehensive gain (loss)	(584)	299	(749)	(140)
Total comprehensive income	279	1,005	1,599	736
Comprehensive loss attributable to the non-controlling interests	17	2	24	12
Comprehensive income attributable to Teva	\$ 296	\$ 1,007	\$ 1,623	\$ 748

* Represents an amount of 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 STATEMENTS OF CASH FLOWS**

(U.S. dollars in millions)

(Unaudited)

	Nine months ended September 30,	
	2014	2013
Operating activities:		
Net income	\$ 2,348	\$ 876
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	1,139	1,206
Deferred income taxes net and uncertain tax positions	(223)	(666)
Impairment of long lived assets	208	195
Net change in operating assets and liabilities	(217)	609
Stock-based compensation	61	42
Loss from sale of long lived assets and investments	30	21
Other items	29	138
Net cash provided by operating activities	3,375	2,421
Investing activities:		
Purchases of property, plant and equipment	(629)	(717)
Acquisitions of subsidiaries, net of cash acquired	(363)	(39)
Purchases of investments and other assets	(242)	(157)
Proceeds from sales of long lived assets and investments	157	173
Other investing activities	(26)	(91)
Net cash used in investing activities	(1,103)	(831)
Financing activities:		
Dividends paid	(884)	(813)
Repayment of long-term loans and other long-term liabilities	(797)	(2,005)
Net change in short-term debt	(372)	
Proceeds from exercise of options by employees	290	29
Other financing activities	(19)	20
Proceeds from long-term loans and other long-term liabilities		2
Purchases of treasury shares		(497)
Net cash used in financing activities	(1,782)	(3,264)
Translation adjustment on cash and cash equivalents	(55)	(57)

Net change in cash and cash equivalents	435	(1,731)
Balance of cash and cash equivalents at beginning of period	1,038	2,879
Balance of cash and cash equivalents at end of period	\$ 1,473	\$ 1,148

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Condensed Consolidated Financial Statements

(Unaudited)

NOTE 1 Basis of presentation:

The accompanying unaudited condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements. In the opinion of management, the financial statements reflect all adjustments 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, 2013, as filed with the Securities and Exchange Commission (SEC). Amounts at December 31, 2013 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, 2014 are not necessarily indicative of results that could be expected for the entire fiscal year.

NOTE 2 Recently adopted and issued accounting pronouncements:

In May 2014, the Financial Accounting Standards Board 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. The guidance is effective for the interim and annual periods beginning on or after December 15, 2016 (early adoption is not permitted). The guidance permits the use of either a retrospective or cumulative effect transition method. Teva is currently evaluating the impact of the amended guidance on its consolidated financial statements.

In July 2013, the Financial Accounting Standards Board issued guidance that 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. Teva's adoption of this standard, commencing January 1, 2014, did not have a material impact on its consolidated financial statements.

NOTE 3 Certain transactions:

Labrys Biologics, Inc.:

On July 17, 2014, Teva purchased Labrys Biologics, Inc. (Labrys) for an upfront cash payment of \$207 million and up to \$625 million in contingent payments upon achievement of certain milestones, of which \$125 million was placed by

Teva in escrow. Labrys is a development stage biotechnology company focused on treatments for chronic migraine and episodic migraine. The potential additional payments were evaluated and recorded at a fair value of \$251 million as of September 30, 2014. Pro forma information giving effect to the acquisition has not been provided as the results would not be material.

NuPathe Inc.:

On February 21, 2014, Teva completed the acquisition of NuPathe Inc. (NuPathe). NuPathe s leading product is Zecuity®, the only prescription migraine patch approved by the U.S. Food and Drug Administration (FDA) for the acute treatment of migraine with or without aura in adults.

Teva purchased all of NuPathe s shares for consideration of \$163 million. Teva may be required to make additional payments upon the achievement of sales-based milestones for Zecuity®. These potential additional payments were evaluated and recorded at a fair value of \$109 million as of September 30, 2014. Pro forma information giving effect to the acquisition has not been provided as the results would not be material.

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Inventories consisted of the following:

	September 30, 2014	December 31, 2013
	U.S. \$ in millions	
Finished products	\$ 2,361	\$ 2,567
Raw and packaging materials	1,373	1,576
Products in process	684	715
Materials in transit and payments on account	173	195
	\$ 4,591	\$ 5,053

NOTE 5 Earnings per share:

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

In computing diluted earnings per share for the nine months ended September 30, 2014 and 2013, and the three months ended September 30, 2014 and 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.

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes To Condensed Consolidated Financial Statements (Continued)

(Unaudited)

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:

	September 30, 2014	December 31, 2013
	U.S. \$ in millions	
Rebates	\$ 3,737	\$ 3,090
Chargebacks	1,072	1,114
Returns	591	573
Other	178	141
	\$ 5,578	\$ 4,918

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 September 30, 2014 and 2013:

Components of accumulated other comprehensive loss	Description of the reclassification to the statement of income	Three months ended September 30, 2014				
		Other comprehensive income (loss) before reclassification	Amounts reclassified to the statement of income	Net other comprehensive income (loss) before tax	Corresponding income tax	Net other comprehensive income (loss) after tax
Currency translation adjustment		\$ (717)	\$ (29)	\$ (717)	\$ *	\$ (717)
			6	(23)		(23)

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Unrealized gain (loss) from available-for-sale securities	Loss on marketable securities, reclassified to financial expenses-net					
Unrealized gain (loss) from derivative financial instruments	Loss on derivative financial instruments, reclassified to net revenues	155	1	156		156
Unrealized gain (loss) on defined benefit plans	Loss on defined benefit plans, reclassified to various statement of income items**	*	*	*	*	*
Total accumulated other comprehensive income (loss)		\$ (591)	\$ 7	\$ (584)	\$ *	\$ (584)

Table of Contents**TEVA PHARMACEUTICAL INDUSTRIES LIMITED****Notes To Condensed Consolidated Financial Statements (Continued)****(Unaudited)****Three months ended September 30, 2013**

Components of accumulated other comprehensive loss	Description of the reclassification to the statement of income	Other	Amounts	Net	Corresponding	Net
		comprehensive income (loss) before reclassification	reclassified to the statement of income	other comprehensive income (loss) before tax	income tax	other comprehensive income (loss) after tax
Currency translation adjustment		\$ 359	\$	\$ 359	\$	\$ 359
Unrealized gain (loss) from available-for-sale securities	Gain on marketable securities, reclassified to financial expenses-net	11	(6)	5	*	5
Unrealized gain (loss) from derivative financial instruments		(76)		(76)	*	(76)
Unrealized gain (loss) on defined benefit plans	Loss on defined benefit plans, reclassified to various statement of income items**	(1)	16	15	(4)	11
Total accumulated other comprehensive income (loss)		\$ 293	\$ 10	\$ 303	\$ (4)	\$ 299

* Represents an amount of less than \$0.5 million.

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

The following tables present the changes in the components of accumulated other comprehensive loss for the nine months ended September 30, 2014 and 2013:

Components of accumulated other	Description of the reclassification to the statement of income	Nine months ended September 30, 2014			
		Other comprehensive income (loss)	Amounts reclassified to the statement of income	Net other comprehensive income	Corresponding income tax

comprehensive loss		before	of	(loss)		(loss)
		reclassification	income	before		after
				tax		tax
Currency translation adjustment	Currency translation adjustment, reclassified to general and administrative expenses	\$ (884)	\$ (5)	\$ (889)	\$	\$ (889)
Unrealized gain (loss) from available-for-sale securities	Loss on marketable securities, reclassified to financial expenses-net	(20)	3	(17)	*	(17)
Unrealized gain (loss) from derivative financial instruments	Loss on derivative financial instruments, reclassified to net revenues	148	3	151		151
Unrealized gain (loss) on defined benefit plans	Loss on defined benefit plans, reclassified to various statement of income items**	*	1	1	5	6
Total accumulated other comprehensive income (loss)		\$ (756)	\$ 2	\$ (754)	\$ 5	\$ (749)

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes To Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Components of accumulated other comprehensive loss	Description of the reclassification to the statement of income	Nine months ended September 30, 2013				
		Other comprehensive income (loss) before reclassification	Amounts to the statement of income	Net other comprehensive income before tax	Corresponding income tax	Net other comprehensive income after tax
Currency translation adjustment	Currency translation adjustment, reclassified to financial expense-net	\$ (113)	\$ 17	\$ (96)	\$	\$ (96)
Unrealized gain (loss) from available-for-sale securities	Gain on marketable securities, reclassified to financial expenses-net	7	(6)	1	(1)	*
Unrealized gain (loss) from derivative financial instruments	Loss on derivative financial instruments, reclassified to net revenues	(69)	5	(64)	*	(64)
Unrealized gain (loss) on defined benefit plans	Loss on defined benefit plans, reclassified to various statement of income items**	*	17	17	3	20
Total accumulated other comprehensive income (loss)		\$ (175)	\$ 33	\$ (142)	\$ 2	\$ (140)

* Represents an amount of less than \$0.5 million.

** Affected cost of sales, research and development expenses, selling and marketing expenses and general and administrative 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, 2014, \$1.33 billion remain available for repurchases. This repurchase authorization has no time limit. Repurchases may be commenced or suspended at any time.

As of September 30, 2014, Teva had a treasury share balance of 97.2 million shares compared to a balance of 98.8 million shares as of December 31, 2013.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	in millions			
Amount spent on shares repurchased	\$	\$	\$	\$ 497
Number of shares repurchased				12.8

NOTE 8 Fair value measurement:

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.

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

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 September 30, 2014 and December 31, 2013 are classified in the tables below in one of the three categories described above:

	September 30, 2014			
	U.S. \$ in millions			
	Level	Level	Level	Total
	1	2	3	
Cash and cash equivalents:				
Money market	\$ 20	\$	\$	\$ 20
Cash deposits and other	1,453			1,453
Escrow fund	125			125
Marketable securities:				
Auction rate securities			13	13

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Equity securities	48			48
Structured investment vehicles		95		95
Other	10		1	11
Derivatives:				
Liabilities derivatives mainly options and forward contracts		(39)		(39)
Liabilities derivatives interest rate and cross-currency swaps		(167)		(167)
Asset derivatives mainly options and forward contracts		55		55
Contingent consideration *			(622)	(622)
Total	\$ 1,656	\$ (56)	\$ (608)	\$ 992

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

	December 31, 2013			
	U.S. \$ in millions			
	Level			
	1	Level 2	Level 3	Total
Cash and cash equivalents:				
Money market	\$ 9	\$	\$	\$ 9
Cash deposits and other	1,029			1,029
Marketable securities:				
Auction rate securities			18	18
Equity securities	70			70
Structured investment vehicles		89		89
Other	29		1	30
Derivatives:				
Liability derivatives mainly options and forward contracts		(17)		(17)
Liability derivatives interest rate and cross-currency swaps		(436)		(436)
Asset derivatives mainly options and forward contracts		28		28
Asset derivatives interest rate swaps		2		2
Contingent consideration *			(366)	(366)
Total	\$ 1,137	\$ (334)	\$ (347)	\$ 456

* Contingent consideration represents either liabilities or assets recorded at fair value in connection with acquisitions and the sale of our animal health unit.

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.

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

	September 30, 2014	December 31, 2013
	U.S. \$ in millions	
Fair value at the beginning of the period	\$ (347)	\$ (98)
Amount realized	(5)	(16)
Changes in contingent consideration:		
Cephalon acquisition	(34)	(12)
MicroDose acquisition	141	(232)
Sale of animal health unit	(3)	8
Contingent consideration resulting from:		
NuPathe acquisition	(109)	
Labrys acquisition	(251)	
Other net change to fair value:		
Included in earnings financial expense net		1
Included in accumulated other comprehensive loss		2
Fair value at the end of the period	\$ (608)	\$ (347)

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes To Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Financial instruments not measured at fair value

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

	Estimated fair value*	
	September 30, 2014	December 31, 2013
	U.S. \$ in millions	
Senior notes included under long-term liabilities	\$ (7,729)	\$ (8,656)
Senior notes and convertible senior debentures included under short-term liabilities	(1,701)	(1,308)
Fair value at the end of the period	\$ (9,430)	\$ (9,964)

* 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, 2014	\$ 187	\$ 201	\$ 5	\$ 19
December 31, 2013	216	213	25	22

NOTE 9 Derivative instruments and hedging activities:*Derivative instrument disclosure*

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

	September 30, 2014	December 31, 2013
	U.S. \$ in millions	
Interest rate swap fair value hedge *	\$ 2,250	\$ 2,500
Cross currency swap cash flow hedge	1,875	1,875
Forecasted transactions cash flow hedge	320	300

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

	Reported under	Fair value September 30, December 31, 2014 2013 U.S. \$ in millions	
Asset derivatives interest rate swap fair value hedge designated as hedging instruments	Other current assets	\$	\$ 2
Liability derivatives interest rate swap fair valu			