

BANK ONE CORP  
Form 8-K  
May 18, 2004

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report:

May 18, 2004

Commission file number

1-15323

BANK ONE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

31-0738226

(I.R.S. Employer  
Identification No.)

One Bank One Plaza, Chicago, IL

(Address of principal executive offices)

60670

(Zip Code)

Registrant's telephone number, including area code: (312) 732-4000

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## Item 5. Other Events

J.P. Morgan Chase & Co., a Delaware corporation ( JPMorgan Chase ), and Bank One Corporation, a Delaware corporation ( Bank One ), have entered into an Agreement and Plan of Merger, dated as of January 14, 2004 (the Merger Agreement ). The Merger Agreement provides for the merger of Bank One with and into JPMorgan Chase (the Merger ). The Merger will be treated as a purchase business combination by JPMorgan Chase under U.S. generally accepted accounting principles. Completion of the Merger is subject to various conditions, including the receipt of all required regulatory approvals and the approval of the Merger by the stockholders of both JPMorgan Chase and Bank One.

Upon completion of the Merger, which is expected to occur in mid-2004, each share of common stock of Bank One, \$0.01 par value per share, outstanding immediately prior to the effective time of the Merger, will be converted into 1.32 shares of JPMorgan Chase common stock, \$1.00 par value per share.

Certain financial information for JPMorgan Chase and pro forma combined financial information for the combined entity giving effect to the Merger is set forth below.

### **Management's Discussion and Analysis of the Financial Condition and Results of Operations for JPMorgan Chase**

Reproduced below is management's discussion and analysis of the financial condition and results of operations for JPMorgan Chase prepared by JPMorgan Chase and included in its Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **INTRODUCTION**

J.P. Morgan Chase & Co. ( JPMorgan Chase or the Firm ) is a leading global financial services firm with assets of \$801 billion and operations in more than 50 countries. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing, investment management, private banking and private equity. JPMorgan Chase serves more than 30 million consumers nationwide and many of the world's most prominent corporate, institutional and government clients. The Firm's wholesale businesses are known globally as JPMorgan, and its national consumer and middle market businesses are known as Chase. The wholesale businesses comprise four segments: the **Investment Bank** ( IB ), **Treasury & Securities Services** ( TSS ), **Investment Management & Private Banking** ( IMPB ) and **JPMorgan Partners** ( JPMP ). IB provides a full range of investment banking and commercial banking products and services, including advising on corporate strategy and structure, capital raising, risk management, and market-making in cash securities and derivative instruments in all major capital markets. The three businesses within TSS provide debt servicing, securities custody and related functions, and treasury and cash management services to corporations, financial institutions and governments. The IMPB business provides investment management services to institutional investors, high-net-worth individuals and retail customers and also provides personalized advice and solutions to wealthy individuals and families. JPMP, the Firm's private equity business, provides equity and mezzanine capital financing to private companies. The Firm's national consumer and middle market businesses, which provide lending and full-service banking to consumers and small and middle market businesses, comprise **Chase Financial Services** ( CFS ).

### **OVERVIEW**

**Financial Performance of JPMorgan Chase**

(in millions, except per share and ratio data)	<b>1Q 2004</b>	4Q 2003	1Q 2003	<b>First quarter change</b>	
				4Q 2003	1Q 2003
Revenue	<b>\$ 8,977</b>	\$ 8,068	\$ 8,406	11%	7%
Noninterest expense	<b>6,059</b>	5,220	5,541	16	9
Provision for credit losses	<b>15</b>	139	743	(89)	(98)
Net income	<b>1,930</b>	1,864	1,400	4	38
Net income per share diluted	<b>0.92</b>	0.89	0.69	3	33
Average common equity	<b>45,818</b>	44,177	41,858	4	9
Return on average common equity ( ROCE )	<b>17%</b>	17%	13%	bp	400bp
Common dividend payout ratio	<b>38</b>	38	50		(1,200)
Effective income tax rate	<b>34</b>	31	34	300	
Overhead ratio	<b>67</b>	65	66	200	100
Tier 1 capital ratio	<b>8.4%</b>	8.5%	8.4%	(10)bp	bp
Total capital ratio	<b>11.4</b>	11.8	12.2	(40)	(80)
Tier 1 leverage ratio	<b>5.9</b>	5.6	5.0	30	90

The momentum in global economic growth seen in 2003 carried into the first quarter of 2004, while business optimism continued to build, supported by attractive financial conditions, ongoing strong productivity and unprecedented recovery in corporate profits. Nevertheless, financial markets were volatile in the first quarter, reflecting uncertainty about the U.S. employment outlook and the actions the Board of Governors of the Federal Reserve System ( Federal Reserve Board ) might take on interest rates. Investors entered 2004 braced for rising interest rates, but with hiring slack, the economy far below potential and inflation benign, a market consensus developed in the quarter that the Federal Reserve Board's policy would remain on hold for most of the year.

These factors created a favorable capital markets environment for JPMorgan Chase, which contributed to earnings growth in the Firm's IB and IMPB segments to their highest levels in over three years, and provided opportunities for JPMP to realize gains. The strength in capital markets-related businesses more than offset an earnings decline at CFS, which reflected the slowdown in the mortgage refinancing market. As a result of improved credit quality in the commercial portfolio and ongoing portfolio management activities utilizing credit derivatives and loan sales, the Firm improved its credit risk profile.

Net income for JPMorgan Chase of \$1.9 billion, or \$0.92 per share, was the highest quarterly result since the December 2000 merger of The Chase Manhattan Corporation and J.P. Morgan & Co. Incorporated.

Total revenue of \$9.0 billion grew by 7% over the first quarter of 2003 and 11% over the fourth quarter. IB trading revenues benefited from favorable fixed income market and currency conditions: corporate credit spreads remained narrow, bond yields declined and the dollar continued to weaken against most major currencies. Equity market values rose and equity issuance increased, adding to the strength in trading and contributing to the increase in private equity gains at JPMP and in fees and commissions at IB, IMPB and TSS. Countering these favorable market conditions was a decline in Global Treasury's revenues (securities gains and net interest income) and in mortgage origination volumes across the industry. At Chase Home Finance ( CHF ), total mortgage originations declined by 39% compared with the first quarter of 2003.

Total expenses of \$6.1 billion increased by 9% year-over-year and 16% over the fourth quarter level. The fourth quarter of 2003 had an unusually low base of expenses due to an adjustment to incentive accruals, which reduced compensation costs to reflect full-year incentives. Incentive accruals were higher relative to prior periods because of higher revenues. The largest expense increases compared with the first quarter of 2003 were in CHF, within CFS, and TSS. As a result of the unprecedented refinancing boom during 2003, CHF increased staff throughout the year to keep pace with volumes; expenses remained comparable to fourth quarter 2003 levels. Management expects expenses in both CHF and TSS to moderate in future quarters to reflect the reduction in business volumes at CHF, and the realization of synergies from acquisitions at TSS.

The first quarter of 2004 Provision for credit losses of \$15 million declined significantly from both comparable periods and was \$429 million lower than net charge-offs in the quarter. Most of the reduction in the allowance for credit losses was due to improvement in the quality of the commercial portfolio. During the first quarter of 2004, the Firm's commercial nonperforming loans declined by 45% and criticized exposure levels declined by 49% compared with the first quarter of 2003. At the same time, the consumer portfolio had lower delinquencies and net charge-offs versus both comparable periods. As improvements in the quality of the commercial portfolio taper off and demand for commercial loans picks up, reductions in the allowance for credit losses should moderate and credit costs could increase from the first quarter 2004 level.

The Firm's capital position at March 31, 2004, was strong. Tier 1 capital of \$44.7 billion increased by 16% from the first quarter and 4% from the fourth quarter of 2003 as retained earnings increased. A rise in risk-weighted assets (as defined by banking regulators) resulted in a Tier 1 ratio that was flat compared with the year-ago level and lower than the year-end ratio. The regulatory weightings do not distinguish between the risk ratings of credit exposure. At the same time, the Firm's internal measure of risk in the businesses, the amount of allocated capital, declined by 11% from the first quarter and 2% from the fourth quarter of 2003, as IB reduced credit risk and JPMP reduced private equity investments.

The table below shows JPMorgan Chase's segment results. These results reflect the manner in which the Firm's financial information is currently evaluated by management and are presented on an operating basis. For a discussion of the Firm's Segment results, including more information about operating results, see pages 32-50 of this Form 10-Q. Prior-period segment results have been adjusted to reflect the alignment of management accounting policies or changes in organizational structure among businesses.

Segment results	Operating basis						Return on average allocated capital		
	Operating revenue			Operating earnings			First quarter change		
	First quarter change			First quarter change			First quarter change		
	1Q	4Q	1Q	1Q	4Q	1Q	1Q	4Q	1Q
(in millions, except ratios)	2004	2003	2003	2004	2003	2003	2004	2003	2003

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Investment Bank	<b>\$ 3,979</b>	31%	(1)%	<b>\$ 1,110</b>	29%	24%	<b>28%</b>	800bp	1,100bp
Treasury & Securities Services	<b>1,106</b>	3	19	<b>119</b>	(17)	6	<b>15</b>	(600)	(100)
Investment Management & Private Banking	<b>824</b>		29	<b>115</b>	15	326	<b>8</b>	100	600
JPMorgan Partners	<b>249</b>	137	NM	<b>115</b>	400	NM	<b>9</b>	800	NM
Chase Financial Services	<b>3,414</b>	(5)	(8)	<b>427</b>	(24)	(34)	<b>18</b>	(700)	(1,300)
Support Units and Corporate	<b>(122)</b>	1	(3)	<b>44</b>	(75)	NM	<b>NM</b>	NM	NM
<b>JPMorgan Chase</b>	<b>\$ 9,450</b>	11	7	<b>\$ 1,930</b>	4	38	<b>17</b>		400

**IB** reported operating earnings of \$1.1 billion for the first quarter of 2004, its best performance in three years, up 24% and 29% from the first and fourth quarters of 2003, respectively. The low interest rate environment, volatility in credit markets, and improvement in equity markets produced increased client and portfolio management revenue in fixed income and equities. This coupled with negative credit costs (i.e., a benefit to income) drove results.

**TSS** operating earnings of \$119 million for the quarter were up 6% compared with the first quarter of 2003 and down 17% compared with the fourth quarter of 2003; the fourth quarter result included a \$41 million pre-tax gain on the sale of a nonstrategic business. Acquisitions in Institutional Trust Services and Treasury Services drove revenue and expense growth in TSS. Higher global equity values resulted in increased fees in Investor Services, as pricing is tied to asset levels. Average deposits for TSS were up 33% from

the first quarter of 2003, though spreads on deposits were low given the low level of interest rates. At 15%, Return on average allocated capital for TSS was negatively affected by goodwill from acquisitions.

**IMPB** increased operating earnings and assets under supervision in the first quarter of 2004 compared with the year-ago and prior quarters, aided by increased equity market valuations in client portfolios and increased brokerage activity. Net inflows in the quarter were at their highest levels in more than two years; strong inflows from the retail segment were coupled with net positive institutional inflows for the first time in more than a year, a reflection of improved investment performance.

**JPMP** performance improved significantly, with a positive \$526 million increase in private equity gains from the first quarter of 2003. Net gains on direct private equity investments, at \$304 million, benefited from higher sales (\$302 million in realized gains) and liquidity events such as initial public offerings and much lower negative net valuation adjustments (\$23 million) of companies in the portfolio.

**CFS** operating earnings declined by \$221 million from the first quarter of 2003, 92% of which was due to the decline in earnings at CHF. Strong production results in many of the businesses including increased purchase volume at Chase Cardmember Services, deposit growth at Chase Regional Banking and Chase Middle Market, and higher home equity originations at CHF were more than offset by deposit spread compression, weak automobile leasing results and higher severance and related costs.

### **Business outlook**

Toward the end of the first quarter, U.S. economic data began showing a gradual strengthening in hiring and improvement in business conditions. Management expects higher interest rates some time in the second half of 2004. Rising interest rates may negatively affect the Firm's Home Finance and Global Treasury results compared with 2003. However, rising rates may be indicative of robust economic growth, which is beneficial for many other businesses in the Firm. IB had a stronger pipeline for fees than in December or March of last year. In addition, client trading activity is independent of the direction of rate moves (although trading revenues in future quarters may be lower, as the first quarter is usually seasonally strong). IMPB, Investor Services and JPMP are expected to benefit from rising equity markets. Loan demand should increase as the economy continues to improve and corporations increase investments. The level of deposits may decline as rates rise (although the interest rate spread could widen). Commercial net charge-off ratios may be lower, but credit costs may rise as the reduction in the Allowance for credit losses slows. Consumer loan losses may decline, but the interest rate spread on consumer loans may narrow.

### **Business events**

#### **Agreement to merge with Bank One Corporation**

On January 14, 2004, JPMorgan Chase and Bank One Corporation ( Bank One ) announced an agreement to merge. The merger agreement, which has been approved by the boards of directors of both companies, provides for a stock-for-stock merger in which 1.32 shares of JPMorgan Chase common stock will be exchanged, on a tax-free basis, for each share of Bank One common stock; cash will be paid for fractional shares. JPMorgan Chase stockholders will keep their shares, which will remain outstanding and unchanged as shares of JPMorgan Chase following the merger. The merger will be accounted for using the purchase method of accounting. The purchase price to complete the proposed merger is approximately \$58 billion.

The merged company, headquartered in New York, will be known as J.P. Morgan Chase & Co. and will have combined assets of \$1.1 trillion, a strong capital base, 2,300 branches in 17 states and top-tier positions in retail banking and lending, credit cards, investment banking, asset management, private banking, treasury and securities

services, middle markets and private equity. It is expected that cost savings of approximately \$2.2 billion (pre-tax) will be achieved by 2007. Merger-related costs are expected to be approximately \$3 billion (pre-tax).

Immediately following the announcement of the agreement to merge, integration planning was initiated. To date, detailed integration plans have been developed, with more than 2,000 milestones centrally monitored; decisions have been made on most of the technology platforms that will be used by the combined firm. For further information concerning the merger, see Note 2 on page 7 of this Form 10-Q.



**RESULTS OF OPERATIONS**

The following section provides a discussion of JPMorgan Chase's results of operations on a reported basis.

Revenue (in millions)	1Q 2004	4Q 2003	1Q 2003	First quarter change	
				4Q 2003	1Q 2003
Investment banking fees	\$ 692	\$ 846	\$ 616	(18)%	12%
Trading revenue	1,720	754	1,298	128	33
Fees and commissions	2,933	2,871	2,488	2	18
Private equity gains (losses)	306	163	(221)	88	NM
Securities gains	126	29	485	334	(74)
Mortgage fees and related income	244	140	433	74	(44)
Other revenue	126	254	92	(50)	37
Net interest income	2,830	3,011	3,215	(6)	(12)
<b>Total revenue</b>	<b>\$ 8,977</b>	<b>\$ 8,068</b>	<b>\$ 8,406</b>	<b>11</b>	<b>7</b>

**Investment banking fees**

For a discussion of Investment banking fees, which are primarily recorded in IB, see IB segment results on pages 34-37 of this Form 10-Q.

**Trading revenue**

For a discussion of Trading revenue, which is primarily recorded in IB, see the IB segment results on pages 34-37 of this Form 10-Q.

**Fees and commissions**

The table below provides the significant components of fees and commissions:

(in millions)	1Q 2004	4Q 2003	1Q 2003	First quarter change	
				4Q 2003	1Q 2003
Investment management and service fees	\$ 668	\$ 618	\$ 545	8%	23%
Custody and institutional trust service fees	442	431	358	3	23
Credit card fees	734	825	692	(11)	6
Brokerage commissions	401	316	259	27	55

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Lending-related service fees	<b>139</b>	172	124	(19)	12
Deposit service fees	<b>274</b>	279	285	(2)	(4)
Other fees	<b>275</b>	230	225	20	22
Total	<b>\$ 2,933</b>	\$ 2,871	\$ 2,488	2	18

The increases from both periods for Investment management and service fees and Custody and institutional trust service fees were primarily due to higher equity valuations of Assets under supervision (which includes assets under custody); organic growth in the businesses including net inflows of assets under supervision; and to the acquisitions of the Bank One corporate trust business in November 2003 (which contributed \$22 million) and JPMorgan Retirement Plan Services ( RPS ) in June 2003 (which contributed \$21 million). Credit card fees rose by 6% from the first quarter of 2003, reflecting higher servicing fees on the \$1.5 billion growth in average securitized credit card receivables; higher fees earned from the retained credit card portfolio as a result of the more robust customer purchase volume; and the favorable impact of changes in the pricing of several card products and services. The decline in Credit card fees from the immediately preceding quarter reflected the seasonal decrease in purchase volume.

Brokerage commissions increases from both periods were driven by the higher activity levels in the global equities market. Lending-related service fees were up from the first quarter of 2003 as a result of the growth in business volume, including a \$3.3 billion, or 85%, growth in the automobile loan servicing portfolio. The decline in Lending-related service fees from the prior quarter was principally attributable to a lower volume of standby letters of credit negotiated in the quarter. The decrease in Deposit service fees compared with the first quarter of 2003 reflected higher balances maintained by institutional customers in their deposit accounts, which reduced fees in lieu of compensating balances or balance deficiency fees. The increase in Other fees was largely due to the acquisition of the Electronic Financial Services ( EFS ) business from Citigroup in January 2004, which contributed \$55 million.

For additional information on Fees and commissions, see the segment discussions of IMPB for investment management fees on pages 38 40, TSS for custody and securities processing fees on pages 37 38, and CFS for consumer-related fees on pages 43 49 of this Form 10-Q.

### **Private equity gains (losses)**

For a discussion of the factors that fueled the improvement in the Firm's private equity investment results, which are primarily recorded in JPMP, see the JPMP segment discussion on pages 41-42 of this Form 10-Q.

### **Securities gains**

Securities gains decreased by 74% from the first quarter of 2003 due to substantial gains realized last year as rates declined. Most of the gains were realized by Global Treasury in connection with its management of the Firm's interest rate risk exposure. CHF uses AFS securities to manage the economic risk of changes in the value of mortgage servicing rights (MSRs). In the 2004 first quarter, CHF realized a loss of \$4 million on its investment securities portfolio, compared with gains of \$96 million and \$13 million in the 2003 first and fourth quarters, respectively.

### **Mortgage fees and related income**

Mortgage fees and related income decreased by 44% from the first quarter of 2003 principally due to lower mortgage originations. Originations were down 39% from the same quarter of last year. The increase of 74% from the prior linked quarter reflected better origination margins and higher mortgage applications, as rates decreased from the fourth quarter. For a further discussion of total mortgage-related revenues, see the segment discussion for CHF on pages 45-46.

### **Other revenue**

Other revenue rose 37% when compared with the 2003 first quarter, primarily the result of higher gains on credit card and commercial mortgage loan securitizations. Net gains related to credit card securitizations (consisting of new and revolving securitizations) was \$39 million, up \$26 million from the first quarter of the prior year; the gain on commercial mortgage loan securitizations was \$28 million, up \$10 million from the 2003 first quarter. In addition, the 2003 first quarter included the recognition of certain nonoperating charges at American Century Companies, Inc. (American Century) that reduced equity income. The decline of 50% from the 2003 fourth quarter was attributable to gains of \$106 million (versus \$24 million in the first quarter of 2004) from sales of securities acquired in loan satisfactions; a gain of \$41 million from the sale of a nonstrategic business in TSS; and a gain of \$20 million from the sale of a building in Geneva.

### **Net interest income**

The declines of 6% from the fourth quarter and 12% from the first quarter of last year were the result of a lower volume of commercial loans and lower volumes and lower spreads on available-for-sale investment securities. The decrease in commercial loans in IB was driven by softer demand and the Firm's strategic initiative to improve its credit risk profile; the reduction in available-for-sale investment securities reflected sales in 2003 in anticipation of higher interest rates. Also contributing to the declines was the compression in the overall spread on interest earning assets, including trading assets. Deposits at Chase Regional Banking, Chase Middle Market and TSS realized lower NII from compressed spreads despite an increase in volume.

On an aggregate basis, the Firm's total average interest-earning assets for the first quarter of 2004 were \$601 billion, relatively stable in comparison with the \$598 billion recorded in the first quarter of last year. The net interest yield on these assets, on a fully taxable-equivalent basis, was 1.90% in the 2004 first quarter, 29 basis points lower than in the same period last year.

### **NONINTEREST EXPENSE**

The following table presents the components of Noninterest expense:

Noninterest Expense (in millions)	1Q 2004	4Q 2003	1Q 2003	First quarter change	
				4Q 2003	1Q 2003
Compensation expense	\$ 3,370	\$ 2,577	\$ 3,174	31%	6%
Occupancy expense	431	482	496	(11)	(13)
Technology and communications expense	819	756	637	8	29
Other expense	1,439	1,405	1,234	2	17
<b>Total noninterest expense</b>	<b>\$ 6,059</b>	<b>\$ 5,220</b>	<b>\$ 5,541</b>	<b>16</b>	<b>9</b>

### Compensation expense

The increase from the 2003 first quarter was attributable to salary raises and higher employee benefit costs including social security related taxes. The 31% rise from the 2003 fourth quarter was largely due to higher performance-related incentive accruals, principally in IB. The increase was partially offset by the transfer, beginning April 1, 2003, of approximately 2,800 employees to IBM in connection with a technology infrastructure outsourcing agreement; the related expenses of these employees, recognized in the prior year in Compensation expense, were approximately \$70 million. See Note 5 on page 9 for a discussion of the impact on 2004 expenses of a \$1.1 billion contribution to the plan in April 2004. In addition, severance-related costs of \$103 million were recognized in the first quarter of 2004, compared with \$76 million in the first quarter of 2003 and \$102 million in the fourth quarter of 2003.

The Firm had 93,285 full-time equivalent employees at March 31, 2004, compared with 93,878 at March 31, 2003, and 93,453 at December 31, 2003. The reduction in the number of employees in staff areas was mitigated by increases in growing businesses.

### Occupancy expense

The declines in Occupancy from both periods were primarily driven by charges for unoccupied excess real estate of \$78 million in the first quarter of 2003 and \$71 million in the fourth quarter of 2003. Partially offsetting the decline from the fourth quarter was the recognition of slightly higher property taxes and other building administration costs.

### Technology and communications expense

The increase in Technology and communications expense from the first quarter of last year was primarily due to the shift to this category of expenses as a result of the aforementioned IBM outsourcing agreement; last year approximately \$70 million of these expenses were recognized in Compensation expense, and \$45 million of these expenses were recognized in Other expense. (The IBM agreement was implemented in April 2003.) The increase was also affected by higher amortization of capitalized software development costs, as well as higher market data and IBM-related expenses, the latter items associated with the growing requirements of several business segments. The increase from the fourth quarter also reflected growth in business volume.

### Other expense

The following table presents the components of other expense:

(in millions)	1Q 2004	4Q 2003	1Q 2003	First quarter change	
				4Q 2003	1Q 2003
Professional services	\$ 372	\$ 394	\$ 325	(6)%	14%
Outside services	376	311	272	21	38
Marketing	199	200	164	(1)	21
Travel and entertainment	118	128	89	(8)	33
Amortization of intangibles	79	74	74	7	7
All other	295	298	310	(1)	(5)
Total other expense	\$ 1,439	\$ 1,405	\$ 1,234	(2)	17

For Professional services, the increase from last year's first quarter was associated with higher counsel fees, related to growth in securities underwriting transactions; whereas the decrease from the 2003 fourth quarter reflected lower litigation-related legal expenses. The increase in Outside services from both the first and fourth quarters of 2003 was primarily attributable to greater utilization of third-party vendors for processing activities in TSS and CFS. The expense increase at TSS was affected by the acquisition of a business in the first quarter of 2004, which contributed \$26 million. The increase in Marketing from the first quarter of 2003 reflects higher direct marketing campaigns in credit card and advertising by Regional Banking.

### Provision for credit losses

The 2004 first quarter Provision for credit losses was \$15 million compared with \$743 million in the 2003 first quarter and was down \$124 million from the 2003 fourth quarter, reflecting improvement in the quality of the commercial loan portfolio. The decline from the first quarter of 2003 was also due to a higher volume of credit card securitizations. For further information on the Provision for credit losses and the Firm's management of credit risk, see the discussions of net charge-offs associated with the commercial and consumer loan portfolios and the Allowance for credit losses, on pages 64-66 of this Form 10-Q.

**Income tax expense**

Income tax expense was \$973 million in the first quarter of 2004, compared with \$722 million in the first quarter and \$845 million in the fourth quarter of 2003. The effective tax rates were 33.5% for the first quarter of 2004, 34.0% for the first quarter of 2003 and 31.2% for the fourth quarter of 2003. The differences in the tax rates were primarily reflective of the changes in the proportion of income subject to federal, state and local taxes.

## **EXPLANATION AND RECONCILIATION OF THE FIRM'S USE OF NON-GAAP FINANCIAL MEASURES**

The Firm prepares its Consolidated financial statements using GAAP. The Consolidated financial statements prepared in accordance with GAAP appear on pages 3-6 of this Form 10-Q. That presentation, which is referred to as reported basis, provides the reader with an understanding of the Firm's results that can be consistently tracked from year to year and enables a comparison of the Firm's performance with other companies' GAAP financial statements.

In addition to analyzing the Firm's results on a reported basis, management reviews the line-of-business results on an operating basis, which is a non-GAAP financial measure. The definition of operating basis starts with the reported GAAP results. In the case of IB, operating basis includes in Trading revenue the NII related to trading activities. Trading activities generate revenues which are recorded for GAAP purposes in two line items on the income statement: trading revenues, which include the mark-to-market gains or losses on trading positions; and net interest income, which includes the interest income or expense related to those positions. Combining both the trading revenues and related net interest income enables management to evaluate IB's trading activities by considering all revenue related to these activities and facilitates operating comparisons to other competitors. For a further discussion of Trading-related revenue, see IB on page 34-37 of this Form 10-Q. In the case of Chase Cardmember Services, operating or managed basis excludes the impact of credit card securitizations on revenue, the provision for credit losses, net charge-offs and receivables. JPMorgan Chase uses the concept of managed receivables to evaluate the credit performance of the underlying credit card loans, both sold and not sold: as the same borrower is continuing to use the credit card for ongoing charges, a borrower's credit performance will impact both the receivables sold under SFAS 140 and those not sold. Thus, in its disclosures regarding managed receivables, JPMorgan Chase treats the sold receivables as if they were still on the balance sheet in order to disclose the credit performance (such as net charge-off rates) of the entire managed credit card portfolio. The operating basis for all other lines of business is the same as reported basis. For a further discussion of credit card securitizations, see Chase Cardmember Services on pages 46-47 of this Form 10-Q.

The following summary table provides a reconciliation from the Firm's reported to operating results:

### Reconciliation from reported to operating basis

Consolidated income statement (in millions)				First quarter change	
	1Q 2004	4Q 2003	1Q 2003	4Q 2003	1Q 2003
<b>Reported</b>					
Revenue:					
Investment banking fees	\$ 692	\$ 846	\$ 616	(18)%	12%
Trading revenue	1,720	754	1,298	128	33
Fees and commissions	2,933	2,871	2,488	2	18
Private equity gains (losses)	306	163	(221)	88	NM
Securities gains	126	29	485	334	(74)
Mortgage fees and related income	244	140	433	74	(44)
Other revenue	126	254	92	(50)	37
Net interest income	2,830	3,011	3,215	(6)	(12)
Total revenue	8,977	8,068	8,406	11	7
Noninterest expense	6,059	5,220	5,541	16	9
Operating margin	2,918	2,848	2,865	2	2
Provision for credit losses	15	139	743	(89)	(98)
Income before income tax expense	2,903	2,709	2,122	7	37
Income tax expense	973	845	722	15	35
Net income	\$ 1,930	\$ 1,864	\$ 1,400	4	38
<b>Reconciling items<sup>(a)</sup></b>					
Revenue:					
Trading-related revenue <sup>(b)</sup>	\$ 576	\$ 518	\$ 683	11%	(16)%
Fees and commissions <sup>(c)</sup>	(149)	(184)	(169)	19	12
Other revenue	(39)	(29)	(4)	(34)	NM
Net interest income:					
Trading-related <sup>(b)</sup>	(576)	(518)	(683)	(11)	16
Credit card securitizations <sup>(c)</sup>	661	675	630	(2)	5
Total net interest income	85	157	(53)	(46)	NM
Total revenue	473	462	457	2	4
Noninterest expense					
Operating margin	473	462	457	2	4
Securitized credit losses <sup>(c)</sup>	473	462	457	2	4
Income before income tax expense					
Income tax expense					



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Net income	\$	\$	\$	NM	NM
<b>Operating results</b>					
Revenue:					
Investment banking fees	\$ 692	\$ 846	\$ 616	(18)%	12%
Trading-related revenue (including trading NII)	2,296	1,272	1,981	81	16
Fees and commissions	2,784	2,687	2,319	4	20
Private equity gains (losses)	306	163	(221)	88	NM
Securities gains	126	29	485	334	(74)
Mortgage fees and related income	244	140	433	74	(44)
Other revenue	87	225	88	(61)	(1)
Net interest income (excluding trading NII)	2,915	3,168	3,162	(8)	(8)
Total operating revenue	9,450	8,530	8,863	11	7
Noninterest expense	6,059	5,220	5,541	16	9
Operating margin	3,391	3,310	3,322	2	2
Credit costs	488	601	1,200	(19)	(59)
Income before income tax expense	2,903	2,709	2,122	7	37
Income tax expense	973	845	722	15	35
Operating earnings	\$ 1,930	\$ 1,864	\$ 1,400	4	38

- (a) Represents only those line items in the Consolidated income statement affected by the reclassification of trading-related net interest income and the impact of credit card securitizations.
- (b) The reclassification of trading-related net interest income from Net interest income to Trading revenue primarily affects the Investment Bank segment results. See pages 34-37 of this Form 10-Q for further information.
- (c) The impact of credit card securitizations affects Chase Cardmember Services. See pages 46-47 of this Form 10-Q for further information.

Management uses the SVA framework as its primary measure of profitability for the Firm and each of its business segments. To derive SVA, the Firm applies a cost of capital to each business segment. The capital elements and resultant capital charges provide the businesses and investors with a financial framework by which to evaluate the trade-off between the use of capital by each business unit versus its return to shareholders. JPMorgan Chase varies the amount of capital attributed to lines of business based on its estimate of the economic risk capital required by the line of business as a result of the credit, market, operational and business risk for each particular line of business and private equity risk for JPMorgan Partners. JPMorgan Chase believes this risk-adjusted approach to economic capital compensates for differing levels of risk across businesses, and therefore a constant 12% cost of capital can be applied across businesses with differing levels of risk. The cost of capital for JPMorgan Partners is 15%, because JPMorgan Chase believes that the business risk for JPMP is so sufficiently differentiated that, even after risk-adjustment, a higher cost of capital is warranted. Capital charges are an integral part of the SVA measurement for each business. Under the Firm's model, average common equity is either underallocated or overallocated to the business segments, as compared with the Firm's total common stockholders' equity. The revenue and SVA impact of this over/under allocation is reported under Support Units and Corporate. See segment results on pages 27-28 of JPMorgan Chase's 2003 Annual Report for a further discussion of SVA, and the Glossary of Terms on pages 74-75 of this Form 10-Q for a definition of SVA.

The following table provides a reconciliation of the Firm's operating earnings to SVA on a consolidated basis:

(in millions)	1Q 2004	4Q 2003	1Q 2003	First quarter change	
				4Q 2003	1Q 2003
<b>Shareholder value added</b>					
Operating earnings	\$ 1,930	\$ 1,864	\$ 1,400	4%	38%
Less: preferred dividends	13	13	13		
Earnings applicable to common stock	1,917	1,851	1,387	4	38
Less: cost of capital	1,367	1,337	1,239	2	10
<b>Total Shareholder value added</b>	<b>\$ 550</b>	<b>\$ 514</b>	<b>\$ 148</b>	<b>7</b>	<b>272</b>

In addition, management uses certain non-GAAP financial measures at the segment level. Management believes these non-GAAP financial measures provide information to investors in understanding the underlying operational performance and performance trends of the particular business segment and facilitate a comparison with the performance of competitors. These include Total return revenue in IB, Tangible shareholder value added and Tangible

allocated capital in IMPB, and managed receivables and managed assets in Chase Cardmember Services. For a discussion of these line of business specific non-GAAP financial measures, see the respective segment disclosures in segment results on pages 32-50 of this Form 10-Q.

Management measures its exposure to derivative receivables and commercial lending related commitments on an economic credit exposure basis. See Credit risk management in this Form 10-Q on pages 54-62.

The following table provides a reconciliation of the Firm's average assets to average managed assets, a non-GAAP financial measure on a consolidated basis:

(in millions)	1Q 2004	4Q 2003	1Q 2003	First quarter change	
				4Q 2003	1Q 2003
Average assets	<b>\$ 771,318</b>	\$ 778,519	\$ 778,238	(1)%	(1)%
Average credit card securitizations	<b>33,357</b>	33,445	31,834		5
Average managed assets	<b>\$ 804,675</b>	\$ 811,964	\$ 810,072	(1)	(1)

## SEGMENT RESULTS

JPMorgan Chase's lines of business are segmented based on the products and services provided or the type of customer serviced and reflect the manner in which financial information is currently evaluated by the Firm's management. Revenues and expenses directly associated with each segment are included in determining that segment's results. Management accounting and other policies exist to allocate those remaining expenses that are not directly incurred by the segments.

The segment results also reflect revenue- and expense-sharing agreements between certain lines of business. Revenue and expenses attributed to shared activities are recognized in each line of business, and any double counting is eliminated at the segment level.

These arrangements promote cross-selling and management of shared client expenses. They also ensure that the contributions of both businesses are fully recognized. Prior-period segment results have been adjusted to reflect alignment of management accounting policies or changes in organizational structure among businesses. Restatements of segment results may occur in the future. See Note 22 on pages 22-23 of this Form 10-Q for further information about JPMorgan Chase's five business segments.

**Contribution of businesses for the first quarter of 2004**

As of March 31, 2004, the overhead ratio for each business segment was: IB, 59%; TSS, 83%; IMPB, 77%; and CFS, 59%. Overhead ratios provide comparability for a particular segment with its respective competitors; they do not necessarily provide comparability among the business segments themselves, as each business segment has its own particular revenue and expense structure.

**INVESTMENT BANK**

For a discussion of the business profile of the IB, see pages 29-31 of JPMorgan Chase's 2003 Annual Report. The following table sets forth selected IB financial data:

<b>Selected financial data</b>				<b>First quarter change</b>	
				4Q 2003	1Q 2003
(in millions, except ratios and employees)	<b>1Q 2004</b>	4Q 2003	1Q 2003	2003	2003
<b>Revenue</b>					
Investment banking fees	\$ 682	\$ 834	\$ 620	(18)%	10%
Trading-related revenue <sup>(a)</sup>	2,270	1,207	1,931	88	18
Net interest income	374	463	690	(19)	(46)
Fees and commissions	485	437	378	11	28
Securities gains	129	13	383	NM	(66)
All other revenue	39	92	8	(58)	388
<b>Total operating revenue</b>	<b>3,979</b>	3,046	4,010	31	(1)
<b>Expense</b>					
Compensation expense	1,401	827	1,312	69	7
Noncompensation expense	943	944	871		8
Severance and related costs	18	67	105	(73)	(83)
<b>Total operating expense</b>	<b>2,362</b>	1,838	2,288	29	3
<b>Operating margin</b>	<b>1,617</b>	1,208	1,722	34	(6)
Credit costs	(188)	(241)	245	22	NM
Corporate credit allocation	2	(5)	(12)	NM	NM
Income before income tax expense	1,807	1,444	1,465	25	23
Income tax expense	697	582	568	20	23
<b>Operating earnings</b>	<b>\$ 1,110</b>	\$ 862	\$ 897	29	24
<b>Shareholder value added</b>					
<b>Operating earnings</b>	<b>\$ 1,110</b>	\$ 862	\$ 897	29	24
Less: Preferred dividends	5	5	6		(17)
Earnings applicable to common stock	1,105	857	891	29	24
Less: cost of capital	477	513	618	(7)	(23)
<b>Total shareholder value added</b>	<b>\$ 628</b>	\$ 344	\$ 273	83	130

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Average allocated capital	\$ 15,973	\$ 16,966	\$ 20,871	(6)	(23)
Average assets	513,983	511,342	525,773	1	(2)
Return on average allocated capital	28%	20%	17%	800bp	1,100bp
Overhead ratio	59	60	57	(100)	200
Compensation expense as % of operating revenue (b)	35	27	33	800	200
Full-time equivalent employees	14,810	14,567	14,398	2%	3%

**Business revenue**

**Investment banking fees**

Equity underwriting	\$ 177	\$ 254	\$ 107	(30)%	65%
Debt underwriting	358	423	353	(15)	1
Total underwriting	535	677	460	(21)	16
Advisory	147	157	160	(6)	(8)
<b>Total investment banking fees</b>	<b>682</b>	<b>834</b>	<b>620</b>	<b>(18)</b>	<b>10</b>

**Capital markets and lending**

Fixed income	2,065	1,368	1,966	51	5
Equities	673	341	431	97	56
Credit portfolio	347	360	394	(4)	(12)
<b>Total capital markets and lending</b>	<b>3,085</b>	<b>2,069</b>	<b>2,791</b>	<b>49</b>	<b>11</b>

**Total revenue (excluding Global Treasury)**

Global Treasury	212	143	599	48	(65)
<b>Total revenue</b>	<b>\$ 3,979</b>	<b>\$ 3,046</b>	<b>\$ 4,010</b>	<b>31</b>	<b>(1)</b>

**Memo**

**Global Treasury**

Total revenue	\$ 212	\$ 143	\$ 599	48	(65)
Total-return adjustments	(229)	79	(64)	NM	(258)
Total-return revenue (c)	\$ (17)	\$ 222	\$ 535	NM	NM

- (a) Includes net interest income of \$576 million, \$513 million and \$683 million for the three months ended March 31, 2004, December 31, 2003, and March 31, 2003, respectively.
- (b) Excludes severance and related costs.
- (c) Total return revenue ( TRR ), a non-GAAP financial measure, represents revenue plus the change in unrealized gains or losses on investment securities and hedges (included in Other comprehensive income) and internally transfer-priced assets and liabilities. TRR is a supplemental performance measure used by management to analyze performance of Global Treasury on an economic basis. Management believes the TRR measure is meaningful, because it measures all positions on a mark-to-market basis, thereby reflecting the true economic value of positions in the portfolio. This performance measure is consistent with the manner in which the portfolio is managed, as it removes the timing differences that result from applying the various GAAP accounting policies.

IB operating earnings were \$1.1 billion in the first quarter, compared with \$897 million in the first quarter of 2003 and \$862 million in the fourth quarter of 2003. Earnings performance was driven by higher equity and fixed income capital markets results including record trading revenues compared with the first and fourth quarters of 2003. A significant improvement in commercial credit quality, offset in part by the anticipated reduction in Global Treasury, also contributed to the increase over the first quarter of 2003. Return on average allocated capital was 28% for the quarter, compared with 17% and 20% for the first and fourth quarters of 2003, respectively.

Operating revenues of \$4.0 billion were 1% lower than in the first quarter of 2003 and up 31% from the fourth quarter of 2003. Investment banking fees were \$682 million, up 10% from the 2003 first quarter on higher equity and bond underwriting fees, which were driven by increased market volumes, and partially offset by lower loan syndication and advisory fees. These fees were down 18% from a strong 2003 fourth quarter, due primarily to lower equity underwriting, loan syndication and advisory fees. The decline in equity underwriting compared with the fourth quarter of 2003 reflected lower market volumes of rights issues in Europe; the decline in loan syndication fees reflected lower volumes in new commercial loan syndications. According to Thomson Financial, the Firm maintained its No. 1 ranking in global syndicated loans and No. 2 ranking in global investment-grade bonds. For the first quarter of 2004 compared with full-year 2003, the Investment Bank increased its ranking in global announced M&A to No. 3 from No. 5, while its ranking in U.S. equity and equity-related declined to No. 7 from No. 4. However, in U.S. initial public offerings, the Firm improved its ranking from No. 14 for full-year 2003 to No. 4.

#### Composition of Capital Markets & Lending Revenue and Global Treasury:

	Trading-related revenue	Fees and commissions	Securities gains	NII and other	Total revenue
(in millions)					
<b>First quarter 2004</b>					
<b>Fixed income</b>	\$ 1,877	\$ 82	\$ 10	\$ 96	\$ 2,065
<b>Equities</b>	333	325		15	673
<b>Credit portfolio</b>	56	78		213	347
<b>Capital markets &amp; lending revenue</b>	<b>2,266</b>	<b>485</b>	<b>10</b>	<b>324</b>	<b>3,085</b>
<b>Global Treasury</b>	<b>4</b>		<b>119</b>	<b>89</b>	<b>212</b>

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<b>Total</b>	\$	<b>2,270</b>	\$	<b>485</b>	\$	<b>129</b>	\$	<b>413</b>	\$	<b>3,297</b>
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Fourth quarter 2003

Fixed income	\$	1,154	\$	71	\$	3	\$	140	\$	1,368
Equities		94		258				(11)		341
Credit portfolio		(50)		108		1		301		360
Capital markets & lending revenue		1,198		437		4		430		2,069
Global Treasury		9				9		125		143
<b>Total</b>	\$	<b>1,207</b>	\$	<b>437</b>	\$	<b>13</b>	\$	<b>555</b>	\$	<b>2,212</b>



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	Trading-related revenue	Fees and commissions	Securities gains	NII and other	Total revenue
(in millions)					
First quarter 2003					
Fixed income	\$ 1,735	\$ 102	\$ 6	\$ 123	\$ 1,966
Equities	199	200	6	26	431
Credit portfolio	(13)	76		331	394
Capital markets & lending revenue	1,921	378	12	480	2,791
Global Treasury	10		371	218	599
Total	\$ 1,931	\$ 378	\$ 383	\$ 698	\$ 3,390

IB's capital markets and lending activities include fixed income and equities revenue and revenue from the Firm's credit portfolio, which includes corporate lending and credit risk management activities. The capital markets and lending revenue includes both client (i.e., market-making) revenue and portfolio management revenue; the latter reflects net gains or losses, exclusive of client revenue, generated from managing residual risks in the portfolios, as well as gains or losses related to proprietary risk-taking activities to capture market opportunities. IB evaluates its capital markets activities by considering all revenue related to these activities, including Trading-related revenue, Fees and commissions, Securities gains, lending-related NII and other revenue.

Capital markets and lending revenue (excluding Global Treasury) for the quarter was \$3.1 billion, up 11% and 49% from the first and fourth quarters of 2003, respectively, due to substantial gains in equities as well as continued strong performance in fixed income. Equity capital markets revenue of \$673 million increased substantially, up 56% and 97% over the first and fourth quarters of 2003, respectively. Results were driven by higher trading revenue in both equity derivatives and convertibles, reflecting higher client revenues in derivatives and increased portfolio management in an upward-moving market environment. Higher brokerage fees and commissions within the equity cash business were driven by higher market volumes. Fixed income revenue of \$2.1 billion increased by 5% from the first quarter and 51% from the fourth quarter of 2003, driven by increased trading revenues. The increases in trading revenue reflected strength in both client and portfolio management activities, driven by the continued favorable interest rate environment. Client-related trading revenues were up in both the credit markets and interest rates businesses. In particular, foreign exchange posted record results, driven by increased volumes in foreign exchange options. Credit Portfolio revenue of \$347 million was down 12% and 4% from the first and fourth quarters of 2003, respectively, driven primarily by lower loan volume and a continued decline in credit risk capital, resulting in lower NII for the period. The lower NII was partially offset by an increase in Trading revenue due to spread widening on credit derivatives that are used to manage risk in the loan portfolio. For additional information, see the Credit risk management discussion on credit derivatives on pages 61-62 of this Form 10-Q.

Global Treasury's operating revenue was \$212 million, down 65% from the first quarter of 2003 and up 48% from the fourth quarter of 2003. The decrease from the year-ago quarter reflected lower levels of NII, driven by lower coupon reinvestment rates compared with the prior year. Securities gains decreased by 68% from the first quarter of 2003 due to substantial realized gains last year in the Firm's AFS investment securities portfolio. The increase in securities gains from the fourth quarter of 2003 was attributable to the higher volume of sales in connection with Global Treasury's repositioning activities to manage, in part, the Asset/liability exposure of the Firm. Global Treasury is managed on a

total-return revenue basis, which includes revenue plus the change in unrealized gains or losses on investment securities and risk management activities (included in Other comprehensive income) and internally transfer-priced assets and liabilities. Global Treasury's total-return revenue was negative \$17 million for the first quarter of 2004, down from \$535 million in the first quarter and \$222 million in the fourth quarter of 2003. The decline was driven by spread widening on mortgage-backed securities, which are used to help manage the Firm's overall interest rate exposure. Global Treasury's activities complement, and offer a strategic balance and diversification benefit to, the Firm's trading and fee-based activities. For a reconciliation of Global Treasury's total revenue to total-return revenue, see page 34 of this Form 10-Q.

Operating expense of \$2.4 billion was up 3% from the first quarter and 29% from the fourth quarter of 2003. The increase from the year-ago quarter was attributable to higher compensation expenses, as a result of salary increases, higher employer taxes on a higher level of restricted stock vestings, and increased travel and entertainment and legal costs. The increase over the prior quarter was largely due to higher compensation expenses, reflecting higher incentives on stronger business performance. Partially offsetting these increases were lower severance and related costs. The overhead ratio for the first quarter of 2004 was 59%, an increase of 200 basis points over the first quarter of 2003, driven by the expense increases mentioned above.

Credit costs were negative \$188 million for the quarter, compared with credit costs of \$245 million for the first quarter of 2003 and negative \$241 million for the fourth quarter of 2003. The reduction in credit costs from the prior-year quarter was primarily attributable to a reduction in the allowance for credit losses as credit quality improved. For additional information, see Credit risk management on pages 64-66 of this Form 10-Q.

**Outlook:** IB is expected to continue to benefit from the improved economic environment. IB fees and client trading activity are largely independent of the direction of interest rate moves, although trading revenue in subsequent quarters may be lower as the first quarter is usually seasonally strong. Commercial credit costs may rise, reflecting an increase in demand for loans and lower recoveries.

Market Share/Rankings <sup>(a)</sup>	First quarter 2004		Full-year 2003	
	Global syndicated loans	14%	# 1	17%
Global investment-grade bonds	8	# 2	8	# 2
Global equity & equity-related	5	# 8	8	# 4
U.S. equity & equity-related	6	# 7	11	# 4
Global announced M&A <sup>(b)</sup>	34	# 3	15	# 5

(a) Derived from Thomson Financial Securities Data, which reflect subsequent updates to prior-period information. Global announced M&A is based on rank value; all other rankings are based on proceeds, with full credit to each book manager/equal if joint. Because of joint assignments, market share of all participants will add up to more than 100%.

(b) First quarter 2004 ranking and market share reflect the announced merger between JPMorgan Chase and Bank One Corporation. Excluding this transaction, the market share would have been 25%, and the ranking would have been No. 4.

## TREASURY & SECURITIES SERVICES

For a discussion of the profiles for each business within TSS, see pages 32-33 of JPMorgan Chase's 2003 Annual Report. The following table sets forth selected financial data of TSS:

Selected financial data  (in millions, except ratios and employees)	1Q 2004	4Q 2003	1Q 2003	First quarter change	
				4Q 2003	1Q 2003
<b>Revenue</b>					
Fees and commissions	\$ 745	\$ 676	\$ 598	10%	25%
Net interest income	313	304	290	3	8
All other revenue	48	91	38	(47)	26
<b>Total operating revenue</b>	<b>1,106</b>	1,071	926	3	19
<b>Expense</b>					
Compensation expense	343	320	312	7	10
Noncompensation expense	571	503	449	14	27
Severance and related costs	7	23	4	(70)	75
<b>Total operating expense</b>	<b>921</b>	846	765	9	20
<b>Operating margin</b>	<b>185</b>	225	161	(18)	15
Credit costs	1		1	NM	
Corporate credit allocation	(2)	5	12	NM	NM

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Operating income before income tax expense	<b>182</b>	230	172	(21)	6
Income tax expense	<b>63</b>	86	60	(27)	5
<b>Operating earnings</b>	<b>\$ 119</b>	\$ 144	\$ 112	(17)	6
<b>Shareholder value added</b>					
<b>Operating earnings</b>	<b>\$ 119</b>	\$ 144	\$ 112	(17)%	6%
Less: Preferred dividends	<b>1</b>	1	1		
Earnings applicable to common stock	<b>118</b>	143	111	(17)	6
Less: cost of capital	<b>96</b>	82	82	17	17
<b>Shareholder value added</b>	<b>\$ 22</b>	\$ 61	\$ 29	(64)	(24)
Average allocated capital	<b>\$ 3,196</b>	\$ 2,734	\$ 2,773	17	15
Average assets	<b>19,757</b>	20,525	17,508	(4)	13
Average deposits	<b>98,951</b>	89,647	74,524	10	33
Return on average allocated capital	<b>15%</b>	21%	16%	(600)bp	(100)bp
Overhead ratio	<b>83</b>	79	83	400	
Assets under custody (in billions)	<b>\$ 8,001</b>	\$ 7,597	\$ 6,269	5%	28%
Full-time equivalent employees	<b>14,738</b>	14,518	14,201	2	4
<b>Revenue by business</b>					
Treasury Services	<b>\$ 535</b>	\$ 485	\$ 474	10%	13%
Investor Services	<b>399</b>	381	341	5	17
Institutional Trust Services <sup>(a)</sup>	<b>258</b>	252	199	2	30
Other <sup>(a)(b)</sup>	<b>(86)</b>	(47)	(88)	(83)	2
<b>Total Treasury &amp; Securities Services</b>	<b>\$ 1,106</b>	\$ 1,071	\$ 926	3	19

- (a) *Includes a portion of the \$41 million gain on the sale of a nonstrategic business in the fourth quarter of 2003: \$1 million in Institutional Trust Services and \$40 million in Other.*
- (b) *Includes the elimination of revenues related to shared activities with Chase Middle Market.*

TSS reported operating earnings of \$119 million, a 6% increase from the first quarter of 2003 and a 17% decrease from the fourth quarter of 2003. Return on average allocated capital for the quarter was 15%, compared with 16% for the first quarter and 21% for the fourth quarter of 2003.

Operating revenue was \$1.1 billion in the first quarter of 2004, an increase of 19% and 3% from the first and fourth quarters of 2003, respectively. Fees and commissions were up 25% and 10% from the first and fourth quarters of 2003, respectively, primarily driven by the acquisition of Citigroup's Electronic Financial Services business by Treasury Services, and by Institutional Trust Services' acquisitions of Bank One's corporate trust business and of Financial Computer Software, L.P. In addition, Fees and commissions were higher due to increased debt and equity market appreciation, coupled with increased organic growth (i.e., new business and volume growth of existing clients) at Investor Services and Institutional Trust Services. Excluding the acquisitions, Fees and commissions would have increased by 11% from the first quarter of 2003. Net interest income increased by 8% and 3% from the first and fourth quarters of 2003, respectively, due to higher U.S. and non-U.S. deposits, partially offset by lower interest rate spreads on deposits, attributable to the low interest rate environment. All other revenue was 26% higher than in the first quarter of 2003, primarily driven by higher foreign exchange revenue, which is the result of increased transaction volume at Investor Services. All other revenue was 47% lower than in the fourth quarter of 2003, which included a \$41 million gain on the sale of a nonstrategic business.

Operating expense increased by 20% and 9% from the first and fourth quarters of 2003, respectively. Compensation expense was up 10% and 7% from the first and fourth quarters of 2003, respectively, primarily driven by the aforementioned acquisitions, coupled with staff increases to support the new business and volume growth, as well as higher incentives. Noncompensation expense was up 27% and 14% from the first and fourth quarters of 2003, reflecting the impact of the aforementioned acquisitions, higher professional services for strategic investments and technology projects, and increased costs to support new business and higher volumes. Severance costs were up \$3 million from the first quarter of 2003 and down \$12 million from the fourth quarter of 2003. In addition, fourth quarter 2003 severance and related costs included \$4 million in charges to provide for losses on subletting unoccupied excess real estate. The first quarter 2004 overhead ratio was 83%, compared with 83% and 79% for the first and fourth quarters of 2003, respectively. The increase from the fourth quarter was the result of the aforementioned gain on the sale of a nonstrategic business recorded in the fourth quarter of 2003. Excluding the gain on the aforementioned sale, the fourth quarter 2003 overhead ratio would have been 82%.

Assets under custody of \$8.0 trillion in the first quarter of 2004 were 28% and 5% higher than in the first and fourth quarter of 2003, respectively, due to increases in the debt and equity markets as well as new business and organic growth.

**Outlook:** Management anticipates improving overhead ratios for TSS over the balance of the year, as the expense synergies from the acquisitions by Treasury Services and Institutional Trust Services materialize and as revenues in Investor Services benefit from improving equity markets.

## **INVESTMENT MANAGEMENT & PRIVATE BANKING**

For a discussion of the business profile of IMPB, see pages 34-35 of JPMorgan Chase's 2003 Annual Report. The following table reflects selected financial data of IMPB:

Selected financial data (in millions, except ratios and employees)	1Q		4Q		First quarter change	
	2004	2003	2003	2003	2003	2003
<b>Revenue</b>						
Fees and commissions	\$ 657	\$ 617	\$ 510	6%	29%	
Net interest income	117	118	116	(1)	1	
All other revenue	50	87	15	(43)	233	
<b>Total operating revenue</b>	<b>824</b>	822	641		29	
<b>Expense</b>						
Compensation expense	321	299	283	7	13	
Noncompensation expense	314	317	296	(1)	6	
Severance and related costs	1	19	7	(95)	(86)	
<b>Total operating expense</b>	<b>636</b>	635	586		9	
<b>Operating margin</b>	<b>188</b>	187	55	1	242	
Credit costs	10	36	6	(72)	67	
Operating income before income tax expense	178	151	49	18	263	
Income tax expense	63	51	22	24	186	
<b>Operating earnings</b>	<b>\$ 115</b>	\$ 100	\$ 27	15	326	

**Shareholder value added**

<b>Operating earnings</b>	<b>\$ 115</b>	\$ 100	\$ 27	15%	326%
Less: preferred dividends	<b>2</b>	2	2		
Earnings applicable to common stock	<b>113</b>	98	25	15	352
Less: cost of tangible allocated capital	<b>36</b>	37	37	(3)	(3)
<b>Tangible shareholder value added</b> <sup>(a)</sup>	<b>77</b>	61	(12)	26	NM
Less: cost of goodwill capital	<b>127</b>	129	125	(2)	2
<b>Total shareholder value added</b>	<b>\$ (50)</b>	\$ (68)	\$ (137)	26	64
Average tangible allocated capital	<b>\$ 1,316</b>	\$ 1,318	\$ 1,338		(2)
Average goodwill capital	<b>4,152</b>	4,148	4,145		
Average allocated capital	<b>5,468</b>	5,466	5,483		
Average assets	<b>35,259</b>	34,108	33,634	3	5
Return on tangible allocated capital <sup>(a)</sup>	<b>36%</b>	30%	8%	600bp	2,800bp
Return on average allocated capital	<b>8</b>	7	2	100	600
Overhead ratio	<b>77</b>	77	91		(1,400)
Full-time equivalent employees	<b>7,922</b>	7,853	7,647	1%	4%

(a) *The Firm uses return on tangible allocated capital and tangible SVA, non-GAAP financial measures, as two of several measures to evaluate the economics of the IMPB business segment. Return on tangible allocated capital and tangible SVA measure return on an economic capital basis (that is, on a basis that takes into account the operational, business, credit and other risks to which this business is exposed, including the level of assets) but excludes the capital allocated for goodwill. The Firm utilizes these measures to facilitate operating comparisons of IMPB to other competitors.*

IMPB reported operating earnings of \$115 million in the first quarter of 2004, an increase of 326% from the first quarter and 15% from the fourth quarter of 2003. Return on average allocated capital for the first quarter of 2004 was 8%, compared with 2% in the first quarter of 2003 and 7% in the fourth quarter of 2003. Return on tangible allocated capital was 36%, compared with 8% in the first quarter of 2003 and 30% in the fourth quarter of 2003. For further information on tangible allocated capital, see footnote (a) in the table above.

Operating revenue was \$824 million, 29% higher than in the first quarter of 2003 and flat to the fourth quarter of 2003. Global equity markets continued to improve during the first quarter of 2004 (as exemplified by the S&P 500 index, which rose by 33% since the first quarter of 2003, and the MSCI World index, which rose by 41%). The increase from the prior-year quarter in Fees and commissions primarily reflected global equity market appreciation; the impact of the acquisition of American Century Retirement Plan Services Inc., renamed JPMorgan Retirement Plan Services ( RPS ), in June 2003; and increased brokerage activity. Higher earnings from the Firm's investment in American Century, in addition to the impact of accounting for the RPS joint venture prior to the acquisition, drove the increase in All other revenue. Additionally, Other revenue for the first quarter of 2003 included a gain on the sale of a Brazilian investment management business, offset by charges incurred at American Century. The increase in Fees and commissions from the prior quarter reflected global equity market appreciation and AUS net inflows, offset by a decline in All other revenue associated with real estate gains recorded in the fourth quarter of 2003.

Operating expense of \$636 million was 9% higher compared with the first quarter of 2003 and flat compared with the fourth quarter of 2003. The increase from the year-ago quarter reflected the impact of the acquisition of RPS on compensation and noncompensation expense, as well as higher compensation expense reflecting strong earnings and increased marketing expense; these were offset by real estate and software write-offs taken in the first quarter of 2003. The increase from the prior quarter reflected higher compensation and marketing expense, offset by real estate and software write-offs taken in the fourth quarter of 2003. Credit costs were \$10 million, up from \$6 million in the prior-year quarter and down from \$36 million in the prior quarter, reflecting provisions taken in the fourth quarter of 2003 and the first quarter of 2004.

The overhead ratio for the quarter ending March 31, 2004, was 77%, a decrease from 91% for the quarter ended March 31, 2003, and flat compared with the fourth quarter of 2003. The decrease reflected improved operating leverage, as the beneficial impact of higher market valuations on revenues outpaced growth in expenses.



Assets under supervision <sup>(a)</sup> (in billions)	March 31, 2004	December 31, 2003	First quarter change		
			March 31, 2003	December 31, 2003	March 31, 2003
<b>Asset class</b>					
Liquidity	\$ 164	\$ 160	\$ 144	3%	14%
Fixed income	144	144	144		
Equities and other	276	255	207	8	33
Assets under management	584	559	495	4	18
Custody/brokerage/administration/deposits	213	199	127	7	68
<b>Total assets under supervision</b>	<b>\$ 797</b>	<b>\$ 758</b>	<b>\$ 622</b>	<b>5</b>	<b>28</b>
<b>Client segment</b>					
<b>Retail</b>					
Assets under management	\$ 112	\$ 101	\$ 72	11	56
Custody/brokerage/administration/deposits	78	71	17	10	359
Assets under supervision	190	172	89	10	113
<b>Private Bank</b>					
Assets under management	141	138	125	2	13
Custody/brokerage/administration/deposits	135	128	110	5	23
Assets under supervision	276	266	235	4	17
<b>Institutional</b>					
Assets under management	331	320	298	3	11
<b>Total assets under supervision</b>	<b>\$ 797</b>	<b>\$ 758</b>	<b>\$ 622</b>	<b>5</b>	<b>28</b>
<b>Geographic region</b>					
<b>Americas</b>					
Assets under management	\$ 370	\$ 360	\$ 350	3	6
Custody/brokerage/administration/deposits	183	170	99	8	85
Assets under supervision	553	530	449	4	23
<b>Europe, Middle East &amp; Africa and Asia/Pacific</b>					
Assets under management	214	199	145	8	48
Custody/brokerage/administration/deposits	30	29	28	3	7
Assets under supervision	244	228	173	7	41
<b>Total assets under supervision</b>	<b>\$ 797</b>	<b>\$ 758</b>	<b>\$ 622</b>	<b>5</b>	<b>28</b>

**Assets under supervision rollforward:**

Beginning balance	\$ 758	\$ 720	\$ 644	5	18
Net asset flows	14	(2)	(8)	NM	NM
Market/other impact <sup>(b)</sup>	25	40	(14)	(38)	NM
<b>Ending balance</b>	<b>\$ 797</b>	<b>\$ 758</b>	<b>\$ 622</b>	<b>5</b>	<b>28</b>

(a) Excludes AUM of American Century.

(b) Other includes the acquisition of RPS in the second quarter of 2003.

Total Assets under supervision at March 31, 2004, of \$797 billion were 28% higher than at March 31, 2003, and up 5% from December 31, 2003. Assets under supervision increased from the first quarter of 2003, reflecting market appreciation and, to a lesser extent, the acquisition of RPS and AUS net inflows. The increase from the fourth quarter of 2003 reflected market appreciation and AUS net inflows. Not reflected in Assets under management is the Firm's 44% equity interest in American Century, whose Assets under management were \$90 billion at quarter-end, compared with \$71 billion as of the first quarter of 2003 and \$87 billion as of the fourth quarter of 2003.

**Outlook:** IMPB is expected to benefit from improving equity markets, which should result in new inflows while increasing the value of assets under supervision.

**JPMORGAN PARTNERS**

For a discussion of the business profile of JPMP, see pages 36-37 of JPMorgan Chase's 2003 Annual Report. The following table sets forth selected financial data of JPMorgan Partners:

Selected financial data (in millions, except employees)	First quarter change				
	1Q 2004	4Q 2003	1Q 2003	4Q 2003	1Q 2003
<b>Revenue</b>					
Direct investments					
Realized gains	\$ 302	\$ 202	\$ 46	50%	NM
Write-ups / (write-downs / write-offs)	(23)	(52)	(176)	56	87%
MTM gains (losses) <sup>(a)</sup>	25	48	(6)	(48)	NM
Total direct investments	304	198	(136)	54	NM
Private third-party fund investments	(8)	(39)	(94)	79	91
Total private equity gains (losses)	296	159	(230)	86	NM
Net interest income (loss)	(59)	(65)	(71)	9	17
Fees and other revenue	12	11	14	9	(14)
<b>Total operating revenue</b>	<b>249</b>	<b>105</b>	<b>(287)</b>	<b>137</b>	<b>NM</b>
<b>Expense</b>					
Compensation expense	38	33	34	15	12
Noncompensation expense	32	38	29	(16)	10
<b>Total operating expense</b>	<b>70</b>	<b>71</b>	<b>63</b>	<b>(1)</b>	<b>11</b>
Operating income (loss) before income tax expense	179	34	(350)	426	NM
Income tax expense (benefit)	64	11	(127)	482	NM
<b>Operating earnings (loss)</b>	<b>\$ 115</b>	<b>\$ 23</b>	<b>\$ (223)</b>	<b>400</b>	<b>NM</b>
<b>Shareholder value added</b>					
<b>Operating earnings (loss)</b>	<b>\$ 115</b>	<b>\$ 23</b>	<b>\$ (223)</b>	<b>400</b>	<b>NM</b>
Less: Preferred dividends	2	2	2		
Earnings (loss) applicable to common stock	113	21	(225)	438	NM
Less: cost of capital	182	210	221	(13)	(18)
<b>Shareholder value added</b>	<b>\$ (69)</b>	<b>\$ (189)</b>	<b>\$ (446)</b>	<b>63</b>	<b>85</b>
Average allocated capital	\$ 4,899	\$ 5,541	\$ 5,985	(12)	(18)
Average assets	7,780	8,199	9,428	(5)	(17)

Return on average allocated capital	<b>9%</b>	1%	NM	800bp	NM
Full-time equivalent employees	<b>302</b>	316	342	(4)%	(12)%

(a) *Includes mark-to-market gains (losses) and reversals of mark-to-market gains (losses) due to public securities sales.*

JPMP reported operating earnings of \$115 million for the 2004 first quarter, compared with an operating loss of \$223 million in the first quarter of 2003 and operating earnings of \$23 million in the fourth quarter of 2003.

Total private equity gains in the first quarter were \$296 million, compared with losses of \$230 million in the first quarter of 2003 and gains of \$159 million in the fourth quarter of 2003. During the first quarter, JPMP's direct private equity investments recorded net gains of \$304 million, compared with a net loss of \$136 million in the first quarter of 2003 and a net gain of \$198 million in the fourth quarter of 2003. JPMP's direct private equity results included \$302 million in realized gains, mark-to-market gains of \$25 million on direct public investments, and net write-downs and write-offs of \$23 million taken on direct private investment positions. Limited partner interests in third-party funds resulted in net losses of \$8 million, compared with net losses of \$94 million and \$39 million in the first and fourth quarters of 2003, respectively. First quarter results include a significant realized gain attributable to a private sale completed in the Consumer Retail & Services sector. Overall, JPMP's performance benefited from active public and private capital markets during the period, which generated opportunities for liquidity events and value recognition through sales, recapitalizations and initial public offerings.

**JPMP investment portfolio**

The carrying value of the JPMP private equity portfolio at March 31, 2004, was \$6.8 billion, a 6% decrease from December 31, 2003, and a 16% decrease from March 31, 2003. JPMP has exited selected investments that are not central to its portfolio strategy, with the goal to reduce, over time, JPMP's private equity portfolio to approximately 10%, as adjusted, of the Firm's common stockholders' equity. As of March 31, 2004, the portfolio has been reduced to approximately 14%.

The private equity business is highly cyclical, and JPMP's results are subject to significant volatility associated with the public equity markets, availability of high-yield financing for leveraged buyout transactions and investor appetite for private equity. With improving economic conditions, JPMP may have increased opportunities to exit profitably direct investments as well as make new investments that are anticipated to generate high returns.

JPMP invested \$162 million in direct private equity for the Firm's account during the first quarter of 2004, primarily in buyouts in the Consumer Retail & Services sector.

The following table presents the carrying value and cost of the JPMP investment portfolio for the dates indicated:

(in millions)	<b>March 31, 2004</b>		December 31, 2003		March 31, 2003	
	<b>Carrying Value</b>	<b>Cost</b>	Carrying Value	Cost	Carrying Value	Cost
Public securities (46 companies) <sup>(a)(b)</sup>	\$ 697	\$ 520	\$ 643	\$ 451	\$ 478	\$ 624
Private direct securities (791 companies) <sup>(b)</sup>	5,177	6,562	5,508	6,960	5,912	7,439
Private third-party fund investments (234 funds) <sup>(b)(c)</sup>	961	1,512	1,099	1,736	1,780	2,360
Total investment portfolio	\$ 6,835	\$ 8,594	\$ 7,250	\$ 9,147	\$ 8,170	\$ 10,423
% of portfolio to the Firm's common equity	15%		16%		19%	
% of portfolio to the Firm's common equity as adjusted <sup>(d)</sup>	14%		15%		20%	

(a) The quoted public value was \$1.1 billion at March 31, 2004, \$994 million at December 31, 2003, and \$685 million at March 31, 2003.

(b) Represents the number of companies and funds at March 31, 2004.

(c) Unfunded commitments to private equity funds were \$1.2 billion at March 31, 2004, \$1.3 billion at December 31, 2003, and \$1.8 billion at March 31, 2003.

(d) For purposes of calculating this ratio, the carrying value excludes the post-December 31, 2002 impact of public MTM valuation adjustments, and the Firm's common equity excludes SFAS 115 equity balances. The market appreciation or depreciation (i.e., MTM) of public securities since December 31, 2002, has been eliminated, because it would cause the numerator of the ratio to increase or decrease without there having been any

*additional acquisition or disposition of investments by JPMP. The SFAS 115 equity adjustment has been eliminated because it would cause the amount of JPMorgan Chase's stockholders' equity to increase or decrease as a result of changes in the value of the Firm's AFS securities and thus cause the denominator of the ratio to increase or decrease as a result of changes in the carrying values of securities that have no relation to JPMP's business. Making these adjustments allows JPMP to track, on a consistent basis, its progress in reducing the carrying values of its investments so that they do not constitute more than 10% of JPMorgan Chase's total common stockholders' equity.*

**Outlook:** JPMP's performance is expected to improve as a result of improving equity markets and higher merger activity.

**CHASE FINANCIAL SERVICES**

For a description of CFS and a discussion of the profiles for each of its businesses, see pages 38-43 of JPMorgan Chase's 2003 Annual Report. For information regarding loans and residual interests sold and securitized, see Note 11 on pages 12-14 of this Form 10-Q. The following table reflects selected financial data of CFS:

<b>Selected financial data</b>  (in millions, except ratios and employees)	<b>1Q 2004</b>	4Q 2003	1Q 2003	<b>First quarter change</b>	
				4Q 2003	1Q 2003
<b>Revenue</b>					
Net interest income	\$ 2,245	\$ 2,447	\$ 2,300	(8)%	(2)%
Fees and commissions	876	948	825	(8)	6
Securities gains		18	102	NM	NM
Mortgage fees and related income	241	137	432	76	(44)
All other revenue	52	59	33	(12)	58
<b>Total operating revenue</b>	<b>3,414</b>	3,609	3,692	(5)	(8)
<b>Expense</b>					
Compensation expense	766	698	720	10	6
Noncompensation expense	1,170	1,114	1,064	5	10
Severance and related costs	63	53	14	19	350
<b>Total operating expense</b>	<b>1,999</b>	1,865	1,798	7	11
<b>Operating margin</b>	<b>1,415</b>	1,744	1,894	(19)	(25)
<b>Credit costs</b>	<b>748</b>	855	877	(13)	(15)
Operating income before income tax expense	667	889	1,017	(25)	(34)
Income tax expense	240	330	369	(27)	(35)
<b>Operating earnings</b>	<b>\$ 427</b>	\$ 559	\$ 648	(24)	(34)
<b>Shareholder value added</b>					
Operating earnings	\$ 427	\$ 559	\$ 648	(24)%	(34)%
Less: preferred dividends	3	3	3		
Earnings applicable to common stock	424	556	645	(24)	(34)
Less: cost of capital	283	271	251	4	13
<b>Total shareholder value added</b>	<b>\$ 141</b>	\$ 285	\$ 394	(51)	(64)
<b>Reconciliation of Average reported assets to Average managed assets</b>					
Average reported assets	\$ 174,218	\$ 184,215	\$ 170,570	(5)	2
Average credit card securitization	33,357	33,445	31,834		5
Average managed assets	\$ 207,575	\$ 217,660	\$ 202,404	(5)	3

**Reconciliation of Average reported loans to Average managed loans**

Average reported loans	<b>\$ 153,416</b>	\$ 158,923	\$ 142,209	(3)	8
Average credit card securitization	<b>33,357</b>	33,445	31,834		5
Average managed loans	<b>\$ 186,773</b>	\$ 192,368	\$ 174,043	(3)	7
Average allocated capital	<b>\$ 9,472</b>	\$ 8,972	\$ 8,489	6	12
Average deposits	<b>111,228</b>	108,703	105,972	2	5
Return on average allocated capital	<b>18%</b>	25%	31%	(700)bp	(1,300)bp
Overhead ratio	<b>59</b>	52	49	700	1,000
Full-time equivalent employees	<b>45,306</b>	46,111	44,264	(2)%	2%

CFS reported first quarter 2004 operating earnings of \$427 million, a decrease of 34% and 24% from the first and fourth quarters of 2003, respectively. Return on average allocated capital for the first quarter was 18%, compared with 31% for the first quarter and 25% for the fourth quarter of 2003. Average allocated capital increased by 12% from the first quarter of 2003 and 6% from the fourth quarter of 2003, primarily due to an increase in market risk capital that is associated with the MSR risk management activities of Chase Home Finance.

Operating revenue was \$3.4 billion, a decrease of 8% and 5% from the first and fourth quarters of 2003, respectively. The national consumer credit businesses, which includes Chase Home Finance, Chase Cardmember Services and Chase Auto Finance, contributed 74% of first quarter 2004 operating revenue. The declines in revenue were primarily driven by the anticipated slowdown in the mortgage refinance business, as well as the continued negative impact of the low interest rate environment on the deposit businesses. Net interest income of \$2.2 billion was down 2% and 8% from the first and fourth quarters of 2003, respectively, primarily due to lower interest on a lower level of AFS securities used to manage the interest rate risk associated with MSRs and lower spreads as a result of low interest rates. Fees and commissions increased by 6% from the first quarter of 2003, driven by higher credit card interchange fees due to higher consumer purchases, and decreased by 8% from the fourth quarter of 2003 due to seasonally lower



credit card revenue. Securities gains declined from the first and fourth quarters of 2003, primarily due to fewer securities sales associated with MSR risk management activities. Mortgage fees and related income of \$241 million decreased from \$432 million in the first quarter of 2003 and increased from \$137 million in the fourth quarter of 2003. First quarter 2004 mortgage originations were lower when compared with both the first and fourth quarters of 2003, due to the decline in the mortgage refinance market. First quarter 2004 MSR hedging revenue improved over the fourth quarter of 2003.

Operating expense of \$2.0 billion was up 11% and 7% compared with the first and fourth quarters of 2003, respectively. Compensation expense increased from both the first and fourth quarters of 2003. The increase from the year-ago quarter was primarily due to higher home equity production, as well as increases in the sales force for home equity and other higher-margin distribution channels. The increase in compensation expense from the fourth quarter was primarily due to higher salaries, benefits and incentives. Noncompensation expense increased from the prior periods primarily due to higher marketing costs, professional services and volume-related expenses. Severance and related costs increased from the prior periods due to restructuring in various lines of businesses, particularly in Chase Regional Banking; costs incurred to move certain credit card facilities to a lower-cost location; and, to a lesser extent, severance related to the anticipated merger with Bank One. CFS's overhead ratio was 59%, compared with 49% for the first quarter of 2003 and 52% for the fourth quarter of 2003, reflecting a decline in revenue and the higher level of expenses. Savings generated by Six Sigma and other productivity efforts continued to partially offset the growth in expenses.

Credit costs of \$748 million were down 15% from the first quarter and 13% from the fourth quarter of 2003. The declines reflected lower net charge-offs of 5% and 3% compared with the first and fourth quarters of 2003, respectively, and a reduction in the allowance for loan losses, reflecting improved credit quality. Delinquency rates in the consumer loan portfolios decreased compared with the first and fourth quarters of 2003.

The following table sets forth certain key financial performance measures of the businesses within CFS:

(in millions)				First quarter change	
	1Q 2004	4Q 2003	1Q 2003	4Q 2003	1Q 2003
<b>Operating revenue</b>				2003	2003
Home Finance <sup>(a)</sup>	\$ 813	\$ 867	\$ 1,148	(6)%	(29)%
Cardmember Services	1,562	1,620	1,461	(4)	7
Auto Finance	166	207	198	(20)	(16)
Regional Banking	635	653	630	(3)	1
Middle Market	343	359	362	(4)	(5)
Other consumer services <sup>(b)</sup>	(105)	(97)	(107)	(8)	2
<b>Total operating revenue</b>	<b>\$ 3,414</b>	<b>\$ 3,609</b>	<b>\$ 3,692</b>	<b>(5)</b>	<b>(8)</b>
<b>Operating expense</b>					
Home Finance	\$ 478	\$ 484	\$ 382	(1)	25
Cardmember Services	605	561	539	8	12
Auto Finance	81	77	68	5	19
Regional Banking	635	645	576	(2)	10
Middle Market	219	211	216	4	1
Other consumer services <sup>(b)</sup>	(19)	(113)	17	83	NM

<b>Total operating expense</b>	<b>\$ 1,999</b>	\$ 1,865	\$ 1,798	7	11
<b>Credit costs</b>					
Home Finance	\$ (9)	\$ 13	\$ 107	NM	NM
Cardmember Services	<b>706</b>	792	695	(11)	2
Auto Finance	<b>36</b>	41	68	(12)	(47)
Regional Banking	<b>28</b>	18	8	56	250
Middle Market	<b>(13)</b>	(9)	(1)	(44)	NM
Other consumer services <sup>(b)</sup>				NM	NM
<b>Total credit costs</b>	<b>\$ 748</b>	\$ 855	\$ 877	(13)	(15)
<b>Operating earnings (losses)</b>					
Home Finance	\$ <b>221</b>	\$ 237	\$ 424	(7)	(48)
Cardmember Services	<b>162</b>	172	146	(6)	11
Auto Finance	<b>30</b>	53	37	(43)	(19)
Regional Banking	<b>(15)</b>	(5)	27	(200)	NM
Middle Market	<b>80</b>	92	87	(13)	(8)
Other consumer services <sup>(b)</sup>	<b>(51)</b>	10	(73)	NM	30
<b>Total operating earnings</b>	<b>\$ 427</b>	\$ 559	\$ 648	(24)	(34)

(a) Includes Mortgage fees and related income, Net interest income and Securities gains.

(b) Includes the elimination of revenues and expenses related to the shared activities with Treasury Services, and support services.

**Outlook:** CHF revenues and operating earnings are expected to decline for the remainder of the year as higher interest rates are likely to depress mortgage originations; however, management expects expenses at CHF to moderate in future quarters to reflect the reduced origination volume. CFS credit quality in consumer lending is expected to remain stable for the next several quarters.

### Chase Home Finance

The following table sets forth key revenue components of Chase Home Finance's business:

(in millions)				First quarter change	
	1Q 2004	4Q 2003	1Q 2003	4Q 2003	1Q 2003
<b>Revenue</b>					
Home Finance:					
Operating revenue (excluding MSR hedging revenue)	\$ 820	\$ 950	\$ 1,062	(14)%	(23)%
MSR hedging revenue:					
MSR valuation adjustments <sup>(a)</sup>	(685)	229	(473)	NM	(45)
Hedging gains (losses) <sup>(b)</sup>	678	(312)	559	NM	21
Total MSR hedging revenue	(7)	(83)	86	92	NM
<b>Total revenue<sup>(c)</sup></b>	<b>\$ 813</b>	<b>\$ 867</b>	<b>\$ 1,148</b>	<b>(6)</b>	<b>(29)</b>

(a) See MSR valuation adjustment table on page 46 of this Form 10-Q.

(b) Hedging gains (losses) includes SFAS 133 qualifying hedges of \$546 million, \$(465) million and \$386 million for the first quarter of 2004, fourth quarter of 2003 and first quarter of 2003, respectively.

(c) Includes Mortgage fees and related income, Net interest income and Securities gains.

After a record performance in 2003, Chase Home Finance (CHF) reported operating earnings of \$221 million, a decrease of 48% and 7% from the first and fourth quarters of 2003, respectively. For the first quarter of 2004, total revenue of \$813 million decreased by 29% and 6% from the first and fourth quarters of 2003, respectively. During the first quarter, CHF operating revenue declined by 23% and 14% from the first and fourth quarters of 2003, respectively, as higher interest rates and a smaller refinance market lowered mortgage originations and margins. As described below, MSR hedging revenue declined relative to the first quarter of 2003 but increased by 92% relative to the fourth quarter of 2003.

CHF manages and measures its results from two key perspectives: its operating businesses (Production, Servicing and Portfolio Lending) and revenue generated through managing the interest rate risk associated with MSRs. The following table reconciles management's perspective on CHF's results to the reported GAAP line items shown on the Consolidated statement of income and in the related Notes to consolidated financial statements:

Operating basis revenue		
Operating	MSR hedging	Reported

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(in millions)	<b>1Q 2004</b>	4Q 2003	1Q 2003	<b>1Q 2004</b>	4Q 2003	1Q 2003	<b>1Q 2004</b>	4Q 2003	1Q 2003
Net interest income	<b>\$ 539</b>	\$ 634	\$ 485	<b>\$ 38</b>	\$ 80	\$ 134	<b>\$ 577</b>	\$ 714	\$ 619
Securities gains				<b>(4)</b>	13	96	<b>(4)</b>	13	96
Mortgage fees and related income	<b>281</b>	316	577	<b>(41)</b>	(176)	(144)	<b>240</b>	140	433
Total	<b>\$ 820</b>	\$ 950	\$ 1,062	<b>\$ (7)</b>	\$ (83)	\$ 86	<b>\$ 813</b>	\$ 867	\$ 1,148

On an operating basis, Net interest income of \$539 million declined from the fourth quarter of 2003, as CHF's average loans declined. Offsetting the decline and driving the increase in Net interest income over the first quarter of 2003 was an increase in home equity balances, driven by origination growth of 60% over the first quarter of 2003. Home equity originations were down 8% compared with the fourth quarter of 2003, although applications were up 36%. Mortgage fees and related income were down compared with the first and fourth quarters of 2003, driven by lower origination volume of \$38 billion versus \$62 billion and \$51 billion, respectively, in the first and fourth quarters of 2003. The declines reflect the smaller refinance market and price competition. Increases in servicing revenues of 7% and 14% over the first and fourth quarters of 2003, respectively, partially offset the decline in production revenue. Servicing balances as of March 31, 2004, were \$475 billion, an increase of 10% from March 31, 2003, and 1% from December 31, 2003, the result of lower prepayments.

In its risk management activities, CHF uses a combination of derivatives and AFS securities to manage changes in the market value of MSR. The intent is to offset any changes in the market value of MSR with changes in the market value of the related risk management instrument. During the first quarter of 2004, negative MSR valuation adjustments of \$685 million were partially offset by \$678 million of aggregate derivative gains and net interest earned on AFS securities. Unrealized losses on AFS securities were \$71 million at March 31, 2004, and \$144 million at December 31, 2003. The decline in the Net interest income and Securities gains components of MSR revenue from the first and fourth quarters of 2003 is primarily due to a lower level of AFS securities used to

manage the interest rate risk associated with MSR. The improvement in the Mortgage fees and related income component of MSR revenue from the first and fourth quarters of 2003 reflects the mix of instruments used to manage the interest rate risk associated with MSR at any point in time and the impact of market conditions on those instruments rather than a particular trend. For a further discussion of the most significant assumptions used to value MSR, please see "MSR and certain other retained interests" in the Critical Accounting Estimates used by the Firm section and in Notes 13 and 16 on pages 100-103 and 107-109 of JPMorgan Chase's 2003 Annual Report.

The following table reconciles the amounts shown as MSR valuation adjustments of CHF's business:

MSR Valuation Adjustments (in millions)	Three months ended March	
	2004	31, 2003
Reported amounts:		
SFAS 133 hedge valuation adjustments	\$ (586)	\$ (175)
SFAS 140 impairment (recovery) adjustments	(34)	(130)
Purchased servicing acquisition losses <sup>(a)</sup>	(9)	(44)
Management accounting adjustments <sup>(b)</sup>	(56)	(124)
MSR valuation adjustments	\$ (685)	\$ (473)

(a) Reflects valuation adjustments on purchased servicing, through the settlement date, that are included in MSR additions in the table in Note 14 on pages 17-18 of this Form 10-Q.

(b) Reflects management accounting adjustments to properly attribute MSR hedging revenue between CHF's operating business and management of the mortgage servicing asset.

Operating expense of \$478 million increased by 25% from the first quarter of 2003 and decreased by 1% from the fourth quarter of 2003. The increase compared with the year-ago quarter was due to higher home equity production, as well as increases in the sales force for home equity and other higher-margin distribution channels. In the first two months of the first quarter of 2004, application volumes dropped dramatically but then rebounded in March; expenses, however, remained stable throughout the quarter. Higher expenses coupled with lower operating revenues increased CHF's overhead ratio to 59%, as compared with 33% in the first quarter of 2003. Lower operating revenues drove the increase in CHF's overhead ratio as compared with 56% in the fourth quarter of 2003.

Credit costs of negative \$9 million decreased from both the first and fourth quarters of 2003. The decline from the prior-year quarter was primarily a result of weakness in the manufactured housing market in the beginning of 2003. The decrease from the fourth quarter of 2003 was due to a lower overall level of both actual and expected net charge-offs, which drove a reduction in the allowance for loan losses. Credit quality remained strong as the net charge-off rate for the first quarter of 2004 was 0.16%, down from 0.20% and 0.19% in the first and fourth quarters of 2003, respectively.

### Chase Cardmember Services

Operating earnings at Chase Cardmember Services (CCS) of \$162 million increased by 11% from the first quarter of 2003 and decreased by 6% from the fourth quarter of 2003. The increase from the first quarter of last year was driven

by higher revenue, partly offset by higher marketing and severance-related costs. The decrease from the fourth quarter of last year was attributable to seasonally lower purchase volume and higher marketing and severance-related costs, partly offset by lower credit costs.

CCS' s operating results exclude the impact of credit card securitizations on revenue, the provision for credit losses, net charge-offs and receivables. Securitization does not change CCS' s reported net income versus operating earnings; however, it does affect the classification of items on the Consolidated statement of income. The financial information presented below reconciles reported basis and managed basis to disclose the effect of securitizations.

(in millions)	1Q 2004			4Q 2003			1Q 2003		
	Reported	Effect of securitization	Operating	Reported	Effect of securitization	Operating	Reported	Effect of securitization	Operating
Revenue	\$ 1,089	\$ 473	\$ 1,562	\$ 1,158	\$ 462	\$ 1,620	\$ 1,004	\$ 457	\$ 1,461
Expense	605		605	561		561	539		539
Credit costs	233	473	706	330	462	792	238	457	695
Operating earnings	162		162	172		172	146		146
Average loans	\$ 18,216	\$ 33,357	\$ 51,573	\$ 17,610	\$ 33,445	\$ 51,055	\$ 19,024	\$ 31,834	\$ 50,858
Average assets	18,524	33,357	51,881	18,171	33,445	51,616	19,763	31,834	51,597

Operating revenue was \$1.6 billion, up 7% from the first quarter of 2003 and down 4% from the fourth quarter of 2003. The increase in revenue from last year reflected growth in both net interest and noninterest revenue. Net interest revenue increased by 5%, reflecting lower funding costs and growth in average managed loans. Average managed loans increased by 1% from a year ago, due partly to lower balance transfer volume and to higher payment rates, which reflected high consumer liquidity. Consumer liquidity remained high because of increased use of home equity products as well as lower tax rates. As a consequence, the volume of purchases increased during the quarter, and the rate of payments was high. Noninterest revenue increased by 10%, reflecting higher interchange fees primarily due to 15% growth in purchase volume. The increase in purchase volume also reflects the continued strategic shift in the portfolio towards higher-volume, rewards-based products, as well as organic growth. CCS added more than one million new accounts in the first quarter, the sixth consecutive quarter of account additions at this level. The decline in revenue from the fourth quarter of 2003 was due to seasonally higher fourth quarter consumer purchases associated with the holiday season.

Operating expense of \$605 million increased by 12% from the first quarter and 8% from the fourth quarter of 2003. The increase in expenses from both periods primarily reflected higher marketing expenses and higher severance and related costs, including expenses related to moving certain operations to lower cost locations. The overhead ratio increased to 39% from 37% and 35% in the first and fourth quarters of 2003, respectively. The increase in the overhead ratio from the first quarter of last year was primarily attributed to increased marketing costs to attract and retain customers. The increase from the fourth quarter of last year primarily reflects lower seasonal revenue as well as increased marketing costs.

Credit costs increased by 2% from the first quarter of 2003 and declined by 11% from the fourth quarter of 2003. Credit quality improved, with the managed net charge-off rate declining to 5.80% in the first quarter of 2004 from 5.95% in the first quarter of 2003. The decline in credit costs from the fourth quarter reflected a decrease in the allowance for loan losses. The managed net charge-off rate increased from 5.76% in the fourth quarter of 2003, due primarily to seasonality associated with higher delinquencies in the second half of last year. The 30+ day delinquency rate improved from first and fourth quarter levels.

### **Chase Auto Finance**

Results at Chase Auto Finance ( CAF ) consist of the Auto Finance and Education Finance businesses. CAF 's operating earnings of \$30 million decreased by 19% from the first quarter and 43% from the fourth quarter of 2003. The decrease in operating earnings was driven primarily by a \$40 million write-off of prepaid premiums for residual risk insurance, which resulted in a reduction of leasing revenue recognized during the current quarter, and higher operating expenses, partially offset by lower credit costs. The write-off was a result of a review in which it was determined that there was an accelerated pace of lease payments and terminations. CAF 's operating revenue declined by 16% from the first quarter and 20% from the fourth quarter of 2003, due to the reduction in leasing revenue mentioned above and lower portfolio spreads, partially mitigated by higher average loans outstanding. Despite an extremely competitive marketing environment, CAF 's auto origination volume increased by 24% compared with the fourth quarter of 2003, and market share remained stable to year-end 2003 at 6.1%.

Operating expense of \$81 million was up 19% from the first quarter and 5% from the fourth quarter of 2003. The increase from the year-ago quarter was driven by higher compensation expense, due to volume growth and corresponding increases in staff, and higher performance-based incentives. The increase from the fourth quarter of 2003 was driven primarily by continued portfolio growth, higher compensation expense and slightly higher technology costs. The overhead ratio increased to 49% in the first quarter, up from 34% and 37% in the first and fourth quarters of 2003, respectively, primarily due to the reduction in leasing revenue and higher expenses.

Credit costs of \$36 million decreased by 47% from the first quarter and 12% from the fourth quarter of 2003, due to lower net charge-offs and a lower allowance for loan losses as a result of improved credit quality. The net charge-off rate was 0.36% in the first quarter of 2004, down from 0.48% in the first quarter and 0.39% in the fourth quarter of 2003. The 30+ day delinquency rate decreased to 1.10% in the first quarter of 2004, from 1.27% in the first quarter and 1.46% in the fourth quarter of 2003. The 30+ day delinquency rate was the lowest since June 30, 2002.

### **Chase Regional Banking**

Chase Regional Banking ( CRB ) reported an operating loss of \$15 million in the first quarter, down from operating earnings of \$27 million in the first quarter of 2003 and an operating loss of \$5 million in the fourth quarter of 2003. The decrease from the year-ago quarter primarily resulted from higher expense and credit costs, partially offset by slightly higher revenue. The decrease from the fourth quarter of 2003 was primarily due to lower revenue and higher credit costs, partially offset by lower expense.

Operating revenue of \$635 million increased by 1% from the first quarter of 2003 and decreased by 3% from the fourth quarter of 2003. Despite lower spreads, growth in average deposits of 10% from the first quarter of 2003 resulted in Net interest income being up slightly. The decline in revenue from the fourth quarter of 2003 was due to narrower spreads and lower noninterest revenue



related to seasonal declines in deposit service fees, and lower debit card and investment revenues. Average deposits increased by 4% from the fourth quarter of 2003.

Operating expense was up 10% from the comparable 2003 period and down 2% from the fourth quarter of 2003. The increase from the prior-year quarter reflected higher severance and related costs primarily due to restructuring, and higher compensation costs. The decrease from the fourth quarter of 2003 was primarily related to the timing of marketing and professional services expenses. The overhead ratio for the quarter was 100%, up from 91% and 99% in the first and fourth quarters of 2003, respectively. The increase from the first quarter of 2003 was due to higher expenses, while the increase from the fourth quarter was due to lower revenue.

Credit costs of \$28 million were up from \$8 million and \$18 million, respectively, in the first and fourth quarters of 2003. The increase from the prior-year quarter was the result of a higher allowance for loan losses. The increase from the fourth quarter of 2003 was due to a higher allowance for loan losses, partially offset by lower net charge-offs.

As of March 31, 2004, CRB's deposit mix was 18% demand, 14% interest checking, 47% savings, 11% money market and 10% time (CDs). At March 31, 2003, the deposit mix was 18% demand, 14% interest checking, 46% savings, 9% money market and 13% time (CDs). As of March 31, 2004, core deposits (total deposits less time deposits) grew by 13% from March 31, 2003, and 4% from December 31, 2003.

#### **Chase Middle Market**

Chase Middle Market ( CMM ) operating earnings of \$80 million were down 8% from the first quarter and 13% from the fourth quarter of 2003. The decrease from both periods was primarily attributable to lower revenues, partially offset by improved credit quality.

Operating revenue of \$343 million decreased by 5% from the first quarter and 4% from the fourth quarter of 2003. The decrease from the year-ago quarter was primarily due to lower Net interest income, driven by a 4% mon stock shall refer to such class of common stock. Majority owned for these purposes means having beneficial ownership (as defined in Rule 13d-3 under the Exchange Act) of more than 50% of the total voting power of all shares of the respective entity's capital stock that are entitled to vote generally in the election of directors.

Upon a public acquiror change of control, if Teva Finance so elects, holders may convert their debentures (subject to the satisfaction of the conditions to conversion described under Conversion Procedures above) at the adjusted conversion rate described in the second preceding paragraph but will not be entitled to receive additional Teva ADRs upon conversion as described under Adjustment to Conversion Rate Upon Certain Changes in Control. Teva Finance is required to notify holders of its election in its notice to holders of such transaction. Following any such election, the provisions set forth herein, including those set forth under Settlement Upon Conversion, shall continue to apply except that reference to Teva ADRs shall be deemed to refer to the public acquiror common stock. In addition, upon a public acquiror change of control, in lieu of converting debentures, the holder may be entitled to require us to repurchase all or a portion of its debentures as described below.

#### **Optional Redemption by Teva Finance**

At any time on or after [●], 2008, Teva Finance may redeem some or all of the debentures at a redemption price equal to 100% of the principal amount of the debentures plus accrued and unpaid interest, except for debentures that it is required to repurchase as provided under Repurchase at Option of Holders On Specified Dates. Teva Finance must give at least 20 but not more than 60 days notice of any redemption.

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In addition, Teva Finance will pay interest on the debentures being redeemed, including those debentures that are converted into Teva ADRs after the date the notice of the redemption is mailed and prior to the redemption date. This interest will include interest accrued and unpaid to, but excluding, the redemption date. If the redemption date is after a record date and on or before the succeeding interest payment date, Teva Finance will pay the interest to the holder of record on the corresponding record date, which may or may not be the same person to whom Teva Finance will pay the redemption price.

If Teva Finance does not redeem all of the debentures, the trustee will select the debentures to be redeemed in principal amounts of \$1,000 or whole multiples of \$1,000 by lot or on a pro rata basis. If any debentures are to be redeemed in part only, Teva Finance will issue a new debenture or debentures in principal amount equal to the unredeemed principal portion thereof. If a portion of your debentures is selected for partial redemption and you convert or elect repurchase of a portion of your debentures, the converted or repurchased portion will be deemed to be taken from the portion selected for redemption.

If you have exercised your right to require Teva Finance to repurchase your debentures, you may participate in a redemption by Teva Finance only if you withdraw your notice prior to the close of business on the business day preceding the repurchase date.

### **Repurchase at Option of Holders**

#### *On Specified Dates*

Each holder may require Teva Finance to purchase the debentures for cash on the following dates: [•], 2008, 2011, 2016 and 2021.

On these dates, you will have the right to require Teva Finance to repurchase all of your debentures, or any portion of those debentures, that is equal to \$1,000 or a whole multiple of \$1,000, for which a written purchase

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notice has been properly delivered and not withdrawn. You may submit your debentures for repurchase to The Bank of New York, as paying agent (the paying agent ) at any time from the opening of business on the date that is 20 business days prior to the repurchase date until the close of business two business days prior to the repurchase date.

The repurchase price of a debenture will be equal to 100% of its principal amount plus accrued and unpaid interest to, but excluding, the repurchase date.

Teva Finance will be required to give notice on a date not less than 20 business days prior to the repurchase date to all holders of debentures, stating among other things the procedures that holders must follow to require Teva Finance to purchase their debentures.

The repurchase notice given by each holder electing to require Teva Finance to repurchase debentures shall state:

the certificate numbers of the holder's debentures to be delivered for repurchase;

the portion of the principal amount of debentures to be repurchased, which must be \$1,000 or an integral multiple of \$1,000; and

that the debentures are to be purchased by Teva Finance pursuant to the applicable provisions of the debentures.

Any repurchase notice may be withdrawn by the holder by a written notice of withdrawal delivered to the paying agent prior to the close of business on the business day prior to the repurchase date. In the event that Teva Finance exercises its right to redeem the debentures, you may participate in a redemption only if you provide such written notice of withdrawal on a timely basis.

The notice of withdrawal shall state:

the principal amount being withdrawn;

the certificate numbers of the debentures being withdrawn; and

the principal amount, if any, of the debentures that remains subject to the purchase notice.

In connection with any purchase offer, Teva Finance will:

comply with the provisions of Rule 13e-4, Rule 14e-1 and any other tender offer rules under the Exchange Act which may then be applicable: and

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file Schedule 13E-4 or any other required schedule under the Exchange Act.

Payment of the purchase price for a debenture for which a purchase notice has been delivered and not validly withdrawn is conditioned upon delivery of the debenture, together with necessary endorsements, to the paying agent at any time after delivery of the purchase notice. Payment of the purchase price for the debenture will be made promptly following the later of the purchase date or the time of delivery of the debenture.

Holders may surrender a debenture for purchase by Teva Finance by means of book entry delivery in accordance with the provisions set forth in the indenture and the regulations of DTC. A security will be considered to have been surrendered to a paying agent upon receipt by such paying agent of a copy of an irrevocable notice given by DTC to the holder of the certificate corresponding to such security instructing it to deliver such certificate to the relevant registrar for cancellation.

If the paying agent holds money or securities sufficient to pay the purchase price of the debenture on the business day following the purchase date in accordance with the terms of the indenture, then, immediately after the purchase date, the debenture will cease to be outstanding and interest on such debenture will cease to accrue,

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whether or not the debenture is delivered to the paying agent. Thereafter, all other rights of the holder shall terminate, other than the right to receive the purchase price upon delivery of the debenture.

No debentures may be purchased for cash at the option of holders if there has occurred and is continuing an event of default with respect to the debentures described under **Events of Default** other than a default in the payment of the purchase price with respect to such debentures.

### ***Upon a Change of Control or a Termination of Trading***

If a change of control, as defined below, or a termination of trading occurs, you will have the right to require Teva Finance to repurchase all of your debentures not previously called for redemption, or any portion of those debentures that is equal to \$1,000 or a whole multiple of \$1,000. The repurchase date is 45 days after the date Teva Finance gives notice of a change of control or a termination of trading.

The repurchase price of a debenture will be equal to 100% of its principal amount plus accrued and unpaid interest to, but excluding, the repurchase date. However, if the repurchase date is after the record date and on or prior to the corresponding interest payment date, the interest will be paid on the repurchase date to the holder of record on the record date.

Within 10 days after the occurrence of a change of control or a termination of trading, Teva Finance is required to notify you of such occurrence and your resulting repurchase right. The notice will be similar to the notice described under **Repurchase at Option of Holders On Specified Dates**. To exercise the repurchase right, you must deliver prior to or on the 30th day after the date of Teva Finance's notice, written notice to the trustee of your exercise of your repurchase right.

The repurchase notice given by each holder electing to require Teva Finance to repurchase debentures shall contain the information described under **Repurchase at Option of Holders On Specified Dates**.

You may withdraw this notice by delivering to the paying agent a notice of withdrawal prior to the close of business on the business day immediately preceding the repurchase date, so long as you also convert those debentures prior to the close of business on the business day immediately preceding the repurchase date. Teva Finance will not pay interest accrued and unpaid on any of the debentures you convert.

A change of control will be deemed to have occurred at such time after the original issuance of the debentures when either of the following has occurred:

the acquisition by any person including any syndicate or group deemed to be a person under Section 13(d)(3) of the Exchange Act of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of transactions of shares of Teva's capital stock entitling that person to exercise 50% or more of the total voting power of all shares of Teva's capital stock entitled to vote generally in elections of directors, other than any acquisition by Teva, any of its subsidiaries, including Teva Finance, or any employee benefit plans; or

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Teva's consolidation or merger with or into any other person, any merger of another person into Teva, or any conveyance, transfer, sale, lease or other disposition of all or substantially all of Teva's properties and assets to another person, other than any transaction (A) that does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of Teva's capital stock or (B) pursuant to which holders of Teva's capital stock immediately prior to the transaction have the entitlement to exercise, directly or indirectly, 50% or more of the total voting power of all shares of Teva's capital stock entitled to vote generally in the election of directors of the continuing or surviving person immediately after the transaction.

However, a change of control will be deemed not to have occurred if:

1. at least 90% of the consideration in the transaction or transactions constituting a change of control consists of securities traded or to be traded immediately following such change of control on a U.S.

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national securities exchange or the Nasdaq National Market and, as a result of such transaction or transactions, the debentures become convertible solely into such security; or

2. the closing sale price per share of Teva ADRs for any five trading days within:

the period of 10 consecutive trading days ending immediately after the later of the change of control or the public announcement of the change of control, in the case of a change of control under the first clause of the definition of change of control above, or

the period of 10 consecutive trading days ending immediately before the change of control, in the case of a change of control under the second clause of the definition of change of control above,

equals or exceeds 110% of the conversion price of the debentures in effect on each such trading day (the trading price exception ).

The beneficial owner shall be determined in accordance with Rule 13d-3 promulgated by the SEC under the Exchange Act. The term person includes any syndicate or group which would be deemed to be a person under Section 13(d)(3) of the Exchange Act.

A termination of trading will be deemed to have occurred if neither our ADRs nor our ordinary shares are listed for trading on a U.S. national securities exchange, reported on a U.S. national securities system subject to last sale reporting or quoted on the Nasdaq National Market.

In connection with any purchase offer, Teva Finance will:

comply with the provisions of Rule 13e-4, Rule 14e-1 and any other tender offer rules under the Exchange Act which may then be applicable; and

file Schedule 13E-4 or any other required schedule under the Exchange Act.

Teva Finance may, to the extent permitted by applicable law, at any time purchase the debentures in the open market or by tender at any price or by private agreement. Any debenture so purchased may, to the extent permitted by applicable law, be reissued or resold or may be surrendered to the trustee for cancellation. Any debentures surrendered to the trustee may not be reissued or resold and will be canceled promptly.

The change of control feature of the debentures may in certain circumstances make more difficult or discourage a takeover of Teva and thus, the removal of incumbent management. The repurchase right is not the result of Teva or Teva Finance's knowledge of any effort of any party to accumulate any ADRs or ordinary shares or to obtain control of Teva by means of a merger, tender offer, solicitation, or otherwise, or part of a plan by us to adopt a series of anti-takeover provisions. Instead, this right is the result of negotiations between us and the underwriters.

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The foregoing provisions would not necessarily protect holders of the debentures if highly leveraged or other transactions involving us occur that may adversely affect holders.

Teva Finance's ability to repurchase debentures on [•], 2008, 2011, 2016 and 2021, upon the occurrence of a change of control or upon a termination of trading is subject to important limitations. The occurrence of a change of control or a termination of trading could cause an event of default under, or be prohibited or limited by, the terms of debt that Teva may incur in the future.

### **Events of Default**

Each of the following constitutes an event of default under the indenture:

1. Teva Finance's failure to pay when due the principal of any of the debentures at maturity, upon redemption or exercise of a repurchase right or otherwise;

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2. Teva Finance's failure to pay an installment of interest on any of the debentures for 30 days after the date when due;
3. Teva's failure to perform its obligations under the guarantee;
4. Except as permitted by the indenture, the guarantee by Teva shall be held in any final, nonappealable judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or Teva, or any person acting on behalf of the Teva, shall deny or disaffirm its obligations under its guarantee;
5. Teva's or Teva Finance's failure to perform or observe any other term, covenant or agreement contained in the debentures or the indenture for a period of 60 days after written notice of such failure, requiring Teva or Teva Finance, as the case may be, to remedy the same, shall have been given to Teva Finance by the trustee or to Teva Finance and the trustee by the holders of at least 25% in aggregate principal amount of the debentures then outstanding;
6. Teva's or Teva Finance's default under any Indebtedness (as defined below) for money borrowed by it, the aggregate outstanding principal amount of which is in an amount in excess of \$25 million, for a period of 30 days after written notice to Teva Finance by the trustee or to Teva Finance and the trustee by holders of at least 25% in aggregate principal amount of the debentures then outstanding, which default:

is caused by Teva or Teva Finance's, as the case may be, failure to pay when due principal or interest on such Indebtedness by the end of the applicable grace period, if any, unless such Indebtedness is discharged; or

results in the acceleration of such Indebtedness, unless such acceleration is waived, cured, rescinded or annulled; and

7. Teva or Teva Finance's, bankruptcy, insolvency or reorganization.

The indenture will provide that the trustee shall (other than in the case of (6) above, which shall result in the debentures becoming immediately due and payable), within 90 days of the occurrence of a default, give to the registered holders of the debentures notice of all uncured defaults known to it, but the trustee shall be protected in withholding such notice if it, in good faith, determines that the withholding of such notice is in the best interest of such registered holders, except in the case of a default in the payment of the principal of or interest on, any of the debentures when due or in the payment of any redemption or repurchase obligation.

If an event of default shall occur and be continuing, the trustee or the holders of at least 25% in aggregate principal amount of the debentures affected then outstanding may declare the principal amount of the debentures due and payable together with accrued interest, and then the trustee may, at its discretion, proceed to protect and enforce the rights of the holders of debentures by appropriate judicial proceedings. Such declaration may be rescinded or annulled either with the written consent of the holders of a majority in aggregate principal amount of the debentures then outstanding or a majority in aggregate principal amount of the debentures represented at a meeting at which a quorum is present, in each case upon the conditions provided in the indenture.

The indenture contains a provision entitling the trustee, subject to the duty of the trustee during default to act with the required standard of care, to be indemnified by the holders of debentures before proceeding to exercise any right or power under the indenture at the request of such holders. The indenture provides that the holders of a majority in aggregate principal amount of the debentures then outstanding through their written consent, or the holders of a majority in aggregate principal amount of the debentures then outstanding represented at a meeting at which a quorum is present by a written resolution, may direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred upon the trustee.

Teva Finance will be required to furnish annually to the trustee a statement as to the fulfillment of its obligations under the indenture.

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Indebtedness means, with respect to any person:

- (1) any liability for borrowed money, or evidenced by an instrument for the payment of money, or incurred in connection with the acquisition of any property, services or assets (including securities), or relating to a capitalized lease obligation, other than accounts payable or any other indebtedness to trade creditors created or assumed such person in the ordinary course of business in connection with the obtaining of materials or services;
- (2) obligations under exchange rate contracts or interest rate protection agreements;
- (3) any obligations to reimburse the issuer of any letter of credit, surety bond, performance bond or other guarantee of contractual performance;
- (4) any liability of another person of the type referred to in clause (1), (2) or (3) which has been assumed or guaranteed by such person; and
- (5) any obligations described in clauses (1) through (3) secured by any mortgage, pledge, lien or other encumbrance existing on property which is owned or held by such person, regardless of whether the indebtedness or other obligation secured thereby shall have been assumed by such person.

**Additional Tax Amounts**

Neither Teva Finance as the issuer nor Teva as the guarantor will withhold or deduct from payments made with respect to the debentures on account of any present or future taxes, duties, assessments or governmental charges imposed by or on behalf of any United States or Israeli taxing authority unless such withholding or deduction is required by law. In the event that Teva Finance or Teva is required to withhold or deduct on account of any such taxes from any payment made under or with respect to the debentures, Teva Finance or Teva, as the case may be, will pay such additional tax amounts so that the net amount received by each holder of debentures, including those additional tax amounts, will equal the amount that such holder would have received if such taxes had not been required to be withheld or deducted.

Additional tax amounts will not be payable with respect to a payment made to a holder of debentures to the extent:

- (1) the holder is:

able to avoid such withholding or deduction by making a declaration of non-residence or other claim for exemption to the tax authority, or

liable for such taxes, duties, assessments or governmental charges in respect of the debentures by reason of its having some connection with the taxing jurisdiction other than merely by the holding of the debentures:

- (2) of any estate, inheritance, gift, sales, transfer or personal property taxes imposed with respect to the debentures, except as otherwise provided in the indenture; or

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- (3) that any such taxes would not have been imposed but for the presentation of such debentures, where presentation is required, for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever is later, except to the extent that the holder would have been entitled to additional tax amounts had the debentures been presented for payment on any date during such 30-day period.

Teva Finance, as the issuer, and Teva, as the guarantor, will pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies that arise from the execution, delivery, enforcement or registration of the debentures or any other document or instrument in relation thereto.

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### **Consolidation, Merger or Assumption**

Teva Finance may, without the consent of the holders of debentures, consolidate with, merge into or transfer all or substantially all of its respective assets to any other corporation, limited liability company, partnership or trust organized under the laws of the United States, any state thereof and the District of Columbia, provided that:

the successor entity assumes all of the obligations of Teva Finance under the indenture and the debentures;

if as a result of such transaction the debentures become convertible into common stock or other securities issued by a third party, such third party fully and unconditionally guarantees all obligations of us or such successor under the debentures and the indenture; and

at the time of such transaction, no event of default, and no event which, after notice or lapse of time, would become an event of default, shall have happened and be continuing.

Teva may, without the consent of the holders of debentures, consolidate with, merge into or transfer all or substantially all of its respective assets to any other corporation provided that:

the successor corporation assumes all of the obligations of Teva under the indenture and the debentures; and

at the time of such transaction, no event of default, and no event which, after notice or lapse of time, would become an event of default, shall have happened and be continuing.

The indenture provides that so long as any debentures are outstanding, all of Teva Finance's membership interests will be owned directly or indirectly by Teva or its successor.

### **Modifications, Amendments and Meetings**

#### ***Changes Requiring Approval of Each Affected Holder***

The indenture cannot be modified or amended without the written consent or the affirmative vote of the holder of each debenture affected by such change to:

change the maturity of the principal of or any installment of interest on that debenture;

reduce the principal amount of or interest on that debenture;

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change the currency of payment of that debenture or interest thereon;

impair the right to institute suit for the enforcement of any payment on or with respect to that debenture;

modify Teva Finance's obligations to maintain an office or agency in New York City;

except as otherwise permitted or contemplated by provisions concerning corporate reorganizations, affect the repurchase option of holders upon a change of control or termination of trading or the conversion rights of holders of the debentures in a manner adverse to the holders of debentures;

modify Teva's obligation to own, directly or indirectly, all of Teva Finance's outstanding membership interests;

modify the redemption provisions of the indenture in a manner adverse to the holders of debentures;

modify the guarantee in a manner adverse to the holders of the debentures;

reduce the percentage in aggregate principal amount of debentures outstanding necessary to modify or amend the indenture or to waive any past default; or

reduce the percentage in aggregate principal amount of debentures outstanding required for the adoption of a resolution or the quorum required at any meeting of holders of debentures at which a resolution is adopted.

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### ***Changes Requiring Majority Approval***

Except as described above, the indenture may be modified or amended either:

with the written consent of the holders of at least a majority in aggregate principal amount of the debentures affected at the time outstanding; or

by the adoption of a resolution at a meeting of holders by at least a majority in aggregate principal amount of the debentures affected represented at such meeting.

### ***Changes Requiring No Approval***

The indenture may be modified or amended by Teva Finance, Teva and the trustee, without the consent of the holder of any debenture, for the purposes of, among other things:

adding to Teva or Teva Finance's covenants for the benefit of the holders of debentures;

surrendering any right or power conferred upon Teva or Teva Finance;

providing for conversion rights of holders of debentures if any reclassification or change of Teva ADRs or ordinary shares or any consolidation, merger or sale of all or substantially all of Teva's assets occurs;

providing for the assumption of Teva or Teva Finance's obligations to the holders of debentures in the case of a merger, consolidation, conveyance, transfer or lease;

increasing the conversion rate, provided that the increase will not adversely affect the interests of the holders of debentures;

complying with the requirements of the SEC in order to effect or maintain the qualification of the indenture under the Trust Indenture Act;

curing any ambiguity, supplying any omission or correcting any defective provision contained in the indenture; provided that such modification or amendment does not, in the good faith opinion of Teva Finance's board of managers adversely affect the interests of the holders of debentures in any material respect; *provided, further*, that any amendment made solely to conform the provisions of the indenture to the description of the debentures contained in this prospectus supplement will not be deemed to adversely affect the interests of the holders of the debentures; or

adding or modifying any other provisions which Teva Finance and the trustee may deem necessary or desirable and which will not adversely affect the interests of the holders of debentures.

***Meetings***

The indenture contains provisions for convening meetings of the holders of debentures to consider matters affecting their interests.

***Quorum***

The quorum at any meeting called to adopt a resolution will be persons holding or representing a majority in aggregate principal amount of the debentures affected at the time outstanding and, at any reconvened meeting adjourned for lack of a quorum, 25% of the aggregate principal amount.

***Satisfaction and Discharge***

Teva Finance and Teva may satisfy and discharge their obligations under the indenture while debentures remain outstanding if:

all outstanding debentures have become due and payable at their scheduled maturity; or

all outstanding debentures have been called for redemption,

and, in either case, Teva Finance has deposited with the trustee an amount sufficient to pay and discharge all outstanding debentures on the date of their scheduled maturity or the scheduled date of redemption.



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### **Governing Law**

The indenture and the debentures will be governed by, and construed in accordance with, the law of the State of New York.

### **Information Concerning the Trustee, Paying Agent and Conversion Agent**

The Bank of New York, as trustee under the indenture, has been appointed by us as paying agent, conversion agent, registrar and custodian with regard to the debentures. The Bank of New York, 101 Barclay Street, New York, New York, 10286, is the depositary for Teva ADRs. The trustee or its affiliates may from time to time in the future provide banking and other services to us in the ordinary course of their business.

### **Form, Denomination and Registration**

***Denomination and Registration.*** The debentures will be issued in fully registered form, without coupons, in denominations of \$1,000 principal amount and whole multiples of \$1,000 in excess thereof.

***Global Debentures; Book-Entry Form.*** The debentures will be represented by permanent global debentures in definitive, fully registered form without interest coupons. The global debentures will be deposited with the trustee as custodian for DTC and registered in the name of a nominee of DTC in New York, New York for the accounts of participants in DTC.

Except as set forth below, the global debentures will be transferable, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee.

DTC has advised us that it is:

a limited purpose trust company organized under the laws of the State of New York;

a member of the Federal Reserve System;

a clearing corporation within the meaning of the New York Uniform Commercial Code; and

a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act.

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DTC was created to hold securities of institutions that have accounts with DTC and to facilitate the clearance and settlement of securities transactions among its participants in securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include:

securities brokers and dealers;

banks;

trust companies; and

clearing corporations.

Access to DTC's book-entry system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant whether directly or indirectly.

Upon the issuance of the global debentures, DTC credited, on its book-entry registration and transfer system, the respective principal amounts of the individual beneficial interests represented by the global debentures to the accounts of participants. The accounts credited were designated by the underwriters of the beneficial interests. Ownership of beneficial interests in the global debentures is limited to participants or persons

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that may hold interests through participants. Ownership of beneficial interests in the global debentures is shown on, and the transfer of those ownership interests will be effected only through, records maintained by DTC (with respect to participants' interests) and the participants (with respect to the owners of beneficial interests in the global debentures other than participants).

So long as DTC or its nominee is the registered holder and owner of the global debentures, DTC or its nominee, as the case may be, will be considered the sole legal owner of the debentures represented by the global debentures for all purposes under the indenture and the debentures. Except as set forth below, owners of beneficial interests in the global debentures will not be entitled to receive definitive debentures and will not be considered to be the owners or holders of any debentures under the global debentures. Teva Finance understands that under existing industry practice, in the event an owner of a beneficial interest in the global debentures desires to take any action that DTC, as the holder of the global debentures, is entitled to take, DTC would authorize the participants to take the action, and that participants would authorize beneficial owners owning through the participants to take the action or would otherwise act upon the instructions of beneficial owners owning through them. No beneficial owner of an interest in the global debentures will be able to transfer the interest except in accordance with DTC's applicable procedures, in addition to those provided for under the indenture and, if applicable, those of Euroclear and Clearstream.

Teva Finance will make payments of the principal and interest on the debentures represented by the global debentures registered in the name of and held by DTC or its nominee to DTC or its nominee, as the case may be, as the registered owner and holder of the global debentures.

Teva Finance expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of the global debentures, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the global debentures as shown on the records of DTC or its nominee. Teva Finance also expects that payments by participants and indirect participants to owners of beneficial interests in the global debentures held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for accounts of customers registered in the names of nominees for these customers. The payments, however, will be the responsibility of the participants and indirect participants, and none of Teva Finance, Teva, the trustee or any paying agent or conversion agent will have any responsibility or liability for:

any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the global debentures;

maintaining, supervising or reviewing any records relating to the beneficial ownership interests;

any other aspect of the relationship between DTC and its participants; or

the relationship between the participants and indirect participants and the owners of beneficial interests in the global debentures.

Unless and until it is exchanged in whole or in part for definitive debentures, the global debentures may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC.

Participants in DTC will effect transfers with other participants in the ordinary way in accordance with DTC rules and will settle transfers in same-day funds. Participants in Euroclear and Clearstream will effect transfers with other participants in the ordinary way in accordance with the rules and operating procedures of Euroclear and Clearstream, as applicable. If a holder requires physical delivery of a definitive debenture for any reason, including to sell debentures to persons in jurisdictions which require physical delivery or to pledge debentures, the holder must transfer its interest in the global debentures in accordance with the normal procedures of DTC and the procedures set forth in the indenture.



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Cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, these cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in the system in accordance with its rules and procedures and within its established deadlines (Brussels time). Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the global debentures in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in the global debentures from a DTC participant will be credited during the securities settlement processing day immediately following the DTC settlement date, and the credit of any transactions interests in the global debentures settled during the processing day will be reported to the relevant Euroclear or Clearstream participant on that day. Cash received in Euroclear or Clearstream as a result of sales of interests in the global debentures by or through a Euroclear or Clearstream participant to a DTC participant will be received with value on the DTC settlement date, but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

Teva Finance expects that DTC will take any action permitted to be taken by a holder of debentures only at the direction of one or more participants to whose accounts at DTC interests in the global debentures are credited and only in respect of the portion of the aggregate principal amount of the debentures as to which the participant or participants has or have given direction. However, if there is an event of default under the debentures, DTC will exchange the global debentures for definitive debentures, which it will distribute to its participants.

Although Teva Finance expects that DTC, Euroclear and Clearstream will agree to the foregoing procedures in order to facilitate transfers of interests in the global debentures among participants of DTC, Euroclear and Clearstream, DTC, Euroclear and Clearstream are under no obligation to perform or continue to perform these procedures, and these procedures may be discontinued at any time. None of Teva Finance, Teva or the trustee have any responsibility for the performance by DTC, Euroclear or Clearstream or their participants or indirect participants of their obligations under the rules and procedures governing their operations.

If DTC is at any time unwilling or unable to continue as a depository for the global debentures or ceases to be a clearing agency registered under the Exchange Act and Teva Finance does not appoint a successor depository within 90 days, Teva Finance will issue definitive debentures in exchange for the global debentures.

***Definitive Debentures.*** Definitive debentures may also be issued in exchange for debentures represented by the global debentures if Teva Finance does not appoint a successor depository as set forth above under Global Debentures; Book-Entry Form or in other circumstances set forth in the indenture.

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**DESCRIPTION OF ORDINARY SHARES**

For a description of Teva ordinary shares, see "Description of Ordinary Shares" in the accompanying prospectus. Due to a change in the Israeli Companies Law effective January 2006, the record date for purposes of determining the shareholders entitled to participate and vote at a meeting of shareholders may be no less than 28 days before the meeting, provided that notice of the general meeting was published prior to the record date. Prior to this amendment, the record date could have been as few as four days before the meeting.

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**UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS**

*The following is the opinion of Willkie Farr & Gallagher LLP, U.S. tax counsel to Teva, as to the material U.S. federal income considerations relating to the purchase, ownership and disposition of the debentures and of ADRs into which the debentures may be converted. It is not, however, a complete analysis of all the potential tax considerations that may be applicable to all potential investors. This summary is based on the provisions of the U.S. Internal Revenue Code (the "Code"), the applicable Treasury regulations promulgated thereunder ("Treasury Regulations"), judicial authority and current administrative rulings and practice, all of which are subject to change, possibly with retroactive effect. This summary deals only with holders that purchase debentures at their original issuance at their issue price. This summary also deals only with holders that will hold debentures and ADRs into which the debentures may be converted as "capital assets" (within the meaning of section 1221 of the Code). This summary does not deal with all aspects of U.S. federal income taxation that might be relevant to particular investors in light of their personal investment circumstances or status, nor does it address tax considerations applicable to investors that may be subject to special tax rules, such as certain financial institutions, tax-exempt organizations, S corporations, insurance companies, broker, dealers, traders, expatriates subject to Code section 877 persons that own, or are deemed to own, 10% or more of outstanding vote or value of the stock of Teva Finance and taxpayers subject to the alternative minimum tax. It also does not discuss debentures held as part of a hedge, straddle, synthetic security or other integrated investment, or situations in which the functional currency of the holder is not the U.S. dollar. Moreover, it does not discuss the effect of any applicable state, local or foreign tax laws. Teva has not sought any ruling from the Internal Revenue Service (the "IRS") with respect to the statements made in the following summary, and there can be no assurance that the IRS will agree with such statements.*

*This summary is based on the Internal Revenue Code of 1986, as amended to the date hereof, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, as well as the Convention Between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income, which we refer to as the U.S.-Israel tax treaty, changes to any of which subsequent to the date of this Prospectus Supplement may affect the tax consequences described herein. Persons considering the purchase of convertible notes are urged to consult their tax advisors with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.*

**The following discussion is for general information only. Investors considering the purchase of debentures should consult their own tax advisors with respect to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction or under any applicable tax treaty.**

Unless otherwise stated, this summary deals only with U.S. Holders. The term "U.S. Holder" means a beneficial holder of a debenture or ADR that is, for U.S. federal income tax purposes, one of the following:

- (1) a citizen or resident of the United States;
- (2) a corporation or any other entity taxable as a corporation created or organized under the laws of the United States or any state thereof;
- (3) an estate, the income of which is includable in gross income for U.S. federal income tax purposes regardless of its source;
- (4) a trust, if a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

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A non-U.S. Holder is any beneficial holder of a debenture or ADR who or which is for U.S. federal income tax purposes:

an individual who is classified as a nonresident for U.S. federal income tax purposes;

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a foreign corporation; or

a foreign estate or trust.

A non-U.S. holder does not include a holder who is an individual present in the United States for 183 days or more in the taxable year of disposition and who is not otherwise a resident of the United States for U.S. federal income tax purposes. Such a holder is urged to consult his or her own tax advisor regarding the U.S. federal income tax consequences of the sale, exchange or other disposition of an ADR.

Special rules, not discussed in this document, may apply to persons investing through entities treated for U.S. federal income tax purposes as partnerships, and those persons should consult their own tax advisors in that regard.

## **Payment of Interest**

It is expected (and this discussion assumes) that the notes will be issued without original issue discount for U.S. federal income tax purposes. Accordingly, a U.S. Holder must generally include interest (including any additional tax amounts) on a debenture in its ordinary income as U.S. source income at the time such interest is received or accrued, in accordance with such U.S. Holder's method of accounting for U.S. federal income tax purposes.

## **Sale, Exchange, Conversion or Redemption of the Debentures**

Upon the sale, exchange, conversion or redemption of a debenture, a U.S. Holder generally will recognize U.S. source capital gain or loss equal to the difference between

- (1) the amount of cash proceeds and the fair market value of any other property received on the sale, exchange, conversion or redemption (except to the extent such amount is attributable to accrued and unpaid interest, which is treated as interest subject to the rules discussed above under **Payment of Interest**) and
- (2) such holder's adjusted tax basis in the debenture.

A U.S. Holder's adjusted tax basis in a debenture generally will equal the cost of the debenture to such holder. Such capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period for the debenture is more than one year at the time of sale, exchange or redemption.

Upon conversion of a debenture into ADRs, a U.S. Holder will generally take a basis in such ADRs equal to their fair market value at the time of conversion (less amounts attributable to accrued but unpaid interest). The U.S. Holder's holding period for such ADR will generally start on the day after the date of the conversion.

**Adjustment of Conversion Price**

If at any time (1) Teva distributes cash or property to its stockholders or purchases ADRs and such distribution or purchase would be taxable to such stockholders as a dividend for U.S. federal income tax purposes (*e.g.*, distributions of evidences of indebtedness or assets of ours, but generally not stock dividends or rights to subscribe for ADRs) and, pursuant to the antidilution provisions of the indenture, the conversion price of the debentures is decreased, or (2) the conversion price of the debentures is decreased at our discretion, such decrease in conversion price may be deemed to be the payment of a taxable dividend to U.S. Holders of debentures (pursuant to section 305 of the Code) to the extent of our current or accumulated earnings and profits as determined for U.S. federal income tax purposes. Such holders of debentures could therefore have taxable income as a result of an event pursuant to which they received no cash or other property. In addition, any deemed dividend would not be eligible for the reduced rate of tax applicable to dividends received by certain non-corporate U.S. holders (see *Dividend on ADRs* below).

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### **Ownership of Teva ADRs**

U.S. holders of Teva ADRs will be treated as owners of the Teva ordinary shares underlying their Teva ADRs. Accordingly, except as noted, the U.S. federal income tax consequences discussed below apply equally to U.S. holders of Teva ordinary shares and Teva ADRs, and deposits and withdrawals of Teva ordinary shares in exchange for Teva ADRs will not be taxable events for U.S. federal income tax purposes.

The U.S. Treasury has expressed concerns that parties to whom Teva ADRs are released may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. holders of Teva ADRs. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate U.S. holders. Accordingly, the analysis of the availability of foreign tax credits and the reduced tax rate for dividends received by certain non-corporate U.S. holders, described below, could be affected by actions taken by parties to whom the Teva ADRs are released.

### **Dividends on ADRs**

The amount of any distribution paid to a U.S. holder, including any Israeli taxes withheld from the amount of such distribution, will be subject to U.S. federal income taxation as ordinary income to the extent paid out of Teva's current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. Subject to applicable limitations and provided Teva is not a passive foreign investment company (PFIC) for U.S. federal income tax purposes, dividends paid to non-corporate U.S. holders with respect to taxable years beginning on or before December 31, 2008 generally are subject to tax at a maximum rate of 15%. Teva believes that it is not a PFIC and will not be considered a PFIC in the foreseeable future. Any dividend received will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from U.S. corporations. To the extent that an amount received by a U.S. holder exceeds that U.S. holder's allocable share of Teva's current and accumulated earnings and profits, such excess will be applied first to reduce that U.S. holder's tax basis in the ADRs and then, to the extent the distribution exceeds that U.S. holder's tax basis, will be treated as capital gain.

Dividends paid in Israeli NIS will be included in a U.S. holder's income in a U.S. dollar amount calculated by referenced to the exchange rate in effect on the date of the U.S. holder's (or, in the case of ADRs, the depository's) receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. holder should generally not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. holder may have foreign currency gain or loss, which will be treated as income from sources within the United States, if he or she does not convert the amount of such dividend into U.S. dollars on the date of receipt. The amount of any distribution of property other than cash will be the property's fair market value on the date of the distribution.

Distributions paid out of earnings and profits with respect to the ADRs, generally will be treated as income from sources outside the United States and generally will be treated separately along with other items of passive income for purposes of determining the credit for foreign income taxes allowed under the Code. Subject to applicable limitations that may vary depending on a U.S. holder's circumstances, Israeli taxes withheld from dividends on the ADRs at the rate provided by the U.S.-Israel tax treaty will be creditable against a U.S. holder's U.S. federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. The rules governing foreign tax credits are complex, and, therefore, you should consult your own tax advisor regarding the availability of foreign tax credits in your particular circumstances. Instead of claiming a credit, a U.S. holder may elect to deduct such otherwise creditable Israeli taxes in computing taxable income, subject to generally applicable limitations.

### **Transfers of ADRs**

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A U.S. holder that sells or otherwise disposes of ADRs generally will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference between the U.S. dollar value of the amount realized and the tax basis, determined in U.S. dollars, in the ADRs. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

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### **Non-U.S. Holders**

#### *The Debentures*

Subject to the discussion below concerning backup withholding, payments of principal, interest and premium on the debentures by Teva Finance or any paying agent to any Non-U.S. Holder will not be subject to U.S. federal withholding tax, provided that, in the case of interest,

the Non-U.S. Holder does not own, actually or constructively, 10 percent or more of the total combined voting power of all classes of stock of Teva Finance or Teva USA entitled to vote and is not a controlled foreign corporation related, directly or indirectly, to Teva Finance or Teva USA through stock ownership; and

the certification requirement described below has been fulfilled with respect to the beneficial owner, as discussed below.

Subject to the discussion below concerning backup withholding, a Non-U.S. Holder of a debenture will not be subject to U.S. federal income tax on gain realized on the sale, exchange or other disposition of such debenture, unless the gain is effectively connected with the conduct by the Holder of a trade or business in the United States (and if an income tax treaty applies, to a permanent establishment in the United States).

#### *Certification Requirement*

Interest will not be exempt from U.S. withholding tax unless the beneficial owner of the debenture certifies on Internal Revenue Service Form W-8BEN, under penalties of perjury, that it is not a U.S. person. If the beneficial owner of a debenture fails to make this certification, payments of interest on that debenture will be subject to U.S. federal withholding tax at a rate of 30%.

If a Non-U.S. Holder of a debenture is engaged in a trade or business in the United States, and if interest on the debenture is effectively connected with the conduct of this trade or business (and, if an income tax treaty applies, is attributable to a permanent establishment or fixed base maintained by the Non-U.S. Holder in the United States), the Non-U.S. Holder, although exempt from the withholding tax discussed in the preceding paragraph, will generally be taxed in the same manner as a U.S. Holder (see Tax Consequences to U.S. Holders above), subject to any applicable income tax treaty providing otherwise, except that the Holder will be required to provide to Teva Finance a properly executed Internal Revenue Service Form W-8ECI in order to claim an exemption from withholding tax. These holders should consult their own tax advisors with respect to other U.S. tax consequences of the ownership and disposition of debentures including the possible imposition of a 30% branch profits tax.

#### *Dividends on ADRs*

A non-U.S. holder is not subject to U.S. federal income tax with respect to dividends paid on ADRs unless the dividends are effectively connected with the non-U.S. holder's conduct of a trade or business in the United States and, if required by an applicable income tax treaty as a condition for U.S. taxation, the dividends are attributable to a permanent establishment maintained in the United States. In such cases, a

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non-U.S. holder will be taxed in the same manner as a U.S. holder. A corporate non-U.S. holder may also, under certain circumstances, be subject to an additional branch profits tax at a 30% rate, or at a lower rate if that corporate non-U.S. holder is eligible for the benefits of an income tax treaty providing for a lower rate, with respect to dividends that are effectively connected with its conduct of a trade or business in the United States.

### *Transfers of ADRs*

A non-U.S. holder will not be subject to U.S. federal income tax on gain recognized on the sale or other disposition of ADRs unless (i) the gain is effectively connected with the non-U.S. holder's conduct of a trade or business in the United States and, if required by an applicable income tax treaty as a condition for U.S.

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taxation, the gain is attributable to a permanent establishment maintained in the United States or (ii) the non-U.S. holder is an individual and present in the United States for at least 183 days in the taxable year of the sale and certain other conditions are met. In such cases, a non-U.S. holder will be taxed in the same manner as a U.S. holder. A corporate non-U.S. holder may also, under certain circumstances, be subject to an additional branch profits tax at a 30% rate, or at a lower rate if eligible for the benefits of an income tax treaty that provides for a lower rate, on effectively connected gains recognized.

## **Information Reporting and Backup Withholding**

*U.S. holders:* Information returns will be filed with the Internal Revenue Service in connection with payments on the debentures, dividends on the ADRs and the proceeds from a sale or other disposition of the debentures or ADRs. A U.S. Holder will be subject to U.S. backup withholding tax on these payments if the U.S. Holder fails to provide its taxpayer identification number to the paying agent and comply with certain certification procedures or does not otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is furnished to the Internal Revenue Service.

*Non-U.S. holders:* Information returns will be filed with the U.S. Internal Revenue Service in connection with payments on the debentures and dividends on the ADRs. Unless the Non-U.S. Holder complies with certification procedures to establish that it is not a U.S. person, information returns may be filed with the U.S. Internal Revenue Service in connection with the proceeds from a sale or other disposition of the debentures or ADRs, and the Non-U.S. Holder may be subject to U.S. backup withholding tax on payments on the debentures, dividends on the ADRs, or on the proceeds from a sale or other disposition of the debentures or ADRs. The certification procedures required to claim the exemption from withholding tax on interest described above will satisfy the certification requirements necessary to avoid the backup withholding tax as well. The amount of any backup withholding from a payment to a Non-U.S. Holder will be allowed as a credit against the Non-U.S. Holder's U.S. federal income tax liability and may entitle the Non-U.S. Holder to a refund, provided that the required information is furnished to the Internal Revenue Service.

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**ISRAELI TAX ISSUES**

*The following is a summary of certain material Israeli tax considerations relating to the purchase, ownership and disposition of the debentures and of ADRs into which the debentures may be converted by persons who are not residents of the State of Israel. It is not, however, a complete analysis of all the potential tax considerations that may be applicable to all potential investors.*

**The following discussion is for general information only. Investors considering the purchase of debentures should consult their own tax advisors with respect to the application of Israeli income tax laws to their particular situations as well as any tax consequences arising under any non-Israeli taxing jurisdiction or under any applicable tax treaty.**

**Withholding Taxes on Interest Payable by Teva to Non-Israeli Residents**

An Israeli company paying interest on a debenture denominated in a foreign currency to an individual that is a non-Israeli resident is generally subject to a 20% withholding tax (except for interest paid to holders of 10% or more of the share capital of the company, who are subject to tax according to their marginal tax rate). Taxes to be withheld from non-Israeli residents with respect to interest received from an Israeli company may be reduced under an applicable tax treaty.

An Israeli company paying interest on a similar debenture to a non-Israeli resident corporate entity will be subject to 25% withholding tax.

The Israeli holding tax would only apply if Teva as a guarantor pays interest on the debentures.

In the event that interest is paid by Teva as guarantor to a United States resident entitled to the reduced tax rate under the U.S.-Israel tax treaty, then the tax rate on such gross interest amounts shall not exceed 17.5%.

Teva and Teva Finance have agreed to pay certain additional amounts in connection with withholding taxes or deductions that may be imposed by Israeli or United States authorities. See [Description of the Debentures and the Guarantees](#) [Additional Tax Amounts](#).

**Withholding Taxes on Dividends Distributed by Teva to Non-Israeli Residents**

Dividends distributed by an Israeli company to non-Israeli residents are generally subject to a 20% tax to be withheld at source. In the case of dividends distributed from taxable income attributable to an approved enterprise, the tax rate will be 15%. Such tax rates apply unless a lower rate is provided in a treaty between Israel and the shareholder's country of residence.



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Under the U.S.-Israel tax treaty, the maximum Israeli tax and withholding tax on dividends paid to a holder of ordinary shares or ADRs who is a resident of the United States is generally 25%, but is reduced to 12.5% if the dividends are paid to a corporation that holds in excess of 10% of the voting rights of Teva during Teva's taxable year preceding the distribution of the dividend and the portion of Teva's taxable year in which the dividend was distributed. Dividends of an Israeli company derived from the income of an approved enterprise will still be subject to a 15% dividend withholding tax; if the dividend is attributable partly to income derived from an approved enterprise, and partly to other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the two types of income. The withheld tax is the final tax in Israel on dividends paid to nonresidents who do not conduct a business in Israel. The rate of tax withheld on the dividends declared and paid for the first nine months of 2005 was 18%.

A non-resident of Israel who has interest or dividend income derived from or accrued in Israel, from which tax was withheld at the source, is generally exempt from the duty to file tax returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the taxpayer.

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**Capital Gains and Income Taxes Applicable to Non-Israeli Shareholders**

Israeli law generally imposes a capital gains tax on the sale of securities and any other capital asset. If the ordinary shares of an Israeli company are traded on a recognized stock exchange (including the Tel Aviv Stock Exchange and NASDAQ), gains on the sale of ordinary shares held by non-Israeli tax resident investors will generally be exempt from Israeli capital gains tax. Notwithstanding the foregoing, dealers in securities in Israel are taxed at regular tax rates applicable to business income.

In addition, the U.S.-Israeli tax treaty exempts U.S. residents who hold an interest of less than 10% in an Israeli company, including Teva, and who did not hold an interest of 10% or more in the company at any time during the 12 months prior to a sale of their shares, from Israeli capital gains tax in connection with such sale. Certain other tax treaties to which Israel is a party also grant exemptions from Israeli capital gains taxes.

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**Table of Contents****UNDERWRITING**

We have entered into an underwriting agreement with Lehman Brothers Inc., Credit Suisse Securities (USA) LLC and Bear, Stearns & Co. Inc. as representatives of the underwriters, pursuant to which, and subject to its terms and conditions, we have agreed to sell to the underwriters and the underwriters have severally agreed to purchase from us the principal amount of debentures set forth in the following table.

<b>Underwriters</b>	<b>Principal Amount of Debentures</b>
Lehman Brothers Inc.	\$[•]
Credit Suisse Securities (USA) LLC	[•]
Bear, Stearns & Co. Inc.	[•]
[•]	[•]
[•]	[•]
[•]	[•]
<b>Total</b>	<b>\$ [•]</b>

The underwriting agreement provides that the underwriters' obligations to purchase the debentures depends on the satisfaction of the conditions contained in the underwriting agreement, including:

the representations and warranties made by us to the underwriters are true;

there is no material change in the financial markets; and

we deliver customary closing documents to the underwriters.

The underwriters have advised us that they intend to offer the debentures initially at the offering price shown on the cover page of this prospectus supplement and to certain dealers at the offering price less a selling concession in each issue not to exceed \$[•] per debenture. After the initial offering of the debentures, the underwriters may change the public offering price and the concession to selected dealers.

**Option to Purchase Additional Debentures**

We have granted to the underwriters an option to purchase an aggregate of up to an additional \$[•] principal amount of debentures at the public offering price, less underwriting discounts and commissions shown on the cover page of this prospectus supplement. Any additional purchases must be consummated on or before 30 days after the date of the underwriting agreement. To the extent that the options are exercised, the underwriters will be obligated, so long as the conditions set forth in the underwriting agreement are satisfied, to purchase these additional debentures in proportion to their initial commitment as indicated in the preceding table.

**Commission and Expenses**

The following table shows the underwriting fees to be paid to the underwriters by us in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' overallotment options to purchase additional debentures. The underwriting discounts and commissions are equal to [•]% of the public offering price. The underwriters have agreed to pay certain expenses of up to \$[ ] in connection with the offering.

	<u>No Exercise</u>	<u>Full Exercise</u>
Per debenture	\$ [•]	\$ [•]
Total	[•]	[•]

The expenses of the offering that are payable by us, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding underwriting discounts and commissions, will be approximately \$[•] million.

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Prior to this offering, there has been no public market for the debentures. The underwriters have advised us that they presently intend to make a market in the debentures as permitted by applicable laws and regulations. The underwriters are not obligated, however, to make a market in the debentures, and they may discontinue this market making at any time in their sole discretion. Accordingly, we cannot assure investors that there will be adequate liquidity or adequate trading market for the debentures.

## **Price Stabilization and Short Positions**

The underwriters may engage in over-allotment and stabilizing transactions or purchases and passive market making for the purpose of pegging, fixing or maintaining the price of the debentures and Teva ADRs in accordance with Regulation M under the Securities Exchange Act of 1934:

Over-allotment involves sales by the underwriters of debentures in excess of the number of debentures the underwriter is obligated to purchase, which creates a short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of debentures over-allotted by the underwriters is not greater than the number of debentures that they may purchase with their option to purchase additional debentures. In a naked short position, the number of debentures involved is greater than the number of debentures that they may purchase with their option to purchase additional debentures. The underwriters may close out any short position by either exercising their option and/or purchasing debentures in the open market. In determining the source of debentures to close out the short position, the underwriters will consider, among other things, the price of debentures available for purchase in the open market as compared to the price at which they may purchase debentures through their option. If the underwriters sell more debentures than could be covered by their option, a naked short position, the position can only be closed out by buying debentures in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the debentures in the open market after pricing that could adversely affect investors who purchase in the offering.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. These stabilizing transactions may have the effect of raising or maintaining the market price of the debentures or preventing or retarding a decline in the market price of the debentures. As a result, the price of the debentures may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the Nasdaq National Market or otherwise, and, if commenced, may be discontinued at any time.

Passive market making consists of displaying bids on the Nasdaq National Market no higher than the bid prices of independent market makers and making purchases at prices no higher than those independent bids and effected in response to order flow. Net purchases by a passive market maker on each day are limited to a specified percentage of the passive market maker's average daily trading volume in Teva ADRs during a specified period and must be discontinued when such limit is reached. Passive market making may cause the price of Teva ADRs to be higher than the price that otherwise would exist in the open market in the absence of such transactions. If passive market making is commenced, it may be discontinued at any time.

Neither we nor the underwriters make any representations or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the debentures. In addition, neither we nor the underwriters make representations that the representatives will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

## **Electronic Distributions**

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This prospectus supplement and the accompanying prospectus in electronic format may be made available on the Internet sites or through other online services maintained by one or more of the underwriters or by their affiliates. In these cases, prospective investors may view offering terms online and, depending upon the

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underwriter, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of debentures for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations.

Other than this prospectus supplement and the accompanying prospectus in electronic format, the information on any underwriter's web site and any information contained in any other web site maintained by any underwriter is not a part of this prospectus supplement and the attached prospectus, has not been approved and/or endorsed by us or the underwriters in their capacity as underwriters and should not be relied upon by investors.

## **Lock-up Agreements**

Teva Finance and Teva have agreed that, unless we receive the prior written consent of Lehman Brothers Inc., Credit Suisse Securities (USA) LLC and Bear, Stearns & Co. Inc., we may not, subject to certain customary exceptions and other than Teva ADRs to be issued in the Ivax acquisition and under Ivax stock option plans, during the period ending 90 days after the date of the prospectus supplement, directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to sale of or otherwise transfer or dispose of any Teva ADRs or any security convertible into Teva ADRs or substantially similar securities.

Teva Finance and Teva have agreed with the underwriters of our concurrent public offering of our [●]% Senior Notes due 2016 in an aggregate principal amount of \$[●] and our [●]% Senior Notes due 2036 in the aggregate principal amount of \$[●] that, unless we receive the prior written consent of the representatives of that offering, we may not, subject to certain customary exceptions, including borrowings pursuant to existing bank credit lines, during the period ending 90 days after the date of the prospectus supplement relating to those securities, directly or indirectly, offer, sell, or contract to sell, or otherwise dispose of any debt securities issued or guaranteed by Teva Finance or Teva.

## **Indemnification**

We have agreed to indemnify the underwriters against liabilities relating to the offering, including liabilities under the Securities Act of 1933 and liabilities arising from breaches of certain representations and warranties contained in the underwriting agreement, and to contribute to payments that the underwriters may be required to make for these liabilities.

## **Stamp Taxes**

Purchasers of the debentures offered by this prospectus supplement may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering price listed on the cover page of this prospectus supplement. Accordingly, we urge you to consult a tax advisor with respect to whether you may be required to pay taxes or charges, as well as any other consequences that may arise under the laws of the country of purchase.

**Israeli Legal Matters**

This prospectus supplement and the accompanying prospectus are not, and under no circumstances are to be construed as, an advertisement or a public offering of securities in Israel. Any public offer or sale of notes in Israel may be made only in accordance with the Israeli Securities Act 1968 (which requires, *inter alia*, the filing of a prospectus in Israel) or under an exemption from the requirements of the Israeli Securities Act 1968 (which has not been provided nor requested).

**United Kingdom Legal Matters**

Each underwriter has represented and warranted that:

- (1) It has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of

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Section 21 of the Financial Services and Markets Act 2000 (the FSMA ) received by it in connection with the issue or sale of the debentures in circumstances in which Section 21(1) of the FSMA does not apply to us or Teva Finance.

- (2) It has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the debentures in, from or otherwise involving the United Kingdom.

We have agreed that we will not issue any press or other public announcement referring to the proposed issue of the debentures unless the announcement adequately disclosed or will disclose that stabilizing action may take place in relation to the debentures and that we have not taken any other action that may result in the loss of the stabilization safe harbor by the representative.

## **European Economic Area Legal Matters**

In relation to each Member State of the European Economic Area (each, a Relevant Member State ), each underwriter has represented and agreed that it has not made and will not make an offer of the debentures to the public in that Relevant Member State that would require the publication or approval of a prospectus in relation to the debentures in that Relevant Member State or, where appropriate, another Relevant Member State; subject to such restriction it may make an offer of debentures to the public in that Relevant Member State at any time:

- (1) to legal entities that are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (2) to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts; or
- (3) in any other circumstances that do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For purposes of this provision, the expression an offer of debentures to the public in relation to any debentures in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the debentures to be offered so as to enable an investor to decide to purchase or subscribe for the debentures, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

## **Other Legal Matters**

Each underwriter has represented and agreed that it will comply with applicable laws and regulations in each jurisdiction (including each jurisdiction in the European Economic Area that has not, as of the date of this prospectus supplement, implemented the Prospectus Directive) in which it acquires, offers, sells or delivers the notes, or has in its possession or distributes any free writing prospectus and any preliminary prospectus or final prospectus relating to the notes.

**Other Relationships**

From time to time, the underwriters and their respective affiliates have directly and indirectly provided investment and/or commercial banking services to us and Ivax, for which they have received customary compensation and expense reimbursement, including, but not limited to, serving as:

Financial advisors to us and Ivax in connection with the merger with Ivax and providing commitments for bridge loan facilities and otherwise assisting in obtaining financing necessary to consummate the proposed merger;

Initial purchasers and providing investment banking services for our concurrent public offering of our (i) [●]% Senior Notes due 2016 in an aggregate principal amount of \$[●] and our [●]% Senior Notes due 2036 in an aggregate principal amount of \$[●] and (ii) [●]% Convertible Senior Debentures due 2026 in an aggregate principal amount of \$[●]; and

Lenders under our and Ivax's other credit facilities.

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The underwriters and their respective affiliates may directly or indirectly provide investment and/or commercial banking services to us in the future, for which we expect to pay them customary compensation and expense reimbursement.

Affiliates of Lehman Brothers Inc. and Credit Suisse Securities (USA) LLC are lenders under that certain Loan Agreement, dated as of January 18, 2006, by and among Teva, Ivory Acquisition Sub, Inc., a wholly owned subsidiary of Teva, the several banks and other financial institutions parties thereto, Lehman Brothers Inc., as sole lead arranger and sole bookrunner, Credit Suisse First Boston LLC, as syndication agent, and Lehman Commercial Paper Inc., as administrative agent. We expect that on January 26, 2006, we will borrow approximately \$2 billion from the lenders under this bridge facility to partially finance our pending acquisition of Ivax and the transactions contemplated thereby. Because we intend to use the net proceeds from this offering to repay such indebtedness, affiliates of some of the underwriters will receive more than 10% of the net proceeds from this offering through such repayment. As a result, we are conducting this offering in compliance with Rule 2710(h) of the Conduct Rules of the National Association of Securities Dealers, Inc., or NASD. The NASD does not, however, require that we use a qualified independent underwriter for this offering because a bona fide independent market exists for our common stock.

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**EXPERTS**

The consolidated financial statements of Teva as of December 31, 2004 and 2003, and for each of the three years in the period ended December 31, 2004 incorporated in this prospectus supplement by reference to Teva's Annual Report on Form 20-F for the year ended December 31, 2004, have been so incorporated in reliance on the audit report of Kesselman & Kesselman, independent registered public accounting firm in Israel and a member of PricewaterhouseCoopers International Limited, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of Ivax at December 31, 2004 and 2003, and for each of the three years in the period ended December 31, 2004, included in Teva's Report of Foreign Private Issuer filed on December 16, 2005 (Form 6-K), which is referred to and incorporated by reference in this prospectus supplement, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report appearing therein, and are incorporated by reference in reliance upon such report given on the authority of such firm as experts in auditing and accounting.

**LEGAL MATTERS**

Certain legal matters with respect to United States and New York law with respect to the validity of the debentures offered by this prospectus supplement and of the ADRs issuable upon conversion thereof will be passed upon for the issuers by Willkie Farr & Gallagher LLP, New York, New York. Certain legal matters with respect to Israeli law with respect to the validity of the debentures offered by this prospectus supplement and of the ADRs issuable upon conversion thereof will be passed upon for the issuers by Tulchinsky-Stern & Co., Israel. Certain legal matters relating to this offering will be passed upon for the underwriters by Cleary Gottlieb Steen & Hamilton LLP, New York, New York and by Meitar Liquornik Geva & Leshem Brandwein, Ramat Gan, Israel.

**WHERE YOU CAN FIND MORE INFORMATION**

This prospectus supplement is part of a registration statement that we filed with the SEC. The registration statement, including the attached exhibits, contains additional relevant information about us. The rules and regulations of the SEC allow us to omit some of the information included in the registration statement from this prospectus supplement. In addition, we file annual and special reports and other information with the SEC. You may read and copy such material at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549, as well as at the SEC's regional offices. You may also obtain copies of such material from the SEC at prescribed rates by wiring to the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms.

The SEC maintains an Internet website at <http://www.sec.gov> that contains reports, proxy, information statements and other material that are filed through the SEC's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system and filed electronically with the SEC. We began filing through the EDGAR system beginning on October 31, 2002.

Our ADSs are quoted on the Nasdaq National Market under the symbol TEVA. You may inspect certain reports and other information concerning us at the offices of the National Association of Securities Dealers, Inc., 1735 K Street, N.W., Washington, D.C. 20006.

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Information about us is also available on our website at <http://www.tevapharm.com>. Such information on our website is not part of this prospectus supplement.

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**TEVA PHARMACEUTICAL INDUSTRIES LIMITED**

*American Depositary Shares, each representing  
one Ordinary Share, Debt Securities,  
Purchase Contracts, Units and Warrants*

**TEVA PHARMACEUTICAL FINANCE COMPANY, LLC**

**TEVA PHARMACEUTICAL FINANCE III, LLC**

**TEVA PHARMACEUTICAL FINANCE COMPANY B.V.**

*Debt Securities, fully and unconditionally guaranteed by*

**TEVA PHARMACEUTICAL INDUSTRIES LIMITED**

We and our finance subsidiaries may offer and sell from time to time:

American Depositary Shares, or ADSs, each representing one ordinary share;

senior or subordinated debt securities;

purchase contracts;

units; and

warrants.

We will provide the specific terms and initial public offering prices of these securities in supplements to this prospectus. You should read this prospectus and any supplement carefully before you invest.

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We may sell these securities to or through underwriters and also to other purchasers or through agents. The names of any underwriters or agents will be stated in an accompanying prospectus supplement.

Our ADSs are quoted on the Nasdaq National Market under the symbol TEVA. If we decide to list any of these other securities on a national securities exchange upon issuance, the applicable prospectus supplement to this prospectus will identify the exchange and the date when we expect trading to begin.

**Investing in our securities involves risks. See Risk Factors beginning on page 3 of this prospectus.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

**The date of this prospectus is December 20, 2005.**

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a Registration Statement that Teva and the other registrants filed with the SEC utilizing a shelf registration process. Under this shelf process, any of the registrants may, from time to time, sell the securities described in this prospectus in one or more offerings.

This prospectus provides you with a general description of the securities which we may offer and the related guarantees, if any, of those securities. Each time we sell securities we will provide a prospectus supplement that will contain specific information about the terms of the offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described below under the heading "Where You Can Find More Information" before purchasing any of our securities.

You should rely only on the information contained or incorporated by reference in this prospectus. Incorporated by reference means that we can disclose important information to you by referring you to another document filed separately with the SEC. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making, nor will we make, an offer to sell securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus and any supplement to this prospectus is current only as of the dates on their respective covers. Our business, financial condition, results of operations and prospects may have changed since that date.

Unless the context otherwise requires, references in this prospectus and any supplement to this prospectus to Teva, we, us and our refer to Teva Pharmaceutical Industries Limited and its subsidiaries, collectively. References to Teva Finance Company LLC refer to Teva Pharmaceutical Finance Company, LLC. References to Teva Finance III LLC refer to Teva Pharmaceutical Finance III, LLC. References to the LLCs refer to Teva Finance Company LLC and Teva Finance III LLC. References to Teva Finance BV refer to Teva Pharmaceutical Finance Company B.V. References to the finance subsidiaries refer to the LLCs and Teva Finance BV, collectively.

**TEVA PHARMACEUTICAL INDUSTRIES LIMITED**

We are a global pharmaceutical company producing drugs in all major treatment categories, including both generic and proprietary pharmaceutical products. We are one of the world's largest global generic drug companies and have the leading position in the U.S. generic market. We have successfully utilized our production and research capabilities to establish a global pharmaceutical operation focused on supplying the growing demand for generic drugs and on opportunities for proprietary branded products for specific niche categories, with our leading branded drug being Copaxone® for multiple sclerosis. Our active pharmaceutical ingredients business provides both significant revenues and profits from sales to third party manufacturers and strategic benefits to our own pharmaceutical production through its timely delivery of significant raw materials.

We are a party to a merger agreement entered into among us, IVAX Corporation ( Ivax ) and two newly formed subsidiaries of ours, Ivory Acquisition Sub, Inc. and Ivory Acquisition Sub II, Inc. Under the merger agreement, and on the terms and subject to the conditions stated therein, Ivory Acquisition Sub, Inc. will merge with and into Ivax, with Ivax surviving the merger. Immediately thereafter, Ivax will merge with and into Ivory Acquisition Sub II, Inc., with Ivory Acquisition Sub II, Inc. continuing as the surviving corporation and as our wholly owned subsidiary. Closing of the merger agreement remains subject to obtaining clearance under the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the satisfaction of the other closing conditions contained in the merger agreement.

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We were incorporated in Israel on February 13, 1944 and are the successor to a number of Israeli corporations, the oldest of which was established in 1901. Our executive offices are located at 5 Basel Street, P.O. Box 3190, Petach Tikva 49131 Israel, telephone number 972-3-926-7267.

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**FINANCE SUBSIDIARIES**

Teva has organized various finance subsidiaries for the purpose of issuing debt securities pursuant to this prospectus. There are no separate financial statements of the finance subsidiaries in this prospectus because these entities are, or will be treated as, subsidiaries of Teva for financial reporting purposes. We do not believe the financial statements would be helpful to the holders of the securities of these entities because:

Teva is a reporting company under the Securities Exchange Act of 1934 (referred to in this prospectus as the Exchange Act ) and owns, directly or indirectly, all of the voting interests of these entities;

these entities do not have any independent operation and do not propose to engage in any activities other than issuing securities and investing the proceeds in Teva or its affiliates; and

these entities' obligations under the securities will be fully and unconditionally guaranteed by Teva.

These entities are exempt from the information reporting requirements of the Exchange Act.

***Teva Finance Company LLC***

Teva Finance Company LLC is a limited liability company that was formed on December 16, 2005 under the Delaware Limited Liability Company Act, as amended. Its address is 1090 Horsham Road, North Wales, Pennsylvania 19454, telephone number (215) 591-3000.

***Teva Finance III LLC***

Teva Finance III LLC is a limited liability company that was formed on December 5, 2003 under the Delaware Limited Liability Company Act, as amended. Its address is 1090 Horsham Road, North Wales, Pennsylvania 19454, telephone number (215) 591-3000.

***Teva Finance BV***

Teva Finance BV is a Netherlands Antilles limited liability company that was formed on November 23, 2005. Its address is Teva Pharmaceutical Finance Company B.V., Schottegatweg Oost 29-D, Curaçao, Netherlands Antilles, telephone number +5999 7366066.

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**RISK FACTORS**

*Before you invest in our securities, you should carefully consider the risks involved. In addition, we may include additional risk factors in a prospectus supplement to the extent there are additional risks related to the securities offered by that prospectus supplement. Accordingly, you should carefully consider the following factors, other information in this prospectus or in the documents incorporated by reference and any additional risk factors included in the relevant prospectus supplement:*

***Risks Associated with Teva and the Pharmaceutical Industry***

***Our success depends on our ability to successfully develop and commercialize additional pharmaceutical products.***

Our future results of operations depend, to a significant degree, upon our ability to successfully commercialize additional generic and innovative branded pharmaceutical products. We must develop, test and manufacture generic products as well as prove that our generic products are the bio-equivalent of their branded counterparts. All of our products must meet and continue to comply with regulatory and safety standards and receive regulatory approvals; we may be forced to withdraw a product from the market if health or safety concerns arise with respect to such product. The development and commercialization process, particularly with respect to innovative products, is both time consuming and costly and involves a high degree of business risk. Our products currently under development, if and when fully developed and tested, may not perform as we expect, necessary regulatory approvals may not be obtained in a timely manner, if at all, and we may not be able to successfully and profitably produce and market such products. Delays in any part of the process or our inability to obtain regulatory approval of our products (including certain products filed by Andrx Corporation, IMPAX Laboratories Inc. and Biovail Corporation, for which we have exclusive marketing rights) could adversely affect our operating results by restricting or delaying our introduction of new products. The continuous introduction of new generic products is critical to our business.

***Our revenues and profits from any particular generic pharmaceutical products decline as our competitors introduce their own generic equivalents.***

Selling prices of generic drugs typically decline, sometimes dramatically, as additional companies receive approvals for a given product and competition intensifies. To the extent that we succeed in being the first to market a generic version of a significant product, and particularly if we obtain the 180-day period of market exclusivity for the U.S. market provided under the Hatch-Waxman Act, our sales, profit and profitability can be substantially increased in the period following the introduction of such product and prior to a competitor's introduction of the equivalent product or the launch of an authorized generic. Our ability to sustain our sales and profitability on any product over time is dependent on both the number of new competitors for such product and the timing of their approvals. Our overall profitability depends, among other things, on our ability to continuously and timely introduce new products.

***Our generic pharmaceutical products face intense competition from brand-name companies that sell or license their own generic products or seek to delay the introduction of generic products.***

Brand-name pharmaceutical companies have taken aggressive steps to thwart competition from generic companies. In particular, brand-name companies continue to sell or license their products directly or through licensing arrangements or strategic alliances with generic pharmaceutical companies (so-called "authorized generics"). No significant regulatory approvals are required for a brand-name company to sell directly or through

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a third party to the generic market. Brand-name companies do not face any other significant barriers to entry into such market. In addition, such companies continually seek new ways to delay generic introduction and decrease the impact of generic competition, such as

filing new patent applications on drugs whose original patent protection is about to expire;

filing an increasing number of patent applications that are more complex and costly to challenge;

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filing suits for patent infringement that automatically delay FDA approval;

filing citizens petitions with the FDA contesting approval of the generic version of the product due to alleged health and safety issues;

developing controlled-release or other next-generation products, which often reduces demand for the generic version of the existing product for which we are seeking approval;

changing product claims and product labeling; or

developing and marketing as over-the-counter products those branded products which are about to face generic competition.

These strategies may increase the costs and risks associated with our efforts to introduce generic products and may delay or prevent such introduction altogether.

***Changes in the regulatory environment may prevent us from utilizing the exclusivity periods that are important to the success of our generic products.***

The FDA's policy regarding the award of 180-days market exclusivity to generic manufacturers who challenge patents relating to specific products continues to be the subject of extensive litigation in the United States. The FDA's current interpretation of the Hatch-Waxman Act is to award 180 days of exclusivity to the first generic manufacturer who files a Paragraph IV certification under the Act challenging the patent of the branded product, regardless of whether the generic manufacturer was sued for patent infringement. Although the FDA's interpretation may benefit some of the products in our pipeline, it may adversely affect others.

The Medicare Prescription Drug Act provides that the 180-day market exclusivity period provided under the Hatch-Waxman Act is only triggered by the commercial marketing of the product. However, the Medicare Act also contains forfeiture provisions which, if met, will deprive the first Paragraph IV filer of exclusivity. As a result, under certain circumstances, we may not be able to exploit our 180-day exclusivity period since it may be forfeited prior to our being able to market the product.

In addition, legal and administrative battles over triggering dates and shared exclusivities may also prevent us from fully utilizing the exclusivity periods.

***If we elect to sell a generic product prior to any court decision or prior to the completion of all appellate level patent litigation, we could be subject to liabilities for damages.***

At times we or our partners seek approval to market generic products before the expiration of patents for those products, based upon our belief that such patents are invalid, unenforceable, or would not be infringed by our products. As a result, we are involved in a number of patent litigations the outcome of which could materially adversely affect our business. Based upon a complex analysis of a variety of legal and commercial factors, we may, in certain circumstances, elect to market a generic product even though litigation is still pending. This could be

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before any court decision is rendered or while an appeal of a lower court decision is pending. To the extent we elect to proceed in this manner, we could face substantial liability for patent infringement if the final court decision is adverse to us and could be required to cease the sale of certain products. For example, we launched, and continue to sell, generic versions of Allegra<sup>®</sup>, Neurontin<sup>®</sup>, Oxycontin<sup>®</sup> and Zithromax<sup>®</sup> despite the fact that appellate litigation with the branded companies was still pending. Our ability to introduce new products may depend upon our ability to successfully challenge patent rights held by branded companies.

*Our sales of Copaxone<sup>®</sup> could be adversely affected by competition.*

Copaxone<sup>®</sup> is our leading innovative product, from which we derive substantial revenues and profits. To date, we and our marketing partners have been successful in our efforts to establish Copaxone<sup>®</sup> as a leading therapy for multiple sclerosis and have increased our global market share among the currently available major therapies for multiple sclerosis. However, Copaxone<sup>®</sup> faces intense competition from existing products, such as

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Avonex<sup>®</sup>, Betaseron<sup>®</sup> and Rebif<sup>®</sup>. We may also face competition from additional products in development or a product which may be re-introduced into the market. In addition, the exclusivity protections afforded us in the United States through orphan drug status for Copaxone<sup>®</sup> expired on December 20, 2003. If our patents on Copaxone<sup>®</sup> are successfully challenged, we may also face generic competition for this product.

*We are subject to government regulation that increases our costs and could prevent us from marketing or selling our products.*

We are subject to extensive pharmaceutical industry regulations in the United States, Canada, the European Union, and its member states including England, Hungary, The Netherlands, France and Italy, in Israel and in other jurisdictions. We cannot predict the extent to which we may be affected by legislative and other regulatory developments concerning our products. We are also subject to various environmental laws and regulations in the jurisdictions where we have manufacturing operations.

We are dependent on obtaining timely approvals before marketing most of our products. In the United States, any manufacturer failing to comply with FDA or other applicable regulatory agency requirements may be unable to obtain approvals for the introduction of new products and, even after approval, initial product shipments may be delayed. The FDA also has the authority to revoke drug approvals previously granted and remove from the market previously approved drug products containing ingredients no longer approved by the FDA. Our major facilities, both in the United States and outside the United States, and products are periodically inspected by the FDA, which has extensive enforcement powers over the activities of pharmaceutical manufacturers, including the power to seize, force to recall and prohibit the sale or import of non-complying products, and halt operations of and criminally prosecute non-complying manufacturers.

In Europe and Israel, the manufacture and sale of pharmaceutical products is regulated in a manner substantially similar to that in the United States. Legal requirements generally prohibit the handling, manufacture, marketing and importation of any pharmaceutical product unless it is properly registered in accordance with applicable law. The registration file relating to any particular product must contain medical data related to product efficacy and safety, including results of clinical testing and references to medical publications as well as detailed information regarding production methods and quality control. Health ministries are authorized to cancel the registration of a product if it is found to be harmful or ineffective or manufactured and marketed other than in accordance with registration conditions.

Data exclusivity provisions exist in many countries worldwide, although their application is not uniform. Similar provisions may be adopted or modified by additional countries. Data exclusivity provisions were recently modified in the European Union and adopted in Israel. In general, these exclusivity provisions prevent the approval and/or submission of generic drug applications to the health authorities for a fixed period of time following the first approval of a novel brand name product in that country. As these exclusivity provisions operate independently of patent exclusivity, they may prevent the approval and/or submission of generic drug applications for some products even after the patent protection has expired.

*We may not be able to successfully identify, consummate and integrate future acquisitions, including our pending acquisition of Ivax.*

In the past, we have grown, in part, through a number of significant acquisitions, including our pending acquisition of Ivax and our recent acquisition of Sicor Inc. We continue to be engaged in various stages of evaluating or pursuing potential acquisitions and may in the future acquire other pharmaceutical and active pharmaceutical ingredients businesses and seek to integrate them into our own operations. In particular, we have recently agreed to acquire Ivax for an aggregate of approximately \$7.8 billion in cash and ADSs, based on the value of our ADSs at the time of the agreement. Closing of the acquisition remains subject to various conditions, including clearance under the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976. For a more detailed discussion regarding our acquisition of Ivax, read carefully the section below entitled Risks Associated with our Pending Acquisition of Ivax.





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Future acquisitions involve known and unknown risks that could adversely affect our future revenues and operating results. For example:

We compete with others to acquire companies. We believe that this competition has intensified and may result in decreased availability or increased prices for suitable acquisition candidates.

We may not be able to obtain the necessary regulatory approvals, including the approval of anti-competition regulatory bodies, in any countries in which we may seek to consummate potential acquisitions.

We may ultimately fail to consummate an acquisition even if we announce that we plan to acquire a company.

We may fail to successfully integrate our acquisitions in accordance with our business strategy.

Potential acquisitions may divert management's attention away from our primary product offerings, resulting in the loss of key customers and/or personnel and expose us to unanticipated liabilities.

We may not be able to retain the skilled employees and experienced management that may be necessary to operate the businesses we may acquire and, if we cannot retain such personnel, we may not be able to locate or hire new skilled employees and experienced management to replace them.

We may purchase a company that has contingent liabilities that include, among others, known or unknown patent or product liability claims.

***As a pharmaceutical company, we are susceptible to product liability claims that may not be covered by insurance, including potential claims relating to products that we previously sold or currently sell and that are not covered by insurance.***

Our business inherently exposes us to claims relating to the use of our products. We sell, and will continue to sell, pharmaceutical products for which product liability insurance coverage is not available, and accordingly, we may be subject to claims that are not covered by insurance as well as claims that exceed our policy limits. Additional products for which we currently have coverage may be excluded in the future. In addition, product liability coverage for pharmaceutical companies is becoming more expensive and increasingly difficult to obtain. As a result, we may not be able to obtain the type and amount of coverage we desire. Because of the nature of these claims, we are generally not permitted under U.S. GAAP to establish reserves in our accounts for such contingencies.

***Reforms in the health care industry and the uncertainty associated with pharmaceutical pricing, reimbursement and related matters could adversely affect the marketing, pricing and demand for our products.***

Increasing expenditures for health care have been the subject of considerable public attention in Israel, North America and many European countries. Both private and governmental entities are seeking ways to reduce or contain health care costs. In many countries in which we currently operate, including Israel, pharmaceutical prices are subject to regulation. In the United States, numerous proposals that would effect changes in the United States health care system have been introduced or proposed in Congress and in some state legislatures. Similar activities are taking place throughout Europe. We cannot predict the nature of the measures that may be adopted or their impact on the marketing, pricing and demand for our products.

*The success of our innovative products depends on the effectiveness of our patents and confidentiality agreements to defend our intellectual property rights.*

Our success with our innovative products depends, in part, on our ability to protect our current and future innovative products and to defend our intellectual property rights. If we fail to adequately protect our intellectual property, competitors may manufacture and market products identical or similar to ours. We have been issued numerous patents covering our innovative products, and have filed, and expect to continue to file, patent applications seeking to protect newly developed technologies and products in various countries, including the

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United States. Any existing or future patents issued to or licensed by us may not provide us with any competitive advantages for our products or may even be challenged, invalidated or circumvented by competitors. In addition, such patent rights may not prevent our competitors from developing, using or commercializing products that are similar or functionally equivalent to our products.

We also rely on trade secrets, unpatented proprietary know-how, trademarks, data exclusivity and continuing technological innovation that we seek to protect, in part, by confidentiality agreements with licensees, suppliers, employees and consultants. It is possible that these agreements will be breached and we will not have adequate remedies for any such breach. Disputes may arise concerning the ownership of intellectual property or the applicability of confidentiality agreements. Furthermore, our trade secrets and proprietary technology may otherwise become known or be independently developed by our competitors or, if patents are not issued with respect to products arising from research, we may not be able to maintain the confidentiality of information relating to such products.

***We have significant international operations, including in Israel, which may be adversely affected by acts of terrorism, major hostilities or adverse legislation or litigation.***

Significant portions of our operations are conducted outside of the United States, and we import a substantial number of products into the United States. We may, therefore, be directly affected and denied access to our customers by a closure of the borders of the United States for any reason or as a result of other economic, political and military conditions in the countries in which our businesses are located. We may also be affected by currency exchange rate fluctuations and the exchange control regulations of such countries or other political crisis or disturbances, which impede access to our suppliers.

Our executive offices and a substantial number of our manufacturing facilities are located in Israel. Our Israeli operations are dependent upon materials imported from outside of 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 should occur in the Middle East or trade between Israel and its present trading partners should be curtailed, including as a result of acts of terrorism in the United States. Any such effects may not be covered by insurance.

We may be subject to legislation in Israel, primarily relating to patents and data exclusivity provisions, that would prevent us from exporting Israeli-manufactured products in a timely fashion. Additionally, the existence of third party patents in Israel, with the attendant risk of litigation, may cause us to move production outside of Israel or otherwise adversely affect our ability to export certain products from Israel. Although legislation addressing some of these problems has been proposed, we can not assure you that it will be enacted.

***Because we and certain of the finance subsidiaries are foreign entities, you may have difficulties enforcing your rights under the securities offered by this prospectus.***

We are an Israeli company and Teva Finance BV is a non-U.S. entity. In addition, most of our officers, directors or persons of equivalent position reside outside the United States. As a result, service of process on them may be difficult or impossible to effect in the United States. Furthermore, due to the fact that a substantial portion of our assets are located outside of the United States, it may difficult to enforce judgments obtained against us or any of our directors and officers in a United States Court. See Enforcement of Civil Liabilities below.

***Risks Associated with our Pending Acquisition of Ivax***

*We may experience difficulties in integrating Ivax's business with our existing businesses.*

The merger involves the integration of two companies that have previously operated independently. The difficulties of combining the companies operations include:

the necessity of coordinating and consolidating geographically separated organizations, systems and facilities; and

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integrating our management and personnel with that of Ivax, maintaining employee morale and retaining key employees.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of one or more of the combined company's businesses and the loss of key personnel. The diversion of management's attention and any delays or difficulties encountered in connection with the merger and the integration of the two companies' operations could have an adverse effect on the business, results of operations, financial conditions or prospects of the combined company after the merger.

Achieving the anticipated benefits of the merger will depend in part upon whether we can integrate their businesses in an efficient and effective manner. We may not accomplish this integration process smoothly or successfully. If management is unable to successfully integrate the operations of the two companies, the anticipated benefits of the merger may not be realized.

*We may not achieve the revenue and cost synergies we have anticipated for the combined company.*

Our rationale for the merger is, in part, predicated on the projected ability of the combined company to realize certain revenue and cost synergies. Achieving these synergies is dependent upon a number of factors, some of which are beyond our control. These synergies may not be realized in the amount or time frame that we currently anticipate.

*Charges to earnings resulting from the merger could have a material adverse impact on the combined company's results of operations.*

In accordance with United States generally accepted accounting principles, the combined company will allocate the total purchase price of the merger to Ivax's net tangible assets, amortizable intangible assets, intangible assets with indefinite lives and in-process research and development, based on their fair values as of the date of completion of the merger. The combined company will record the excess of the purchase price over those fair values as goodwill. The portion of the estimated purchase price allocated to in-process research and development will be expensed by the combined company in the quarter in which the merger is completed. The preliminary estimate of the amount to be expensed in the quarter in which the merger is completed related to in-process research and development is \$1,300 million. The combined company will incur additional depreciation and amortization expense over the useful lives of certain of the net tangible and intangible assets acquired in connection with the merger. Annual amortization of intangible assets of Ivax, currently estimated at \$28.4 million for 2006, will result in an estimated increase in amortization expense of \$71.6 million on an annual basis. In addition, to the extent the value of goodwill or intangible assets becomes impaired in the future, the combined company may be required to incur material charges relating to the impairment of those assets. These amortization and in-process research and development and potential impairment charges could have a material impact on the combined company's results of operations.

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**FORWARD LOOKING STATEMENTS**

Our disclosure and analysis in this prospectus contain or incorporate by reference some forward-looking statements. Forward-looking statements describe our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Such statements may include words such as anticipate, estimate, expect, project, intend, plan, believe and other similar words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these statements include, among other things, statements relating to:

our business strategy;

the development of our products;

our projected capital expenditures;

our liquidity; and

the results of our pending acquisition of Ivax.

This prospectus contains or incorporates forward-looking statements which express the beliefs and expectations of management. Such statements are based on management's current beliefs and expectations and 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 our ability to successfully develop and commercialize additional pharmaceutical products, the introduction of competing generic products, the impact of competition from brand-name companies that sell or license their own brand products under generic trade dress and at generic prices (so-called authorized generics) or seek to delay the introduction of generic products, regulatory changes that may prevent us from exploiting exclusivity periods, potential liability for sales of generic products prior to a final court decision, including that relating to the generic versions of Allegra®, Neurontin®, Oxycontin® and Zithromax®, the effects of competition on Copaxone® sales, the impact of pharmaceutical industry regulation and pending legislation that could affect the pharmaceutical industry, the difficulty of predicting U.S. Food and Drug Administration (FDA), European Medicines Agency (EMA) and other regulatory authority approvals, the regulatory environment and changes in the health policies and structures of various countries, our ability to successfully identify, consummate and integrate acquisitions, including risks related to our pending acquisition of Ivax, our potential exposure to product liability claims, our dependence on patent and other protections for innovative products, the fact that we have significant operations outside the United States that may be adversely affected by terrorism or major hostilities, fluctuations in currency, exchange and interest rates, operating results and other factors that are discussed in this prospectus and in our other filings made with the SEC.

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





**Table of Contents****RATIO OF EARNINGS TO FIXED CHARGES**

Teva's ratio of earnings to fixed charges in accordance with U.S. GAAP for the periods presented are as follows:

	(Unaudited)	Year Ended December 31,				
	Nine Months Ended					
	September 30, 2005	2004	2003	2002	2001	2000
Ratio of earnings to fixed charges	30.20	13.17	18.33	9.43	7.58	4.70

The finance subsidiaries did not have any operations for the relevant periods.

**PRICE RANGE OF ADRS AND ORDINARY SHARES****Ordinary Shares**

Teva's ordinary shares have been listed on the Tel Aviv Stock Exchange since 1951. The table below sets forth in U.S. dollars the high and low reported sales prices of the ordinary shares on the Tel Aviv Stock Exchange during the periods specified as reported by the exchange. The translation into U.S. dollars is based on the daily representative rate of exchange published by the Bank of Israel then in effect.

In each of February 2000, December 2002 and June 2004, Teva effected a 2 for 1 stock split. Each holder of an ordinary share or ADR, as the case may be, was issued another share. All figures in this prospectus have been adjusted to reflect these stock splits.

**ADRs**

Teva ADRs have been traded in the United States since early 1982 and were listed and admitted to trading on the NASDAQ in 1987. The ADRs are quoted under the symbol TEVA. The Bank of New York serves as depositary for the ADRs. In November 2002, Teva was added to the NASDAQ 100 Index. Each ADR represents one ordinary share. For a more detailed description of the ADSs and ADRs, see below under Description of American Depositary Shares.

The American Stock Exchange, the Chicago Options Exchange and the Pacific Stock Exchange quote options on ADRs under the symbol TEVA. ADRs are also traded on SEAQ International in London and on exchanges in Frankfurt and Berlin.

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The table below sets forth in U.S. dollars the high and low reported sales prices of the ADRs on NASDAQ, during the periods as specified as reported by the market, giving retroactive effect to stock splits and stock dividends:

<u>Period</u>	<u>Teva Ordinary Shares*</u>		<u>Teva ADRs*</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
	(in U.S. dollars)			
Last six months:				
December 2005 (until December 13)	44.58	40.82	44.74	40.84
November 2005	42.19	37.83	42.50	37.93
October 2005	38.44	33.44	39.30	33.50
September 2005	34.16	32.60	34.26	32.49
August 2005	33.21	30.97	33.66	31.29
July 2005	33.07	29.39	33.19	29.50
June 2005	34.08	30.64	34.05	30.80

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Period	Teva Ordinary Shares*		Teva ADRs*	
	High	Low	High	Low
(in U.S. dollars)				
Last eight quarters:				
Q4 2005 (through December 13)	44.58	33.44	44.74	33.50
Q3 2005	34.16	29.39	34.26	29.50
Q2 2005	34.08	29.90	34.25	30.00
Q1 2005	31.49	26.62	32.17	26.78
Q4 2004	29.85	23.56	30.18	22.82
Q3 2004	34.00	25.65	34.13	23.97
Q2 2004	34.86	30.74	34.66	30.10
Q1 2004	33.88	28.72	33.68	28.50
Q4 2003	30.90	27.59	31.18	26.00
Last five years:				
2004	34.86	23.56	34.66	22.82
2003	30.90	17.32	31.17	17.25
2002	19.95	13.09	20.08	12.92
2001	18.27	12.77	18.58	12.12
2000	18.62	8.13	19.68	7.98

\* Adjusted for stock splits.

**Dividends**

For over 30 years Teva has paid dividends, and since 1987 it has paid dividends on a regular quarterly basis. Future dividend payments will be reviewed by its board of directors upon conditions then existing, including Teva's earnings, financial condition, capital requirements and other factors. Dividends are declared and paid in NIS. Dividends are converted into dollars and paid by the depository of the ADRs for the benefit of owners of ADRs.

Dividends paid by an Israeli company to shareholders residing outside Israel are currently subject to withholding of Israeli income tax at a rate of up to 25% (scheduled to be reduced to 20% as of January 1, 2006, except for holders of 10% or more of the share capital of the company). In Teva's case, this rate could be lower, and the applicable withholding tax rate will depend on the particular Israeli production facilities that have generated the earnings that are the source of the dividend and, accordingly, the applicable rate will change from time to time. The rate of tax withheld on the dividends declared and paid for the first nine months of 2005 was 18%.

The following table sets forth the amounts of the dividends paid in respect of each period indicated prior to deductions for applicable Israeli withholding taxes (in cents per ADR). All figures have been adjusted to reflect the 2:1 stock splits effected by Teva in June 2004, December 2002 and February 2000. Actual dividends paid in U.S. dollars are subject to some deviation reflecting exchange rate fluctuations between the NIS (the currency in which dividends are declared) and the U.S. dollar between the declaration date and the date of actual payment.

2005	2004	2003	2002	2001	2000
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1st interim	7.0	5.0	3.7	2.2	1.7	1.4
2nd interim	7.0	5.0	3.7	2.3	1.6	1.4
3rd interim	6.0	5.0	3.7	2.3	1.6	1.4
4th interim		6.9	5.0	3.5	2.4	1.7

**Table of Contents****CAPITALIZATION**

The following table sets forth our capitalization as of September 30, 2005. You should read this table together with the unaudited consolidated financial statements and the notes thereto and our supplemental financial data incorporated by reference in this prospectus.

The number of outstanding ordinary shares includes ordinary shares held by our subsidiaries but excludes:

approximately 5.6 million ordinary shares and ordinary A shares, which do not confer on their holder voting rights or rights to appoint directors and are not listed for trading;

an aggregate of approximately 30.4 million ordinary shares issuable upon exercise of options under our stock option plans;

the shares issued by a Canadian subsidiary that are exchangeable at any time, at the discretion of the holder, into approximately 11.6 million of our ordinary shares; and

adjustments that may be required as a result of the pending acquisition of Ivax, which is subject to various conditions, including receipt of regulatory approvals.

	<b>September 30, 2005</b> <b>(Unaudited)</b>
	<b>US Dollars in</b> <b>Millions</b>
Short-term debt, including current maturities	390.0
Total short-term debt	390.0
0.50% Series A Convertible Senior Debentures due 2024 (1)	450.0
0.25% Series B Convertible Senior Debentures due 2024 (1)	619.5
0.375% Convertible Senior Debentures due 2022 (1)	443.8
Other long-term debt, net of current maturities	108.1
Total long-term debt	1,621.4
Shareholders' equity:	
Share capital and additional paid-in capital: ordinary shares of NIS 0.10 par value: authorized 1,500 million shares; issued and outstanding 634.3 million shares (2)	42.3
Additional paid-in capital	3,143.1
Deferred compensation	2,815.5
Retained earnings	183.3
Accumulated other comprehensive loss	
Cost of Teva shares held by subsidiaries	(617.1)
Total shareholders' equity	5,567.1

Total capitalization

7,578.5

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- (1) See Note 7 of the notes to our consolidated financial statements for the year ended December 31, 2004 incorporated by reference in this prospectus for a discussion of these securities.
  - (2) See Note 9 of the notes to our consolidated financial statements for the year ended December 31, 2004 incorporated by reference in this prospectus for a discussion of these securities.

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**USE OF PROCEEDS**

Unless the applicable prospectus supplement states otherwise, the net proceeds from the sale of securities offered by Teva or the finance subsidiaries will be used to finance our pending acquisition of Ivax (or to refinance indebtedness incurred in connection with the acquisition) and for other general corporate purposes. General corporate purposes may include additions to working capital, investments in or extensions of credit to our subsidiaries, the repayment of indebtedness and future acquisitions.

**DESCRIPTION OF ORDINARY SHARES**

**Description of Ordinary Shares**

The par value of Teva ordinary shares is NIS 0.10 per share, and all issued and outstanding ordinary shares are fully paid and non-assessable. Holders of paid-up ordinary shares are entitled to participate equally in the payment of dividends and other distributions and, in the event of liquidation, in all distributions after the discharge of liabilities to creditors.

Teva's board of directors may declare interim dividends and propose the final dividend with respect to any fiscal year out of profits available for dividends after statutory appropriation to capital reserves. Declaration of a final dividend (not exceeding the amount proposed by the board) requires shareholder approval through the adoption of an ordinary resolution. Dividends are declared in NIS. All ordinary shares represented by the ADRs will be issued in registered form only. Ordinary shares do not entitle their holders to preemptive rights.

Voting is on the basis of one vote per share. An ordinary resolution (for example, resolutions for the approval of final dividends and the appointment of auditors) requires the affirmative vote of a majority of the shares voting in person or by proxy. Certain resolutions (for example, resolutions amending the articles of association and authorizing changes in the rights of shareholders) require the affirmative vote of at least 75% of the shares voting in person or by proxy, and certain amendments of the articles of association require the affirmative vote of at least 85% of the shares voting in person or by proxy, unless a lower percentage shall have been established by the board of directors, approved by three-quarters of those persons voting, at a meeting of the board of directors which shall have taken place prior to that general meeting.

**Meetings of Shareholders**

Under the Israeli Companies Law, Teva is required to hold an annual meeting every year no later than fifteen months after the previous annual meeting. In addition, Teva is required to hold a special meeting:

at the direction of the board of directors;

if so requested by two directors or one-fourth of the serving directors; or

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upon the request of one or more shareholders who have at least 5% of the voting rights.

If the board of directors receives a demand to convene a special meeting, it must publicly announce the scheduling of the meeting within 21 days after the demand was delivered. The meeting must then be held no later than 35 days after the notice was made public.

The agenda at an annual meeting is determined by the board of directors. The agenda must also include proposals for which the convening of a special meeting was demanded, as well as any proposal requested by one or more shareholders who hold no less than 1% of the voting rights, as long as the proposal is one suitable for discussion at an annual meeting.

A notice of an annual meeting must be made public and delivered to every shareholder registered in the shareholders register at least 30 days before the meeting is convened. The shareholders entitled to participate and



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vote at the meeting are the shareholders as of the record date set in the decision to convene the meeting, provided that the record date is not more than 40 days, and not less than four days, before the date of the meeting, provided that notice of the general meeting was published prior to the record date.

Under the Israeli Companies Law, a shareholder who intends to vote at a meeting must demonstrate that he owns shares in accordance with certain regulations. Under these regulations, a shareholder whose shares are registered with a member of the Tel Aviv Stock Exchange must provide Teva with an authorization from such member regarding his ownership as of the record date.

## **Right of Non-Israeli Shareholders to Vote**

Neither Teva's memorandum nor its articles of association, nor the laws of the State of Israel restrict in any way the ownership or voting of the ordinary shares by nonresidents or persons who are not citizens of Israel, except with respect to citizens or residents of countries that are in a state of war with Israel.

## **Change of Control**

Under the Israeli Companies Law, a merger generally requires approval by the board of directors and by the shareholders of each of the merging companies. In approving a merger, the board of directors must determine that there is no reasonable expectation that, as a result of the merger, the merged company will not be able to meet its obligations to its creditors. Creditors may also seek a court order to enjoin or delay the merger if there is an expectation that the merged company will not be able to meet its obligations to its creditors. A court may also issue other instructions for the protection of the creditors' rights in connection with a merger.

Under the Israeli Companies Law, an acquisition of shares in a public company must be made by means of a purchase offer to all shareholders if as a result of the acquisition the purchaser would become a 25% shareholder of the company. This rule does not apply if there is already another 25% shareholder of the company.

## **DESCRIPTION OF AMERICAN DEPOSITARY SHARES**

Set forth below is a summary of the deposit agreement, as amended, among Teva, The Bank of New York as depositary, which we refer to as the depositary, and the holders from time to time of ADRs. This summary is not complete and is qualified in its entirety by the deposit agreement, a copy of which has been filed as an exhibit to the Registration Statement on Form F-6 filed with the SEC on October 6, 2005. Additional copies of the deposit agreement are available for inspection at the corporate trust office of the depositary, 101 Barclay Street, New York, New York 10286.

## **American Depositary Receipts**

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ADRs evidencing a specified number of ADSs are issuable by the depositary pursuant to the deposit agreement. Each ADS represents one ordinary share deposited with the custodian.

### **Deposit and Withdrawal of Ordinary Shares**

The depositary has agreed that, upon deposit with the custodian of ordinary shares accompanied by an appropriate instrument or instruments of transfer or endorsement in form satisfactory to the custodian and any certificates as may be required by the depositary or the custodian, the depositary will execute and deliver at its corporate trust office, upon payment of the fees, charges and taxes provided in the deposit agreement, to or upon the written order of the person or persons entitled thereto, an ADR registered in the name of such person or persons for the number of ADSs issuable with respect to such deposit.

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Every person depositing ordinary shares under the deposit agreement shall be deemed to represent and warrant that such ordinary shares are validly issued, fully paid, non-assessable ordinary shares and that such person is duly authorized to make such deposit, and the deposit of such ordinary shares or sale of ADRs by that person is not restricted under the Securities Act.

Upon surrender of ADRs at the corporate trust office of the depository, and upon payment of the fees provided in the deposit agreement, ADR holders are entitled to delivery to them or upon their order at the principal office of the custodian or at the corporate trust office of the depository of certificates representing the ordinary shares and any other securities, property or cash that the surrendered ADRs evidence the right to receive. Delivery to the corporate trust office of the depository shall be made at the risk and expense of the ADR holder surrendering ADRs.

The depository may execute and deliver ADRs prior to the receipt of ordinary shares or pre-release. The depository may deliver ordinary shares upon the receipt and cancellation of ADRs that have been pre-released, whether or not such cancellation is prior to the termination of such pre-release or the depository knows that such ADR has been pre-released. Each pre-release will be:

accompanied by a written representation from the person to whom ordinary shares or ADRs are to be delivered that such person, or its customer, owns the ordinary shares or ADRs to be remitted, as the case may be;

at all times fully collateralized with cash or such other collateral as the depository deems appropriate;

terminable by the depository with no more than five business days notice; and

subject to such further indemnities and credit regulations as the depository deems appropriate.

The number of ADRs outstanding at any time as a result of pre-releases will not normally exceed 30% of the receipts outstanding with the depository; provided, however, that the depository reserves the right to change or disregard such limit from time to time as it deems appropriate.

## **Dividends, Other Distributions and Rights**

The depository shall convert or cause to be converted into U.S. dollars, to the extent that in its judgment it can reasonably do so and transfer the resulting U.S. dollars to the United States, all cash dividends and other cash distributions denominated in a currency other than U.S. dollars that it receives in respect of the deposited ordinary shares, and to distribute the amount received, net of any fees of the depository and expenses incurred by the depository in connection with conversion, to the holders of ADRs. The amount distributed will be reduced by any amounts to be withheld by Teva or the depository for applicable taxes, net of expenses of conversion into U.S. dollars. If the depository determines that any foreign currency received by it cannot be so converted on a reasonable basis and transferred, or if any required approval or license of any government or agency is denied or not obtained within a reasonable period of time, the depository may distribute such foreign currency received by it or hold such foreign currency uninvested and without liability for interest thereon for the respective accounts of the ADR holders. If any conversion of foreign currency, in whole or in part, cannot be effected for distribution to some of the holders of ADRs entitled thereto, the depository may make such conversion and distribution in U.S. dollars to the extent permissible to such holders of ADRs and may distribute the balance of the currency received by the depository to, or hold such balance uninvested and without liability for interest thereon for the respective accounts of such holders of ADRs.

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If any distribution upon any ordinary shares deposited or deemed deposited under the deposit agreement consists of a dividend in, or free distribution of, additional ordinary shares, the depositary shall, only if Teva so requests, distribute to the holders of outstanding ADRs, on a pro rata basis, additional ADRs that represent the number of additional ordinary shares received as such dividend or free distribution subject to the terms and conditions of the deposit agreement and net of any fees and expenses of the depositary. In lieu of delivering

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fractional ADRs in the event of any such distribution, the depositary will sell the amount of additional ordinary shares represented by the aggregate of such fractions and will distribute the net proceeds to holders of ADRs. If additional ADRs are not so distributed, each ADR shall thereafter also represent the additional ordinary shares distributed together with the ordinary shares represented by such ADR prior to such distribution.

If Teva offers or causes to be offered to the holders of ordinary shares any rights to subscribe for additional ordinary shares or any rights of any other nature, the depositary, after consultation with Teva, shall have discretion as to the procedure to be followed in making such rights available to holders of ADRs or in disposing of such rights for the benefit of such holders and making the net proceeds available to such holders or, if the depositary may neither make such rights available to such holders nor dispose of such rights and make the net proceeds available to such holders, the depositary shall allow the rights to lapse; provided, however, that the depositary will, if requested by Teva, take action as follows:

if at the time of the offering of any rights the depositary determines in its discretion that it is lawful and feasible to make such rights available to all holders of ADRs or to certain holders of ADRs but not other holders of ADRs, the depositary may distribute to any holder of ADRs to whom it determines the distribution to be lawful and feasible, on a pro rata basis, warrants or other instruments therefor in such form as it deems appropriate; or

if the depositary determines in its discretion that it is not lawful and feasible to make such rights available to certain holders of ADRs, it may sell the rights, warrants or other instruments in proportion to the number of ADRs held by the holder of ADRs to whom it has determined it may not lawfully or feasibly make such rights available, and allocate the net proceeds of such sales (net of the fees of the depositary and all taxes and governmental charges) for the account of such holders of ADRs otherwise entitled to such rights, warrants or other instruments, upon an averaged or other practical basis without regard to any distinctions among such holders of ADRs because of exchange restrictions or the date of delivery of any ADR or otherwise.

The depositary shall not be responsible for any failure to determine that it may be lawful and feasible to make such rights available to holders of ADRs in general or any holder in particular.

If a holder of ADRs requests the distribution of warrants or other instruments in order to exercise the rights allocable to the ADSs of such holder, the depositary will make such rights available to such holder upon written notice from Teva to the depositary that Teva has elected in its sole discretion to permit such rights to be exercised and such holder has executed such documents as Teva has determined in its sole discretion are reasonably required under applicable law. Upon instruction pursuant to such warrants or other instruments to the depositary from such holder to exercise such rights, upon payment by such holder to the depositary for the account of such holder of an amount equal to the purchase price of the ordinary shares to be received upon the exercise of the rights, and upon payment of the fees of the depositary as set forth in such warrants or other instruments, the depositary shall, on behalf of such holder, exercise the rights and purchase the ordinary shares, and Teva shall cause the ordinary shares so purchased to be delivered to the depositary on behalf of such holder. As agent for such holder, the depositary will cause the ordinary shares so purchased to be deposited under the deposit agreement, and shall issue and deliver to such holder legended ADRs, restricted as to transfer under applicable securities laws.

The depositary will not offer to the holders of ADRs any rights to subscribe for additional ordinary shares or rights of any other nature, unless and until such a registration statement is in effect with respect to the rights and the securities to which they relate, or unless the offering and sale of such securities to the holders of such ADRs are exempt from registration under the provisions of the Securities Act and an opinion of counsel satisfactory to the depositary and Teva has been obtained.

If the depositary determines that any distribution of property is subject to any tax or other governmental charge that the depositary is obligated to withhold, the depositary may by public or private sale in Israel dispose



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of all or a portion of such property in such amounts and in such manner as the depositary deems necessary and practicable to pay any such taxes or charges, and the depositary will distribute the net proceeds of any such sale and after deduction of any taxes or charges to the ADR holders entitled thereto.

Upon any change in nominal value, change in par value, split-up, consolidation or any other reclassification of ordinary shares, or upon any recapitalization, reorganization, merger or consolidation or sale of assets affecting Teva or to which it is a party, any securities that shall be received by the depositary or the custodian in exchange for or in conversion of or in respect of ordinary shares shall be treated as newly deposited ordinary shares under the deposit agreement, and ADRs shall thenceforth represent the new ordinary shares so received in respect of ordinary shares, unless additional ADRs are delivered or the depositary calls for the surrender of outstanding ADRs to be exchanged for new ADRs.

## **Record Dates**

Whenever any cash dividend or other cash distribution shall become payable, any distribution other than cash shall be made or rights shall be issued with respect to the ordinary shares, or whenever for any reason the depositary causes a change in the number of ordinary shares that are represented by each ADR, or whenever the depositary shall receive notice of any meeting of holders of ordinary shares, the depositary shall fix a record date after consultation with Teva if such record date is different from the record date applicable to the shares, provided that the record date established by Teva or the depositary shall not occur on a day on which the shares or ADRs are not traded in Israel or the United States:

for the determination of the holders of ADRs who shall be:

entitled to receive such dividend, distribution or rights, or the net proceeds of the sale, or

entitled to give instructions for the exercise of voting rights at any such meeting; or

on or after which each ADS will represent the changed number of ordinary shares.

## **Reports and Other Communications**

Teva will furnish to the depositary and the custodian all notices of shareholders' meetings and other reports and communications that are made generally available to the holders of ordinary shares and English translations of the same. The depositary will make such notices, reports and communications available for inspection by ADR holders at its corporate trust office when furnished by Teva pursuant to the deposit agreement and, upon request by Teva, will mail such notices, reports and communications to ADR holders at Teva's expense.

## **Voting of the Underlying Ordinary Shares**

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Upon receipt of notice of any meeting or solicitation of consents or proxies of holders of ordinary shares, if requested in writing, the depositary shall, as soon as practicable thereafter, mail to the ADR holders a notice containing:

such information as is contained in the notice received by the depositary; and

a statement that the holders of ADRs as of the close of business on a specified record date will be entitled, subject to applicable law and the provisions of Teva's memorandum and articles of association, as amended, to instruct the depositary as to the exercise of voting rights, if any, pertaining to the amount of ordinary shares represented by their respective ADSs.

Upon the written request of an ADR holder on such record date, received on or before the date established by the depositary for such purpose, the depositary shall endeavor, insofar as is practicable and permitted under applicable law and the provisions of Teva's memorandum and articles of association, as amended, to vote or cause to be voted the amount of ordinary shares represented by the ADRs in accordance with the instructions set forth in such request. If no instructions are received by the depositary from a holder of an ADR, the depositary shall give a discretionary proxy for the ordinary shares represented by such holder's ADR to a person designated by Teva.



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### **Amendment and Termination of the Deposit Agreement**

The form of the ADRs and the terms of the deposit agreement may at any time be amended by written agreement between Teva and the depositary. Any amendment that imposes or increases any fees or charges (other than taxes or other governmental charges), or that otherwise prejudices any substantial existing right of holders of ADRs shall, however, not become effective until the expiration of three months after notice of such amendment has been given to the holders of outstanding ADRs. Every holder of an ADR at the time such amendment becomes effective will be deemed, by continuing to hold such ADR, to consent and agree to such amendment and to be bound by the deposit agreement as amended thereby. In no event will any amendment impair the right of any ADR holder to surrender the ADRs held by such holder and receive therefore the underlying ordinary shares and any other property represented thereby, except in order to comply with mandatory provisions of applicable law.

Whenever so directed by Teva, the depositary has agreed to terminate the deposit agreement by mailing notice of such termination to the holders of all ADRs then outstanding at least 30 days prior to the date fixed in such notice for such termination. The depositary may likewise terminate the deposit agreement if at any time 60 days shall have expired after the depositary shall have delivered to the holders of all ADRs then outstanding and Teva a written notice of its election to resign and a successor depositary shall not have been appointed and accepted its appointment.

If any ADRs remain outstanding after the date of termination, the depositary thereafter will discontinue the registration of transfers of ADRs, will suspend the distribution of dividends to the holders and will not give any further notices or perform any further acts under the deposit agreement, except:

the collection of dividends and other distributions;

the sale of rights and other property; and

the delivery of ordinary shares, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for surrendered ADRs, subject to the terms of the deposit agreement.

At any time after the expiration of one year from the date of termination, the depositary may sell the underlying ordinary shares and hold uninvested the net proceeds, together with any cash then held by it under the deposit agreement, unsegregated and without liability for interest, for the pro rata benefit of the holders of ADRs that have not theretofore surrendered their ADRs and such holders shall become general creditors of the depositary with respect to such net proceeds. After making such sale, the depositary shall be discharged from all obligations under the deposit agreement, except to account for net proceeds and other cash (after deducting fees of the depositary) and except for obligations for indemnification set forth in the deposit agreement. Upon the termination of the deposit agreement, Teva will also be discharged from all obligations thereunder, except for certain obligations to the depositary.

### **Charges of Depositary**

Teva will pay the fees, reasonable expenses and out-of-pocket charges of the depositary and those of any registrar only in accordance with agreements in writing entered into between the depositary and Teva from time to time. The following charges shall be incurred by any party depositing or withdrawing ordinary shares or by any party surrendering ADRs or to whom ADRs are issued (including, without limitation,

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issuance pursuant to a stock dividend or stock split declared by Teva or an exchange of stock regarding the ADRs or deposited ordinary shares or a distribution of ADRs pursuant to the terms of the deposit agreement):

the fees of the depository for the execution and delivery, transfer, or surrender of ADRs, or the making of any cash distribution, pursuant to the deposit agreement;

any applicable taxes and other governmental charges;

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any applicable transfer or registration fees;

certain cable, telex and facsimile transmission charges as provided in the deposit agreement;

any expenses incurred in the conversion of foreign currency;

a fee of \$5.00 or less per 100 ADRs (or a portion of such amount of ADRs) for the delivery of ADRs in connection with the deposit of ordinary shares or distributions on ordinary shares on the surrender of ADRs; and

a fee not in excess of \$1.50 or less per certificate for an ADR or ADRs for transfers made pursuant to the deposit agreement.

The depository may own and deal in any class of securities of Teva and its affiliates and in ADRs.

## **Liability of Holders for Taxes, Duties or Other Charges**

Any tax or other governmental charge with respect to ADRs or any deposited ordinary shares represented by any ADR shall be payable by the holder of such ADR to the depository. The depository may refuse to effect transfer of such ADR or any withdrawal of deposited ordinary shares represented by such ADR until such payment is made, and may withhold any dividends or other distributions or may sell for the account of the holder any part or all of the deposited ordinary shares represented by such ADR and may apply such dividends or distributions or the proceeds of any such sale in payment of any such tax or other governmental charge and the holder of such ADR shall remain liable for any deficiency.

## **Transfer of American Depositary Receipts**

The ADRs are transferable on the books of the depository, except during any period when the transfer books of the depository are closed, or if any such action is deemed necessary or advisable by the depository or Teva at any time or from time to time because of any requirement of law or of any government or governmental body or commission or under any provision of the deposit agreement. The surrender of outstanding ADRs and withdrawal of deposited ordinary shares may not be suspended subject only to:

temporary delays caused by closing the transfer books of the depository or Teva, the deposit of ordinary shares in connection with voting at a shareholders' meeting or the payment of dividends;

the payment of fees, taxes and similar charges; and

compliance with the United States or foreign laws or governmental regulations relating to the ADRs or to the withdrawal of the deposited ordinary shares.

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The depositary shall not knowingly accept for deposit under the deposit agreement any ordinary shares required to be registered under the provisions of the Securities Act, unless a registration statement is in effect as to such ordinary shares. As a condition to the execution and delivery, registration of transfer, split-up, combination or surrender of any ADR or withdrawal of ordinary shares, the depositary, the custodian or the registrar may require payment from the person presenting the ADR or the depositor of the ordinary shares of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto, payment of any applicable fees payable by the holders of ADRs, may require the production of proof satisfactory to the depositary as to the identity and genuineness of any signature and may also require compliance with any regulations the depositary may establish consistent with the provisions of the deposit agreement. The depositary may refuse to execute and deliver ADRs, register the transfer of any ADR or make any distribution on, or related to, ordinary shares until it or the custodian has received proof of citizenship or residence, exchange control approval or other information as it may deem necessary or proper. Holders of ADRs may inspect the transfer books of the depositary at any reasonable time, provided, that such inspection shall not be for the purpose of communicating with holders of ADRs in the interest of a business or object other than Teva's business or a matter related to the deposit agreement or ADRs.

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### **General**

Neither the depositary nor Teva nor any of their directors, officers, employees, agents or affiliates will be liable to the holders of ADRs if by reason of any present or future law or regulation of the United States or any other country or of any government or regulatory authority or any stock exchange, any provision, present or future, of Teva's memorandum and articles of association, as amended, or any circumstance beyond its control, the depositary or Teva or any of their respective directors, employees, agents or affiliates is prevented or delayed in performing its obligations or exercising its discretion under the deposit agreement or is subject to any civil or criminal penalty on account of performing its obligations. The obligations of Teva and the depositary under the deposit agreement are expressly limited to performing their obligations specifically set forth in the deposit agreement without negligence or bad faith.

### **DESCRIPTION OF DEBT SECURITIES AND GUARANTEES**

We or any of the other finance subsidiaries may elect to offer debt securities. The following description of debt securities sets forth the material terms and provisions of the debt securities to which any prospectus supplement may relate. Our senior debt securities would be issued under a senior indenture, between Teva and The Bank of New York, as trustee. Teva's subordinated debt securities would be issued under a subordinated indenture between Teva and The Bank of New York, as trustee. The senior or subordinated indenture, a form of each of which is included as an exhibit to the registration statement of which this prospectus is a part, will be executed at the time we issue any debt securities. Any supplemental indentures will be filed with the SEC on a Form 6-K or by a post-effective amendment to the registration statement of which this prospectus is a part.

The senior debt securities of each finance subsidiary would be issued under a senior indenture among that entity, Teva, as guarantor, and The Bank of New York, as trustee. The subordinated debt securities of each finance subsidiary would be issued under a subordinated indenture among that entity, Teva, as guarantor, and The Bank of New York, as trustee.

All of the indentures are sometimes referred to in this prospectus collectively as the indentures and each, individually, as an indenture. All senior indentures are sometimes referred to in this prospectus collectively as the senior indentures and each, individually, as a senior indenture. All subordinated indentures are sometimes referred to in this prospectus collectively as the subordinated indentures and each, individually, as a subordinated indenture. The particular terms of the debt securities offered by any prospectus supplement, and the extent to which the general provisions described below may apply to the offered debt securities, will be described in the applicable prospectus supplement. The indentures will be qualified under the Trust Indenture Act of 1939, as amended. The terms of the debt securities will include those stated in the indentures and those made part of the indentures by reference to the Trust Indenture Act.

Because the following summaries of the material terms and provisions of the indentures and the related debt securities are not complete, you should refer to the forms of the indentures and the debt securities for complete information on some of the terms and provisions of the indentures, including definitions of some of the terms used below, and the debt securities. The senior indentures and subordinated indentures are substantially identical to one another, except for specific provisions relating to subordination contained in the subordinated indentures.

### **General**

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The provisions of the indentures do not limit the aggregate principal amount of debt securities which may be issued thereunder. Unless otherwise provided in a prospectus supplement, the senior debt securities will be the issuer's direct, unsecured and unsubordinated general obligations and will have the same rank in liquidation as all of the issuer's other unsecured and unsubordinated debt. The subordinated debt securities will be unsecured obligations of the issuer, subordinated in right of payment to the prior payment in full of all senior indebtedness of the issuer with respect to such series, as described below under "Subordination of the Subordinated Debt Securities" and in the applicable prospectus supplement.

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### **Payments**

The issuer may issue debt securities from time to time in one or more series. The provisions of the indentures allow the issuer to reopen a previous issue of a series of debt securities and issue additional debt securities of that series. The debt securities may be denominated and payable in U.S. dollars or foreign currencies. The issuer may also issue debt securities from time to time with the principal amount or interest payable on any relevant payment date to be determined by reference to one or more currency exchange rates, securities or baskets of securities, commodity prices or indices. Holders of these types of debt securities will receive payments of principal or interest that depend upon the value of the applicable currency, security or basket of securities, commodity or index on the relevant payment dates.

Debt securities may bear interest at a fixed rate, which may be zero, a floating rate, or a rate which varies during the lifetime of the debt security. Debt securities bearing no interest or interest at a rate that at the time of issuance is below the prevailing market rate may be sold at a discount below their stated principal amount.

### **Terms Specified in the Applicable Prospectus Supplement**

The applicable prospectus supplement will contain, where applicable, the following terms of and other information relating to any offered debt securities:

the specific designation;

any limit on the aggregate principal amount of the debt securities, their purchase price and denomination;

the currency in which the debt securities are denominated and/or in which principal, premium, if any, and/or interest, if any, is payable;

the date of maturity;

the interest rate or rates or the method by which the calculation agent will determine the interest rate or rates, if any;

the interest payment dates, if any;

the place or places for payment of the principal of and any premium and/or interest on the debt securities;

any repayment, redemption, prepayment or sinking fund provisions, including any redemption notice provisions;

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whether we will issue the debt securities in registered form or bearer form or both and, if we are offering debt securities in bearer form, any restrictions applicable to the exchange of one form for another and to the offer, sale and delivery of those debt securities in bearer form;

whether we will issue the debt securities in definitive form and under what terms and conditions;

the terms on which holders of the debt securities may convert or exchange these securities into or for ADRs or other of our securities or of an entity unaffiliated with us, any specific terms relating to the adjustment of the conversion or exchange feature and the period during which the holders may make the conversion or exchange;

information as to the methods for determining the amount of principal or interest payable on any date and/or the currencies, securities or baskets of securities, commodities or indices to which the amount payable on that date is linked;

any agents for the debt securities, including trustees, depositaries, authenticating or paying agents, transfer agents or registrars;

whether and under what circumstances the issuer will pay additional amounts on debt securities for any tax, assessment or governmental charge withheld or deducted and, if so, whether we will have the option to redeem those debt securities rather than pay the additional amounts;



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any material Israeli, U.S. federal, and if applicable, Netherlands Antilles income tax consequences, including, but not limited to:

tax considerations applicable to any discounted debt securities or to debt securities issued at par that are treated as having been issued at a discount for United States federal income tax purposes; and

tax considerations applicable to any debt securities denominated and payable in foreign currencies;

whether certain payments on the debt securities will be guaranteed under a financial insurance guaranty policy and the terms of that guaranty;

whether the debt securities will be secured;

any applicable selling restrictions; and

any other specific terms of the debt securities, including any modifications to or additional events of default, covenants or modified or eliminated acceleration rights, and any terms required by or advisable under applicable laws or regulations, including laws and regulations relating attributes required for the debt securities to be afforded certain capital treatment for bank regulatory or other purposes.

Some of the debt securities may be issued as original issue discount securities. Original issue discount securities bear no interest or bear interest at below-market rates and may be sold at a discount below their stated principal amount. The applicable prospectus supplement will contain information relating to income tax, accounting, and other special considerations applicable to original issue discount securities.

## **Registration and Transfer of Debt Securities**

Holders may present debt securities for exchange, and holders of registered debt securities may present these securities for transfer, in the manner, at the places and subject to the restrictions stated in the debt securities and described in the applicable prospectus supplement. The issuer will provide these services without charge except for any tax or other governmental charge payable in connection with these services and subject to any limitations or requirements provided in the applicable indenture or the supplemental indenture or issuer order under which that series of debt securities is issued. Holders may transfer debt securities in bearer form and/or the related coupons, if any, by delivery to the transferee. If any of the securities are held in global form, the procedures for transfer of interests in those securities will depend upon the procedures of the depository for those global securities.

## **Events of Default**

Each indenture provides holders of debt securities with remedies if the issuer and/or guarantor, as the case may be, fails to perform specific obligations, such as making payments on the debt securities, or if the issuer and/or guarantor, as the case may be, becomes bankrupt. Holders should review these provisions and understand which actions trigger an event of default and which actions do not. Each indenture permits the issuance of debt securities in one or more series, and, in many cases, whether an event of default has occurred is determined on a series-by-series basis.

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An event of default is defined under the indentures, with respect to any series of debt securities issued under that indenture, as any one or more of the following events, subject to modification in a supplemental indenture, each of which we refer to in this prospectus as event of default, having occurred and be continuing:

default is made for more than 30 days in the payment of interest, premium or principal in respect of the securities;

the issuer and/or guarantor, as the case may be, fails to perform or observe any of its other obligations under the securities and this failure has continued for the period of 60 days next following the service on us of notice requiring the same to be remedied;

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issuer s and/or guarantor s, as the case may be, bankruptcy, insolvency or reorganization under any applicable bankruptcy, insolvency or insolvency related reorganization law;

an order is made or an effective resolution is passed for the winding up or liquidation of the issuer and/or guarantor, as the case may be; or

any other event of default provided in the supplemental indenture or issuer order, if any, under which that series of debt securities is issued.

## **Acceleration of Debt Securities Upon an Event of Default**

Each indenture provides that, unless otherwise set forth in a supplemental indenture:

if an event of default occurs due to the default in payment of principal of, or any premium or interest on, any series of debt securities issued under the indenture, or due to the default in the performance or breach of any other covenant or warranty of the issuer and/or guarantor, as the case may be, applicable to that series of debt securities but not applicable to all outstanding debt securities issued under that indenture occurs and is continuing, either the trustee or the holders of not less than 25% in aggregate principal amount of the outstanding debt securities of each affected series, voting as one class, by notice in writing to the issuer and guarantor, as the case may be, may declare the principal of and accrued interest on the debt securities of such affected series (but not any other debt securities issued under that indenture) to be due and payable immediately;

if an event of default occurs due to specified events of bankruptcy, insolvency or reorganization of the issuer and/or the guarantor, as the case may be, the principal of all debt securities and interest accrued on the debt securities to be due and payable immediately; and

if an event of default due to a default in the performance of any other of the covenants or agreements in the indenture applicable to all outstanding debt securities issued under the indenture occurs and is continuing, either the trustee or the holders of not less than 25% in aggregate principal amount of all outstanding debt securities issued under the indenture for which any applicable supplemental indenture does not prevent acceleration under the relevant circumstances, voting as one class, by notice in writing to the issuer and/or guarantor, as the case may be, may declare the principal of all debt securities and interest accrued on the debt securities to be due and payable immediately.

## **Annulment of Acceleration and Waiver of Defaults**

In some circumstances, if any and all events of default under the indenture, other than the non-payment of the principal of the securities that has become due as a result of an acceleration, have been cured, waived or otherwise remedied, then the holders of a majority in aggregate principal amount of all series of outstanding debt securities affected, voting as one class, may annul past declarations of acceleration or waive past defaults of the debt securities.

## **Indemnification of Trustee for Actions Taken on Your Behalf**

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Each indenture provides that the trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of debt securities issued under that indenture relating to the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred upon the trustee. In addition, each indenture contains a provision entitling the trustee, subject to the duty of the trustee to act with the required standard of care during a default, to be indemnified by the holders of debt securities issued under the indenture before proceeding to exercise any right or power at the request of holders. Subject to these provisions and specified other limitations, the holders of a majority in aggregate principal amount of each series of outstanding debt securities of each affected series, voting as one class, may direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee.

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### **Limitation on Actions by You as an Individual Holder**

Each indenture provides that no individual holder of debt securities may institute any action against us under that indenture, except actions for payment of overdue principal and interest, unless the following actions have occurred:

the holder must have previously given written notice to the trustee of the continuing default;

the holders of not less than 25% in aggregate principal amount of the outstanding debt securities of each affected series, treated as one class, must have:

requested the trustee to institute that action and

offered the trustee reasonable indemnity;

the trustee must have failed to institute that action within 60 days after receipt of the request referred to above; and

the holders of a majority in principal amount of the outstanding debt securities of each affected series, voting as one class, must not have given directions to the trustee inconsistent with those of the holders referred to above.

Each indenture contains a covenant that the issuer and guarantor, if applicable, will file annually with the trustee a certificate of no default or a certificate specifying any default that exists.

### **Discharge, Defeasance and Covenant Defeasance**

The issuer has the ability to eliminate most or all of its obligations on any series of debt securities prior to maturity if it complies with the following provisions:

***Discharge of Indenture.*** The issuer may discharge all of its obligations, other than as to transfers and exchanges, under the indenture after it has:

paid or caused to be paid the principal of and interest on all of the outstanding debt securities in accordance with their terms;

delivered to the applicable trustee for cancellation all of the outstanding debt securities; or

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irrevocably deposited with the applicable trustee cash or, in the case of a series of debt securities payable only in U.S. dollars, U.S. government obligations in trust for the benefit of the holders of any series of debt securities issued under the indenture that have either become due and payable, or are by their terms due and payable, or are scheduled for redemption, within one year, in an amount certified to be sufficient to pay on each date that they become due and payable, the principal of and interest on, and any mandatory sinking fund payments for, those debt securities. However, the deposit of cash or U.S. government obligations for the benefit of holders of a series of debt securities that are due and payable, or are scheduled for redemption, within one year will discharge obligations under the applicable indenture relating only to that series of debt securities.

***Defeasance of a Series of Securities at Any Time.*** The issuer may also discharge all of its obligations, other than as to transfers and exchanges, under any series of debt securities at any time, which we refer to as defeasance in this prospectus. The issuer may be released with respect to any outstanding series of debt securities from the obligations imposed by the covenants described above limiting consolidations, mergers, asset sales and leases, and elect not to comply with those sections without creating an event of default. Discharge under those procedures is called covenant defeasance.

Defeasance or covenant defeasance may be effected only if, among other things:

the issuer irrevocably deposits with the relevant trustee cash or, in the case of debt securities payable only in U.S. dollars, U.S. government obligations, as trust funds in an amount certified to be sufficient

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to pay on each date that they become due and payable, the principal of and interest on, and any mandatory sinking fund payments for, all outstanding debt securities of the series being defeased; and

the issuer delivers to the relevant trustee an opinion of counsel to the effect that:

the holders of the series of debt securities being defeased will not recognize income, gain or loss for United States federal income tax purposes as a result of the defeasance or covenant defeasance;

the defeasance or covenant defeasance will not otherwise alter those holders' United States federal income tax treatment of principal and interest payments on the series of debt securities being defeased; and

in the case of a defeasance, this opinion must be based on a ruling of the Internal Revenue Service or a change in United States federal income tax law occurring after the date of this prospectus, since that result would not occur under current tax law.

## **Modification of the Indenture**

***Modification without Consent of Holders.*** The issuer and the relevant trustee may enter into supplemental indentures without the consent of the holders of debt securities issued under each indenture to:

secure any debt securities;

evidence the assumption by a successor corporation of our obligations;

add covenants for the protection of the holders of debt securities;

cure any ambiguity or correct any inconsistency;

establish the forms or terms of debt securities of any series; or

evidence the acceptance of appointment by a successor trustee.

***Modification with Consent of Holders.*** Each issuer and the trustee, with the consent of the holders of not less than a majority in aggregate principal amount of each affected series of outstanding debt securities, voting as one class, may add any provisions to, or change in any manner or eliminate any of the provisions of, the indenture or modify in any manner the rights of the holders of those debt securities. However, the issuer and the trustee may not make any of the following changes to any outstanding debt security without the consent of each holder that would be affected by the change:

extend the final maturity of the security;

reduce the principal amount;

reduce the rate or extend the time of payment of interest;

reduce any amount payable on redemption;

change the currency in which the principal, including any amount of original issue discount, premium, or interest on the security is payable;

modify or amend the provisions for conversion of any currency into another currency;

reduce the amount of any original issue discount security payable upon acceleration or provable in bankruptcy;

alter the terms on which holders of the debt securities may convert or exchange debt securities for stock or other securities or for other property or the cash value of the property, other than in accordance with the antidilution provisions or other similar adjustment provisions included in the terms of the debt securities;

impair the right of any holder to institute suit for the enforcement of any payment on any debt security when due; or

reduce the percentage of debt securities the consent of whose holders is required for modification of the Indenture.



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### **Form of Debt Security**

Each debt security will be represented either by a certificate issued in definitive form to a particular investor or by one or more global securities representing the entire issuance of securities. Both certificated securities in definitive form and global securities may be issued either:

in registered form, where the issuer's obligation runs to the holder of the security named on the face of the security or

in bearer form, where the issuer's obligation runs to the bearer of the security.

Definitive securities name you or your nominee as the owner of the security, other than definitive bearer securities, which name the bearer as owner, and in order to transfer or exchange these securities or to receive payments other than interest or other interim payments, you or your nominee must physically deliver the securities to the trustee, registrar, paying agent or other agent, as applicable.

Global securities name a depository or its nominee as the owner of the debt securities represented by these global securities, other than global bearer securities, which name the bearer as owner. The depository maintains a computerized system that will reflect each investor's beneficial ownership of the securities through an account maintained by the investor with its broker/dealer, bank, trust company or other representative, as we explain more fully below.

### **Global Securities**

***Registered Global Securities.*** The issuer may issue the debt securities in the form of one or more fully registered global securities that will be deposited with a depository or its nominee identified in the applicable prospectus supplement and registered in the name of that depository or nominee. In those cases, one or more registered global securities will be issued in a denomination or aggregate denominations equal to the portion of the aggregate principal or face amount of the securities to be represented by registered global securities. Unless and until it is exchanged in whole for securities in definitive registered form, a registered global security may not be transferred except as a whole by and among the depository for the registered global security, the nominees of the depository or any successors of the depository or those nominees. If not described below, any specific terms of the depository arrangement with respect to any securities to be represented by a registered global security will be described in the prospectus supplement relating to those securities. We anticipate that the following provisions will apply to all depository arrangements:

Ownership of beneficial interests in a registered global security will be limited to persons, called participants, that have accounts with the depository or persons that may hold interests through participants. Upon the issuance of a registered global security, the depository will credit, on its book-entry registration and transfer system, the participants' accounts with the respective principal or face amounts of the securities beneficially owned by the participants. Any dealers, underwriters or selling agents participating in the distribution of the securities will designate the accounts to be credited. Ownership of beneficial interests in a registered global security will be shown on, and the transfer of ownership interests will be effected only through, records maintained by the depository, with respect to interests of participants, and on the records of participants, with respect to interests of persons holding through participants. The laws of some states may require that some purchasers of securities take physical delivery of these securities in definitive form. These laws may impair your ability to own, transfer or pledge beneficial interests in registered global securities. So long as the depository, or its nominee, is the registered owner of a registered global security, that depository or its nominee, as the case may be, will be considered the sole owner or holder of the securities represented by the registered global security for all purposes under the applicable indenture.

Except as described below, owners of beneficial interests in a registered global security will not be entitled to have the securities represented by the registered global security registered in their names, will not receive or be entitled to receive physical delivery of the securities in definitive form and will not be considered the owners or

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holders of the securities under the applicable indenture. Accordingly, each person owning a beneficial interest in a registered global security must rely on the procedures of the depository for that registered global security and, if that person is not a participant, on the procedures of the participant through which the person owns its interest, to exercise any rights of a holder under the applicable indenture. We understand that under existing industry practices, if we request any action of holders or if an owner of a beneficial interest in a registered global security desires to give or take any action that a holder is entitled to give or take under the applicable indenture, the depository for the registered global security would authorize the participants holding the relevant beneficial interests to give or take that action, and the participants would authorize beneficial owners owning through them to give or take that action or would otherwise act upon the instructions of beneficial owners holding through them.

Principal, premium, if any, and interest payments on debt securities represented by a registered global security registered in the name of a depository or its nominee will be made to the depository or its nominee, as the case may be, as the registered owner of the registered global security. None of the issuer, the guarantor, if applicable, the trustee or any other agent of the issuer, guarantor or agent of the trustee will have any responsibility or liability for any aspect of the records relating to payments made on account of beneficial ownership interests in the registered global security or for maintaining, supervising or reviewing any records relating to those beneficial ownership interests. We expect that the depository for any of the securities represented by a registered global security, upon receipt of any payment of principal, premium, interest or other distribution of underlying securities or other property to holders on that registered global security, will immediately credit participants' accounts in amounts proportionate to their respective beneficial interests in that registered global security as shown on the records of the depository. We also expect that payments by participants to owners of beneficial interests in a registered global security held through participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of those participants.

If the depository for any of these securities represented by a registered global security is at any time unwilling or unable to continue as depository or ceases to be a clearing agency registered under the Exchange Act, and a successor depository registered as a clearing agency under the Exchange Act is not appointed by the issuer within 90 days, the issuer will issue securities in definitive form in exchange for the registered global security that had been held by the depository. In addition, the issuer may, at any time and in its sole discretion, decide not to have any of the securities represented by one or more registered global securities. If the issuer makes that decision, it will issue securities in definitive form in exchange for all of the registered global security or securities representing those securities. Any securities issued in definitive form in exchange for a registered global security will be registered in the name or names that the depository gives to the relevant trustee or other relevant agent of ours or theirs. It is expected that the depository's instructions will be based upon directions received by the depository from participants with respect to ownership of beneficial interests in the registered global security that had been held by the depository.

***Bearer Global Securities.*** The securities may also be issued in the form of one or more bearer global securities that will be deposited with a common depository for the Euroclear System and Clearstream Banking, *societe anonyme* or with a nominee for the depository identified in the prospectus supplement relating to those securities. The specific terms and procedures, including the specific terms of the depository arrangement, with respect to any securities to be represented by a bearer global security will be described in the prospectus supplement relating to those securities.

## **Guarantees**

Teva will fully and unconditionally guarantee payment in full to the holders of the debt securities issued by the finance subsidiaries pursuant to this prospectus. The guarantee is set forth in, and forms part of, the finance subsidiary indenture under which the debt securities will be issued. If, for any reason, the issuer does not make any required payment in respect of its debt securities when due, the guarantor will cause the payment to be made to or to the order of the trustee. The guarantee will be on a senior basis when the guaranteed debt securities are



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issued under the senior indenture, and on a subordinated basis to the extent the guaranteed debt securities are issued under the subordinated indenture. The extent to which the guarantee is subordinated to other indebtedness of the guarantor will be substantially the same as the extent to which the subordinated debt issued by the issuer is subordinated to the other indebtedness of the issuer as described below under Subordination of the Subordinated Debt Securities. The holder of the guaranteed security may sue the guarantor to enforce its rights under the guarantee without first suing any other person or entity.

### **Subordination of the Subordinated Debt Securities**

Subordinated debt securities issued by an issuer will, to the extent set forth in the applicable subordinated indenture, be subordinate in right of payment to the prior payment in full of all senior indebtedness of the issuer, whether outstanding at the date of the subordinated indenture or incurred after that date. In the event of:

any insolvency or bankruptcy case or proceeding, or any receivership, liquidation, reorganization or other similar case or proceeding in connection therewith, relative to the issuer or to its creditors, as such, or to its assets; or

any voluntary or involuntary liquidation, dissolution or other winding up of the issuer, whether or not involving insolvency or bankruptcy; or

any assignment for the benefit of creditors or any other marshalling of assets and liabilities of the issuer,

then the holders of senior indebtedness of the issuer will be entitled to receive payment in full of all amounts due or to become due on or in respect of all its senior indebtedness, or provision will be made for the payment in cash, before the holders of the subordinated debt securities of the issuer are entitled to receive or retain any payment on account of principal of, or any premium or interest on, or any additional amounts with respect to, the subordinated debt securities. The holders of senior indebtedness of the issuer will be entitled to receive, for application to the payment of the senior indebtedness, any payment or distribution of any kind or character, whether in cash, property or securities, including any payment or distribution which may be payable or deliverable by reason of the payment of any other indebtedness of the issuer being subordinated to the payment of its subordinated debt securities. This payment may be payable or deliverable in respect of its subordinated debt securities in any case, proceeding, dissolution, liquidation or other winding up event.

By reason of subordination, in the event of liquidation or insolvency of the issuer, holders of senior indebtedness of the issuer and holders of other obligations of the issuer that are not subordinated to its senior indebtedness may recover more ratably than the holders of subordinated debt securities of the issuer.

Subject to the payment in full of all senior indebtedness of the issuer, the rights of the holders of subordinated debt securities of the issuer will be subordinated to the rights of the holders of its senior indebtedness to receive payments or distributions of cash, property or securities of the issuer applicable to its senior indebtedness until the principal of, any premium and interest on, and any additional amounts with respect to, its subordinated debt securities have been paid in full.

No payment of principal, including redemption and sinking fund payments, of, or any premium or interest on, or any additional amounts with respect to the subordinated debt securities of the issuer, or payments to acquire these securities, other than pursuant to their conversion, may be made:

if any senior indebtedness of the issuer is not paid when due and any applicable grace period with respect to the default has ended and the default has not been cured or waived or ceased to exist, or

if the maturity of any senior indebtedness of the issuer has been accelerated because of a default.

The subordinated indentures do not limit or prohibit the issuer from incurring additional senior indebtedness, which may include indebtedness that is senior to its subordinated debt securities, but subordinate to the issuer's other obligations.

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The subordinated indentures provide that these subordination provisions, insofar as they relate to any particular issue of subordinated debt securities by the issuer, may be changed prior to the issuance. Any change would be described in the applicable prospectus supplement.

### **New York Law to Govern**

The indentures and the debt securities will be governed by the laws of the State of New York.

### **Information Concerning the Trustee**

The Bank of New York, as trustee under the indenture, has been appointed by us as paying agent, conversion agent, registrar and custodian with regard to the debt securities. The Bank of New York, 101 Barclay Street, New York, New York, 10286, is the depository for the ADRs. The trustee or its affiliates may from time to time in the future provide banking and other services to us in the ordinary course of their business.

## **DESCRIPTION OF PURCHASE CONTRACTS**

Teva may issue purchase contracts for the purchase or sale of debt or equity securities issued by Teva or securities of third parties, a basket of such securities, an index or indices of such securities or any combination of the above as specified in the applicable prospectus supplement.

Each purchase contract will entitle the holder thereof to purchase or sell, and obligate us to sell or purchase, on specified dates, such securities, currencies or commodities at a specified purchase price, which may be based on a formula, all as set forth in the applicable prospectus supplement. Teva may, however, satisfy its obligations, if any, with respect to any purchase contract by delivering the cash value of such purchase contract or the cash value of the property otherwise deliverable or, in the case of purchase contracts on underlying currencies, by delivering the underlying currencies, as set forth in the applicable prospectus supplement. The applicable prospectus supplement will also specify the methods by which the holders may purchase or sell such securities, currencies or commodities and any acceleration, cancellation or termination provisions or other provisions relating to the settlement of a purchase contract.

The purchase contracts may require Teva to make periodic payments to the holders thereof or vice versa, which payments may be deferred to the extent set forth in the applicable prospectus supplement, and those payments may be unsecured or prefunded on some basis. The purchase contracts may require the holders thereof to secure their obligations in a specified manner to be described in the applicable prospectus supplement. Alternatively, purchase contracts may require holders to satisfy their obligations thereunder when the purchase contracts are issued. Teva's obligation to settle such pre-paid purchase contracts on the relevant settlement date may constitute indebtedness. Accordingly, pre-paid purchase contracts will be issued under either the senior indenture or the subordinated indenture.

## **DESCRIPTION OF UNITS**

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As specified in the applicable prospectus supplement, Teva may issue units consisting of one or more purchase contracts, warrants, debt securities, ordinary shares, ADSs, other equity securities or any combination of such securities. The applicable prospectus supplement will describe:

the terms of the units and of the purchase contracts, warrants, debt securities, ordinary shares, ADSs, other equity securities and common stock comprising the units, including whether and under what circumstances the securities comprising the units may be traded separately;

a description of the terms of any unit agreement governing the units; and

a description of the provisions for the payment, settlement, transfer or exchange of the units.



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**DESCRIPTION OF WARRANTS**

Teva may issue warrants to purchase its debt or equity securities, debt securities of the finance subsidiaries or securities of third parties or other rights, including rights to receive payment in cash or securities based on the value, rate or price of one or more specified securities or indices, or any combination of the foregoing. Warrants may be issued independently or together with any other securities and may be attached to, or separate from, such securities. Each series of warrants will be issued under a separate warrant agreement to be entered into between Teva and a warrant agent. The terms of any warrants to be issued and a description of the material provisions of the applicable warrant agreement will be set forth in the applicable prospectus supplement.

The applicable prospectus supplement will describe the following terms of any warrants in respect of which this prospectus is being delivered:

the title of such warrants;

the aggregate number of such warrants;

the price or prices at which such warrants will be issued;

the currency or currencies, in which the price of such warrants will be payable;

the securities or other rights, including rights to receive payment in cash or securities based on the value, rate or price of one or more specified commodities, currencies, securities or indices, or any combination of the foregoing, purchasable upon exercise of such warrants;

the date on which the right to exercise such warrants shall commence and the date on which such right shall expire;

if applicable, the minimum or maximum amount of such warrants which may be exercised at any one time;

if applicable, the designation and terms of the securities with which such warrants are issued and the number of such warrants issued with each such security;

if applicable, the date on and after which such warrants and the related securities will be separately transferable;

information with respect to book-entry procedures, if any;

any material Israeli, U.S. federal, and if applicable, Netherlands Antilles income tax consequences;

the antidilution provisions of the warrants; and

any other terms of such warrants, including terms, procedures and limitations relating to the exchange and exercise of such warrants.

### **TAXATION**

The material Israeli, U.S. federal, and if applicable, Netherlands Antilles income tax consequences relating to the purchase, ownership and disposition of any of the securities offered by this prospectus will be set forth in the prospectus supplement offering those securities.

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**PLAN OF DISTRIBUTION**

We may sell our securities in any one or more of the following ways from time to time:

to or through underwriters;

to or through dealers;

through agents; or

directly to purchasers, including our affiliates.

The prospectus supplement with respect to any offering of our securities will set forth the terms of the offering, including:

the name or names of any underwriters, dealers or agents;

the purchase price of the securities and the proceeds to us from the sale;

any underwriting discounts and commissions or agency fees and other items constituting underwriters' or agents' compensation; and

any delayed delivery arrangements.

The distribution of the securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at market prices prevailing at the time of sale, at prices related to the prevailing market prices or at negotiated prices.

If securities are sold by means of an underwritten offering, we will execute an underwriting agreement with an underwriter or underwriters, and the names of the specific managing underwriter or underwriters, as well as any other underwriters, and the terms of the transaction, including commissions, discounts and any other compensation of the underwriters and dealers, if any, will be set forth in the prospectus supplement which will be used by the underwriters to sell the securities. If underwriters are utilized in the sale of the securities, the securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at fixed public offering prices or at varying prices determined by the underwriters at the time of sale.

Our securities may be offered to the public either through underwriting syndicates represented by managing underwriters or directly by the managing underwriters. If any underwriter or underwriters are utilized in the sale of the securities, unless otherwise indicated in the prospectus supplement, the underwriting agreement will provide that the obligations of the underwriters are subject to conditions precedent and that the underwriters with respect to a sale of securities will be obligated to purchase all of those securities if they purchase any of those securities.

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We may grant to the underwriters options to purchase additional securities to cover over-allotments, if any, at the public offering price with additional underwriting discounts or commissions. If we grant any over-allotment option, the terms of any over-allotment option will be set forth in the prospectus supplement relating to those securities.

If a dealer is utilized in the sales of securities in respect of which this prospectus is delivered, we will sell those securities to the dealer as principal. The dealer may then resell those securities to the public at varying prices to be determined by the dealer at the time of resale. Any reselling dealer may be deemed to be an underwriter, as the term is defined in the Securities Act of 1933, of the securities so offered and sold. The name of the dealer and the terms of the transaction will be set forth in the related prospectus supplement.

Offers to purchase securities may be solicited by agents designated by us from time to time. Any agent involved in the offer or sale of the securities in respect of which this prospectus is delivered will be named, and any commissions payable by us to the agent will be set forth, in the applicable prospectus supplement. Unless otherwise indicated in the prospectus supplement, any agent will be acting on a reasonable best efforts basis for

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the period of its appointment. Any agent may be deemed to be an underwriter, as that term is defined in the Securities Act of 1933, of the securities so offered and sold.

Offers to purchase securities may be solicited directly by us and the sale of those securities may be made by us directly to institutional investors or others, who may be deemed to be underwriters within the meaning of the Securities Act of 1933 with respect to any resale of those securities. The terms of any sales of this type will be described in the related prospectus supplement.

Underwriters, dealers, agents and remarketing firms may be entitled under relevant agreements entered into with us to indemnification by us against certain civil liabilities, including liabilities under the Securities Act of 1933, that may arise from any untrue statement or alleged untrue statement of a material fact or any omission or alleged omission to state a material fact in this prospectus, any supplement or amendment hereto, or in the registration statement of which this prospectus forms a part, or to contribution with respect to payments which the agents, underwriters or dealers may be required to make.

If so indicated in the prospectus supplement, we will authorize underwriters or other persons acting as our agents to solicit offers by institutions to purchase securities from us pursuant to contracts providing for payments and delivery on a future date. Institutions with which contracts of this type may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases those institutions must be approved by us. The obligations of any purchaser under any contract of this type will be subject to the condition that the purchase of the securities shall not at the time of delivery be prohibited under the laws of the jurisdiction to which the purchaser is subject. The underwriters and other persons acting as our agents will not have any responsibility in respect of the validity or performance of those contracts.

One or more firms, referred to as remarketing firms, may also offer or sell the securities, if the prospectus supplement so indicates, in connection with a remarketing arrangement upon their purchase. Remarketing firms will act as principals for their own accounts or as agents for Teva or any of its subsidiaries. These remarketing firms will offer or sell the securities in accordance with a redemption or repayment pursuant to the terms of the securities. The prospectus supplement will identify any remarketing firm and the terms of its agreement, if any, with Teva or any of its subsidiaries and will describe the remarketing firm's compensation. Remarketing firms may be deemed to be underwriters in connection with the securities they remarket. Remarketing firms may be entitled under agreements that may be entered into with Teva or any of its subsidiaries to indemnification by Teva or any of its subsidiaries against certain civil liabilities, including liabilities under the Securities Act, and may engage in transactions with or perform services for Teva or any of its subsidiaries in the ordinary course of business.

Disclosure in the prospectus supplement of our use of delayed delivery contracts will include the commission that underwriters and agents soliciting purchases of the securities under delayed contracts will be entitled to receive in addition to the date when we will demand payment and delivery of the securities under the delayed delivery contracts. These delayed delivery contracts will be subject only to the conditions that we describe in the prospectus supplement.

In connection with the offering of securities, persons participating in the offering, such as any underwriters, may purchase and sell securities in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover syndicate short positions created in connection with the offering. Stabilizing transactions consist of bids or purchases for the purpose of preventing or retarding a decline in the market price of the securities, and syndicate short positions involve the sale by underwriters of a greater number of securities than they are required to purchase from any issuer in the offering. Underwriters also may impose a penalty bid, whereby selling concessions allowed to syndicate members or other broker-dealers in respect of the securities sold in the offering for their account may be reclaimed by the syndicate if the securities are repurchased by the syndicate in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the securities, which may be higher than the price that might prevail in the open market, and these activities, if commenced, may be discontinued at any time.



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**EXPERTS**

The consolidated financial statements of Teva as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004, incorporated in this prospectus by reference to Teva's Annual Report on Form 20-F for the year ended December 31, 2004, have been so incorporated in reliance on the audit report of Kesselman & Kesselman, independent registered public accounting firm in Israel and a member of PricewaterhouseCoopers International Limited, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of IVAX Corporation at December 31, 2004 and 2003, and for each of the three years in the period ended December 31, 2004, included in Teva Pharmaceutical Industries Limited's Report of Foreign Private Issuer filed on December 16, 2005 (Form 6-K), which is referred to and incorporated by reference in this Prospectus and Registration Statement, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report appearing therein, and are incorporated by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

**LEGAL MATTERS**

Certain legal matters with respect to United States and New York law with respect to the validity of certain of the offered securities will be passed upon for the issuers by Willkie Farr & Gallagher LLP, New York, New York. Certain legal matters with respect to Israeli law with respect to the validity of certain of the offered securities will be passed upon for the issuers by Tulchinsky-Stern & Co., Israel. Certain legal matters with respect to Netherlands Antilles law will be passed upon for the issuers by Zeven & Associates, Curaçao, Netherlands Antilles. Any underwriters will be advised about other issues relating to any offering by their own legal counsel.

**WHERE YOU CAN FIND MORE INFORMATION**

***Available Information***

This prospectus is part of a registration statement that we filed with the SEC. The registration statement, including the attached exhibits, contains additional relevant information about us. The rules and regulations of the SEC allow us to omit some of the information included in the registration statement from this prospectus. In addition, we file annual and special reports and other information with the SEC. You may read and copy such material at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549, as well as at the SEC's regional offices. You may also obtain copies of such material from the SEC at prescribed rates by wiring to the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms.

The SEC maintains an Internet website at <http://www.sec.gov> that contains reports, proxy, information statements and other material that are filed through the SEC's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system and filed electronically with the SEC. We began filing through the EDGAR system beginning on October 31, 2002.

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Our ADSs are quoted on the Nasdaq National Market under the symbol TEVA. You may inspect certain reports and other information concerning us at the offices of the National Association of Securities Dealers, Inc., 1735 K Street, N.W., Washington, D.C. 20006.

Information about us is also available on our website at <http://www.tevapharm.com>. Such information on our website is not part of this prospectus.



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### ***Incorporation by Reference***

The rules of the SEC allow us to incorporate by reference information into this prospectus. The information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information.

The following documents filed with the SEC are incorporated in this prospectus by reference:

- (1) Our Annual Report on Form 20-F for the year ended December 31, 2004 (File No. 0-16174);
- (2) All Reports of Foreign Private Issuer on Form 6-K filed by Teva with the SEC since December 31, 2004, including its Reports on Form 6-K filed on January 4, 2005, January 18, 2005, January 26, 2005, January 31, 2005 (two reports), February 3, 2005, February 14, 2005 (three reports), February 15, 2005, February 17, 2005 (two reports), February 24, 2005, March 22, 2005, March 28, 2005, March 29, 2005, March 31, 2005 (two reports), April 13, 2005, May 2, 2005, May 3, 2005, May 11, 2005, May 17, 2005, May 23, 2005, May 31, 2005, June 6, 2005 (two reports), June 16, 2005, June 22, 2005, June 27, 2005, June 28, 2005 (two reports), June 30, 2005, July 6, 2005, July 19, 2005, July 20, 2005 (two reports), July 25, 2005 (two reports), July 28, 2005, August 1, 2005, August 10, 2005, August 16, 2005 (two reports), August 18, 2005, August 25, 2005, September 6, 2005, September 14, 2005, September 20, 2005, October 6, 2005, October 11, 2005, October 12, 2005, October 19, 2005 (three reports), October 26, 2005, October 27, 2005, October 31, 2005 (two reports), November 8, 2005, November 9, 2005, November 15, 2005, November 28, 2005 (two reports), December 1, 2005, December 5, 2005, December 6, 2005, December 7, 2005 (two reports), December 13, 2005 (two reports), December 16, 2005 and December 20, 2005; and
- (3) The description of Teva's ordinary shares, par value NIS 0.10 per share, and the American Depositary Shares representing the ordinary shares, contained in the registration statement on Form F-4 filed on September 2, 2005, as amended (Registration Statement No. 333-128095).

All reports and other documents filed by Teva pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date hereof and prior to the filing of a post-effective amendment which indicates that all the securities offered hereby have been sold or which deregisters all securities then remaining unsold, shall be deemed to be incorporated by reference in this prospectus and to be part of this prospectus from the date of filing of such reports and documents.

Any statement contained in a document incorporated or deemed to be incorporated by reference shall be deemed to be modified or superseded for purposes of this registration statement to the extent that a statement in this prospectus or in any other subsequently filed document which is incorporated or deemed to be incorporated by reference modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this registration statement.

You may also obtain copies of these documents free of charge by contacting us at our address or telephone number set forth below:

Teva Pharmaceutical Industries Limited

Investor Relations

Edgar Filing: BANK ONE CORP - Form 8-K

5 Basel Street

P.O. Box 3190

Petach Tikva 49131 Israel

972-3-926-7554

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**ENFORCEMENT OF CIVIL LIABILITIES**

***Teva Pharmaceutical Industries Limited***

Teva is organized under the laws of Israel and most of Teva's directors and officers reside outside of the United States. As a result, service of process on them may be difficult to effect in the United States. Furthermore, because a substantial portion of Teva's assets are located in Israel, any judgment obtained in the United States against us or any of our directors and officers may not be collectible within the United States.

An Israeli court may declare a judgment rendered by a foreign court in a civil matter, including judgments awarding monetary or other damages in non civil matters, enforceable if it finds that:

- (1) the judgment was rendered by a court which was, according to the foreign country's law, competent to render it;
- (2) the judgment is no longer appealable;
- (3) the obligation in the judgment is enforceable according to the rules relating to the enforceability of judgments in Israel and the substance of the judgment is not contrary to public policy in Israel; and
- (4) the judgment can be executed in the state in which it was given.

A foreign judgment will not be declared enforceable by Israeli courts if it was given in a state, the laws of which do not provide for the enforcement of judgments of Israeli courts (subject to exceptional cases) or if its enforcement is likely to prejudice the sovereignty or security of Israel. An Israeli court also will not declare a foreign judgment enforceable if it is proven to the Israeli court that:

- (1) the judgment was obtained by fraud;
- (2) there was no due process;
- (3) the judgment was given by a court not competent to render it according to the laws of private international law in Israel;
- (4) the judgment conflicts with another judgment that was given in the same matter between the same parties and which is still valid; or
- (5) at the time the action was brought to the foreign court a claim in the same matter and between the same parties was pending before a court or tribunal in Israel.

***Teva Finance BV***

Teva Finance BV is organized under the laws of the Netherlands Antilles and its managing directors reside outside the United States, and all or a significant portion of the assets of such person may be, and substantially all of the assets of Teva Finance BV are, located outside the United States. As a result, it may not be possible to effect service of process within the United States upon Teva Finance BV or any such person or to enforce against Teva Finance BV or any such person judgments obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States.

The United States and the Netherlands Antilles do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon the federal securities laws of the United States, would not be directly enforceable in the Netherlands Antilles.

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If the party in whose favor such a final judgment is rendered brings a new suit in a competent court in the Netherlands Antilles, that party may submit to the Netherlands Antilles court the final judgment that has been rendered in the United States. A foreign judgment would be enforceable in the Netherlands Antilles generally, without any re-examination of the merits of the original judgment provided that:

- (1) the judgment is final in the jurisdiction where rendered and was issued by a competent court;
- (2) the judgment is valid in the jurisdiction where rendered;
- (3) the judgment was issued following personal service of the summons upon the defendant or its agent and, in accordance with due process of law, an opportunity for the defendant to defend against the foreign action;
- (4) the judgment does not violate any compulsory provisions of Netherlands Antilles law or principles of public policy;
- (5) the terms and conditions governing the indentures do not violate any compulsory provisions of Netherlands Antilles law or principles of public policy; and
- (6) the judgment is not contrary to a prior or simultaneous judgment of a competent Netherlands Antilles court.

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**Teva Pharmaceutical Finance Company, LLC**

**\$500,000,000 •% Convertible Senior Debentures due 2026**

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PROSPECTUS SUPPLEMENT

•, 2006

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**LEHMAN BROTHERS**

**CREDIT SUISSE**

**BEAR, STEARNS & Co. INC.**