Teva Investors File Suit to Seek Management Pay Details

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By David Wainer
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Teva Pharmaceutical Industries Ltd. (TEVA), which pledged last year to boost transparency under Chief Executive Officer Jeremy Levin, is facing investor pressure in its home country of Israel to reveal individual executive pay.

Teva, the world's largest maker of generic drugs, has an April 4 deadline to respond to a class-action lawsuit filed in Tel Aviv district court by shareholders Sharon Hannes and Ehud Kamar. The investors say in the complaint that the refusal to publish managers' compensation violates Israeli and U.S. rules. The Petach Tikva-based drugmaker only reports wage and benefit figures for its 11 top executives as a group.

The drugmaker, Israel's most valuable company, has already been facing political scrutiny over its corporate income-tax rates as it carries out a $2 billion spending-reduction plan over five years. The investors sued Teva in November, almost four months before Swiss voters approved some of the world's toughest limits on corporate executive pay.

"Teva has been under pressure from all different directions, including its tax exemptions," said Gilad Alper, a senior analyst at Excellence Nessuah Investment House Ltd. in Ramat Gan, Israel. "If releasing executive pay helps to ease that pressure, they just might do it."

Shares in Teva are traded in both Israel and the U.S. The stock listed in Tel Aviv has fallen 8.1 percent in the past 12 months, valuing the company at 128 billion shekels ($35 billion).

Managers' Compensation

Cash compensation to 11 current executive officers during 2012 was $12.7 million, Teva said in its annual report released on Feb. 12. Those managers received another $4.04 million exercising stock options, it said.

The drugmaker "is and has been acting in accordance with all applicable laws and regulations with regard to the disclosure of its executive compensation," Hadar Vismunski, a spokeswoman for Teva, said in an e-mailed response to questions. "For over a decade, this has been the practice of many leading dual companies in Israel."

Levin took the CEO post in May, when he made his promise for more openness.

Teva published individual pay for its five most senior managers in its 1999 and 2000 annual reports, Hannes and Kamar said in their court filing. The drugmaker switched to reporting a combined figure after Israeli law was amended in 2000 letting dual-listed companies use reports produced under market rules in the other country where the stock trades for filings in Israel, they said.

Similar Regulations

Remuneration for each executive should still be reported because both U.S. and Israeli rules require the breakouts for domestically listed companies, the investors said, citing the support of Jesse Fried, a Harvard Law School professor and co- author of "Pay Without Performance: The Unfulfilled Promise of Executive Compensation."

Hannes is a law professor at Tel Aviv university, while Kamar is professor of law and director of the business-law program at the University of Southern California.

Judge Danya Keret Meir will hold a hearing on the case June 19, following Teva's reply next month and a response by Hannes and Kamar by June, according to the Tel Aviv court's economic division.

Boosting pay transparency may not necessarily improve performance or reduce costs to shareholders, Sarig Gafny, Teva's former senior director of global compensation and benefits, said in an interview.

"The motives behind a push to boost transparency in pay might be good," said Gafny, who now runs his own compensation consulting practice in Israel. "But academic research and past experience has shown that as compensation is revealed, upward pressure on executive pay is created."

The case is Class Action 18048-11-12.