

GSK to take \$3.4 bln Avandia legal charge

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British drugs firm GlaxoSmithKline said Monday it expects to take a legal charge of £2.2 billion linked to its former blockbuster diabetes product Avandia, sparking a sharp drop in its shares.

"GSK today announces that it expects to record a legal charge for the fourth quarter of 2010 of £2.2 billion (2.6 billion euros, \$3.4 billion)," it said in a statement. This equates to an after-tax cost of £1.8 billion.

"The charge primarily relates to additional provisioning in respect of the investigation by the US Attorney's Office for the District of Colorado into the group's US sales and promotional practices and for product liability cases regarding [Avandia](#)."

GSK was hit in September when the EU said it would ban Avandia over fears it increases the risk of heart attack and strokes. Regulators have also restricted its availability in the United States.

"Regarding Avandia, in July 2010 the company took a provision for product liability cases relating to the product that had been settled or received at that time," the group said.

"As previously stated, the company has continued to receive new product liability cases regarding Avandia in the United States.

"The number of new claims received is substantial and the group has now completed its assessment of these additional cases and an estimate of likely future claims."

In reaction to the news, GSK's share price sank by two percent to 1,200.50 pence, as investors fretted over the impact on its earnings.

"The charge is significant and the share price has given up some two percent as an immediate reaction," Hargreaves Lansdown equities analyst Richard Hunter told AFP.

"The ongoing threat of litigation is very much a cost of doing business for the pharmaceutical companies and tends to add to the volatility of the sector, as indeed does the requirement for new blockbuster drugs to emerge every few years to maintain profitability."

He added: "At this stage the amount is a charge rather than an amount actually incurred, hence the relatively light reaction on the price.

"Whilst the amount is material, it is not life threatening -- the company reported sales of £7.0 billion in its third quarter alone."

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