

TEVA PHARMACEUTICAL INDUSTRIES LTD  
Form 6-K  
May 12, 2004

**FORM 6-K**

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**Report of Foreign Private Issuer**

**Pursuant to Rule 13a-16 or 15d-16  
under the Securities Exchange Act of 1934**

For the month of May 2004

Commission File Number 0-16174

**Teva Pharmaceutical Industries Limited**

(Translation of registrant's name into English)

**5 Basel Street, P.O. Box 3190**

**Petach Tikva 49131 Israel**

(Address of principal executive offices)

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

Form 20-F

Form 40-F

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

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

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also hereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes

No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g(3)-2(b): 82-\_\_\_\_\_



TEVA PHARMACEUTICAL INDUSTRIES LIMITED

(An Israeli Corporation)

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## TEVA PHARMACEUTICAL INDUSTRIES LIMITED

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(U.S. dollars in millions, except earnings (loss) per ADR)

(Unaudited)

	Three months ended March 31, 2004	2003
Net sales	\$ 1,052.4	\$ 757.4
Cost of sales	572.0	409.0
Gross profit	480.4	348.4
Research and development expenses:		
Total expenses	72.0	49.7
Less - participations and grants	3.9	3.3
	68.1	46.4
Selling, general and administrative expenses	158.1	122.7
	254.2	179.3
Acquisition of research and development in process	596.6	-
Impairment of product rights	30.0	-
Operating income (loss)	(372.4)	179.3
Financial expenses - net	1.3	4.0
Income (loss) before income taxes	(373.7)	175.3
Income taxes	54.0	37.7
	(427.7)	137.6
Share in profits of associated companies - net	0.5	0.1
Minority interests in profits of subsidiaries - net	0.8	-
Net income (loss)	\$ (428.0)	\$ 137.7
Earnings (loss) per ADR:		
Basic	\$ (1.44)	\$ 0.52
Diluted	\$ (1.44)	\$ 0.50
Weighted average number of ADRs (in millions):		
Basic	297.9	265.1
Diluted	297.9	282.8

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

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## TEVA PHARMACEUTICAL INDUSTRIES LIMITED

## CONDENSED CONSOLIDATED BALANCE SHEETS

(U.S. dollars in millions)

	<b>March 31,</b> 2004 Unaudited	<b>December 31,</b> 2003 Audited
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 710.0	\$ 1,057.3
Short-term investments	211.9	322.1
Accounts receivable:		
Trade	1,220.0	1,031.8
Other	329.2	300.6
Inventories	1,264.7	1,004.6
Total current assets	3,735.8	3,716.4
<b>Investments and other assets</b>	561.6	445.1
<b>Property, plant and equipment, net</b>	1,077.9	827.4
<b>Intangible assets and debt issuance costs, net</b>	756.8	279.5
<b>Goodwill</b>	2,429.3	647.5
Total assets	\$ 8,561.4	\$ 5,915.9
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Short-term credit	\$ 356.3	\$ 291.7
Accounts payable and accruals	1,344.3	1,050.7
Convertible Senior Debentures	352.0	352.5
Total current liabilities	2,052.6	1,694.9
<b>Long-term liabilities:</b>		
Deferred income taxes	228.6	34.6
Employee related obligations	78.3	74.9
Loans and other liabilities	360.9	365.5
Convertible Senior Debentures	1,538.6	449.9
Total long-term liabilities	2,206.4	924.9
Total liabilities	4,259.0	2,619.8
<b>Minority interests</b>		
	7.6	6.7
<b>Shareholders' equity:</b>		
Ordinary shares of NIS 0.10 par value; March 31, 2004 and December 31, 2003: authorized - 999.6 million; issued and outstanding - 301.9 million and 277.7 million, respectively	35.0	34.3
Additional paid-in capital	2,599.2	1,159.3
Deferred compensation	*	*

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Retained earnings	1,502.5	1,960.3
Accumulated other comprehensive income	205.7	184.0
Cost of company shares held by subsidiaries - March 31, 2004 and December 31, 2003 - 4.2 million ordinary shares and 4.3 million ordinary shares, respectively	(47.6)	(48.5)
Total shareholders` equity	4,294.8	3,289.4
Total liabilities and shareholders` equity	\$ 8,561.4	\$ 5,915.9

\*Represents an amount of less than \$ 0.1 million.

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

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## TEVA PHARMACEUTICAL INDUSTRIES LIMITED

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in millions)

(Unaudited)

	Three months ended March 31,	
	2004	2003
<b>Cash flows from operating activities:</b>		
Net Income (loss)	\$ (428.0)	\$ 137.7
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Income and expenses not involving cash flows	653.5	7.4
Changes in certain assets and liabilities	(1.8)	58.5
<b>Net cash provided by operating activities</b>	<b>223.7</b>	<b>203.6</b>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(64.1)	(36.9)
Acquisition of subsidiary	(1,851.2)	-
Acquisition of intangible assets	(4.6)	(5.3)
Proceeds from sale of property, plant and equipment	0.9	0.4
Acquisition of long-term investments and other assets	(44.0)	(83.3)
Proceeds from sale of long term investments	101.8	5.2
Net decrease in short-term investments	205.6	23.4
<b>Net cash used in investing activities</b>	<b>(1,655.6)</b>	<b>(96.5)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of options by employees	21.2	10.0
Cost of acquisition of Company shares, net of proceeds from sale	0.9	(0.6)
Proceeds from issuance of Convertible Senior Debentures, net of issuance costs	1,072.2	-
Long-term loans received	5.7	-
Discharge of long-term loans and other long-term liabilities	(1.1)	(3.2)
Net increase in short-term credit	18.0	20.4
Dividends paid	(29.8)	(18.0)
<b>Net cash provided by financing activities</b>	<b>1,087.1</b>	<b>8.6</b>
<b>Translation differences on cash balances of certain subsidiaries</b>	<b>(2.5)</b>	<b>3.8</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(347.3)</b>	<b>119.5</b>
<b>Balance of cash and cash equivalents at beginning of period</b>	<b>1,057.3</b>	<b>809.9</b>
<b>Balance of cash and cash equivalents at end of period</b>	<b>\$ 710.0</b>	<b>\$ 929.4</b>

**Supplemental disclosure of non-cash investing and financing activities:**

As discussed in note 4, on January 22, 2004, the Company completed the acquisition of Sicor, Inc. for a total consideration of approximately \$ 3.46 billion. An aggregate amount of approximately \$1.4 billion of Teva shares and stock options were issued as part of the consideration for the acquisition.

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

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(U.S. dollars in millions)

(Unaudited)

**NOTE 1 - Basis of Presentation:**

The accompanying unaudited condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial condition and results of operations of Teva Pharmaceutical Industries Limited ("Teva" or "Company"). These consolidated financial statements and notes thereto are unaudited and should be read in conjunction with the Company's audited financial statements included in the Company's report on Form 20-F for the year ended December 31, 2003, as filed with the Securities and Exchange Commission. The results of operations for the three months ended March 31, 2004 are not necessarily indicative of results that could be expected for the entire fiscal year.

**NOTE 2 - Earnings (loss) per American Depository Receipt ("ADR"):**

Basic earnings per ADR are computed by dividing net income (loss) by the weighted average number of ADRs/ordinary shares (including special shares exchangeable into ordinary shares), outstanding during the period, net of Company shares held by subsidiaries.

In computing diluted loss per ADR for the three months period ended March 31, 2004, no account was taken of the potential dilution that could occur upon the conversion of the Convertible Senior Debentures due 2021 and 2022, and the exercise of options granted under employee stock options plans, since such debentures and options have an antidilutive effect on the loss per ADR (no account was taken of the potential dilution that could occur upon the conversion of the Convertible Senior Debentures due 2024, since as at March 31, 2004, the conditions necessary for conversion of such debentures have not been satisfied).

In computing diluted earnings per ADR for the three months period ended March 31, 2003, basic earnings per ADR was adjusted to take into account the potential dilution that could occur upon: (1) the conversion of the Convertible Senior Debentures due 2005, using the if-converted method, by adding to net income interest expense on these debentures and amortization of issuance costs, net of tax benefits, and by adding the weighted average number of shares issuable upon assumed conversion of these debentures (no account was taken of the potential dilution that could occur upon the conversion of the Convertible Senior Debentures due 2021 and 2022, since as at March 31, 2003, the conditions necessary for conversion of such debentures were not satisfied); and (2) the exercise of options granted under employee stock option plans, using the treasury stock method.

**NOTE 3 - Stock based compensation:**

The Company accounts for its employee stock option plans using the intrinsic value based method of accounting prescribed by APB 25 and related interpretations. The following table illustrates the effect on net income (loss) and earning (loss) per ADR, assuming the Company had applied the fair value recognition provisions of FAS 123 (as amended by FAS 148) to its stock-based employee compensation:

	Three Months Ended March 31,	
	2004	2003
	In millions, except earnings per ADR	
Net income (loss), as reported	\$ (428.0)	\$ 137.7
Add: amortization of deferred compensation related to employee stock option plans, included in condensed consolidated statements of income (loss), net of related tax effect	*	*
Deduct: amortization of deferred compensation, at fair value, net of related tax effect	11.4	13.3
Pro forma net income (loss)	\$ (439.4)	\$ 124.4
Earnings (loss) per ADR		
Basic - as reported	\$ (1.44)	\$ 0.52
Basic - pro forma	\$ (1.47)	\$ 0.47
Diluted - as reported	\$ (1.44)	\$ 0.50
Diluted - pro forma	\$ (1.47)	\$ 0.45

\* Represents an amount of less than \$ 0.1 million

**TEVA PHARMACEUTICAL INDUSTRIES LIMITED**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(U.S. dollars in millions)

(Unaudited)

**NOTE 4- Acquisition of Sicor Inc.:**

On January 22, 2004, Teva completed the acquisition of full control and ownership of Sicor Inc. ("Sicor"), a U.S. public pharmaceutical company that focuses on generic finished dosage injectable pharmaceuticals, active pharmaceutical ingredients and generic biopharmaceuticals. This transaction was first announced on October 31, 2003, and was intended to combine Teva's generic drugs business with that of Sicor's, in addition to expanding the combined company's API product offerings and is to further enhance Teva's efforts to participate in the multi-sourced biologics market with Sicor's capabilities.

Under the terms of the merger agreement, each share of Sicor common stock was exchanged for \$ 16.50 in cash and 0.1906 Teva ADRs representing a total consideration of \$ 27.52 per share, calculated based upon the aggregate of the cash consideration and the average of the closing prices per ADR for the period two days before through two days after the announcement of the merger agreement. The total consideration for the acquisition is approximately \$ 3.46 billion, (including transaction costs and the fair value of stock options granted, determined using the Black-Scholes option pricing model). The cash consideration of \$ 2,019 million was financed out of Teva's own resources, and from short-term borrowings in the amount of \$ 1,130 million, which were subsequently refinanced by the issuance of Convertible Senior Debentures (see note 5). A total of 23,328,834 ADRs have been issued, which amounted to approximately 7.7% of the issued and outstanding share capital of the Company shortly after the allotment.

This transaction is accounted for by the purchase method. The consideration for the acquisition was attributed to net assets on the basis of fair value of assets acquired and liabilities assumed as of January 22, 2004 (the closing date of the acquisition). The Company has not finalized the allocation of the purchase price to the net assets acquired in this acquisition. The results of operations of Sicor have been included in the consolidated statements of income (loss) commencing January 23, 2004.

An amount of \$ 583.6 million was allocated to research and development in process, representing an estimate of the fair value of purchased in-process technology for research projects that, as of the closing date of the merger, have not reached technological feasibility and have no alternative future use. This amount was charged to operating expenses upon acquisition, in accordance with generally accepted accounting principles. An amount of \$ 502.5 million was allocated to intangible assets - existing products and other identifiable intangible assets amortizable mainly over 20 years. The excess of cost of acquisition over the fair value of net tangible and intangible assets on acquisition date, not attributed to acquired in-process research and development, amounted to

\$ 1,792.3 million, was allocated to goodwill.

Hereafter are certain unaudited pro forma combined statements of income data for the three month periods ended March 31, 2004 and 2003, as if the acquisition of Sicor occurred on January 1, 2004 and 2003, respectively, after giving effect to: (a) purchase accounting adjustments, including amortization of identifiable intangible assets; and (b) estimated additional interest expense due to: (i) issuance of Convertible Senior Debentures in connection with the acquisition; and (ii) add back of interest income on Teva's cash and cash equivalents and marketable securities used as cash consideration in the acquisition, but excluding non-recurring expenses directly attributable to the acquisition, representing acquired research and development in process in the amount of \$583.6 million. The pro forma financial information is not necessarily indicative of the combined results that would have been attained had the acquisition taken place at the beginning of 2004 and 2003, respectively, nor is it necessarily indicative of future results.

	Three months ended	
	March 31,	
	2004	2003
	U.S. \$ in millions	
	(unaudited)	
Sales	\$ 1,069.7	\$ 885.8
Net income	\$ 153.2	\$ 144.5
Earnings per ADR:		
Basic	\$ 0.50	\$ 0.50
Diluted	\$ 0.47	\$ 0.48

## TEVA PHARMACEUTICAL INDUSTRIES LIMITED

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(U.S. dollars in millions)

(Unaudited)

**NOTE 5 - Issuance of Convertible Senior Debentures:**

In January, 2004, Teva Pharmaceutical Finance II, LLC ("Teva Finance II"), an indirect wholly-owned subsidiary of the Company, sold an aggregate principal amount of \$460 million of 0.5% series A Convertible Senior Debentures and \$634 of 0.25% series B Convertible Senior Debentures, with both series due 2024, for a total amount of approximately \$1,094 million. Payment of all principal, interest, premium and additional amounts (as defined), if any, payable on the debentures is unconditionally guaranteed by the Company. Interest is payable on a semi-annual basis. Unless previously redeemed or repurchased, holders of the debentures may convert them into ADRs, each of which represents one ordinary share of the Company, under certain circumstances set forth in the prospectus supplement, at a conversion price of \$ 75.80 per ADR in case of Series A debentures (upon a full conversion 6,068,602 ordinary shares are issuable), and \$70.51 in case of Series B debentures (upon a full conversion 8,998,014 ordinary shares are issuable) subject to adjustments in certain circumstances. On or after August 1, 2008 in case of Series A debentures and February 1, 2010 in case of Series B debentures, Teva Finance II may redeem some or all of the debentures at the principal amount of such debentures, plus accrued and unpaid interest. On certain dates set forth in the prospectus supplement, each holder may require Teva Finance II to repurchase some or all of the holders` debentures at the principal amount of such debentures, plus accrued and unpaid interest. With respect to the earliest of such dates - August 1, 2008 in case of Series A debentures and February 1, 2010 in case of Series B debentures - or upon the occurrence of certain events specified in the prospectus supplement, if repurchase of debentures is requested, Teva Finance II can elect to pay the repurchase price in cash or in Teva ADRs (as set forth in the prospectus supplement), or any combination thereof. Teva incurred debt issuance costs of approximately \$ 18 million in respect of the two series of debentures.

**NOTE 6 - Inventories:**

Inventories consisted of the following:

	March 31,	December 31,
	2004	2003
	Unaudited	Audited
Raw and packaging materials	\$ 316.3	\$ 308.8
Products in process	183.8	149.6
Finished products	639.9	445.6
Purchased products	83.9	86.4
	1,223.9	990.4

Materials in transit and payments on account	40.8	14.2
	\$ 1,264.7	\$ 1,004.6

**NOTE 7 - Comprehensive income (loss):**

Comprehensive income (loss) for the Company is as follows:

	Three Months Ended March 31,	
	2004	2003
Net income (loss)	\$ (428.0)	\$ 137.7
Other comprehensive income, net of tax:		
Unrealized gain from available-for-sale securities-net	22.3	1.0
Translation of non-dollar-currency financial statements of subsidiaries and associated companies	(0.6)	24.3
	\$ (406.3)	\$ 163.0



TEVA PHARMACEUTICAL INDUSTRIES LIMITED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(U.S. dollars in millions)

(Unaudited)

**NOTE 8 - Certain details relating to defined benefit plans:**

a. The consolidated components of net periodic benefit costs are as follows:

	<b>March 31</b>	
	2004 2003	
Service cost	\$ 1.3	\$ 1.0
Interest cost	1.1	0.9
Expected return on plan assets	(0.8)	(0.6)
Recognized net actuarial loss	0.3	0.2
Prior service cost	(0.1)	
Employers` pension cost	\$ 1.8	\$ 1.5

b. Teva has made contributions of \$4.4 million in the three months ended March 31, 2004 to its pension plans, and presently anticipates contributing an additional \$19.4 million in 2004, for a total of \$23.8 million.

**NOTE 9 - Financial information by business segment:**

a. Financial data relating to reportable operating segments:

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	Pharmaceutical	API**	Other	Total
Three month period ended March 31, 2004:				
Net sales:				
To unaffiliated customers	\$ 928.3	\$ 119.0	\$ 5.1	\$ 1,052.4
Intersegment		85.8	0.6	86.4
Total net sales	\$ 928.3	\$ 204.8	\$ 5.7	\$ 1,138.8
Operating income (loss)***	\$(417.9)	\$ 72.4	\$ 0.4	\$ (345.1)
Assets (at end of period) ****	\$3,584.9	\$ 750.4	\$ 28.8	\$ 4,364.1
Goodwill (at end of period)	\$2,403.7	\$ 25.6		\$ 2,429.3
Depreciation and amortization	\$ 32.9	\$ 9.8	\$ 0.8	\$ 43.5
Three month period ended March 31, 2004:				
Net sales:				
To unaffiliated customers	\$ 664.8	\$ 88.1	\$ 4.5	\$ 757.4
Intersegment		80.6	0.1	80.7
Total net sales	\$ 664.8	\$ 168.7	\$ 4.6	\$ 838.1
Operating income	\$ 135.8	\$ 70.7	*	\$ 206.5

\* Represents an amount of less than \$ 0.1 million

\*\* Active Pharmaceutical Ingredients

\*\*\* Operating income for the three months ended March 31, 2004 of the pharmaceutical segment, included an amount of \$591.6 million acquisition of research and development in process. Operating income for the three months period ended March 31, 2004 of the pharmaceutical segment also included impairment expenses in the amount of \$30 million.

\*\*\*\* As described in note 4, the Company has not finalized the allocation of the purchase price of the Sicor acquisition to the net assets acquired. Consequently, upon finalization of such allocation, certain amounts, which at March 31, 2004 are presented under the pharmaceutical segment, may be reallocated to the other operating segments.

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(U.S. dollars in millions)

(Unaudited)

Following is a reconciliation of operating income and assets of the reportable segments to the data included in the condensed

consolidated financial statements:

	Three Months Ended	
	March 31,	March 31,
	2004	2003
Total operating income (loss) of reportable Segments	\$ (345.5)	\$ 206.5
Other	0.4	*
Amounts not allocated to segments:		
Profits not yet realized	(13.5)	(15.3)
General and administration expenses	(12.2)	(10.8)
Other expenses	(1.6)	(1.1)
Financial expenses - net	(1.3)	(4.0)
Consolidated income (loss) before income taxes	\$ (373.7)	\$ 175.3
	March 31,	
	2004	

Assets (at end of period):

Total assets of reportable segments	\$ 4,335.3
Total goodwill of reportable segments	2,429.3
Other assets	28.8
Elimination of intersegment balances	(17.5)
Elimination of unrealized income	(87.1)
Assets not allocated to segments:	
Current assets	1,251.1
Investments and other assets	561.6
Property, plant and equipment, net	33.1
Debt issuance costs	26.8
Consolidated assets (at end of period)	\$ 8,561.4

\* Represents an amount of less than \$ 0.1 million.

**NOTE 10 - Commitments and contingencies:**

On September 14, 2001, Purdue Pharma L.P. ("Purdue") filed an action in the U.S. District Court for the Southern District of New York, alleging that the filing of Teva USA's ANDA for 80 mg oxycodone hydrochloride extended-release tablets infringed three patents listed in the Orange Book for Purdue's OxyContin<sup>®</sup>. Subsequently on April 3, 2003, Purdue sued Teva USA on its 10, 20, and 40 mg tablet products. On January 5, 2004, those three patents were held unenforceable in a related case, Purdue Pharma L.P. v. Endo Pharmaceuticals Inc., pending before the same Judge as in Teva USA's case. Purdue has appealed that decision. Teva USA does not yet have a decision in its case. On March 30, 2004, Teva USA commenced sales of its 80 mg tablets based upon the court's decision in the Endo case. The 2003 annual sales of the branded product in the U.S. were estimated to be approximately \$707 million. Were Purdue to be successful on its appeal, and if Teva USA does not receive a favorable decision in its own case,

Teva USA could ultimately be required to pay damages related to the sales of 80 mg oxycodone hydrochloride extended-release tablets and be enjoined from selling this product. No provision for this matter has been included in the accounts.

**NOTE 11 - Impairment of Purinethol<sup>®</sup> product rights:**

During the first quarter of 2004, a generic competition to the Purinethol<sup>®</sup> product that was received from GlaxoSmithKline in June 2003 entered the market. In accordance with FAS 144, "Accounting for impairment or disposal of long lived assets", an analysis for potential impairment was performed by the Company, resulting in an impairment charge of \$30 million.

**OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

*The following discussion and analysis should be read in conjunction with the consolidated financial statements, the related notes to the consolidated financial statements and the Operating and Financial Review and Prospects included in Teva's Annual Report on Form 20-F for the fiscal year ended December 31, 2003 and the unaudited interim condensed consolidated financial statements contained in this Report on Form 6-K and the related notes to such unaudited interim condensed consolidated financial statements.*

*Except for historical information contained in this report, the matters discussed below are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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 Teva's 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 Teva's ability to successfully develop and commercialize additional pharmaceutical products, the introduction of competitive generic products, the impact of competition from brand-name companies that sell their own generic products or successfully extend the exclusivity period of their branded products, Teva's ability to rapidly integrate the operations of acquired businesses, including its recent acquisition of Sicor Inc., regulatory changes that may prevent Teva from exploiting exclusivity periods, potential liability for sales of generic products prior to completion of appellate litigation, the effects of competition on Copaxone<sup>®</sup> 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") and other regulatory authority approvals, the regulatory environment and changes in the health policies and structure of various countries, Teva's ability to successfully identify, consummate and integrate acquisitions, exposure to product liability claims, dependence on patent and other protections for innovative products, 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 Teva's Annual Report on Form 20-F and its other filings with the U.S. Securities and Exchange Commission ("SEC").*

*Teva undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are advised, however, to consult any additional disclosures that Teva may make in its Reports on Form 6-K to the SEC.*

## **Results of Operations**

### **Comparison of Three Months Ended March 31, 2004 to Three Months Ended March 31, 2003**

#### ***Preliminary Note***

The quarter ended March 31, 2004 was the first quarter in which the results of Sicor Inc. were consolidated. The acquisition of Sicor was closed on January 22, 2004, and its results were consolidated from the following day through the balance of the quarter. Given that Sicor has pharmaceutical operations both in the U.S. and abroad, principally in Mexico, as well as a substantial API business, the consolidation of Sicor increased sales in various of Teva's operations.

In addition, Teva recorded one-time charges aggregating \$641 million (before taxes) during the quarter, principally from an in-process R&D write off recorded in connection with the Sicor acquisition. As a result of these one-time charges, Teva reported a loss for the quarter of \$428 million. Without these various one-time charges, Teva's adjusted net income would have been \$205 million.

The one-time items consisted of

- o \$584 million of in process R&D write offs in connection with the Sicor acquisition;
- o \$13 million of in process R&D write offs relating to two collaboration agreements;
- o \$14 million in a one-time step up of Sicor's inventory at its acquisition date. This one-time step up was fully absorbed in the first quarter as an increase to costs of goods sold; and
- o \$30 million charge reflecting the partial impairment of the Purinethol<sup>®</sup> product rights that were received from GlaxoSmithKline in June 2003.

Teva believes that excluding these one-time charges from the first quarter results represents a better indicator of the underlying trends in the Company's operations. Accordingly, unless otherwise indicated, the analysis that follows speaks to the adjusted numbers, i.e. those before taking into account these one-time charges. For a detailed reconciliation of net income and EPS to the adjusted numbers, see table below entitled "Reconciliation between reported Income (loss) and Earnings (loss) per Share to Adjusted Income and Earnings per Share".

### ***General***

Teva's sales for the first quarter of 2004 exceeded \$1 billion for the first time and grew by 39% over the comparable quarter. The increase in sales was supported by organic and non-organic growth. The main factors affecting the quarter were:

Sales growth that was driven by new products both in the U.S. and Europe that were not sold in the comparable quarter and increased Copaxone<sup>®</sup> sales. These sales were the main contributor to the quarter over quarter growth.

The inclusion of Sicor's results for the first time;

The strengthening of non-U.S. currencies relative to the U.S. dollar, which accounted for 14% of the increase in net sales;

Gross R&D expenses and SG&A expenses that were lower than expected for the remainder of the year. Teva expects R&D expenses to grow faster than sales growth over the coming quarters and that a sustainable level of SG&A expenditures will be somewhat higher than that experienced during the first quarter of this year;

An effective tax rate of 23% of adjusted pre-tax income compared with 21% in the comparable quarter. The increased tax rate reflects Sicor's consolidation - most of which income is taxed in the U.S. at rates higher than Teva's pre-acquisition average;

Adjusted profitability margins continued to improve and this quarter reached:

Gross Profit Margin: 47%; Operating Income Margin: 25%; and Net Income Margin: 19%





The following tables set forth certain financial data presented as a percentage of sales and the percentage change, for the periods indicated.

	Percentage of Sales Three Months Ended March 31		Period to Period Percentage Change
	2004	2003	
<b><i>Actual (GAAP) Results</i></b>			
Net Sales	100.0%	100.0%	38.9%
Gross Profit	45.6%	46.0%	37.9%
Research and Development Expenses:			
Total Expenses	6.8%	6.5%	44.9%
Less Participations & Grants	(0.4%)	(0.4%)	18.2%
R&D Expenses - net	6.5%	6.1%	46.8%
Selling, General and Administrative Expenses	15.0%	16.2%	28.9%
Operating Income (Loss)	(35.4%)	23.7%	n/a
Financial Expenses - net	0.1%	0.5%	(67.5%)
Income (Loss) Before Income Taxes	(35.5%)	23.2%	n/a
Net Income (Loss)	(40.7%)	18.2%	n/a
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#### ***Adjusted Results***

Gross Profit	47.0%	46.0%	41.9%
Operating Income	25.5%	23.7%	49.5%
Income Before Income Taxes	25.4%	23.2%	52.2%
Net Income	19.5%	18.2%	48.7%

#### ***Sales - General***

Consolidated sales for the three months ended March 31, 2004 were \$1,052 million, an increase of 39% over the comparable quarter of 2003. Sales of new products and increased Copaxone<sup>®</sup> sales were the major contributors to sales growth this quarter over the comparable quarter of 2003. The first time inclusion of Sicor results, contributed additional sales of \$129 million. Currency neutral growth accounted for 86% of the increase in sales.

#### **Sales By Geographical Areas**

**2004**

	U.S. Dollars In Millions			
	First Quarter,			
	<u>2004</u>	<u>2003</u>	<u>% Change</u>	<u>% of Total</u>
North America	666.0	480.7	38.5%	63.3%
Europe	266.2	191.8	38.8%	25.3%
Rest of the World *	120.2	84.9	41.6%	11.4%
<b>Total</b>	<b>1,052.4</b>	<b>757.4</b>	<b>38.9%</b>	<b>100%</b>
Mainly sales in Israel.				

**Sales By Business Segments**

	U.S. Dollars In Millions			<b>2004</b>
	First Quarter,			
	<u>2004</u>	<u>2003</u>	<u>% Change</u>	<u>% of Total</u>
Pharmaceuticals	928.3	664.8	39.6%	88.2%
A.P.I. *	118.9	88.1	35.0%	11.3%
Other	5.2	4.5	15.6%	0.5%
<b>Total</b>	<b>1,052.4</b>	<b>757.4</b>	<b>38.9%</b>	<b>100.0%</b>

\* Third party sales only.

***Pharmaceutical Sales***

Teva's consolidated pharmaceutical sales during the three months ended March 31, 2004 were \$928 million, comprising approximately 88% of Teva's total revenue and representing an increase of 40% over the first quarter of 2003. The following table shows the geographic breakdown of these sales:

**Pharmaceutical Sales**

	U.S. Dollars In Millions			<b>2004</b>
	First Quarter,			
	<u>2004</u>	<u>2003</u>	<u>% Change</u>	<u>% of Total</u>
North America	594.2	426.8	39.2%	64.0%
Europe	231.4	162.6	42.3%	24.9%
Rest of the World *	102.7	75.4	36.2%	11.1%
<b>Total</b>	<b>928.3</b>	<b>664.8</b>	<b>39.6%</b>	<b>100%</b>

\* Mainly sales in Israel.

***North America***

Pharmaceutical sales in North America for the three months ended March 31, 2004 reached \$594 million, an increase of 39% over the comparable quarter of 2003. This increase was primarily attributable to the sale of new products that were not sold in the comparable quarter, including Bupropion, Benzapril and in the last two days of the quarter Oxycodone, as well as increased sales of Copaxone<sup>®</sup>, and to the first time inclusion of Sicor's US injectables sales. During the quarter, as a result of the launch of an authorized generic, Teva's US subsidiary lost market exclusivity on Fosinopril, which had been launched in the fourth quarter of 2003. Teva achieved positive sales growth despite this loss of exclusivity. The 14 generic products that were not sold in the comparable quarter included Amoxicillin, Hydrocodone/Ibuprofen, Moexipril, Oxaprozin, Megestrol Acetate, Nefazadone, Potassium CL ER, Mupirocin, Fosinopril, Benazepril, Metolazone, Bupropion SR, Buspirone and Oxycodone. Sales this quarter were

also positively impacted by the sales of Purinethol<sup>®</sup>, the product rights to which Teva received from GlaxoSmithKline in June 2003. As a result of the introduction of a competing generic product toward the end of the quarter, a one-time write-off in the amount of \$30 million was recorded in this quarter reflecting the partial impairment of the received Purinethol<sup>®</sup> product rights.

The following is a listing of the ANDA approvals Teva received from the U.S. FDA during the first quarter of 2004 and through April 30, 2004:

Generic Product Name	Approval Date	Innovator Product Brand Name
Fludarabine Phosphate	04/04	Fludara <sup>®</sup>
Buspirone	03/04	