

TEVA PHARMACEUTICAL INDUSTRIES LTD
Form 20-F
March 15, 2004
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

Or

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

For the fiscal year ended December 31, 2003

Or

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

For the transition period from _____ to _____

Commission File number: 0-16174

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant's
name into English)

ISRAEL
(Jurisdiction of incorporation or
organization)

5 Basel Street

P.O. Box 3190

Petach Tikva 49131, Israel

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class

None

Name of each exchange on which registered

None

Securities registered or to be registered pursuant to Section 12(g) of the Act:

American Depositary Shares (as evidenced by American Depositary Receipts),

each representing one Ordinary Share

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

277,668,835 Ordinary Shares

198,371,227 American Depositary Shares

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

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INTRODUCTION AND USE OF CERTAIN TERMS

Unless otherwise indicated, all references to the Company, we, our and Teva refer to Teva Pharmaceutical Industries Limited and its subsidiaries. References to US dollars, US\$ and \$ are to the lawful currency of the United States of America, and references to NIS are to New Israeli Shekels.

This Form 20-F does not discuss the results, and generally does not discuss the operations, of Sicor Inc., which we acquired on January 22, 2004. We expect to file audited consolidated financial statements for Sicor for the year ended December 31, 2003, and unaudited condensed pro forma financial statements for the year ended December 31, 2003 giving effect to Teva's acquisition of Sicor, on a Form 6-K on or about March 15, 2004.

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FORWARD-LOOKING STATEMENTS

Our disclosure and analysis in this report contain some forward-looking statements. Forward-looking statements give 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 words and terms of similar 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; and
- our liquidity.

This report contains forward-looking statements which express the beliefs and expectations of management. Such statements are based on current 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 the impact of pharmaceutical industry regulation, 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 structures of various countries, acceptance and demand for new pharmaceutical products and new therapies, the impact of competitive products and pricing, uncertainties regarding market acceptance of innovative products newly launched, currently being sold or in development, the impact of restructuring of clients, reliance on strategic alliances, reliance on a strategy of acquiring companies, including risks relating to our acquisition of Sicor, exposure to product liability claims, dependence on patent and other protections for our innovative products, exposure to potential patent liability damages for products sold at risk , i.e., prior to the final adjudication of patent issues, fluctuations in currency, exchange and interest rates, operating results and other factors that are discussed in this report and in our other filings made with the US Securities and Exchange Commission (SEC).

We undertake no obligation to publicly update any forward-looking statements or other information contained in this report, whether as a result of new information, future events or otherwise. You are advised, however, to consult any additional disclosures we make in our 6-K reports to the SEC. Also note that we provide a cautionary discussion of risks and uncertainties under Risk Factors on page 9 of this report. 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.

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PART I

ITEM 3: KEY INFORMATION

SELECTED FINANCIAL DATA

During 2000, the Israeli Securities Law was amended to allow Israeli companies, such as Teva, whose securities are listed both on the Tel Aviv Stock Exchange and on certain stock exchanges in the United States (including NASDAQ), to report exclusively under SEC rules and accounting principles generally accepted in the United States (US GAAP). Accordingly, on December 18, 2000, Teva's shareholders approved a resolution under which Teva's financial statements would be prepared under SEC rules and US GAAP, rather than under Israeli Securities Regulations and accounting principles generally accepted in Israel. All financial statements included in this report and all financial information released in Israel are now presented solely under US GAAP.

The following selected financial data for each of the years in the three-year period ended December 31, 2003 and at December 31, 2003 and 2002 are derived from Teva's audited consolidated financial statements set forth elsewhere in this report, which have been prepared in accordance with US GAAP.

The selected financial data for each of the years in the two-year period ended December 31, 2000 and at December 31, 2001, 2000 and 1999 are derived from other audited financial statements not appearing in this report, which have been prepared in accordance with US GAAP.

The selected financial data should be read in conjunction with the other financial statements, related notes and other financial information included in this report.

The currency of the primary economic environment in which the operations of Teva and its subsidiaries in Israel and in the United States are conducted is the U.S. dollar. The functional currency of Teva's other subsidiaries (principally operating in Europe and Canada) is their respective local currency.

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	For the year ended December 31				
	2003	2002	2001	2000	1999
	U.S. dollars in millions (except per ADR amounts)				
Net sales	3,276.4	2,518.6	2,077.4	1,749.9	1,282.4
Cost of sales	1,757.5	1,423.2	1,230.1	1,058.0	767.6
Gross profit	1,518.9	1,095.4	847.3	691.9	514.8
Research and development expenses:					
Total expenses	243.4	192.6	168.6	132.3	91.6
Less participations and grants	29.9	27.6	61.4	27.7	9.8
Research and development - net	213.5	165.0	107.2	104.6	81.8
Selling, general and administrative expenses	520.6	406.4	358.1	301.0	223.2
Acquisition of research and development in process				35.7	17.7
Income from GSK litigation settlement	100.0				
Restructuring expenses	7.4		15.7		
Operating income	877.4	524.0	366.3	250.6	192.1
Financial expenses - net	5.0	24.6	26.0	42.2	30.1
Income before income taxes	872.4	499.4	340.3	208.4	162.0
Income taxes	181.5	84.8	63.6	59.6	45.4
	690.9	414.6	276.7	148.8	116.6
Share in profits (losses) of associated companies - net	1.5	(2.7)	0.8	0.4	(0.6)
Minority interests in (profits) losses of subsidiaries - net	(1.4)	(1.6)	0.7	(0.8)	0.8
Net income	691.0	410.3	278.2	148.4	116.8
Earnings per ADR ⁽¹⁾ - Basic (\$)	2.57	1.55	1.05	0.58	0.48
Earnings per ADR ⁽¹⁾ - Diluted (\$)	2.39	1.52	1.02	0.57	0.48
Weighted average number of ADRs (in millions):					
Basic	268.4	264.5	264.5	257.9	245.2
Diluted	295.0	280.8	280.9	263.7	246.6
Before one-time items⁽²⁾					
Operating income	784.8	524.0	382.0	286.3	209.8
Net income	617.8	410.3	287.9	184.1	134.5
Earnings per ADR ⁽¹⁾ - Basic (\$)	2.30	1.55	1.09	0.71	0.55
Earnings per ADR ⁽¹⁾ - Diluted (\$)	2.14	1.52	1.06	0.71	0.55

(1) Historical figures have been adjusted to reflect the two for one stock splits effected in both December 2002 and February 2000. Each ADR represents one ordinary share.

(2) See the reconciliation on the following page.

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Teva believes that excluding the following one-time items from its results represents a better indicator of the underlying trends in its business. The following table provides a reconciliation of operating income, net income and earnings per ADR before one-time items, a non-GAAP financial measure:

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Total income before taxes as reported *	872.5	495.1	341.8	208.0	162.2
Deduct one time gain:					
Income from GSK litigation settlement	100.0				
Add back one time charges:					
Acquisition of in process R&D				35.7	17.7
Restructuring expenses	7.4		15.7		
Total normalized income before taxes	779.9	495.1	357.5	243.7	179.9
Taxes on normalized income	162.1	84.8	69.6	59.6	45.4
Net normalized income	617.8	410.3	287.9	184.1	134.5
Net income as reported	691.0	410.3	278.2	148.4	116.8

* Includes share of profits (losses) of associated companies-net and minority interest in losses (profits) of subsidiaries-net

Balance Sheet Data

	<u>As at December 31</u>				
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	U.S. dollars in millions				
Working capital	2,021.5	1,377.2	1,439.8	825.1	373.5
Total assets	5,915.9	4,626.8	3,460.2	2,855.6	1,755.3
Short-term credit, including current maturities:					
Convertible senior debentures (short-term)	352.5	562.4			
Other	291.7	176.1	206.5	341.5	276.3
Total short-term debt	644.2	738.5	206.5	341.5	276.3
Long-term debt, net of current maturities:					
Convertible senior debentures	449.9	810.0	912.0	550.0	
Other	365.5	351.4	334.9	263.9	391.4
Total long-term debt	815.4	1,161.4	1,246.9	813.9	391.4
Minority interests	6.7	4.9	2.2	1.6	
Shareholders equity	3,289.4	1,829.4	1,380.7	1,151.3	747.2

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Dividends

For over 30 years Teva has paid dividends, with dividends paid on a regular quarterly basis since 1987. Future dividend policy will be reviewed by the Board of Directors based upon conditions then existing, including Teva's earnings, financial condition, capital requirements and other factors. Dividends are declared and paid in New Israeli Shekels. Dividends are converted into dollars and paid by the depositary 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%. In Teva's case, 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 dividend declared for the fourth quarter of 2003 was 21%.

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 the figures have been adjusted to reflect the 2:1 stock splits effected in December 2002 and February 2000. Actual dividends paid in US Dollars are subject to some deviation reflecting exchange rate fluctuations between the NIS (the currency in which dividends are declared) and the US Dollar between the declaration date and the date of actual payment.