TEVA PHARMACEUTICAL INDUSTRIES LTD
Form 6-K
May 10, 2007
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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 2007

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 __X__ 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 __X__

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

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

(Unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Net sales	$ 2,080	$ 1,673
Cost of sales	1,043	949
Gross profit	1,037	724
Research and development expenses	135	103
Selling, general and administrative expenses	456	316
Acquisition of research and development in process		1,248
Restructuring expenses		3
Operating income (loss)	446	(946)
Financial expenses net	28	14
Income (loss) before income taxes	418	(960)
Provision for income taxes	75	48
	343	(1,008)
Minority interests in profits of subsidiaries net	1	1
Net income (loss)	$ 342	$ (1,009)
Earnings (loss) per share:		
Basic	$ 0.45	$ (1.40)
Diluted	$ 0.42	$ (1.40)
Weighted average number of shares (in millions):		
Basic	764	722
Diluted	827	722

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED BALANCE SHEETS

(U.S. dollars in millions)

	March 31, 2007 Unaudited	December 31, 2006 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,176	$ 1,332
Short-term investments	1,167	712
Accounts receivable trade	2,772	2,922
Inventories	2,084	1,879
Prepaid expenses and other current assets	822	795
Total current assets	8,021	7,640
Investments and other non-current assets	686	613
Property, plant and equipment, net	2,288	2,193
Intangible assets	1,958	1,987
Goodwill	8,074	8,038
Total assets	$ 21,027	$ 20,471
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term credit	$ 1,521	$ 742
Accounts payable and accruals	3,120	3,329
Total current liabilities	4,641	4,071
Long-term liabilities:		
Deferred and other income taxes liabilities	800	486
Employee related obligations	156	152
Senior notes, loans and other liabilities	2,123	2,127
Convertible senior debentures	1,883	2,458
Total long-term liabilities	4,962	5,223
Total liabilities	9,603	9,294
Minority interests	36	35
Shareholders equity:		
Ordinary Shares of NIS 0.10 par value; March 31, 2007 and December 31, 2006: authorized -1,500 million shares; issued and outstanding 796 million shares and 793 million shares, respectively	46	46
Additional paid-in capital	7,955	7,877
Retained earnings	3,668	3,398
Accumulated other comprehensive income	701	651
Treasury shares March 31, 2007 and December 31, 2006 40 million ordinary shares and 35 million ordinary shares, respectively	(982)	(830)
Total shareholders equity	11,388	11,142

Total liabilities and shareholders equity	$	21,027	$	20,471

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in millions)

(Unaudited)

	Three months ended March 31, 2007	Three months ended March 31, 2006
Cash flows from operating activities:		
Net income (loss)	$ 342	$ (1,009)
Adjustments to reconcile net income (loss) to net cash provided from operations:		
Depreciation and amortization	137	87
Deferred income taxes net	19	(47)
Acquisition of research and development in process		1,248
Stock-based compensation	18	14
Decrease in accounts receivable	258	100
Decrease (increase) in inventories	(195)	9
Decrease in account payable and accruals	(91)	(118)
Other items net	11	4
Net cash provided by operating activities	499	288
Cash flows from investing activities:		
Purchase of property, plant and equipment	(156)	(72)
Acquisition of subsidiary, net of cash acquired		(3,556)
Proceeds from sale of long-term investments	47	2
Purchase of long-term investments and other assets	(170)	(108)
Net decrease (increase) in short-term investments	(389)	558
Other items net	(29)	(8)
Net cash used in investing activities	(697)	(3,184)
Cash flows from financing activities:		
Proceeds from exercise of options by employees	36	47
Purchase of treasury shares	(152)	*
Proceeds from issuance of convertible senior debentures		1,375
Excess tax benefit on options exercised	13	19
Proceeds from long-term loans and other long-term liabilities received	1	1,490
Discharge of long-term loans and other long-term liabilities	(9)	(7)
Net increase (decrease) in short-term credit	220	(285)
Dividends paid	(72)	(55)
Other items net	(1)	*
Net cash provided by financing activities	36	2,584
Translation differences on cash balances of certain subsidiaries	6	4
Net decrease in cash and cash equivalents	(156)	(308)
Balance of cash and cash equivalents at beginning of period	1,332	1,276

Balance of cash and cash equivalents at end of period	$ 1,176	$ 968

* Represents an amount of less than $ 1 million

Supplemental disclosure of non-cash investing and financing activities:

On January 26, 2006, the Company completed the acquisition of Ivax Corporation for a total consideration of $7.9 billion. An aggregate amount of $4.1 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.

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 Basis of presentation:

The accompanying unaudited condensed consolidated financial statements have been prepared on the same basis, except for the accounting for uncertainty in income taxes, 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 position and results of operations of Teva Pharmaceutical Industries Limited (Teva or the 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 Annual Report on Form 20-F for the year ended December 31, 2006, as filed with the Securities and Exchange Commission. The results of operations for the three months ended March 31, 2007 are not necessarily indicative of results that could be expected for the entire fiscal year.

NOTE 2 Accounting for uncertainty in income taxes

Effective January 1, 2007, the Company adopted FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of FAS 109 , which was issued in July 2006. FIN 48 clarifies the accounting for uncertainty in income taxes, and prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company s accounting policy, pursuant to the adoption of FIN 48, is to classify interest and penalties recognized in the financial statements relating to uncertain tax positions, under provision for income taxes.

The adoption resulted in a reclassification of certain tax liabilities from current to non-current and no material cumulative impact to retained earnings. The total amount of unrecognized tax benefits as at the date of adoption of FIN 48 amounted to $278 million, of which $220 million would affect the effective tax rate if recognized. No significant increase or decrease in the unrecognized tax benefit is anticipated through December 31, 2007. As of the date of adoption, the tax years that remain subject to examination by tax authorities in major jurisdictions where Teva operates, are mainly between years 2003 and 2006.

NOTE 3 Earnings/loss per share:

Basic earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of ordinary shares (including special shares exchangeable into ordinary shares) outstanding during the period, net of treasury shares.

In computing diluted earnings per share for the three months ended March 31, 2007, basic earnings per share was adjusted to take into account the potential dilution that could occur upon: (1) the conversion of the convertible senior debentures and subordinated notes, using the if-converted method, by adding to net income interest expense on these debentures and subordinated notes, and amortization of issuance costs, net of tax benefits, and by adding to the number of shares the weighted average number of shares issuable upon assumed conversion of these debentures and subordinated notes; and (2) the exercise of options and restricted stock units (RSUs) granted under employee stock compensation plans, using the treasury stock method.

Due to the loss incurred during the three months ended March 31, 2006, in computing diluted loss per share for that period, no account was taken of the potential dilution that could occur upon the conversion of the convertible senior debentures and subordinated notes, and the exercise of options and RSUs granted under employee stock compensation plans, since they had an antidilutive effect on the loss per share.

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NOTE 4 Inventories:

Inventories consisted of the following:

	March 31, 2007	December 31, 2006
	U.S. $ in millions	
	Unaudited	Audited
Raw and packaging materials	$ 507	$ 477
Products in process	344	279
Finished products	1,203	1,097
	2,054	1,853
Materials in transit and payments on account	30	26
	$ 2,084	$ 1,879

NOTE 5 Accounts payable and accruals:

Accounts payable and accruals include sales reserves and allowances which amounted to $1,654 million and $1,556 million as at March 31, 2007 and December 31, 2006 respectively.

Accounts payable also include restructuring provisions consequent to the acquisition of Ivax, mainly related to severance pay, termination of agreements and tax related provisions. These amounted to $170 million of which an amount of $71 million has been paid through March 31, 2007. Ivax has terminated the employment of approximately 63% of the 2,800 employees whose employment was to be terminated.

NOTE 6 Revenue recognition:

Revenue is recognized when title and risk and rewards for the products are transferred to the customer, with provisions for estimated chargebacks, returns, customer volume rebates, discounts and shelf stock adjustments established concurrently with the recognition of revenue, and deducted from sales.

Provisions for chargebacks, returns, rebates and other promotional items are included in Accounts payable and accrued expenses under current liabilities. Prompt payment discounts are netted against Accounts receivable trade.

The calculation is based on historical experience and the specific terms in the individual agreements. Chargebacks are the largest component of sales reserves. Provisions for estimating chargebacks are determined using historical chargeback experience, or expected chargeback levels and wholesaler sales information for new products, which are compared to externally obtained distribution channel reports for reasonableness. Shelf-stock adjustments are granted to customers based on the existing inventory of a customer following decreases in the invoice or contract price of the related product. Where there is a historical experience of Teva s agreeing to customer returns, Teva records a reserve for estimated sales returns by applying historical experience of customer returns to the amounts invoiced and the amount of returned products to be destroyed versus products that can be placed back in inventory for resale.

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NOTE 7 Comprehensive income:

Comprehensive income (loss) is as follows:

	Three months ended March 31, U.S. $ in millions	
	2007	2006
Net income (loss)	$ 342	$ (1,009)
Other comprehensive income (loss), net of tax:		
Unrealized gain from available-for-sale securities , net of tax	7	3
Currency translation adjustment, net of tax	43	(23)
	$ 392	$ (1,029)

NOTE 8 Financial information by business segment:

a. Financial data relating to reportable operating segments:

	Pharmaceutical	API*	Total
Three months ended March 31, 2007:			
Net sales:			
To unaffiliated customers	$ 1,932	$ 148	$ 2,080
Intersegment		189	189
Total net sales	$ 1,932	$ 337	$ 2,269
Operating income	$ 355	$ 125	$ 480
Depreciation and amortization	$ 110	$ 22	$ 132
Three months ended March 31, 2006:			
Net sales:			
To unaffiliated customers	$ 1,524	$ 149	$ 1,673
Intersegment	**	219	219