TEVA PHARMACEUTICAL INDUSTRIES LTD
Form 6-K
December 16, 2005
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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 December 2005

Commission File Number

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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In connection with its pending acquisition of IVAX Corporation (Ivax), the registrant hereby files certain information regarding Ivax recent developments (as set forth on the following page) and the following financial information on this Form 6-K:

INDEX TO FINANCIAL STATEMENTS

Also included in this Form 6-K is the consent of Ernst & Young LLP, Ivax s independent registered public accounting firm, to the incorporation by reference of their report dated March 9, 2005 included in this Form 6-K into various registration statements of the registrant.

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IVAX Recent Developments

On November 23, 2005, IVAX entered into a credit facility in the aggregate amount of $700 million (the Credit Facility) with Citicorp North America, Inc., as administrative agent, and the lenders party thereto. The Credit Facility is subject to customary terms and conditions, including certain covenants that, among other things, limit IVAX s ability to incur indebtedness; liquidate, merge or consolidate with others; sell assets; enter into certain transactions with affiliates; make certain accounting or organizational structure changes or change the nature of IVAX business. Amounts borrowed under the Credit Facility will be prepayable at any time, without penalty, and must be repaid, in full, on the earlier of the date which is three business days after the closing of the merger between IVAX and Teva, or May 23, 2006. The funds provided pursuant to the Credit Facility will be used to satisfy any amounts payable by IVAX in connection with the conversion and/or repurchase of its outstanding convertible notes.

On November 28, 2005, IVAX and U.S. Bank National Association (the Trustee) entered into supplemental indentures amending the indentures relating to IVAX 1.5% Convertible Senior Notes due 2024 (the 2024 Notes), its 1.875% Convertible Senior Notes due 2024 (the 1.875% Notes) and its 1.5% Convertible Senior Notes due 2025 (the 2025 Notes). Consent of the holders of the 2024 Notes, the 1.875% Notes, and 2025 Notes was not required to effect these amendments. The supplemental indentures remove the contingent conversion feature of the 2024 Notes and 2025 Notes and provide that they will be convertible at any time beginning after 12:01 A.M., New York City time, on December 1, 2005, at a rate of:

- 41.85925 shares of IVAX common stock per $1,000 principal amount of 2024 Notes (which is equal to a conversion price of approximately $23.89 per share), and
- 44.0009 shares of IVAX common stock per $1,000 principal amount of 2025 Notes (which is equal to a conversion price of approximately $22.73 per share).

The 1.875% Notes became convertible as of October 3, 2005 (through December 31, 2005) as their conversion trigger was satisfied as of such date and, pursuant to the supplemental indenture, will remain convertible following such date without regard to the contingent conversion feature. The 1.875% Notes are currently convertible at a rate of 48.1301 shares of IVAX common stock per $1,000 principal amount of 1.875% notes (which is equal to a conversion price of approximately $20.78 per share).

The conversion rates are subject to adjustment in the manner provided for in the applicable indentures.

Upon conversion, the holders of approximately $1.1 billion aggregate principal amount of the 2024 Notes, 1.875% Notes and 2025 Notes will receive the conversion value of their respective notes, payable in cash up to the principal amount of such note. The amount of such note s conversion value in excess of such principal amount will be payable, if converted prior to the closing of IVAX pending acquisition by Teva, in shares of IVAX common stock.

In accordance with the provisions of the indenture governing the Company s 4.5% Convertible Senior Subordinated Notes due 2008 (the 2008 Notes), the approval of the merger by IVAX shareholders constituted a change of control. Accordingly, holders of the 2008 Notes have the right to cause IVAX to repurchase these notes at par on January 9, 2006.

Through December 13, 2005 requests for conversion of approximately $980 million in aggregate principal amount of all series of notes taken together were received. IVAX expects additional requests for conversion, however, it is not presently possible to predict the additional amount of 2024 Notes, 1.875% Notes, 2025 Notes, or 2008 Notes, if any, that may be converted following the date hereof, and as a result IVAX is not presently able to determine the amount of cash that IVAX may be required to pay to holders electing to convert or the number of shares of IVAX common stock that may be issued upon any such conversions.

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IVAX CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	September 30, 2005	December 31, 2004
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 309,198	$ 391,988
Marketable securities	260,361	6,058
Accounts receivable, net of allowance for doubtful accounts of $17,378 in 2005 and $19,212 in 2004	458,420	392,418
Inventories	556,839	524,644
Other current assets	206,988	206,535
Total current assets	1,791,806	1,521,643
Property, plant and equipment, net	615,597	604,647
Goodwill, net	988,810	682,778
Intangible assets, net	367,313	336,594
Other assets	73,567	66,357
Total assets	$ 3,837,093	$ 3,212,019
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 176,145	$ 177,537
Current portion of long-term debt	627,779	60,145
Loans payable	4,057	18,825
Accrued income taxes payable	9,138	34,125
Accrued expenses and other current liabilities	364,541	287,789
Total current liabilities	1,181,660	578,421
Long-term debt, net of current portion	772,057	1,057,843
Other long-term liabilities	103,665	72,855
Minority interest	12,565	12,571
Shareholders equity:		
Common stock, $0.10 par value, authorized 546,875 shares, issued and outstanding 273,622 shares in 2005 and 260,531 shares in 2004	27,362	26,053
Capital in excess of par value	781,748	571,143
Retained earnings	1,022,972	888,503
Accumulated other comprehensive (loss) income	(64,936)	4,630
Total shareholders equity	1,767,146	1,490,329
Total liabilities and shareholders equity	$ 3,837,093	$ 3,212,019

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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IVAX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months		Nine Months	
Period Ended September 30,				
(In thousands, except per share data)	**2005**	**2004**	**2005**	**2004**
Net revenues	$ 617,728	$ 439,086	$ 1,686,612	$ 1,328,239
Cost of sales (excludes amortization, which is presented below)	356,721	248,530	986,094	713,723
Gross profit	261,007	190,556	700,518	614,516
Operating expenses:				
Selling	77,371	66,441	235,742	194,308
General and administrative	51,403	40,393	134,801	120,498
Research and development	34,861	33,639	104,469	104,651
Amortization of intangible assets	8,295	5,510	22,124	16,447
Restructuring costs	1,344	517	4,483	1,114
Merger expense	10,237		10,237	
Total operating expenses	183,511	146,500	511,856	437,018
Operating income	77,496	44,056	188,662	177,498
Other income (expense):				
Interest income	4,232	1,590	10,552	3,875
Interest expense	(10,131)	(9,127)	(28,364)	(40,256)
Other income, net	7,223	4,477	18,058	10,827
Total other income (expense)	1,324	(3,060)	246	(25,554)
Income before income taxes and minority interest	78,820	40,996	188,908	151,944
Provision (benefit) for income taxes	23,732	(3,358)	54,444	17,094
Income before minority interest	55,088	44,354	134,464	134,850
Minority interest	274	24	5	(33)
Net income	$ 55,362	$ 44,378	$ 134,469	$ 134,817
Earnings per common share:				
Basic	$ 0.20	$ 0.18	$ 0.51	$ 0.54
Diluted	$ 0.20	$ 0.17	$ 0.49	$ 0.51
Weighted average number of common shares outstanding:				

Basic	271,200	250,296	266,109	248,158
Diluted	282,647	272,979	276,184	267,123

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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IVAX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(Unaudited)

(In thousands)

	Common Stock		Capital in Excess of		Accumulated Other Comprehensive	
	Number of Shares	Amount	Par Value	Retained Earnings	Income (Loss)	Total
BALANCE, January 1, 2005	260,531	$ 26,053	$ 571,143	$ 888,503	$ 4,630	$ 1,490,329
Comprehensive income:						
Net income				134,469		134,469
Translation adjustment					(68,992)	(68,992)
Unrealized net loss on available-for-sale equity securities and derivatives, net of tax					(574)	(574)
Comprehensive income						64,903
Exercise of stock options	9,179	918	109,874			110,792
Tax benefit of option exercises			29,261			29,261
Employee stock purchases	79	8	1,111			1,119
Repurchase and retirement of common stock	(226)	(23)	(4,643)			(4,666)
Shares issued in acquisition	4,059	406	74,760			75,166
Value of stock options issued to non-employees			242			242
BALANCE, September 30, 2005	273,622	$ 27,362	$ 781,748	$ 1,022,972	$ (64,936)	$ 1,767,146

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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IVAX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Nine Months Ended September 30,

(In thousands)	2005	2004
Cash flows from operating activities:		
Net income	$ 134,469	$ 134,817
Adjustments to reconcile net income to net cash flows from operating activities:		
Restructuring costs	4,483	1,114
Merger expense	10,237	
Depreciation and amortization	77,777	63,305
Deferred tax provision (benefit)	8,148	(34,698)
Tax effect of stock options exercised	26,397	5,618
Value of stock options issued to non-employees	242	212
Provision for doubtful accounts	101	921
Provision for inventory obsolescence	28,058	31,735
Interest accretion on notes receivable and payable, net	1,951	1,699
Minority interest in earnings (losses)	(5)	33
Equity in earnings of unconsolidated affiliates	(159)	(1,773)
Gains on sale of marketable securities	(114)	(46)
Gains on sale of product rights	(11,451)	(10,619)
Losses on sale of assets, net	663	342
(Gain) loss on extinguishment of debt	(362)	8,472
Changes in operating assets and liabilities:		
Accounts receivable	(73,191)	(70,921)
Inventories	(38,603)	(110,060)
Other current assets	7,712	(844)
Other assets	(16,427)	3,646
Accounts payable, accrued expenses and other current liabilities	25,209	57,171
Other long-term liabilities	7,260	6,848
Net cash flows from operating activities	192,395	86,972
Cash flows from investing activities:		
Proceeds from sale of product rights	11,451	10,619
Capital expenditures	(59,707)	(85,873)
Proceeds from sale of assets	2,081	534
Acquisitions of intangible assets	(12,382)	(2,084)
Acquisitions of businesses, net of cash acquired	(196,014)	(7,783)
Investment in affiliates	(440)	108
Purchases of marketable securities	(1,519,265)	(968,673)
Proceeds from sales of marketable securities	1,286,227	866,150
Net proceeds from discontinued operations	5,000	5,500
Net cash flows from investing activities	(483,049)	(181,502)
Cash flows from financing activities:		

Borrowings on long-term debt and loans payable	343,819	475,179
Payments on long-term debt and loans payable	(221,136)	(346,727)
Payment of debt redemption premium	(13,800)	(5,868)
Exercise of stock options and employee stock purchases	110,108	17,615
Net cash flows from financing activities	218,991	140,199
Effect of exchange rate changes on cash and cash equivalents	(11,127)	(3,636)
Net (decrease) increase in cash and cash equivalents	(82,790)	42,033
Cash and cash equivalents at the beginning of the period	391,988	134,270
Cash and cash equivalents at the end of the period	$ 309,198	$ 176,303
Supplemental disclosures:		
Interest paid	$ 44,455	$ 29,403
Income tax payments	$ 40,635	$ 25,797
Income tax refunds	$ 13,088	$ 6,559

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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IVAX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands, except per share data)

(1) General:

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and notes required by accounting principles generally accepted in the United States for complete financial statements. However, in the opinion of management, all adjustments (consisting of only normal recurring adjustments) considered necessary to present fairly the results of operations, financial position and cash flows have been made. The results of operations and cash flows for the nine months ended September 30, 2005, are not necessarily indicative of the results of operations and cash flows that may be reported for the remainder of 2005 or for future periods. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2004. For purposes of these financial statements, North America includes the United States and Canada. Mexico is included within Latin America and Corporate and other includes our veterinary subsidiaries. Certain amounts presented in the accompanying consolidated financial statements for the prior period have been reclassified to conform to the current year presentation. In the accompanying consolidated statement of cash flows for the nine months ended September 30, 2004, we reclassified from cash and cash equivalents to marketable securities $122,850 as of September 30, 2004, and $12,600 as of December 31, 2003.

(2) Planned Merger:

On July 25, 2005, we entered into a definitive Agreement and Plan of Merger with TEVA Pharmaceutical Industries Ltd. (TEVA) providing for IVAX to be merged into a wholly-owned subsidiary of TEVA. Under the terms of the agreement, at the effective time of the merger, shares of our common stock will, at the election of the shareholder, be converted into either $26 in cash or 0.8471 ordinary shares of TEVA, which will trade in the United States in the form of American Depository Receipts (ADSs), subject to proration such that no more than one-half of such elections are for cash and no more than half are for TEVA ADSs. On October 27, 2005, our shareholders and TEVA s shareholders approved the merger agreement and the merger, which we expect to close in late 2005 or early 2006. However, the completion of the merger remains subject to customary conditions, including, among others, regulatory approvals relating to antitrust or competition laws and regulations, compliance with the agreement, and no material adverse change to either TEVA or us. The merger agreement also contains certain termination rights for both us and TEVA, and further provides that, upon termination of the agreement under specified circumstances, we may be required to pay TEVA a termination fee of $200,000 and an expense reimbursement fee of $5,000. During August 2005, due to the potential impact of the merger on certain employees, we implemented a retention program for certain U.S. employees and have accrued retention costs and other merger expenses of $10,237, which is included in Merger expense in the accompanying consolidated statements of operations for the three and nine month periods ended September 30, 2005.

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(3) Earnings Per Share:

A reconciliation of the numerator and denominator of the basic and diluted earnings per share computation is as follows:

	Three Months		Nine Months	
Period Ended September 30,	**2005**	**2004**	**2005**	**2004**
Numerator:				
Net income	$ 55,362	$ 44,378	$ 134,469	$ 134,817
Interest expense on 1.5% contingently convertible debt, net of tax	3	1,046	700	1,847
Adjusted net income	$ 55,365	$ 45,424	$ 135,169	$ 136,664
Denominator:				
Basic weighted average number of shares outstanding	271,200	250,296	266,109	248,158
Effect of dilutive securities stock options and warrants	6,401	5,939	5,087	6,071
Conversion equivalent of dilutive contingently convertible debt	5,046	16,744	4,988	12,894
Diluted weighted average number of shares outstanding	282,647	272,979	276,184	267,123
Not included in the calculation of diluted earnings per share because their impact is antidilutive:				
Stock options outstanding	597	6,065	4,781	5,921
Convertible debt	8,861	16,664	8,861	16,664

(4) Stock-Based Compensation Plans:

As permissible under Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, we account for all stock-based compensation arrangements using the intrinsic value method prescribed by Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees,* as interpreted by Financial Accounting Standards Board (FASB) Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*, and disclose pro forma net earnings and earnings per share amounts as if the fair value method had been adopted. Accordingly, no compensation cost is recognized for stock option awards granted to employees at or above market value. See Note 14, Recently Issued Accounting Standards, for a discussion of SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R).

Our pro forma net income, pro forma net income per common share and pro forma weighted average fair value of options granted, with related assumptions, assuming we had adopted the fair value method of accounting for all stock-based compensation arrangements consistent with the provisions of SFAS No. 123, using the Black-Scholes option pricing model are indicated below:

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Period Ended September 30,	Three Months 2005	Three Months 2004	Nine Months 2005	Nine Months 2004
Net income as reported	$ 55,362	$ 44,378	$ 134,469	$ 134,817
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	3,223	6,068	9,227	18,205
Pro forma net income	$ 52,139	$ 38,310	$ 125,242	$ 116,612
Basic net income per share as reported	0.20	0.18	0.51	0.54
Pro forma basic net income per share	0.19	0.15	0.47	0.47
Diluted net income per share as reported	0.20	0.17	0.49	0.51
Pro forma diluted net income per share	0.18	0.15	0.46	0.45
Weighted average fair value of options issued	$	$ 7.70	$ 4.94	$ 8.41
Expected life (years)	4.7	4.9	4.7	4.9
Risk-free interest rate	3.9%	3.7-4.5%	3.8-4.4%	3.1-4.6%
Expected volatility	25%	26%	25%	26%
Dividend yield	0%	0%	0%	0%

Valuations are based on highly subjective assumptions about the future, including stock price volatility and exercise patterns. During the fourth quarter of 2004, it was determined that our stock option expense valuations did not include the impact of forfeitures in the report of the fair value of compensation expense. Accordingly, the amount of total stock-based employee compensation expense determined under the fair value based method previously reported for the three months ended September 30, 2004, was reduced by $267 and for the nine months ended September 30, 2004, was reduced by $802 to reflect the impact of forfeitures.

(5) Revenues and Cost of Sales:

Revenues and the related cost of sales are recognized when title to our products and the risks and rewards of ownership pass to our customers and when provisions for revenue dilution items, including chargebacks, returns, shelf stock adjustments, discounts, promotional allowances, rebates, reimbursements relating to Medicaid and Medicare and other allowances are reasonably determinable. No material revisions were made to the methodology used in determining these provisions during the nine months ended September 30, 2005. The reserve balances related to these provisions are included in the following balance sheet accounts:

	September 30, 2005	December 31, 2004
Accounts receivable	$ 167,726	$ 147,330
Accrued expenses	174,859	127,240
Total sales returns and allowances reserves	$ 342,585	$ 274,570

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(6) Inventories:

Inventories consist of the following:

	September 30, 2005	December 31, 2004
Raw materials	$ 213,305	$ 194,183
Work-in-process	83,252	81,202
Finished goods	260,282	249,259
Total inventories	$ 556,839	$ 524,644

As of September 30, 2005, we had approximately $30,262 in inventories, primarily raw materials, relating to products pending launch while we await receipt of final FDA or foreign governmental marketing approval and/or satisfactory resolution of patent infringement litigation. Approximately 78% of our pre-launch inventories represent inventories for fluticasone, for which the brand product s patent protection has expired and we are awaiting regulatory approval in the U.S. to sell our generic equivalent. On October 28, 2005, we received final Mutual Recognition Procedure approval to sell fluticasone in eleven countries across Europe and had already received approval in the U.K. During the first quarter of 2005, we reclassified $17,147 of pre-launch inventory to long-term assets, which is classified as a deposit since the inventory is not expected to be saleable in the next year, but the vendor has an obligation to refresh the inventory if it is expired when we are ready to launch. Depending upon the outcome of patent litigation, we may not be able to launch the product until 2011. This amount will be tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

(7) Acquisition:

On May 11, 2005, we completed our acquisition of PSI Holdings, Inc., the parent company of Phoenix Scientific, Inc. (Phoenix), a generic veterinary pharmaceutical manufacturing company by purchasing the outstanding securities of PSI Holdings, Inc., for 4,059 shares of our common stock, valued at $75,166 and $196,742 in cash. The total purchase price, including acquisition costs of $1,340 less cash acquired of $2,068, was $271,180. Phoenix manufactures and develops veterinary pharmaceutical products for the animal healthcare industry throughout the United States. We acquired Phoenix to integrate our existing veterinary operations with Phoenix to form IVX Animal Health, Inc. and to expand our veterinary operations. Prior to acquisition, Phoenix had outstanding $150,000 of senior secured notes, bearing interest at 11.5%, with a maturity date of October 1, 2009. The effective interest rate on these notes was 13.4%. Prior to the close of the acquisition, Phoenix called the notes for redemption. Based upon the date of redemption, under the terms of the indenture governing the notes, Phoenix was required to pay a premium for redemption of these notes. On May 16, 2005, Phoenix 11.5% senior secured notes were redeemed at the principal amount, plus the redemption premium of $13,800, which was accrued in the opening balance sheet, and accrued interest of $2,156. The preliminary allocation of the purchase price is subject to adjustment based on receipt of final information on the fair value of assets acquired and liabilities assumed, including final determination of the liability for restructuring. The operating results of Phoenix are included in the consolidated financial statements subsequent to the May 11, 2005, acquisition date.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition, the purchase price paid and resulting goodwill.

Current assets, excluding cash acquired	$ 69,355
Property, plant and equipment	28,582
Intangible assets	27,520
Other assets	250
Total assets acquired	125,707
Current liabilities	27,842
Long-term debt	176,085
Total liabilities assumed	203,927
Net liabilities assumed	$ (78,220)
Purchase price:	
Cash paid, net of cash acquired	$ 194,674
Acquisition costs	1,340
Fair market value of stock issued	75,166
Total	$ 271,180
Goodwill	$ 349,400

Phoenix results of operations prior to the acquisition were not significant in relation to our consolidated results of operations.

(8) Intangible Assets:

Intangible assets consist of the following:

	September 30, 2005		December 31, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Patents and related licenses	$ 78,104	$ 55,855	$ 76,867	$ 55,494
Trademarks	160,969	36,596	146,107	30,042

Licenses and other intangibles	252,081	83,984	217,799	45,589
Total	$ 491,154	$ 176,435	$ 440,773	$ 131,125
Unamortized intangible assets:				
Trademarks and product registrations	$ 52,594		$ 26,946	

During the first quarter of 2005, we reclassified our product registration intangible assets in one Latin American country with a recorded book value of $3,317 from indefinite-lived to definite-lived due to a change in regulatory requirements. These intangible assets are now being amortized over their five-year estimated remaining useful lives. Intangible assets amortization expense is estimated to be $7,014 for the remainder of 2005, $28,368 in 2006, $30,306 in 2007, $28,639 in 2008 and $28,578 in 2009.

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(9) Debt:

On February 23, 2005, we completed an exchange offer in which we exchanged each $1,000 principal amount of our 1.5% convertible senior notes (Old 1.5% Notes) for $1,000 principal amount of our 1.5% convertible senior notes (New 1.5% Notes) and a one-time cash payment equal to $2.50 per $1,000 principal amount of such Old 1.5% Notes. The New 1.5% Notes are substantially identical to the Old 1.5% Notes except that the New 1.5% Notes contain a net share settlement feature under which we committed to pay up to the principal amount of the New 1.5% Notes in cash upon conversion. By committing to pay up to the principal amount of the New 1.5% Notes in cash upon conversion, we were able to account for the New 1.5% Notes under the treasury stock method, which is generally expected to be less dilutive to earnings per share than the if-converted method prescribed by Emerging Issues Task Force (EITF) Issue No. 04-8, *The Effect of Contingently Convertible Debt on Diluted Earnings per Share*. The treasury stock method only requires inclusion of the shares to be delivered upon conversion if our common stock is trading at a price in excess of the conversion price based on the average trading price during the preceding quarter and then only to the extent the conversion value is greater than the principal amount of the New 1.5% Notes. We generally expect that since fewer shares will be included in the number of fully diluted shares outstanding under the New 1.5% Notes based on this calculation than would be included for the Old 1.5% Notes under the if-converted method when dilutive, our diluted earnings per share will be greater. We accepted $399,000 of our Old 1.5% Notes in the exchange offer and, as a result, only $1,000 principal amount of the Old 1.5% Notes currently remain outstanding.

During the second quarter of 2005, we repurchased $15,000 of the New 1.5% Notes due in 2024 for $14,312, plus accrued interest of $43, and wrote off debt issuance costs of $326, resulting in a gain on extinguishment of debt of $362.

On May 9, 2005, we issued $350,000 of our 1.5% convertible senior notes due 2025 (1.5% Notes) to certain qualified institutional buyers. After expenses, we received net proceeds of approximately $341,690. A portion of the net proceeds from this offering were used to acquire Phoenix, as discussed under Note 7, Acquisition, and the remaining net proceeds were used for general corporate purposes. Under certain circumstances, the 1.5% Notes are convertible into cash and, if applicable, shares of our common stock based on an initial conversion rate, subject to adjustment, of 44.0009 shares of our common stock per $1,000 of principal amount. This ratio results in an initial conversion price of approximately $22.73 per share. Upon the occurrence of certain fundamental changes, holders may be entitled to an adjustment to the applicable conversion rate if they elect to convert their notes within a certain period of time following the occurrence of the fundamental change. We may redeem the 1.5% Notes on or after May 15, 2012. Beginning with the six-month period commencing on May 15, 2012, in addition to the stated interest of 1.5%, we will pay contingent interest of 0.25% of the market value of the 1.5% Notes if, during specified testing periods, the average trading price of the 1.5% Notes is 120% or more of the principal value. In addition, holders of the 1.5% Notes may require us to repurchase the notes at 100% of the principal amount on each of May 15, 2012, 2015, and 2020, and upon certain events.

The Old 1.5% Notes, the New 1.5% Notes and the 1.5% Notes can be converted prior to the stated maturity under the following circumstances:

- during any fiscal quarter (beginning with the quarter ended September 30, 2005) if the closing sale price of our common stock for at least 20 consecutive trading days in the 30 consecutive trading day period ending on the last trading day of the immediately preceding fiscal quarter exceeds 120% of the conversion price on that 30th trading day;

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during any five consecutive trading day period immediately following any five consecutive trading day period (Note Measurement Period) in which the average market price for the notes during that Note Measurement Period was less than 95% of the average conversion value for the notes during such period;

upon the occurrence of specified corporate transactions; or

if we have called the notes for redemption.

The aggregate value (Net Share Conversion Value) of the cash and, if applicable, shares of our common stock per $1,000 principal amount of New 1.5% Notes or 1.5% Notes that will be received upon conversion by a holder will be equal to the product of:

the conversion rate then in effect; and

the average of the daily volume-weighted average price per share of our common stock for each of the 10 consecutive trading days beginning on the second trading day immediately following the day the notes are tendered for conversion (10-day Weighted Average Price).

We will deliver the Net Share Conversion Value of the notes surrendered for conversion to converting holders as follows:

a cash amount (Principal Return) equal to the lesser of (1) the aggregate Net Share Conversion Value of the notes to be converted or (2) the aggregate principal amount of the notes to be converted; and

if the aggregate Net Share Conversion Value of the notes to be converted is greater than the Principal Return, an amount in whole shares equal to (1) the aggregate Conversion Value less the Principal Return and (2) a cash amount in lieu of any fractional shares of our common stock.

Shares underlying the 1.5% Notes were included in our calculation of diluted earnings per share because our share price as of September 30, 2005, was above the conversion price.

The Old 1.5% Notes do not contain a Net Share Conversion Value mechanism.

On May 16, 2005, the 11.5% senior secured notes of Phoenix were redeemed at the principal amount of $150,000, plus the redemption premium of $13,800, which was accrued in the opening balance sheet, and accrued interest of $2,156. (See Note 7, Acquisition).

Based on a calculation performed as of September 30, 2005, on October 3, 2005, our 1.875% convertible senior notes due 2024 (1.875% Notes) became convertible in accordance with their terms at the option of the holders and will remain convertible through December 31, 2005. The 1.875% Notes are currently convertible at a rate of 48.1301 shares of our common stock per $1,000 principal amount of the notes, which is equal to a conversion price of approximately $20.78 per share. Upon conversion, the holder of each 1.875% note will receive the conversion value of

the note payable in cash up to the principal amount of the note and any excess over the principal amount will be payable in shares of our common stock. As of September 30, 2005, the aggregate principal amount of the 1.875% Notes outstanding was $333,000, which has been reclassified to the Current portion of long-term debt and the related unamortized debt issuance costs of $3,276 has been reclassified from Other assets to Other current assets in the accompanying consolidated balance sheet. Any determination regarding the convertibility of the 1.875% Notes during future periods will be made in accordance with the terms of the Indenture governing the 1.875% Notes.

On October 27, 2005, our shareholders approved our acquisition by TEVA. This approval constituted a change in control under the terms of the Indenture governing our 4.5% convertible senior notes due 2008. Pursuant to the Indenture, we are required to offer to repurchase our 4.5% convertible senior notes due 2008 at a purchase price equal to the principal amount of the

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notes repurchased plus accrued and unpaid interest through the repurchase date. We expect to commence our offer during the fourth quarter of 2005. As of September 30, 2005, we had approximately $283,900 in outstanding principal amount of our 4.5% convertible senior notes due 2008, which has been reclassified to the Current portion of long-term debt and the related unamortized debt issuance costs of $2,808 has been reclassified from Other assets to Other current assets in the accompanying consolidated balance sheet. Additionally, upon completion of our acquisition by TEVA, we will be required to offer to repurchase all of our other outstanding convertible notes at a purchase price equal to the principal amount of the notes repurchased plus accrued and unpaid interest through the repurchase date.

(10) Income Taxes:

The provision for income taxes consists of the following:

	Three Months		Nine Months	
Period Ended September 30,	**2005**	**2004**	**2005**	**2004**
Current:				
Domestic	$ 6,105	$ 14,059	$ 17,953	$ 32,080
Foreign	17,462	1,504	28,343	19,712
Deferred:				
Domestic	1,557	(4,611)	7,846	(15,606)
Foreign	(1,392)	(14,310)	302	(19,092)
Total	$ 23,732	$ (3,358)	$ 54,444	$ 17,094

The tax provision for the nine months ended September 30, 2005, was determined using our estimated annual effective tax rate, which was less than the United States statutory rate primarily due to lower tax rates applicable to most of our operations outside of the United States and to reversal in the third quarter of 2005 of $3,600 of tax contingency reserves due to expiration during the quarter of the relevant statute of limitations. Payment of the current tax provision for the year ending December 31, 2005, will be reduced by $26,621 for domestic operations and $2,640 for foreign operations, representing the incremental impact of compensation expense deductions associated with non-qualified stock options exercised during the first nine months of 2005. These amounts were credited to Capital in excess of par value in the accompanying consolidated balance sheet. As of September 30, 2005, a domestic net deferred tax asset of $61,067 and an aggregate foreign net deferred tax asset of $20,251 are included in Other current assets and Other assets, respectively, in the accompanying consolidated balance sheets. Realization of the net deferred tax assets is dependent upon generating sufficient future domestic and foreign taxable income. Although realization is not assured, management believes it is more likely than not that the net deferred tax assets will be realized.

(11) Stockholders Equity:

On June 14, 2005, we retired 226 shares of our common stock, valued at $4,666, that were received as payment for stock options exercised.

(12) Retirement Plans:

The components of net periodic pension costs and our contributions paid were as follows:

	Three Months		Nine Months	
Period Ended September 30,	**2005**	**2004**	**2005**	**2004**
Service cost	$ 519	$ 585	$ 1,611	$ 1,424
Interest cost	265	298	823	726
Expected return on plan assets	(275)	(308)	(855)	(753)
Amortization of transition obligation	70	79	217	191
Net periodic pension cost	$ 579	$ 654	$ 1,796	$ 1,588
Employer contribution	$ 531	$ 365	$ 1,000	$ 1,327

We expect to contribute $1,718 to the pension plan in 2005.

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(13) Business Segment Information:

Revenues by Region	Three Months		Nine Months	
Period Ended September 30,	**2005**	**2004**	**2005**	**2004**
North America				
External sales	$ 294,100	$ 212,371	$ 780,680	$ 604,409
Intersegment sales	465	431	1,478	4,885
Other revenues	437	148	1,750	1,953
Net revenues North America	295,002	212,950	783,908	611,247
Europe				
External sales	149,458	126,329	470,517	400,363
Intersegment sales	8,075	23,949	44,006	65,710
Other revenues	33,354	945	53,723	45,162
Net revenues Europe	190,887	151,223	568,246	511,235
Latin America				
External sales	93,496	81,686	278,427	230,748
Other revenues	1,104	1,490	1,776	2,284
Net revenues Latin America	94,600	83,176	280,203	233,032
Corporate and other				
External sales	42,456	10,614	91,034	36,217
Intersegment sales	(8,540)	(24,380)	(45,484)	(70,595)
Other revenues	3,323	5,503	8,705	7,103
Net revenues Corporate and other	37,239	(8,263)	54,255	(27,275)
Consolidated net revenues	$ 617,728	$ 439,086	$ 1,686,612	$ 1,328,239

Profits by Region	Three Months		Nine Months	
Period Ended September 30,	**2005**	**2004**	**2005**	**2004**
Income before minority interest:				
North America	$ 28,726	$ 22,597	$ 68,279	$ 63,772
Europe	21,836	4,671	32,400	42,885
Latin America	13,163	27,471	42,849	60,831
Corporate and other	(8,637)	(10,385)	(9,064)	(32,638)
Income before minority interest	55,088	44,354	134,464	134,850
Minority interest	274	24	5	(33)

Net income	$ 55,362	$ 44,378	$ 134,469	$ 134,817

Long-Lived Assets:	September 30, 2005	December 31, 2004
North America	$ 354,657	$ 352,529
Europe	618,681	678,546
Latin America	537,864	522,195
Corporate and other	525,391	117,605
Total	$ 2,036,593	$ 1,670,875

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Net Revenues by Therapeutic Category and Product Type

Nine Months Ended September 30,	2005	2004
Therapeutic category:		
Respiratory		
Proprietary and branded	$ 206,431	$ 177,083
Generic pharmaceutical	95,716	99,693
Total respiratory	302,147	276,776
Other		
Proprietary and branded	373,100	277,381
Generic pharmaceutical	1,011,365	774,082
Total other	1,384,465	1,051,463
Total product type:		
Proprietary and branded	579,531	454,464
Generic pharmaceutical	1,107,081	873,775
Total	$ 1,686,612	$ 1,328,239

The following table displays the changes in the carrying amounts of goodwill by geographic region for the nine months ended September 30, 2005:

	Balance December 31, 2004	Acquisition	Foreign Exchange and Other	Balance September 30, 2005
North America	$ 1,472	$	$	$ 1,472
Europe	249,455		(56,595)	192,860
Latin America	384,557		13,327	397,884
Corporate and other	47,294	349,400	(100)	396,594
Consolidated goodwill	$ 682,778	$ 349,400	$ (43,368)	$ 988,810

During the third quarter of 2005, the preliminary fair value adjustments of assets acquired and liabilities assumed from the 2004 acquisition of Kutnowskie Zaklady Famaceutyczne POLFA SA (Polfa Kutno) resulted in an increase in property, plant and equipment in the amount of $7,928 and intangible assets in the amount of $32,692 with a corresponding reduction of goodwill. As a result of these adjustments depreciation expense increased by $731 and amortization expense by $1,368 for the three and nine months ended September 30, 2005. This preliminary allocation is subject to change based on receipt of final information concerning the fair values of assets acquired and liabilities assumed, including final determination of the liability for restructuring.

(14) Recently Issued Accounting Standards:

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections,* which replaces APB No. 20, *Accounting Changes,* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. This Statement requires retrospective application to prior periods financial statements of changes in accounting principles, unless it is impracticable to determine the period specific effects or cumulative effect of the change. When it is impracticable to determine the period specific effects of an accounting change on one or more individual prior periods presented, this Statement requires that the new accounting principle be applied to the balances of assets and liabilities at the beginning of the earliest period for which retrospective application is practicable and a corresponding adjustment is to be made to the opening balance of retained earnings for that period. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, it requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. This Statement defines

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retrospective application as the application of a different accounting principle to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity. It also redefines restatement as the revising of previously issued financial statements to reflect the correction of an error. This Statement also requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. It is effective for fiscal years beginning after December 15, 2005. The impact of adoption of this statement is not expected to be significant.

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143,* which clarifies that the term conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the entity s control. It requires recognition of a liability for the fair value of a conditional asset retirement if the fair value of the liability can be reasonably estimated, with the uncertainty about the timing and/or method of settlement factored into the measurement of the liability when sufficient information exists. It is effective for fiscal years ending after December 15, 2005. Retrospective application for interim financial information is permitted but not required. The impact of adoption is not expected to be significant.

In December 2004, the FASB issued SFAS No. 123R, which addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. It requires compensation costs related to share-based payment transactions to be recognized in the financial statements. It applies to all awards granted after the effective date and is not applied to awards granted in periods before the effective date, except to the extent that the prior periods awards are modified, repurchased or cancelled after the effective date. This Statement can be adopted under two methods, the modified prospective or the modified retrospective applications. Under the modified prospective application, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the effective date should be recognized as the requisite service is rendered on or after the effective date. The compensation cost for that portion of awards should be based on the grant-date fair value of those awards as calculated for either recognition or pro forma disclosure under SFAS No. 123. Changes to the grant-date fair value of awards granted before the effective date of this Statement are precluded. The compensation cost for those earlier awards should be attributed to periods beginning on or after the effective date of this Statement using the attribution method that was used under SFAS No. 123, except that the method of recognizing forfeitures only as they occur should be continued. Any unearned or deferred compensation related to those earlier awards should be eliminated against the appropriate equity accounts. The modified retrospective application may be applied to all prior years that SFAS No. 123 was effective or only to prior interim periods in the year of initial adoption if the effective date of SFAS No. 123R does not coincide with the beginning of the fiscal year. It is effective as of the first interim or annual reporting period that begins after June 15, 2005. The cumulative effect of the initial application of this Statement, if any, is to be recognized as of the effective date. Upon adoption, we will be required to reclassify excess tax benefits, as defined in the Statement, from stock option exercises from Cash flows from operating activities to Cash flows from financing activities in the Consolidated Statement of Cash Flows.

Effective April 21, 2005, the Securities and Exchange Commission (SEC) issued an Amendment to Rule 4-01(a) of Regulation S-X regarding the compliance date for SFAS No. 123R. Under the amendment, registrants are required to file financial statements that comply with SFAS No. 123R the first quarter of the first fiscal year beginning after June 15, 2005. We intend to comply with SFAS No. 123R effective January 1, 2006. We expect that under the modified prospective method of adoption, during 2006 we will not be required to record additional compensation expense for awards granted under our 2004 Incentive Compensation Plan that were outstanding as of September 30, 2005, as all such awards are fully vested. On October 27, 2005, our shareholders voted to approve the proposed merger with TEVA. As a result, based on the terms of the plans,

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all unvested stock options outstanding under our 1997 Employee Stock Option Plan and our 1994 Stock Option Plan became vested. Accordingly, we do not expect that we will be required to record additional compensation expense during 2006 for stock options outstanding as of October 27, 2005, under the 1997 or 1994 plans. We also expect that compensation expense will be required to be recorded for future awards of share-based payments.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs,* an amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4, which requires abnormal amounts of idle facility expense, freight, handling costs, and wasted material to be recognized as current period charges. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. It is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The impact of adoption of this statement is not expected to be significant.

(15) Commitments and Contingencies:

Commitments As of September 30, 2005, we had approximately $8,449 of non-cancelable raw material purchase obligations. A substantial portion of this material is for use in production of our gabapentin products. As noted below under Patent Litigation, in the event the court determines that we infringed a valid patent of Warner-Lambert in our sales of gabapentin, among other things, we could be prevented from further sales of gabapentin until the patent expires in 2011.

Legal Proceedings (currency amounts in thousands) The following supplements and amends the discussion set forth under Item 3 Legal Proceedings in our Annual Report on Form 10-K for the year ended December 31, 2004.

Terazosin Litigation

On December 21, 1998, an action purporting to be a class action, styled Louisiana Wholesale Drug Co. vs. Abbott Laboratories, Geneva Pharmaceuticals, Inc. and Zenith Goldline Pharmaceuticals, Inc., was filed against IVAX Pharmaceuticals, Inc. (IPI) and others in the United States District Court for the Southern District of Florida, alleging a violation of Section 1 of the Sherman Antitrust Act. Plaintiffs purport to represent a class consisting of customers who purchased a certain proprietary drug directly from Abbott Laboratories during the period beginning on October 29, 1998. Plaintiffs allege that, by settling patent-related litigation against Abbott in exchange for quarterly payments, the defendants engaged in an unlawful restraint of trade. The complaint seeks unspecified treble damages and injunctive relief. Eighteen additional class action lawsuits containing allegations similar to those in the Louisiana Wholesale case were filed in various jurisdictions between July 1999 and February 2001, the majority of which have been consolidated with the Louisiana Wholesale case. On March 13, 2000, the Federal Trade Commission (FTC) announced that it had issued complaints against, and negotiated consent decrees with, Abbott Laboratories and Geneva Pharmaceuticals arising out of an investigation of the same subject matter that is involved in these lawsuits. The FTC took no action against IPI. On December 13, 2000, plaintiffs motion for summary judgment on the issue of whether the settlement agreement constituted a per se violation of Section 1 of the Sherman Antitrust Act in the Louisiana Wholesale case was granted. On September 15, 2003, the United States Court of Appeals for the Eleventh Circuit reversed the order. On September 20, 2001, the District Court entered an order certifying the direct purchaser class and in early 2002, IPI entered into a settlement with the direct purchaser class. In November 2003, the appellate court also issued a ruling de-certifying the class. On remand and following class discovery, the District Court entered an order on June 23, 2004, denying the Direct Purchaser Plaintiffs renewed motion for class certification. In light of these orders, on August 31, 2004, we elected to terminate the Settlement Agreement with the direct purchasers and requested the return of the settlement payment less notice and Settlement Fund administrative fees. On February 16, 2005, IPI announced to the Court its willingness to re-enter into the settlement with the direct purchasers on substantially the same terms as the previous settlement, provided that the court certifies a settlement class of direct purchasers

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that is not materially different from the previously de-certified direct purchaser class. On February 25, 2005, the Court indicated its preliminary approval of a settlement containing these terms and provisions. On April 19, 2005, the Florida Federal Court entered an Order and Final Judgment specifically providing, *inter alia*, that IPI s settlement with the direct purchasers is reaffirmed and remains in full force and effect. To date, sixteen of the actions naming IPI have either been settled or dismissed. Subsequent to the entry of the Court Order and Final Judgment, the plaintiff in one of those remaining actions, Daniels v. Abbott Laboratories, Case No. 00-CC-04975 in Superior Court, Orange County, California, moved the court for permission to pursue its claims against the defendants on behalf of a purported class of California indirect purchasers. The Company believes that any purported claims the California plaintiffs may have had against the Company were settled and extinguished pursuant to the Company s indirect purchaser Settlement Agreement dated May 30, 2002, and the final judgment entered by the Florida Federal Court pursuant to that agreement. On October 31, 2005, the California court denied the plaintiffs request to lift the stay that is in place in that case. The defendants intend to seek Summary Judgment on the issue of whether plaintiffs claims have been extinguished by the Florida Federal court settlement. The defendants intend to vigorously defend against the plaintiff s actions.

Fen-Phen Litigation

IPI has been named in a number of individual and class action lawsuits in both state and federal courts involving the diet drug combination of fenfluramine and phentermine, commonly known as fen-phen. Generally, these lawsuits seek damages for personal injury, wrongful death and loss of consortium, as well as punitive damages, under a variety of liability theories including strict products liability, breach of warranty and negligence. IPI did not manufacture either fenfluramine or phentermine, but did distribute the brand equivalent version of phentermine manufactured by Eon Labs Manufacturing, Inc. (Eon) and Camall Company. Although IPI had a very small market share, to date, IPI has been named in approximately 5,546 cases and has been dismissed from approximately 5,490 of these cases, with additional dismissals pending. IPI intends to vigorously defend all of the lawsuits, and while management believes that its defense will succeed, as with any litigation, there can be no assurance of this. Currently Eon is paying for approximately 50% of IPI s costs in defending these suits and is fully indemnifying IPI against any damages IPI may suffer as a result of cases involving product manufactured by Eon. In the event Eon discontinues providing this defense and indemnity, IPI has its own product liability insurance. While IPI s insurance carriers have issued reservations of rights, IPI believes that it has adequate coverage. As of September 1, 2004, claims made against us for the first time may not be afforded insurance coverage. Although it is impossible to predict with certainty the outcome of litigation, we do not believe this litigation will have a material adverse impact on our consolidated financial position or results of operations.

Average Wholesale Price Litigation

New York City and a number of counties in the State of New York have filed complaints against IVAX and IPI and other pharmaceutical companies alleging a scheme to overcharge for prescription drugs paid for by Medicaid, a portion of which is paid for by these New York municipalities and counties. IVAX and IPI have been named as defendants in actions filed by the County of Nassau, the County of Erie and a consolidated complaint brought by the City of New York and thirty New York Counties. In these cases, plaintiffs seek the recovery of unspecified damages, including restitution, treble and punitive damages, civil penalties, interest and attorneys fees. Other than the County of Erie case which was originally filed in the Supreme Court of the State of New York, Erie County but removed by the defendants on April 15, 2005, these actions were filed in the United States District Court for the applicable district in New York and, thereafter, were either transferred to the United States District Court for the District of Massachusetts as part of the Pharmaceutical Industry Average Wholesale Price Multi-District Litigation, MDL 1456 (MDL), or are in the process of being transferred to the MDL. The County of Suffolk vs. Abbott Laboratories, Inc. et al. action (Suffolk Action) was previously treated as the lead New York county case in the MDL. In the Suffolk Action, the court dismissed IVAX and IPI from the complaint by order dated October 26, 2004. On April 8, 2005, the Court entered a further Order dismissing the complaint

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with respect to the remaining defendants based upon insufficiency of the allegations. New York City and the New York counties, including Suffolk County, have refiled an amended complaint. We intend to vigorously defend ourselves in these actions.

IVAX was named as a defendant, along with other generic drug manufacturers, in The Commonwealth of Massachusetts vs. Mylan Laboratories, et al., filed in the United States District Court for the District of Massachusetts (Massachusetts Action). The Massachusetts Action alleges that through fraudulent and deceptive schemes thirteen manufacturers of generic pharmaceuticals caused Massachusetts to overpay pharmacies. The state seeks unspecified damages, including injunctive relief, restitution, treble damages, civil penalties, interest, attorney fees and investigation and litigation costs. The case is pending before the same judge that is handling the MDL. The defendants in the Massachusetts Action moved to dismiss the complaint and by order dated February 4, 2005, the Court denied the motion in part, granted the motion in part, and deferred ruling in part. On April 5, 2005, the Court dismissed the complaint for failure to plead with specificity the allegations of false and fraudulent representations. The Commonwealth of Massachusetts filed an amended complaint and motions to dismiss that complaint were subsequently denied on August 17, 2005. We intend to vigorously defend ourselves in this action.

A number of states have filed actions against IVAX and IPI and other pharmaceutical companies alleging schemes to overcharge for prescription drugs. IVAX and IPI have been named as defendants in the following actions filed by the State of Wisconsin, the Commonwealth of Kentucky, the State of Alabama, the State of Illinois, the State of Florida and the State of Mississippi. IVAX and IPI were added as defendants in State of Wisconsin vs. Abbott Laboratories, Inc., et al., Circuit Court of Dane County, Case No. 04 CV 1709 on November 1, 2004. IVAX and IPI were named as defendants in Commonwealth of Kentucky vs. Alpharma, Inc., Franklin Circuit Court, Case No. 04-CI-1487 on November 4, 2004. IVAX and IPI were named as defendants in State of Alabama vs. Abbott Laboratories, Inc., et al., Circuit Court of Montgomery County, Case No. CV-2005-219 on January 26, 2005. IVAX and IPI were named as defendants in The People of the State of Illinois vs. Abbott Laboratories, Inc., Circuit Court of Cook County, Case No. 05CH02474 on February 7, 2005 and the State of Florida v. Alpharma, et al., Second Judicial Circuit in and for Leon County, Florida, Case Nos. 98-3032F and 03-CA1165A. IVAX and IPI were also added as defendants in the State of Mississippi v. Abbott Laboratories, Inc., et al., Chancery Court of Hinds County, Mississippi First Judicial District, Case No. G2005-2021 on October 20, 2005. In each of these actions, the States seek unspecified damages, including treble and punitive damages, interest, civil penalties and attorneys fees. The Wisconsin, Kentucky, Alabama and Illinois cases were removed to federal court on July 13, 2005, and have been identified to the Judicial Panel on Multidistrict Litigation for potential transfer to the MDL proceeding in Boston. The States of Kentucky and Illinois sought to remand the cases to state court, while the district court in Alabama and Wisconsin remanded these cases to their respective state courts. Motions to dismiss the complaints are pending in the Wisconsin, Kentucky and Illinois cases. A motion by defendants to dismiss the Alabama action was denied on October 13, 2005, and defendants motion for a more definite statement was granted in part, requiring the state to further clarify its actions. We intend to vigorously defend ourselves in these actions.

IPI, along with numerous other pharmaceutical companies, has received inquiries from and responded to requests for records and information from the Committee on Energy and Commerce of the United States House of Representatives in connection with the Committee s investigation into certain industry and IPI practices regarding AWP. IPI has also received correspondence from the States of Nevada, Kentucky, Florida, and Illinois, on behalf of itself and eight other states, indicating that the Office of the Attorney General (OAG) for these states are investigating allegations of purportedly improper pricing practices related to the average manufacturer price and best price calculations. As a result of the investigation the OAG for the States have advised us that we are required to maintain all records related to the investigation. On July 20, 2004, the OAG for the State of Florida issued subpoenas to IPI and five other pharmaceutical companies requesting materials to assist in its investigation.

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We are cooperating fully with these requests. The outcome of these investigations could include the imposition of substantial fines, penalties and injunctive or administrative remedies.

United Kingdom Serious Fraud Office Investigation and Related Litigation

In April 2002, we received notice of an investigation concerning prices charged by generic drug companies, including Norton Healthcare Limited, now trading as IVAX Pharmaceuticals UK, for penicillin-based antibiotics and warfarin sold in the United Kingdom from 1996 to 2000. This is an investigation by the Serious Fraud Office of the United Kingdom involving many of the pharmaceutical companies that sold these products in the United Kingdom during this period. According to statements by investigating agencies, the Serious Fraud Office expects to conclude its investigation and anticipates bringing charges at the earliest by Fall, 2005. There is no indication at this time regarding which companies, if any, may be charged.

In December 2002, the Secretary of State for Health, on behalf of itself and others, filed a civil claim for damages and interest against Norton Healthcare, Norton Pharmaceuticals and other defendants alleging that certain of their actions adversely affected competition in the sale and supply of warfarin in the United Kingdom between 1996 and 2000. This claim seeks damages against all defendants in the approximate aggregate amount of 27,527 Pounds Sterling (approximately $48,566 at the September 30, 2005, currency exchange rate), plus interest and costs.

In December 2003, the Secretary of State for Health, on behalf of itself and others, filed a civil claim for damages and interest against Norton Healthcare, Norton Pharmaceuticals and other defendants alleging that certain of their actions adversely affected competition in the sale and supply of penicillin based antibiotics in the United Kingdom between 1996 and 2000. This claim seeks damages against all defendants in the approximate amount of 31,438 Pounds Sterling (approximately $55,466 at the September 30, 2005, currency exchange rate), plus interest and costs.

In July 2004, the Secretary of State for Health, on behalf of itself and others, filed a civil claim for damages and interest against Norton Healthcare, Norton Pharmaceuticals and other defendants alleging that certain of their actions adversely affected competition in the sale and supply of ranitidine in the United Kingdom between 1996 and 2000. This claim seeks damages against all defendants in the approximate amount of 69,252 Pounds Sterling (approximately $122,181 at the September 30, 2005, currency exchange rate), plus interest and costs.

On January 13, 2005, Norton Healthcare Limited and Norton Pharmaceuticals Limited were advised by the Scottish Ministers and Healthcare Trusts that they were considering whether to commence claims against Norton and other pharmaceutical companies for alleged anti-competitive practices arising out of the pricing and supply of warfarin, penicillin based antibiotics and ranitidine. These claims stem from the same conduct alleged by the United Kingdom Serious Fraud Office and the Secretary of State of Health in the above disclosed matters. On May 27, 2005, the Scottish Ministers initiated separate civil proceedings relating to warfarin, penicillin based antibiotics and rantidine and seek damages in the approximate amounts of 3,305 Pounds Sterling (approximately $5,831 at the September 30, 2005, currency exchange rate) plus interest and costs related to warfarin, 3,302 Pounds Sterling (approximately $5,826 at the September 30, 2005, currency exchange rate) plus interest and costs related to penicillin based antibiotics and 13,485 Pounds Sterling (approximately $23,792 at the September 30, 2005, currency exchange rate) plus interest and costs related to ranitidine. On August 26, 2005, the Claimants served an application to amend their Particulars of Claim to further seek exemplary damages and on September 2, 2005, leave to amend was granted.

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Commercial Matters

On April 22, 2003, we received notice that we were named as a defendant along with approximately 25 other pharmaceutical manufacturers in a complaint filed in the US District Court for the Northern District of Texas by an individual who has filed the action purportedly in the name of the United States government, styled United States of America, ex. rel, Paul King v. Alcon Laboratories, Inc., et al. In this suit, the plaintiff seeks to recover damages for allegedly defrauding and conspiring to defraud the United States government by having made sales of drugs to various federal governmental agencies or causing the United States government to reimburse individuals or entities for drug products that did not comply with Current Good Manufacturing Practices and other regulations and laws. The suit seeks the recovery of treble damages from the defendants, jointly and severally, which plaintiff alleges exceeds thirty billion dollars, plus the recovery of attorneys fees, interest, civil penalties, costs, and other relief. On February 23, 2004, plaintiff was granted leave to file a second amended complaint, in response to which we filed a motion to dismiss the action in its entirety. On January 4, 2005, the District Court entered an order dismissing the Second Amended Complaint with prejudice and entered judgment in favor of all the named defendants. The plaintiff did not appeal and the time for filing the notice of appeal has expired.

The Company and all of its directors were named as defendants in a purported Class Action Complaint filed on July 25, 2005, in the Circuit Court of the Eleventh Judicial Circuit in and for Dade County, Florida styled Kops v. IVAX Corporation, Betty G. Amos, et al. In this suit, the plaintiff alleges that the directors breached their fiduciary duties by, among other things, approving for allegedly grossly inadequate consideration the merger agreement entered into by the Company and Teva Pharmaceutical Industries Ltd. The suit sought to enjoin the defendants from proceeding with the proposed merger, to rescind the transaction if consummated and for the recovery of damages, including attorney fees. The Company and its directors served their motion to dismiss the complaint in its entirety and, in response, the plaintiff dismissed the complaint with prejudice on August 25, 2005. On August 29, 2005, an Order of Dismissal with prejudice was entered.

Patent Litigation

IPI filed Abbreviated New Drug Applications (ANDAs) under paragraph IV of the Hatch-Waxman Act to market and sell various strengths of generic gabapentin capsules and tablets, a product marketed by Warner-Lambert under the trademark Neurontin®. As a result of the filing of these ANDAs, Warner Lambert Company, Pfizer and Godecke Aktiengesellschaft filed three separate suits against us and our affiliates for patent infringement. These three consolidated actions are now pending in the United States District Court for the District of New Jersey. Civil Action No. 00-6073 was filed December 14, 2000, Civil Action No. 01-0193 was filed January 12, 2001, and Civil Action No. 01-1537 was filed February 3, 2001. The three suits have been consolidated in a multidistrict litigation in the District of New Jersey with several other cases brought by plaintiffs against other companies seeking to market generic gabapentin. We, along with the other defendants in the consolidated actions, moved for summary judgment of non-infringement and invalidity of Warner-Lambert s patents on various grounds. Oral argument on these motions were held in November 2004. In August 2004, based on our decision to begin commercial sales of non-AB-rated gabapentin tablets, Warner-Lambert sought a temporary restraining order and a preliminary injunction in an effort to prevent us from doing so. Warner-Lambert s request was denied, and we commenced commercial sale of our non-AB-rated gabapentin tablets on August 18, 2004. We also commenced commercial sales of the AB-rated gabapentin capsules on March 23, 2005 and the AB-rated gabapentin tablets on April 29, 2005 as a result of a settlement reached with the generic manufacturer awarded the exclusivity by the FDA. On August 22, 2005, the court granted summary judgment of non-infringement in favor of the defendants based on Warner-Lambert s inability to meet its burden to prove infringement, both literally and under the doctrine of equivalents. While we expect to be successful in our continued defense against Warmer Lambert s claims and any appeal that may be taken from the court s decision, in the event the court ultimately determines that we infringed a valid patent of Warner-Lambert in our sales of gabapentin, it may result in an injunction against us preventing further sales and substantial damages which could exceed our profit or selling price for these products.

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Environmental Matters

On July 16, 2003, API Industries, Inc. (API) received an EPA letter requesting API to submit a revised Solid Waste Management Unit (SWMU) Plan, including additional sampling and investigation elements, concerning the alleged presence of isopropyl ether (IPE) in its facility. On November 7, 2003, API filed its response to the EPA s July 16, 2003, letter and submitted a revised SWMU Plan to cooperate with the agency. On April 27, 2004, the EPA requested API to further address certain groundwater contaminant issues, including monitoring and sampling, relating to the presence of IPE in its facility. On June 14, 2004, API responded to the EPA s April 27, 2004, letter and submitted a revised SWMU Plan. On November 8, 2004, API received the EPA s approval of the SWMU Plan Revision 3.0 dated November 2, 2004. API engaged in the necessary efforts to conduct the actions delineated in the referenced approved plan. API submitted its preliminary report to the EPA on August 31, 2005.

On November 3, 2004, API received a Notice of Deficiency whereby the EPA stated that it is the agency s position that one of the incinerators at the company s plant must be decontaminated and closed pursuant to 40 CFR § 264.351. EPA bases its position on the company s failure to present a Notice of Intent to Comply (NIC) with MACT for such incinerator (due in 1999). API agreed to submit a revised Closure Plan for EPA s review and approval and a revised RCRA Part B application reflecting this closure was filed on February 15, 2005. On June 10, 2005, the EPA determined that the revised Part B permit application was technically complete.

Other Litigation

We are involved in various other legal proceedings arising in the ordinary course of business, some of which involve substantial amounts. In order to obtain brand equivalent approvals prior to the expiration of patents on branded products, and to benefit from the exclusivity allowed to ANDA applicants that successfully challenge these patents, we frequently become involved in patent infringement litigation brought by branded pharmaceutical companies. Although these lawsuits involve products that are not yet marketed and therefore pose little or no risk of liability for damages, the legal fees and costs incurred in defending such litigation can be substantial. While it is not feasible to predict or determine the outcome or the total cost of these proceedings, in the opinion of management, based on a review with legal counsel, any losses resulting from such legal proceedings will not have a material adverse impact on our consolidated financial position or results of operations.

We intend to vigorously defend each of the foregoing lawsuits, but their respective outcomes cannot be predicted. Any of such lawsuits, if determined adversely to us, could have a material adverse effect on our financial position and results of operations. Our ultimate liability with respect to any of the foregoing proceedings is not presently determinable.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of IVAX Corporation:

We have audited the accompanying consolidated balance sheets of IVAX Corporation and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of IVAX Corporation and subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of computing diluted earnings per share regarding the Company s contingent convertible debt during the year ended December 31, 2004. Also discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for business combinations and goodwill and its method of reporting gains and losses on the extinguishment of debt during the year ended December 31, 2002.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of IVAX Corporation and subsidiaries internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2005, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Certified Public Accountants

Miami, Florida

March 9, 2005

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IVAX CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	December 31,	
	2004	**2003**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 391,988	$ 134,270
Marketable securities	6,058	23,070
Accounts receivable, net of allowances for doubtful accounts of $19,212 in 2004 and $17,675 in 2003	392,418	264,317
Inventories, net	524,644	413,872
Other current assets	206,535	160,187
Total current assets	1,521,643	995,716
Property, plant and equipment, net	604,647	502,942
Goodwill, net	682,778	489,665
Intangible assets, net	336,594	314,361
Other assets	66,357	70,250
Total assets	$ 3,212,019	$ 2,372,934
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 177,537	$ 139,990
Current portion of long-term debt	60,145	58,607
Loans payable	18,825	17,804
Accrued income taxes payable	34,125	27,990
Accrued expenses and other current liabilities	287,789	242,158
Total current liabilities	578,421	486,549
Long-term debt, net of current portion	1,057,843	855,335
Other long-term liabilities	72,855	56,208
Minority interest	12,571	12,531
Commitments and contingencies		
Shareholders equity:		
Common stock, $0.10 par value, authorized 546,875 shares, issued and outstanding 260,531 shares in 2004 and 245,885 in 2003	26,053	24,589
Capital in excess of par value	571,143	336,313
Retained earnings	888,503	690,476
Accumulated other comprehensive income (loss)	4,630	(89,067)
Total shareholders equity	1,490,329	962,311
Total liabilities and shareholders equity	$ 3,212,019	$ 2,372,934

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

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IVAX CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended December 31,		
	2004	**2003**	**2002**
Net revenues	$ 1,837,418	$ 1,420,339	$ 1,197,244
Cost of sales (excluding amortization, which is presented below)	985,125	781,383	663,708
Gross profit	852,293	638,956	533,536
Operating expenses:			
Selling	272,569	212,192	168,952
General and administrative	162,391	122,414	118,416
Research and development	141,604	108,347	76,041
Amortization of intangible assets	22,488	19,719	16,158
Restructuring costs	1,374	3,706	4,242
Total operating expenses	600,426	466,378	383,809
Operating income	251,867	172,578	149,727
Other income (expense):			
Interest income	5,545	3,710	8,090
Interest expense	(41,424)	(43,608)	(48,639)
Other income, net	5,836	11,738	60,321
Total other income (expense)	(30,043)	(28,160)	19,772
Income before income taxes and minority interest	221,824	144,418	169,499
Provision for income taxes	23,757	45,559	51,742
Income before minority interest			