TEVA PHARMACEUTICAL INDUSTRIES LTD
Form 424B5
March 17, 2011
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Filed Pursuant to Rule 424(b)(5)

Registration No. 333-155927

333-155927-02

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Amount of Registration Fee
Teva Pharmaceutical Finance III B.V. 1.700% Senior Notes due 2014	$250,000,000	$29,025.00[1]
Teva Pharmaceutical Industries Limited Guarantee of 1.700% Senior Notes due 2014	[2]	[2]
Teva Pharmaceutical Finance III B.V. Floating Rate Senior Notes due 2014	$500,000,000	$58,050.00[1]
Teva Pharmaceutical Industries Limited Guarantee of Floating Rate Senior Notes due 2014	[2]	[2]
Total		$87,075.00

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933, as amended. A filing fee of $87,075 has been transmitted to the SEC in connection with the securities offered from the registration statement (File No. 333-155927 and 333-155927-02) by means of this prospectus supplement.

(2) No separate consideration will be received for the guarantees. Pursuant to Rule 457(n) under the Securities Act, no separate fee is payable with respect to the guarantees being registered.

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PROSPECTUS SUPPLEMENT

(To Prospectus dated December 4, 2008)

Teva Pharmaceutical Finance III B.V.

$250,000,000 1.700% Senior Notes due 2014

$500,000,000 Floating Rate Senior Notes due 2014

Payment of principal and interest unconditionally guaranteed by

Teva Pharmaceutical Industries Limited

This is an offering by Teva Pharmaceutical Finance III B.V. (Teva Finance) of $250,000,000 of its 1.700% Senior Notes due 2014 (the fixed rate notes) and $500,000,000 of its Floating Rate Senior Notes due 2014 (the floating rate notes and together with the fixed rate notes, the notes). The fixed rate notes will mature on March 21, 2014 and the floating rate notes will mature on March 21, 2014.

Teva Finance will pay interest on the fixed rate notes in arrears on March 21 and September 21 of each year, beginning September 21, 2011, to the holders of record at the close of business on the preceding March 6 and September 6, respectively. Teva Finance will pay interest on the floating rate notes quarterly in arrears on the 21st day of March, June, September and December of each year, beginning on June 21, 2011, to the holders of record at the close of business on the 15th calendar day immediately preceding such interest payment date (whether or not a business day). Payment of all principal and interest payable on the notes is unconditionally guaranteed by Teva Pharmaceutical Industries Limited (Teva).

Teva Finance may redeem the fixed rate notes, in whole or in part, at any time or from time to time, on at least 20 days , but not more than 60 days , prior notice. The fixed rate notes will be redeemable at a redemption price equal to the greater of (1) 100% of the principal amount of the fixed rate notes to be redeemed and (2) the sum of the present values of the Remaining Scheduled Payments (as defined herein) discounted on a semi-annual basis, at a rate equal to the sum of the Treasury Rate plus 12.5 basis points, plus accrued and unpaid interest, if any, to the redemption date. The floating rate notes will not be subject to redemption at Teva Finance s option (other than as set forth below in Description of the Notes and the Guarantees Tax Redemption).

The notes will be unsecured senior obligations of Teva Finance, which is an indirect subsidiary of Teva, and the guarantees will be the unsecured senior obligations of Teva. Teva intends to use the $747,780,000 of net proceeds from the offering to repay amounts outstanding under its unsecured credit facilities.

Investing in the notes involves risks. See Risk Factors beginning on page S-7 of this prospectus supplement and page 3 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per 1.700% Senior Note due 2014	Total	Per Floating Rate Senior Note due 2014	Total
Offering price(1)	99.942%	$ 249,855,000	100.000%	$ 500,000,000
Underwriting discount	0.250%	$ 625,000	0.250%	$ 1,250,000
Proceeds to Teva Finance (before expenses)	99.692%	$ 249,230,000	99.750%	$ 498,750,000

(1) Plus accrued interest, if any, from March 21, 2011, if settlement occurs after that date.

The underwriters expect to deliver the notes on or about March 21, 2011.

Active Joint Book-Running Managers

Barclays Capital **Goldman, Sachs & Co.** **Morgan Stanley**

Passive Book-Running Managers

BNP PARIBAS **Citi** **HSBC**

Co-Managers

Credit Suisse **J.P. Morgan**

The date of this prospectus supplement is March 16, 2011.

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We have not authorized anyone to provide any information or to make any representations other than those contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or in any free writing prospectuses we have prepared. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus supplement and the accompanying prospectus is an offer to sell only the notes offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement and the accompanying prospectus is current only as of the respective dates of such documents.

This prospectus supplement and accompanying prospectus are only being distributed to and are only directed at (1) persons who are outside the United Kingdom or (2) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order) or (iii) high net worth entities, and other persons to whom they may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as relevant persons). The notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire the notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this prospectus supplement or the accompanying prospectus.

This prospectus supplement and accompanying prospectus have been prepared on the basis that any offer of notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State) will be made pursuant to an exemption under Article 3, paragraph 2 of the Prospectus Directive from the requirement to publish a prospectus for offers of notes. Accordingly any person making or intending to make an offer in that Relevant Member State of notes which are the subject of the offering contemplated in this prospectus supplement may only do so in circumstances in which no obligation arises for Teva Finance or any of the managers to publish a prospectus pursuant to Article 3, paragraph 1 of the Prospectus Directive, in each case, in relation to such offer. Neither Teva Finance nor the managers have authorized, nor do they authorize, the making of any offer of notes in circumstances in which an obligation arises for Teva Finance or the managers to publish a prospectus for such offer. The expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

In connection with the issue of the notes, the book-running managers (or persons acting on behalf of any of the book-running managers) may over-allot notes or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail. However, there is no assurance that the joint book-running managers (or persons acting on behalf of a book-running manager) will undertake stabilization action. Such stabilizing, if commenced, may be discontinued at any time and, if begun, must be brought to an end after a limited period. Any stabilization action or over-allotment must be conducted by the relevant book-running managers (or persons acting on behalf of any book-running manager) in accordance with all applicable laws and rules.

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Prospectus Supplement

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. This is not intended to be a complete description of the matters covered in this prospectus supplement and the accompanying prospectus and is subject to, and qualified in its entirety by, reference to the more detailed information and financial statements (including the notes thereto) included or incorporated by reference in this prospectus supplement and the accompanying prospectus. Unless otherwise indicated, all references to the Company, we, us, our or Teva refer to Teva Pharmaceutical Industries Limited and its subsidiaries. All references to Teva Finance refer to Teva Pharmaceutical Finance III B.V., an indirect subsidiary of Teva.

The Company

We are a global pharmaceutical company that develops, produces and markets generic drugs in all major therapeutic categories. We are the leading generic drug company in the world with the leading position in the United States (in terms of both value and volume) as well as in Europe (in terms of value). While our core business is generic pharmaceuticals, approximately 30% of our sales is generated from innovative and branded drugs, which include Copaxone® for multiple sclerosis and Azilect® for Parkinson s disease as well as biosimilars, respiratory and women s health products. Our active pharmaceutical ingredient (API) manufacturing capabilities enable our own pharmaceutical production to be significantly vertically integrated.

Our global presence ranges from North and Latin America to Europe and Asia. We currently have direct operations in approximately 60 countries including 40 finished dosage pharmaceutical manufacturing sites in 19 countries, 28 pharmaceutical R&D centers and 21 API manufacturing sites.

In 2010, we generated approximately 60% of our sales in North America, approximately 25% in Europe (which includes all European Union (EU) member states and other Western European countries) and approximately 15% in other regions (primarily Latin America, Israel, Russia and other Eastern European countries that are not members of the EU).

Teva was incorporated in Israel on February 13, 1944, and is the successor to a number of Israeli corporations, the oldest of which was established in 1901. Our executive offices are located at 5 Basel Street, P.O. Box 3190, Petach Tikva 49131, Israel, and our telephone number is +972-3-926-7267.

Teva Finance

Teva Finance is a Curaçao private limited liability company that was formed on December 9, 2003 to issue debt securities pursuant to the accompanying prospectus. Its address is Schottegatweg Oost 29D, Curaçao, telephone number +5999-736-6066.

Recent Developments

The following updates relate to litigation previously disclosed in the Company s 2010 Annual Report on Form 20-F, which was filed with the United States Securities and Exchange Commission on February 15, 2011.

On March 1, 2011, the United States District Court for the Southern District of New York scheduled a trial date of September 7, 2011 in the Company s consolidated patent infringement litigation against Momenta Pharmaceuticals, Inc./Sandoz Inc. and Mylan Pharmaceuticals, Inc./Mylan Inc./Natco Pharma Ltd. relating to the Company s leading innovative product, Copaxone® (glatiramer acetate injection).

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On March 3, 2011, the United States District Court for the District of New Jersey granted Wyeth s motion to strike the Company s patent misuse and unclean hands defenses in the Company s patent litigation relating to sales of its 20 mg and 40 mg pantoprazole sodium tablets. In its decision, the District Court dismissed the Company s unclean hands defenses with prejudice. However, the District Court dismissed the Company s patent misuse defenses without prejudice and with leave to replead such defenses by March 25, 2011. The Company intends to do so by such deadline.

On March 4, 2011, the United States District Court for the District of New Jersey scheduled a trial date of November 14, 2011 in the patent infringement litigation brought by Novartis relating to the Company s amlodipine besylate/benazepril products, which are the generic versions of Novartis Lotrel®.

On March 7, 2011, a hearing was held before an en banc panel of the Nevada Supreme Court relating to evidence that the Company sought to introduce at trials in the District Court of Clark County, Nevada, in which the Company is a defendant, concerning the Company s propofol product. In May 2010, a jury in the first trial returned a verdict in favor of plaintiffs for $5.1 million in compensatory damages and awarded $356 million in punitive damages against Teva and $144 million in punitive damages against Baxter, the distributor of the product. Two pending trials have been stayed pending resolution by the Supreme Court of the evidentiary questions that were the subject of the hearing. A number of additional trials are scheduled to begin throughout 2011.

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The Offering

Issuer	Teva Pharmaceutical Finance III B.V. (Teva Finance), which is an indirect, wholly owned subsidiary of Teva Pharmaceutical Industries Limited (Teva) that has no assets or operations other than in connection with this offering.
Securities Offered	$250 million aggregate principal amount of 1.700% Senior Notes due 2014 of Teva Finance (the fixed rate notes) and $500 million aggregate principal amount of the Floating Rate Senior Notes due 2014 of Teva Finance (the floating rate notes and, together with the fixed rate notes, the notes).
Guarantees	Teva will irrevocably and unconditionally guarantee the punctual payment when due of the principal and interest, whether at maturity, upon redemption, by acceleration or otherwise (including any additional amounts in respect of taxes as described in Description of the Notes and the Guarantees Additional Tax Amounts), if any, on the notes.
Ranking	As indebtedness of Teva, the guarantees will rank: senior to the rights of creditors under debt expressly subordinated to the guarantees; equally with other unsecured debt of Teva from time to time outstanding other than any that is subordinated to the guarantees; effectively junior to Teva s secured indebtedness up to the value of the collateral securing that indebtedness; and effectively junior to the indebtedness and other liabilities of Teva s subsidiaries.
Maturity	The fixed rate notes will mature on March 21, 2014 and the floating rate notes will mature on March 21, 2014.
Interest Payment Dates	March 21 and September 21 of each year, beginning September 21, 2011, and at maturity, with respect to the fixed rate notes; and March 21, June 21, September 21 and December 21 of each year, beginning June 21, 2011, with respect to the floating rate notes.

Interest Rate	1.700% per year in the case of the fixed rate notes; and
	A rate equal to three-month LIBOR (calculated as set forth in Description of the Notes and the Guarantees Interest on the Floating Rate Notes) plus 0.500%, in the case of the floating rate notes.

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Optional Redemption by Teva Finance	Teva Finance may redeem the fixed rate notes, in whole or in part, at any time or from time to time, on at least 20 days , but not more than 60 days , prior notice. The fixed rate notes will be redeemable at a redemption price equal to the greater of (1) 100% of the principal amount of the fixed rate notes to be redeemed or (2) the sum of the present values of the Remaining Scheduled Payments (as defined under Description of the Notes and the Guarantees Optional Redemption by Teva Finance) discounted, on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months), at a rate equal to the sum of the Treasury Rate (as defined in Description of the Notes and the Guarantees Optional Redemption by Teva Finance) plus 12.5 basis points, plus accrued and unpaid interest, if any, to the redemption date. The floating rate notes will not be subject to redemption at Teva Finance s option (other than as set forth below in Description of the Notes and the Guarantees Tax Redemption).
Use of Proceeds	Teva intends to use the approximately $747.8 million of net proceeds from this offering to repay amounts outstanding under its unsecured credit facilities. See Use of Proceeds.
Conflicts of Interest	Certain underwriters of this offering or their affiliates are lenders under Teva s unsecured credit facilities. Because more than 5% of the proceeds of this offering will be used to repay a portion of the amounts outstanding under such credit facilities, a conflict of interest under FINRA Rule 5121 is deemed to exist, and this offering will be conducted in accordance with that rule.
Form, Denomination and Registration	The notes will be issued only in fully registered form without coupons and in minimum denominations of $2,000 principal amount and whole multiples of $1,000 in excess of $2,000. The notes will be evidenced by one or more global registered notes deposited with the trustee of the notes, as custodian for The Depository Trust Company (DTC). Beneficial interests in the global registered notes will be shown on, and transfers will be effected through, records maintained by DTC and its direct and indirect participants.
Absence of a Public Market for the Notes	The notes are new securities for which no market currently exists. The underwriters have advised us that they intend to make a market in the notes as permitted by applicable laws and regulations. The underwriters are not obligated, however, to make a market in the notes, and they may discontinue this market making at any time in their sole discretion. The notes will not be listed on any securities exchange or included in any automated quotation system. We cannot assure you that any active or liquid market will develop in the notes.

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Summary Selected Historical Financial Data of Teva

The following summary selected operating data for each of the years in the three-year period ended December 31, 2010 and summary selected balance sheet data at December 31, 2010 and 2009 are derived from Teva s audited consolidated financial statements and related notes incorporated by reference into this prospectus supplement, which have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The summary selected operating data for each of the years in the two-year period ended December 31, 2007 and summary selected balance sheet data at December 31, 2008, 2007 and 2006 are derived from other audited consolidated financial statements of Teva, which have been prepared in accordance with U.S. GAAP.

The information set forth below is only a summary and is not necessarily indicative of the results of future operations of Teva, and you should read the summary selected historical financial data together with Teva s audited consolidated financial statements and related notes and Operating and Financial Review and Prospects included in Teva s Annual Report on Form 20-F incorporated into this prospectus supplement by reference. See the section entitled Where You Can Find More Information for information on where you can obtain a copy of this document.

Operating Data

	For the year ended December 31,				
	2010	**2009**	**2008**	**2007**	**2006**
	U.S. dollars in millions (except per share amounts)				
Net sales	16,121	13,899	11,085	9,408	8,408
Cost of sales	7,056	6,532	5,117	4,531	4,149
Gross profit	9,065	7,367	5,968	4,877	4,259
Research and development expenses net	933	802	786	581	495
Selling and marketing expenses	2,968	2,676	1,842	1,264	1,024
General and administrative expenses	865	823	669	637	548
Legal settlements, acquisition, restructuring and other expenses and impairment	410	638	124		96
Purchase of research and development in process	18	23	1,402		1,295
Operating income	3,871	2,405	1,145	2,395	801
Financial expenses net	225	202	345*	91*	137*
Income before income taxes	3,646	2,203	800	2,304	664
Provision for income taxes	283	166	184*	386*	145*
	3,363	2,037	616	1,918	519
Share in losses of associated companies net	24	33	1	3	3
Net income	3,339	2,004	615	1,915	516
Net income attributable to non-controlling interests	8	4	6**	1**	2**
Net income attributable to Teva	3,331	2,000	609	1,914	514
Earnings per share attributable to Teva:					
Basic ($)	3.72	2.29	0.78	2.49	0.68
Diluted ($)	3.67	2.23	0.75	2.36	0.65
Weighted average number of shares (in millions):					
Basic	896	872	780	768	756
Diluted	921	896	820	830	805

* After giving retroactive effect to the adoption of an accounting pronouncement that requires issuers to account separately for the liability and equity components of convertible debt instruments that may be settled in cash (including partial cash settlement).

** After giving retroactive effect to non-controlling interests reclassification.

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Balance Sheet Data

	As of December 31,		
	2010	2009	2008
	U.S. dollars in millions		
Financial assets (cash, cash equivalents and marketable securities)	1,549	2,465	2,065
Working capital (operating assets and liabilities)	3,835	3,592	3,944
Total assets	38,152	33,210	32,520*
Short-term debt, including current maturities	2,771	1,301	2,906
Long-term debt, net of current maturities	4,110	4,311	5,475
Total debt	6,881	5,612	8,381
Total equity	22,002	19,259	16,438*

* After giving retroactive effect to the adoption of an accounting pronouncement which requires issuers to account separately for the liability and equity components of convertible debt instruments that may be settled in cash (including partial cash settlement).

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RISK FACTORS

Before you invest in the notes, you should carefully consider the risks involved. Accordingly, you should carefully consider the information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus, including the risk factors listed below and in the accompanying prospectus. See Forward-Looking Statements.

Risks Related to Our Business

Investment in our securities involves various risks. In making an investment decision, you should carefully consider the risks and uncertainties described under the heading Risk Factors in our Annual Report on Form 20-F for the year ended December 31, 2010, our Reports of Foreign Private Issuer on Form 6-K that are incorporated herein by reference and any future filings made by Teva pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), prior to the termination of this offering as well as the risk factors below.

Risks Related to the Notes

There may not be a liquid market for the notes, and you may not be able to sell your notes at attractive prices or at all.

The notes are a new issue of securities for which there is currently no trading market. Although the underwriters have advised us that they currently intend to make a market in the notes, they are not obligated to do so and may discontinue their market-making activities at any time without notice. We do not intend to apply for listing of the notes on any exchange or any automated quotation system. If an active market for the notes fails to develop or be sustained, the trading price of the notes could fall, and even if an active trading market were to develop, the notes could trade at prices that may be lower than the initial offering price. The trading price of the notes will depend on many factors, including:

- prevailing interest rates and interest rate volatility;
- the markets for similar securities;
- our financial condition, results of operations and prospects;
- the publication of earnings estimates or other research reports and speculation in the press or investment community;
- changes in our industry and competition; and
- general market and economic conditions.

As a result, we cannot assure you that you will be able to sell the notes at attractive prices or at all.

A downgrade, suspension or withdrawal of the rating assigned by a rating agency to the notes, if any, could cause the liquidity or market value of the notes to decline significantly.

We cannot assure you what rating, if any, will be assigned to the notes. In addition, we cannot assure you that any rating so assigned will remain for any given period of time or that the rating will not be lowered or withdrawn entirely by the rating agency if in that rating agency s judgment future circumstances relating to the basis of the rating, such as adverse changes in our business, so warrant.

We may incur additional indebtedness that may adversely affect our ability to meet our financial obligations under the notes.

The terms of the notes do not impose any limitation the ability of Teva, Teva Finance or any of Teva s other subsidiaries to incur additional unsecured debt. We may incur additional unsecured indebtedness in the future,

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which could have important consequences to holders of the notes, including that we could have insufficient cash to meet our financial obligations, including our obligations under the notes, and that our ability to obtain additional financing could be impaired.

Because Teva and Teva Finance are foreign entities, you may have difficulties enforcing your rights under the guarantees and under the notes.

Teva is an Israeli company. In addition, most of Teva s officers, directors or persons of equivalent position reside outside of the United States. As a result, service of process on them may be difficult or impossible to effect in the United States. Furthermore, due to the fact that a substantial portion of our assets are located outside of the United States, it may be difficult to enforce judgments obtained against us or any of our directors and officers in a United States court.

Subject to various time limitations, an Israeli court may declare a judgment rendered by a foreign court in a civil matter, including judgments awarding monetary or other damages, enforceable if it finds that:

(1) the judgment was rendered by a court which was, according to the foreign country s law, competent to render it;

(2) the judgment is no longer appealable;

(3) the judgment is enforceable according to the rules relating to the enforceability of judgments in Israel and the substance of the judgment is not contrary to public policy in Israel; and

(4) the judgment can be executed in the state in which it was given.

A foreign judgment will not be declared enforceable by Israeli courts if it was given in a state, the laws of which do not provide for the enforcement of judgments of Israeli courts (subject to exceptional cases) or if its enforcement is likely to prejudice the sovereignty or security of Israel. An Israeli court also will not declare a foreign judgment enforceable if it is proved to the Israeli court that:

(1) the judgment was obtained by fraud;

(2) there was no due process;

(3) the judgment was given by a court not competent to render it according to the laws of private international law in Israel;

(4) the judgment is at conflict with another judgment that was given in the same matter between the same parties and which is still valid; or

(5) at the time the action was brought to the foreign court a claim in the same matter and between the same parties was pending before a court or tribunal in Israel.

Teva Finance is organized under the laws of Curaçao and its managing and supervisory directors reside outside the United States, and all or a significant portion of the assets of such persons may be, and substantially all of the assets of Teva Finance are, located outside the United States. As a result, it may not be possible to effect service of process within the United States upon Teva Finance or any such person or to enforce against Teva Finance or any such person judgments obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States.

The United States and Curaçao do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon the federal securities laws of the United States, would not be directly enforceable in Curaçao.

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If the party in whose favor such a final judgment is rendered brings a new suit in a competent court in Curaçao, that party may submit to the Curaçao court the final judgment that has been rendered in the United States. A foreign judgment would be enforceable in Curaçao generally, without any re-examination of the merits of the original judgment provided that:

(1) the judgment is final in the jurisdiction where rendered and was issued by a competent court;

(2) the judgment is valid in the jurisdiction where rendered;

(3) the judgment was issued following personal service of the summons upon the defendant or its agent and, in accordance with due process of law, an opportunity for the defendant to defend against the foreign action;

(4) the judgment does not violate natural justice or any compulsory provisions of Curaçao law or principles of public policy;

(5) the terms and conditions governing the indenture does not violate any compulsory provisions of Curaçao law or principles of public policy;

(6) the judgment is not contrary to a prior or simultaneous judgment of a competent Curaçao court; and

(7) the judgment has not been rendered in proceedings of a penal, revenue or other public law nature.

The guarantees will be subordinated to some of our existing and future indebtedness.

Teva will irrevocably and unconditionally guarantee the punctual payment when due of the principal of and interest, if any, on the notes. As indebtedness of Teva, the guarantees will be Teva s general, unsecured obligations and will rank equally in right of payment with all of Teva s existing and future unsubordinated, unsecured indebtedness. The guarantees will be effectively subordinated to any existing and future secured indebtedness Teva may have up to the value of the collateral securing that indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiaries with respect to the assets of those subsidiaries. These liabilities may include debt securities, credit facilities, trade payables, guarantees, lease obligations, letter of credit obligations and other indebtedness. See Description of the Notes and the Guarantees Description of the Guarantees. The indenture does not restrict us or our subsidiaries from incurring debt in the future, nor does it limit the amount of indebtedness we can issue that is equal in right of payment. At December 31, 2010, Teva s subsidiaries, other than finance subsidiaries, had $742 million of indebtedness outstanding.

Teva may be subject to restrictions on receiving dividends and other payments from its subsidiaries.

Teva s income is derived in large part from its subsidiaries. Accordingly, Teva s ability to pay its obligations under the guarantees depends in part on the earnings of its subsidiaries and the payment of those earnings to Teva, whether in the form of dividends, loans or advances. Such payment by Teva s subsidiaries to Teva may be subject to restrictions. The indenture does not restrict Teva, Teva Finance or Teva s other subsidiaries from entering into agreements that contain such restrictions.

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FORWARD LOOKING STATEMENTS

Our disclosure and analysis in this prospectus supplement contain or incorporate by reference some forward-looking statements. Forward-looking statements describe our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Such statements may include words such as anticipate , estimate , expect , project , intend plan , believe and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these statements include, among other things, statements relating to:

- our business strategy;
- the development and launch of our products, including product approvals and results of clinical trials;
- projected markets and market size;
- anticipated results of litigation;
- our projected revenues, market share, expenses, net income margins and capital expenditures; and
- our liquidity.

This prospectus supplement contains or incorporates by reference forward-looking statements which express the beliefs and expectations of management. Such statements are based on management s current beliefs and expectations and involve a number of known and unknown risks and uncertainties that could cause our future results, performance or achievements to differ significantly from the results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause or contribute to such differences include risks relating to: our ability to successfully develop and commercialize additional pharmaceutical products, the introduction of competing generic equivalents, the extent to which we may obtain U.S. market exclusivity for certain of our new generic products and regulatory changes that may prevent us from utilizing exclusivity periods, potential liability for sales of generic products prior to a final resolution of outstanding patent litigation, including that relating to the generic versions of Neurontin®, Lotrel®, Protonix® and Gemzar®, the extent to which any manufacturing or quality control problems damage our reputation for high quality production, the effects of competition on sales of our innovative products, especially Copaxone® (including potential generic and oral competition for Copaxone®), the impact of continuing consolidation of our distributors and customers, our ability to identify, consummate and successfully integrate acquisitions (including the acquisition of ratiopharm), interruptions in our supply chain or problems with our information technology systems that adversely affect our complex manufacturing processes, intense competition in our specialty pharmaceutical businesses, any failures to comply with the complex Medicare and Medicaid reporting and payment obligations, our exposure to currency fluctuations and restrictions as well as credit risks, the effects of reforms in healthcare regulation, adverse effects of political or economical instability, major hostilities or acts of terrorism on our significant worldwide operations, increased government scrutiny in both the U.S. and Europe of our agreements with brand companies, dependence on the effectiveness of our patents and other protections for innovative products, our ability to achieve expected results through our innovative R&D efforts, the difficulty of predicting U.S. Food and Drug Administration, European Medicines Agency and other regulatory authority approvals, uncertainties surrounding the legislative and regulatory pathway for the registration and approval of biotechnology-based products, potentially significant impairments of intangible assets and goodwill, potential increases in tax liabilities resulting from challenges to our intercompany arrangements, our potential exposure to product liability claims to the extent not covered by insurance, the termination or expiration of governmental programs or tax benefits, current economic conditions, any failure to retain key personnel or to attract additional executive and managerial talent, environmental risks and other factors that are discussed in this prospectus, our Annual Report on Form 20-F for the year ended December 31, 2010, and in our other filings with the United States Securities and Exchange Commission (the SEC).

Forward looking statements speak only as of the date on which they are made, and we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any additional disclosures we make in our Annual Reports on Form 20-F and our Reports of Foreign Private Issuer on Form 6-K that are filed with the SEC. Also note that we provide a cautionary discussion of risks and uncertainties under Risk Factors above and in the accompanying

prospectus. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here or in the accompanying prospectus could also adversely affect us. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

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RATIO OF EARNINGS TO FIXED CHARGES

Our ratio of earnings to fixed charges in accordance with U.S. GAAP for each of the periods presented below was as follows:

	Year Ended December 31,				
	2010	**2009**	**2008**	**2007**	**2006**
Ratio of earnings to fixed charges	16.5	9.4	4.5	9.5	4.1

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CAPITALIZATION

The following table sets forth Teva s capitalization as of December 31, 2010:

- On a historical basis; and
- On an as adjusted basis to give effect to the issuance and sale of the notes and the application of the approximately $747.8 million of net proceeds therefrom to repay amounts outstanding under our unsecured credit facilities (see Use of Proceeds).

You should read this table together with the consolidated financial statements and the notes thereto and our supplemental financial data incorporated by reference in this prospectus supplement.

	December 31, 2010 (Unaudited)	
	Actual	As adjusted
	U.S. Dollars in Millions	
Short-term debt, including current maturities excluding convertible debentures	$ 1,432	$ 1,332(1)
0.25% Convertible Senior Debentures due 2026	530	530
1.75% Convertible Senior Debentures due 2026(2)	809	809
Total short-term debt	2,771	2,671
1.500% Senior Notes due 2012	1,000	1,000
1.700% Senior Notes due 2014		250
Floating Rate Senior Notes due 2014		500
3.000% Senior Notes due 2015	1,000	1,000
5.550% Senior Notes due 2016	493	493
6.150% Senior Notes due 2036	987	987
Other long-term debt, net of current maturities	630	630
Total long-term debt	4,110	4,860
Equity:		
Teva shareholders equity:		
Ordinary shares of NIS 0.10 par value: authorized 2,500 million shares; issued and outstanding actual 937 million shares	49	49
Additional paid-in capital	13,246	13,246
Retained earnings	9,325	9,325
Accumulated other comprehensive income	350	350
Treasury shares 40 million ordinary shares	(1,023)	(1,023)
	21,947	21,947
Non-controlling interests	55	55
Total equity	22,002	22,002
Total capitalization	$ 28,883	$ 29,533

(1) Does not reflect the application of approximately $647.8 million of the net proceeds from this offering to repay short-term debt incurred after December 31, 2010.

(2) On February 1, 2011, all of the outstanding 1.75% Convertible Senior Debentures due 2026 were redeemed or converted into the right to receive cash and our ADSs.

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USE OF PROCEEDS

Teva estimates that it will receive net proceeds of approximately $747.8 million from this offering. Teva intends to use such net proceeds to repay (i) a portion of the amount outstanding under a syndicated credit facility, which matures in January 2014 and was used to finance the redemption and conversion in February 2011 of its 1.75% Convertible Senior Debentures due 2026, and (ii) a portion of the amounts outstanding under certain other unsecured credit facilities, which mature in July 2011 and were used to finance the acquisition of ratiopharm in August 2010. The indebtedness under these facilities bears interest at floating rates based on USD LIBOR plus a margin ranging from 0.95% to 1.0%.

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DESCRIPTION OF THE NOTES AND THE GUARANTEES

Teva Finance will issue the 1.700% Senior Notes due 2014 (the fixed rate notes) and the Floating Rate Senior Notes due 2014 (the floating rate notes and, together with the fixed rate notes, the notes) under a senior indenture, to be dated as of March 21, 2011, by and among Teva Finance, Teva and The Bank of New York Mellon, as trustee, as supplemented by a supplemental indenture to be dated as of March 21, 2011. The terms of the notes include those provided in the indenture. Teva will irrevocably and unconditionally guarantee the punctual payment by Teva Finance of the principal of and interest, if any, on the notes of each series.

The following description is only a summary of the material provisions of the notes of each series and the related indenture and guarantees. We urge you to read these documents in their entirety because they, and not this description, define your rights as holders of the notes. You may request copies of these documents at our address set forth in the section titled Incorporation of Certain Documents by Reference.

When we refer to Teva in this section, we refer only to Teva Pharmaceutical Industries Limited. When we refer to Teva Finance in this section, we refer to Teva Pharmaceutical Finance III B.V., an indirect, wholly owned subsidiary of Teva organized as a Curaçao private limited liability company.

We refer to the indenture referenced in the first paragraph of this section, as supplemented, as the indenture.

Brief Description of the Notes

The notes will:

- be limited to
  - $250 million aggregate principal amount with respect to the fixed rate notes and
  - $500 million aggregate principal amount with respect to the floating rate notes,

  subject to reopening of the notes at the discretion of Teva Finance;
- accrue interest
  - at a rate of 1.700% on the fixed rate notes, payable semiannually in arrears on March 21 and September 21 of each year, beginning September 21, 2011 to the holders of record at the close of business on the preceding March 6 and September 6, respectively; and
  - at a rate equal to three-month LIBOR (calculated as set forth under Payment of Interest and Principal Interest on the Floating Rate Notes) plus 0.500% on the floating rate notes, payable quarterly in arrears on the 21st day of March, June, September and December, beginning June 21, 2011, to the holders of record at the close of business on the 15th calendar day immediately preceding such interest payment date (whether or not a business day);
- be general unsecured obligations of Teva Finance;

in the case of the fixed rate notes, be redeemable at the option of Teva Finance at any time at the greater of (1) 100% of the principal amount of the fixed rate notes to be redeemed or (2) the sum of the present values of the Remaining Scheduled Payments (as defined below) discounted, on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months), at a rate equal to the sum of the Treasury Rate (as defined below) and 12.5 basis points, plus accrued and unpaid interest, if any, to the date of redemption (in addition to being redeemable as set forth below under Tax Redemption), and in the case of the floating rate notes, not be subject to redemption at Teva Finance s option (other than as set forth below under Tax Redemption ; and

be due on March 21, 2014, in the case of the fixed rate notes, and March 21, 2014, in the case of the floating rate notes.

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The indenture does not contain any financial covenants or restrictions on the amount of additional indebtedness that Teva, Teva Finance or any of Teva s other subsidiaries may incur except as described in Certain Covenants below. The indenture does not protect you in the event of a highly leveraged transaction or change of control of Teva or Teva Finance. The notes do not contain any sinking fund provisions.

Teva Finance may, without the consent of the holders, issue additional notes under the indenture with the same terms and with the same CUSIP number as the notes offered hereby in an unlimited aggregate principal amount; provided that such notes must be part of the same issue as the notes offered hereby for U.S. federal income tax purposes. We may also from time to time repurchase notes in open market purchased or negotiated transactions without giving prior notice to holders.

You may present definitive registered notes for registration of transfer and exchange, without service charge, at our office or agency in New York City, which shall initially be the office or agency of the trustee in New York City. For information regarding registration of transfer and exchange of global registered notes, see Form, Denomination and Registration below.

Description of the Guarantees

Teva will irrevocably and unconditionally guarantee the punctual payment when due, whether at maturity, upon redemption, by acceleration or otherwise, of the principal of and interest (including any additional amounts in respect of taxes as provided herein), if any, on the notes of each series. The guarantees will be enforceable by the trustee, the holders of the applicable series of the notes and their successors, transferees and assigns in each case of the applicable series of notes.

Each guarantee will be an unsecured senior obligation of Teva. As indebtedness of Teva, after giving effect to the offerings contemplated hereby, each guarantee will rank:

- senior to the rights of creditors under debt expressly subordinated to the guarantee (at December 31, 2010, Teva had no subordinated debt outstanding);
- equally with other unsecured debt of Teva from time to time outstanding other than any that is subordinated to the guarantee (at December 31, 2010, Teva had $3,978 million of senior unsecured debt outstanding);
- effectively junior to Teva s secured indebtedness up to the value of the collateral securing that indebtedness (at December 31, 2010, Teva had no secured debt outstanding); and
- effectively junior to the indebtedness and other liabilities of Teva s subsidiaries (at December 31, 2010, Teva s subsidiaries, other than finance subsidiaries, had $742 million of indebtedness outstanding).

Except as described in Certain Covenants below, the indenture does not contain any financial covenants or restrictions on the amount of additional indebtedness that Teva, Teva Finance or any of Teva s other subsidiaries may incur.

Payment of Interest and Principal

Interest on the Fixed Rate Notes

The fixed rate notes will bear interest at the rate of 1.700% per year, payable semiannually in arrears on March 21 and September 21 of each year, beginning September 21, 2011, to the holders of record at the close of business on the preceding March 6 and September 6, respectively, whether or not a Business Day. If an interest payment date falls on a day that is not a Business Day (as defined below), interest will be payable on the next succeeding Business Day with the same force and effect as if made on such interest payment date. Interest on the notes generally will be computed on the basis of a 360-day year comprised of twelve 30-day months, and will accrue from March 21, 2011 or from the most recent interest payment date to which interest has been paid.

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Business Day means a day other than (i) a Saturday or Sunday, (ii) a day on which banks in New York, New York are authorized or obligated by law or executive order to remain closed, or (iii) a day on which the trustee s corporate trust office is closed for business.

Interest on the Floating Rate Notes

The floating rate notes will bear interest from March 21, 2011, payable quarterly in arrears on the 21st day of March, June, September and December (each, a Quarterly Interest Payment Date) to the holders of record at the close of business on the 15th calendar day immediately preceding such Quarterly Interest Payment Date (whether or not a Business Day). However, interest payable on the maturity date of a floating rate note will be paid to the person to whom principal is payable.

The initial Quarterly Interest Payment Date for the floating rate notes is June 21, 2011. The amount of interest payable on the floating rate notes will be computed on the basis of the actual number of days elapsed over a 360-day year. If any Quarterly Interest Payment Date (other than the maturity date) would otherwise be a day that is not a Business Day, the Quarterly Interest Payment Date will be the next succeeding Business Day. If the maturity date for the floating rate notes is not a Business Day, the principal and interest due on that date will be payable on the next succeeding Business Day, and no interest shall accrue for the intervening period.

The floating rate notes will bear interest for each quarterly Interest Period at a per annum rate determined by the Calculation Agent, subject to the maximum interest rate permitted by New York or other applicable state law, as such law may be modified by United States law of general application, as determined by Teva Finance. The interest rate applicable to the floating rate notes during each quarterly Interest Period will be equal to LIBOR on the Interest Determination Date for such Interest Period plus 0.500%. Promptly upon such determination, the Calculation Agent will notify Teva Finance and the trustee, if the trustee is not then serving as the Calculation Agent, of the interest rate for the new Interest Period. The interest rate determined by the Calculation Agent, absent manifest error, shall be binding and conclusive upon the beneficial owners and holders of the floating rate notes, Teva Finance and the trustee.

Upon the request of a holder of the floating rate notes, the Calculation Agent will provide to such holder the interest rate in effect on the date of such request and, if determined, the interest rate for the next Interest Period.

The accrued interest for any period is calculated by multiplying the principal amount of a floating rate note by an accrued interest factor. The accrued interest factor is computed by adding the interest factor calculated for each day in the period for which accrued interest is being calculated. The interest factor (expressed as a decimal rounded upwards if necessary) is computed by dividing the interest rate (expressed as a decimal rounded upwards if necessary) applicable to such date by 360.

All percentages resulting from any calculation of the interest rate on the floating rate notes will be rounded, if necessary, to the nearest one-hundred thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards (e.g., 9.876545% (or .09876545) being rounded to 9.87655% (or .0987655) and 9.876544% (or .09876544) being rounded to 9.87654% (or .0987654), and all dollar amounts used in or resulting from such calculation will be rounded to the nearest cent (with one-half-cent being rounded upwards).

Calculation Agent means The Bank of New York Mellon, or its successor appointed by Teva Finance, acting as calculation agent.

Interest Determination Date means the second London Business Day immediately preceding the first day of the relevant Interest Period.

Interest Period means the period commencing on a Quarterly Interest Payment Date for the floating rate notes (or, with respect to the initial Interest Period only, commencing on the issue date for the floating rate notes) and ending on the day before the next succeeding Quarterly Interest Payment Date for the floating rate notes.

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LIBOR means, with respect to any Interest Period, the rate (expressed as a percentage per annum) for deposits in U.S. dollars for a three-month period commencing on the first day of that Interest Period and ending on the next Quarterly Interest Payment Date that appears on Reuters LIBOR01 Page as of 11:00 a.m. (London time) on the Interest Determination Date for that Interest Period. If such rate does not appear on the Reuters LIBOR01 Page as of 11:00 a.m. (London time) on the Interest Determination Date for that Interest Period, LIBOR will be determined on the basis of the rates at which deposits in U.S. dollars for the Interest Period and in a principal amount of not less than $1,000,000 are offered to prime banks in the London interbank market by four major banks in the London interbank market, which may include affiliates of one or more of the underwriters, selected by Teva Finance, at approximately 11:00 a.m., London time, on the Interest Determination Date for that Interest Period. Teva Finance will request the principal London office of each such bank to provide a quotation of its rate. If at least two such quotations are provided, LIBOR with respect to that Interest Period will be the arithmetic mean of such quotations. If fewer than two quotations are provided, LIBOR with respect to that Interest Period will be the arithmetic mean of the rates quoted by three major banks in New York City, which may include affiliates of one or more of the underwriters, selected by Teva Finance, at approximately 11:00 a.m., New York City time, on the first day of that Interest Period for loans in U.S. dollars to leading European banks for that Interest Period and in a principal amount of not less than $1,000,000. However, if fewer than three banks selected by Teva Finance to provide quotations are quoting as described above, LIBOR for that Interest Period will be the same as LIBOR as determined for the previous Interest Period.

London Business Day means a day that is a Business Day and a day on which dealings in deposits in U.S. dollars are transacted, or with respect to any future date are expected to be transacted, in the London interbank market.

Reuters LIBOR01 Page means the display designated as page LIBOR01 on the Reuters 3000 Xtra (or such other page as may replace the Reuters LIBOR01 Page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to the London Interbank Offered Rate for U.S. dollar deposits).

Mechanics of Payment

Except as provided below, Teva Finance will pay interest on:

- the global registered notes to DTC in immediately available funds;
- any definitive registered notes having an aggregate principal amount of $5,000,000 or less by check mailed to the holders of these notes; and
- any definitive registered notes having an aggregate principal amount of more than $5,000,000 by wire transfer in immediately available funds at the election of the holders of these notes.

At maturity, Teva Finance will pay interest on the definitive registered notes at our office or agency in New York City, which initially will be the office or agency of the trustee in New York City.

Teva Finance will pay principal on:

- the global registered notes to DTC in immediately available funds; and
- any definitive registered notes at our office or agency in New York City, which initially will be the office or agency of the trustee in New York City.

Reference to payments of interest in this section, unless the context otherwise requires, refer to the payment of interest and additional amounts in respect to taxes, if any.

Optional Redemption by Teva Finance

The floating rate notes will not be subject to redemption at Teva Finance s option (other than as set forth under Tax Redemption). Teva Finance may, however, redeem the fixed rate notes, in whole or in part, at any

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time or from time to time, on at least 20 days , but not more than 60 days , prior notice mailed to the registered address of each holder of the fixed rate notes. The redemption prices will be equal to the greater of (1) 100% of the principal amount of the fixed rate notes to be redeemed or (2) the sum of the present values of the Remaining Scheduled Payments (as defined below) discounted, on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months), at a rate equal to the sum of the Treasury Rate (as defined below) and 12.5 basis points, plus accrued and unpaid interest, if any, to the redemption date.

Comparable Treasury Issue means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the fixed rate notes that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the fixed rate notes.

Comparable Treasury Price means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date after excluding the highest and lowest of such Reference Treasury Dealer Quotations or (2) if the Independent Investment Banker obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations.

Independent Investment Banker means one of the Reference Treasury Dealers appointed by us.

Reference Treasury Dealer means each of Barclays Capital Inc., Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated and their respective successors and two other primary U.S. Government securities dealers (each a Primary Treasury Dealer) selected by us. If any of the foregoing shall cease to be a Primary Treasury Dealer, we will substitute another nationally recognized investment banking firm that is a Primary Treasury Dealer.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding such redemption date.

Remaining Scheduled Payments means, with respect to each fixed rate note to be redeemed, the remaining scheduled payments of principal of and interest on such fixed rate note that would be due after the related redemption date but for such redemption. If such redemption date is not an interest payment date with respect to such fixed rate note, the amount of the next succeeding scheduled interest payment on such fixed rate note will be reduced by the amount of interest accrued on such fixed rate note to such redemption date.

Treasury Rate means, with respect to any redemption date, the rate per year equal to the semi-annual equivalent yield to maturity (computed as of the second Business Day immediately preceding such redemption date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

On and after the redemption date, interest will cease to accrue on the fixed rate notes or any portion of the fixed rate notes as is called for redemption (unless we default in the payment of the redemption price and accrued interest). On or before the redemption date, we will deposit with a paying agent (or the trustee) money sufficient to pay the redemption price of and accrued interest on the fixed rate notes to be redeemed on such date. If less than all of the fixed rate notes are to be redeemed, the fixed rate notes to be redeemed shall be selected by the trustee on a pro rata basis, by lot or by such method as the trustee shall deem fair and appropriate.

The terms of the notes do not prevent us from purchasing notes on the open market.

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Certain Covenants

Limitations on Secured Debt. If Teva or any of its subsidiaries creates, incurs, assumes or suffers to exist any lien on any of its property (including a subsidiary s stock or debt) to secure other debt, Teva will secure the notes on the same basis for so long as such other debt is so secured, unless, after giving effect to such lien, the aggregate amount of the secured debt then outstanding (not including debt secured by liens permitted below) plus the value of all sale and leaseback transactions described in paragraph (3) of Limitations on Sales and Leasebacks below would not exceed 10% of Teva s consolidated net worth. The restrictions do not apply to the following liens:

liens existing as of the date when Teva Finance first issues the notes pursuant to the indenture;

liens on property created prior to, at the time of or within 120 days after the date of acquisition, completion of construction or completion of improvement of such property to secure all or part of the cost of acquiring, constructing or improving all or any part of such property;

landlord s, material men s, carriers , workmen s, repairmen s or other like liens which are not overdue or which are being contested in good faith in appropriate proceedings;

liens existing on any property of a corporation or other entity at the time it became or becomes a subsidiary of Teva (provided that the lien has not been created or assumed in contemplation of that corporation or other entity becoming a subsidiary of Teva);

liens securing debt owing by a subsidiary to Teva or to one or more of its subsidiaries;

liens in favor of any governmental authority of any jurisdiction securing the obligation of Teva or any of its subsidiaries pursuant to any contract or payment owed to that entity pursuant to applicable laws, regulations or statutes; and

any extension, renewal, substitution or replacement of the foregoing, provided that the principal amount is not increased and that such lien is not extended to other property.

Limitations on Sales and Leasebacks. Teva will not, and will not permit any subsidiary to, enter into any sale and leaseback transaction covering any property after the date when Teva Finance first issues the notes pursuant to the indenture unless:

(1) the sale and leaseback transaction:

A. involves a lease for a period, including renewals, of not more than five years;

B. occurs within 270 days after the date of acquisition, completion of construction or completion of improvement of such property; or

C. is with Teva or one of its subsidiaries; or

(2) Teva or any subsidiary, within 270 days after the sale and leaseback transaction shall have occurred, applies or causes to be applied an amount equal to the value of the property so sold and leased back at the time of entering into such arrangement to the prepayment, repayment, redemption, reduction or retirement of any indebtedness of Teva or any subsidiary that is not subordinated to the notes and that has a stated maturity of more than twelve months; or

(3) Teva or any subsidiary would be entitled pursuant to the exceptions under Limitations on Secured Debt above to create, incur, issue or assume indebtedness secured by a lien in the property without equally and ratably securing the notes.

Certain Other Covenants

The indenture will contain certain other covenants regarding, among other matters, corporate existence and reports to holders of notes.

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Additional Tax Amounts

Neither Teva Finance, as the issuer, nor Teva, as the guarantor, will withhold or deduct from payments made with respect to the notes of any series on account of any present or future taxes, duties, assessments or governmental charges imposed by or on behalf of Curaçao, Israel or any jurisdiction where a successor to Teva Finance or Teva is incorporated or organized or considered to be a resident, if other than Curaçao or Israel, respectively, or any jurisdiction through which payments will be made (Taxing Jurisdiction) unless such withholding or deduction is required by law. In the event that Teva Finance or Teva is required to withhold or deduct on account of any such taxes from any payment made under or with respect to the notes of any series, Teva Finance or Teva, as the case may be, will (i) withhold or deduct such amounts, (ii) pay such additional tax amounts so that the net amount received by each holder of notes of that series, including those additional tax amounts, will equal the amount that such holder would have received if such taxes had not been required to be withheld or deducted and (iii) pay the full amount withheld or deducted to the relevant tax or other authority in accordance with applicable law, except that no such additional amounts will be payable in respect of any note:

(1) to the extent that such Taxes are imposed or levied by reason of such holder (or the beneficial owner) having some present or former connection with the Taxing Jurisdiction other than the mere holding (or beneficial ownership) of such Note or receiving principal or interest payments on the Notes (including but not limited to citizenship, nationality, residence, domicile, or the existence of a business, permanent establishment, a dependant agent, a place of business or a place of management present or deemed present in the Taxing Jurisdiction);

(2) in respect of any Tax that would not have been so withheld or deducted but for the failure by the holder or the beneficial owner of the notes to make a declaration of non-residence, or any other claim or filing for exemption to which it is entitled or otherwise comply with any reasonable certification, identification, information, documentation or other reporting requirement concerning nationality, residence, identity or connection with the Taxing Jurisdiction if (a) compliance is required by applicable law, regulation, administrative practice or treaty as a precondition to exemption from all or part of the Taxes, (b) the holder (or beneficial owner) is able to comply with these requirements without undue hardship and (c) we have given the holders (or beneficial owners) at least 30 calendar days prior notice that they will be required to comply with such requirement;

(3) in respect of any Tax imposed on a holder or a beneficial owner of the notes who is an individual resident of the European Union as a result of such holder or beneficial owner s failure to provide the requisite information to Teva Finance to allow such holder to take advantage of the exemption from the savings income tax provided in article 10 of the Land Ordinance on Savings Income in Curaçao;

(4) to the extent that such Taxes are imposed by reason of any estate, inheritance, gift, sales, transfer or personal property taxes imposed with respect to the notes, except as otherwise provided in the indenture;

(5) to the extent that any such taxes would not have been imposed but for the presentation of such notes, where presentation is required, for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever is later, except to the extent that the holder would have been entitled to additional tax amounts had the notes been presented for payment on any date during such 30-day period; or

(6) any combination of items (1) through (5) above.

Taxes means, with respect to payments on the Notes, all taxes, withholdings, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Taxing Jurisdiction or any political subdivision thereof or any authority or agency therein or thereof having power to tax.

Teva Finance, as the issuer, and Teva, as the guarantor, will pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies that arise from the execution, delivery, enforcement or registration of the notes of any series or any other document or instrument in relation thereto.

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Tax Redemption

The notes of each series may be redeemed as a whole, but not in part, at the option of Teva Finance at any time prior to maturity, upon the giving of a notice of tax redemption to the holders, if Teva Finance determines that, as a result of:

any change in or amendment to the laws, or any regulations or rulings promulgated under the laws of the Relevant Jurisdiction or any political subdivision or taxing authority of or in the Relevant Jurisdiction affecting taxation, or

any change in official position regarding the application or interpretation of the laws, regulations or rulings referred to above,

which change or amendment becomes effective or, in the case of a change in official position, is announced on or after the issuance of the notes, Teva Finance, Teva or any successor to Teva Finance or Teva, as the case may be, is or will become obligated to pay additional tax amounts with respect to the notes of that series, as described above under Additional Tax Amounts ; provided that Teva Finance (or its successor), in its business judgment, determines that such obligation cannot be avoided by Teva Finance, Teva or any successor, as the case may be, taking reasonable measures available to it.

The redemption price will be equal to 100% of the principal amount of the notes plus accrued and unpaid interest to the date fixed for redemption. The date and the applicable redemption price will be specified in the notice of tax redemption, which such notice will be given not earlier than 90 days prior to the earliest date on which Teva Finance (or its successor) or, as the case may be, Teva (or its successor) would be obligated to pay such additional tax amounts if a payment in respect of the notes were actually due on such date and, at the time such notification of redemption is given, such obligation to pay such additional tax amounts remains in effect.

Prior to giving the notice of a tax redemption, Teva Finance (or its successor) will deliver to the trustee:

a certificate signed by a duly authorized officer stating that Teva Finance is entitled to effect the redemption and setting forth a statement of facts showing that the conditions precedent to the right of Teva Finance to so redeem have occurred; and

an opinion of independent legal counsel of recognized standing to that effect based on the statement of facts.

Events of Default

Each of the following constitutes an event of default under the indenture:

(1) Teva Finance s failure to pay when due the principal of any of the notes at maturity or upon redemption;

(2) Teva Finance s failure to pay an installment of interest on any of the notes for 30 days after the date when due;

(3) Teva s failure to perform its obligations under its guarantees under the indenture;

(4) except as permitted by the indenture, the related guarantee by Teva shall be held in any final, nonappealable judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or Teva, or any person acting on behalf of Teva, shall deny or disaffirm its obligations under such guarantee;

(5) Teva s or Teva Finance s failure to perform or observe any other term, covenant or agreement contained in the indenture or the notes for a period of 60 days after written notice of such failure, requiring Teva or Teva Finance, as the case may be, to remedy the same, shall have been given to Teva Finance by the trustee or to Teva Finance and the trustee by the holders of at least 25% in aggregate principal amount of the notes of the relevant series then outstanding;

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(6) Teva s or Teva Finance s default under any Indebtedness (as defined below) for money borrowed by it, the aggregate outstanding principal amount of which is in an amount in excess of $100 million, for a period of 30 days after written notice to Teva Finance by the trustee or to Teva Finance and the trustee by holders of at least 25% in aggregate principal amount of the notes of the relevant series then outstanding, which default:

is caused by Teva or Teva Finance s, as the case may be, failure to pay when due principal or interest on such Indebtedness by the end of the applicable grace period, if any, unless such Indebtedness is discharged; or

results in the acceleration of such Indebtedness, unless such acceleration is waived, cured, rescinded or annulled; and

(7) Teva or Teva Finance s, bankruptcy, insolvency or reorganization.

The indenture will provide that the trustee shall (other than in the case of (7) above, which shall result in the notes becoming immediately due and payable), within 90 days of the occurrence of a default, give to the registered holders of the notes notice of all uncured defaults known to it, but the trustee shall be protected in withholding such notice if it, in good faith, determines that the withholding of such notice is in the best interest of such registered holders, except in the case of a default in the payment of the principal of or interest on, any of the notes when due or in the payment of any redemption or repurchase obligation.

If an event of default shall occur and be continuing, the trustee or the holders of at least 25% in aggregate principal amount of a series of notes affected then outstanding may declare the principal amount of the notes of that series due and payable together with accrued interest, and then the trustee may, at its discretion, proceed to protect and enforce the rights of the holders of notes of that series by appropriate judicial proceedings. Such declaration may be rescinded or annulled with the written consent of the holders of a majority in aggregate principal amount of the notes of the relevant series then outstanding.

The indenture contains a provision entitling the trustee, subject to the duty of the trustee during default to act with the required standard of care, to be indemnified to its satisfaction by the holders of a given series of notes before proceeding to exercise any right or power under the indenture at the request of such holders. The indenture provides that the holders of a majority in aggregate principal amount of the notes of each series then outstanding through their written consent, or the holders of a majority in aggregate principal amount of the notes of each series then outstanding represented at a meeting at which a quorum is present by a written resolution, may direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred upon the trustee.

Teva Finance will be required to furnish annually to the trustee a statement as to the fulfillment of its obligations under the indenture.

Indebtedness means, with respect to any person:

(1) any liability for borrowed money, or evidenced by an instrument for the payment of money, or incurred in connection with the acquisition of any property, services or assets (including securities), or relating to a capitalized lease obligation, other than accounts payable or any other indebtedness to trade creditors created or assumed such person in the ordinary course of business in connection with the obtaining of materials or services;

(2) obligations under exchange rate contracts or interest rate protection agreements;

(3) any obligations to reimburse Teva Finance of any letter of credit, surety bond, performance bond or other guarantee of contractual performance;

(4) any liability of another person of the type referred to in clause (1), (2) or (3) which has been assumed or guaranteed by such person; and

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(5) any obligations described in clauses (1) through (3) secured by any mortgage, pledge, lien or other encumbrance existing on property which is owned or held by such person, regardless of whether the indebtedness or other obligation secured thereby shall have been assumed by such person.

Consolidation, Merger or Assumption

Teva Finance may, without the consent of the holders of the notes that it issues, consolidate with, merge into or transfer all or substantially all of its assets to any other corporation, limited liability company, partnership or trust organized under the laws of Curaçao, provided that:

the successor entity assumes all of the obligations of Teva Finance under the indenture and the notes; and

at the time of such transaction, no event of default, and no event which, after notice or lapse of time, would become an event of default, shall have happened and be continuing.

Under the terms of the indenture, Teva may, without the consent of the holders of notes, consolidate with, merge into or transfer all or substantially all of its respective assets to any other corporation provided that:

the successor corporation assumes all of the obligations of Teva under the indenture and the notes issued pursuant to it; and

at the time of such transaction, no event of default, and no event which, after notice or lapse of time, would become an event of default, shall have happened and be continuing.

The indenture provides that so long as any notes issued under it are outstanding, all of Teva Finance s membership interests will be owned directly or indirectly by Teva or its successor.

Modifications and Amendments

Changes Requiring Approval of Each Affected Holder

The indenture provides that it cannot be modified or amended without the written consent or the affirmative vote of the holder of each note affected by such change to:

change the maturity of the principal of or any installment of interest on that note;

reduce the principal amount of or interest on that note;

change the currency of payment of that note or interest thereon;

impair the right to institute suit for the enforcement of any payment on or with respect to that note;

modify Teva Finance s obligations to maintain an office or agency in New York City;

modify Teva s obligation to own, directly or indirectly, all of Teva Finance s outstanding membership interests;

modify the redemption provisions of the indenture in a manner adverse to the holders of the notes of that series;

modify the applicable guarantee in a manner adverse to the holders of the notes of that series;

reduce the percentage in aggregate principal amount of outstanding notes of that series necessary to modify or amend the indenture or to waive any past default; or

reduce the percentage in aggregate principal amount of notes of that series outstanding required for the adoption of a resolution.

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Changes Requiring Majority Approval

Except as described above, the indenture may be modified or amended with the written consent of the holders of at least a majority in aggregate principal amount of each series of notes affected at the time outstanding.

Changes Requiring No Approval

The indenture may be modified or amended by Teva Finance, Teva and the trustee, without the consent of the holder of any note of a given series, for the purposes of, among other things:

- adding to Teva or Teva Finance s covenants for the benefit of the holders of notes of that series;
- surrendering any right or power conferred upon Teva or Teva Finance;
- providing for the assumption of Teva or Teva Finance s obligations to the holders of notes of that series in the case of a merger, consolidation, conveyance, transfer or lease;
- complying with the requirements of the SEC in order to effect or maintain the qualification of the indenture under the Trust Indenture Act;
- curing any ambiguity, supplying any omission or correcting any defective provision contained in the indenture; provided that such modification or amendment does not, in the good faith opinion of Teva Finance s managing and supervisory directors, adversely affect the interests of the holders of notes of that series in any material respect; provided, further, that any amendment made solely to conform the provisions of the indenture to the description of the notes issued under the indenture contained in this prospectus supplement will not be deemed to adversely affect the interests of the holders of the notes of any series; or
- adding or modifying any other provisions which Teva Finance and the trustee may deem necessary or desirable and which will not adversely affect the interests of the holders of notes of that series.

Satisfaction and Discharge

Teva Finance and Teva may satisfy and discharge their obligations under the indenture while notes issued under the indenture remain outstanding if:

- all outstanding notes issued under the indenture have become due and payable at their scheduled maturity; or
- all outstanding notes issued under the indenture have been called for redemption,

and, in either case, Teva Finance has deposited with the trustee an amount sufficient to pay and discharge all outstanding notes issued under the indenture on the date of their scheduled maturity or the scheduled date of redemption.

Governing Law

The indenture and the notes of each series will be governed by, and construed in accordance with, the law of the State of New York.

Information Concerning the Trustee and Paying Agent

The Bank of New York Mellon, as trustee under the indenture, has been appointed by us as paying agent, registrar and custodian with regard to the notes of each series, as well as Calculation Agent with respect to the floating rate notes. The trustee or its affiliates may from time to time in the future provide banking and other services to us in the ordinary course of their business.

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Form, Denomination and Registration

Denomination and Registration. The notes will be issued in fully registered form, without coupons, in denominations of $2,000 principal amount and whole multiples of $1,000 in excess of $2,000.

Global Notes; Book-Entry Form. The notes of each series will be represented by permanent global notes in definitive, fully registered form without interest coupons. The global registered notes will be deposited with the trustee as custodian for DTC and registered in the name of a nominee of DTC in New York, New York for the accounts of participants in DTC.

Except as set forth below, the global registered notes will be transferable, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee.

DTC has advised us that it is:

a limited purpose trust company organized under the laws of the State of New York;

a member of the Federal Reserve System;

a clearing corporation within the meaning of the New York Uniform Commercial Code; and

a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC was created to hold securities of institutions that have accounts with DTC and to facilitate the clearance and settlement of securities transactions among its participants in securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. DTC s participants include:

securities brokers and dealers;

banks;

trust companies; and

clearing corporations.

Access to DTC s book-entry system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant whether directly or indirectly.

Upon the issuance of the global registered notes, DTC will credit, on its book-entry registration and transfer system, the respective principal amounts of the individual beneficial interests represented by the global registered notes to the accounts of participants. The accounts credited will be designated by the underwriters of the beneficial interests. Ownership of beneficial interests in the global registered notes is limited to participants or persons that may hold interests through participants. Ownership of beneficial interests in the global registered notes is shown on, and the transfer of those ownership interests will be effected only through, records maintained by DTC (with respect to participants interests) and the participants (with respect to the owners of beneficial interests in the global registered notes other than participants).

So long as DTC or its nominee is the registered holder and owner of the global registered notes, DTC or its nominee, as the case may be, will be considered the sole legal owner of the notes represented by the global registered notes for all purposes under the indenture and the notes. Except as set forth below, owners of beneficial interests in the global registered notes will not be entitled to receive definitive registered notes and will not be considered to be the owners or holders of any notes under the global registered notes. Teva Finance understands that under existing industry practice, in the event an owner of a beneficial interest in the global registered notes desires to take any action that DTC, as the holder of the global registered notes, is entitled to take, DTC would authorize the participants to take the action, and that participants would authorize beneficial owners owning through the participants to take the action or would otherwise act upon the instructions of beneficial owners owning through them. No beneficial owner of an interest in the global registered notes will be able to transfer the interest except in accordance with DTC s applicable procedures, in addition to those provided for under the indenture and, if applicable, those of Euroclear and Clearstream.

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Teva Finance will make payments of the principal and interest on the notes represented by the global registered notes registered in the name of and held by DTC or its nominee to DTC or its nominee, as the case may be, as the registered owner and holder of the global registered notes.

Teva Finance expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of the global registered notes, will credit participants accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the global registered notes as shown on the records of DTC or its nominee. Teva Finance also expects that payments by participants and indirect participants to owners of beneficial interests in the global registered notes held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for accounts of customers registered in the names of nominees for these customers. The payments, however, will be the responsibility of the participants and indirect participants, and none of Teva Finance, Teva, the trustee or any paying agent will have any responsibility or liability for:

any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the global registered notes;

maintaining, supervising or reviewing any records relating to the beneficial ownership interests;

any other aspect of the relationship between DTC and its participants; or

the relationship between the participants and indirect participants and the owners of beneficial interests in the global registered notes.

Unless and until they are exchanged in whole or in part for definitive registered notes, the global registered notes may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC.

Participants in DTC will effect transfers with other participants in the ordinary way in accordance with DTC rules and will settle transfers in same-day funds. Participants in Euroclear and Clearstream will effect transfers with other participants in the ordinary way in accordance with the rules and operating procedures of Euroclear and Clearstream, as applicable.

Cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, these cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in the system in accordance with its rules and procedures and within its established deadlines (Brussels time). Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the global registered notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in the global registered notes from a DTC participant will be credited during the securities settlement processing day immediately following the DTC settlement date, and the credit of any transactions interests in the global registered notes settled during the processing day will be reported to the relevant Euroclear or Clearstream participant on that day. Cash received in Euroclear or Clearstream as a result of sales of interests in the global registered notes by or through a Euroclear or Clearstream participant to a DTC participant will be received with value on the DTC settlement date, but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

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Teva Finance expects that DTC will take any action permitted to be taken by a holder of notes only at the direction of one or more participants to whose accounts at DTC interests in the global registered notes are credited and only in respect of the portion of the aggregate principal amount of the notes as to which the participant or participants has or have given direction. However, if there is an event of default under the notes, DTC will exchange the global registered notes for definitive registered notes, which it will distribute to its participants.

Although Teva Finance expects that DTC, Euroclear and Clearstream will agree to the foregoing procedures in order to facilitate transfers of interests in the global registered notes among participants of DTC, Euroclear and Clearstream, DTC, Euroclear and Clearstream are under no obligation to perform or continue to perform these procedures, and these procedures may be discontinued at any time. None of Teva Finance, Teva or the trustee have any responsibility for the performance by DTC, Euroclear or Clearstream or their participants or indirect participants of their obligations under the rules and procedures governing their operations.

If DTC is at any time unwilling or unable to continue as a depositary for the global registered notes of any series or ceases to be a clearing agency registered under the Exchange Act and Teva Finance does not appoint a successor depositary within 90 days, Teva Finance will issue definitive registered notes in exchange for the global registered notes of the affected series.

Definitive Notes. Definitive registered notes may be issued in exchange for notes of any series represented by global registered notes only if Teva Finance does not appoint a successor depositary as set forth above under Global Notes; Book-Entry Form or in other limited circumstances set forth in the indenture.

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UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Willkie Farr & Gallagher LLP, the following are the material U.S. federal income tax consequences to U.S. Holders (as defined below) of the ownership and disposition of the notes. This discussion only applies to notes that meet all of the following conditions:

- they are purchased by those initial holders who purchase notes at the issue price, which will equal the first price to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the notes is sold for money; and
- they are held as capital assets.

This discussion does not describe all of the tax consequences that may be relevant to holders in light of their particular circumstances or to holders subject to special rules, such as:

- certain financial institutions;
- insurance companies;
- dealers in securities or foreign currencies;
- persons holding notes as part of a hedge or other integrated transaction;
- U.S. Holders whose functional currency is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes; and
- persons subject to the alternative minimum tax.

This summary is based on the Internal Revenue Code of 1986, as amended to the date hereof, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, changes to any of which subsequent to the date of this prospectus supplement may affect the tax consequences described herein. Persons considering the purchase of notes are urged to consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

Tax Consequences to U.S. Holders

As used herein, the term U.S. Holder means a beneficial owner of a note that is for U.S. federal income tax purposes:

- a citizen or resident of the United States;

a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof; or

an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source;

The term U.S. Holder also includes certain former citizens and residents of the United States.

Payments of Interest

It is expected (and this discussion assumes) that the notes will be issued without original issue discount for U.S. federal income tax purposes. Accordingly, interest paid on a note (including any additional amounts and tax withheld from such interest or additional amounts) will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder s method of accounting for federal income tax purposes.

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A U.S. Holder may be entitled to deduct or credit any tax withheld, subject to applicable limits. Interest income earned by a U.S. Holder will constitute foreign source income for U.S. federal income tax purposes with respect to the notes, which may be relevant to a U.S. Holder in calculating the holder s foreign tax credit limitation. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. The rules governing foreign tax credits are complex and, therefore, U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits in their particular circumstances.

Sale, Exchange or Retirement of the Notes

Upon the sale, exchange or retirement of a note, a U.S. Holder will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement and the Holder s adjusted tax basis in the note. A U.S. Holder s adjusted tax basis in a note generally will equal its initial investment in that note. For these purposes, the amount realized does not include any amount attributable to accrued interest. Amounts attributable to accrued interest are treated as interest as described under Payments of Interest above.

Gain or loss realized on the sale, exchange or retirement of a note will generally be U.S. source capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the note has been held for more than one year. Certain non-corporate U.S. Holders are eligible for a reduced rate of tax on long-term capital gains. The deductibility of capital losses is subject to limitations.

Medicare Contribution Tax

In addition to the above, newly enacted legislation requires certain U.S. Holders that are individuals, estates or trusts to pay up to an additional 3.8% tax on interest and capital gains for taxable years beginning after December 31, 2012.

Backup Withholding and Information Reporting

Information returns may be filed with the Internal Revenue Service in connection with payments on the notes and the proceeds from a sale or other disposition of the notes. A U.S. Holder may be subject to U.S. backup withholding tax on these payments if the U.S. Holder fails to provide its taxpayer identification number to the paying agent and comply with certain certification procedures or does not otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder s U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is furnished to the Internal Revenue Service.

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CURAÇAO TAX ISSUES

The following is a summary of certain material Curaçao tax considerations relating to the purchase, ownership and disposition of the notes by persons who are not residents of Curaçao for Curaçao tax purposes. It is not, however, a complete analysis of all the potential tax considerations that may be applicable to all potential investors.

The following discussion is for general information only. Investors considering the purchase of the notes should consult their own tax advisors with respect to the application of Curaçao tax laws to their particular situations as well as any tax consequences arising under any non-Curaçao taxing jurisdiction or under any applicable tax treaty.

Payments of Interest

Under existing Curaçao laws and except as described in the next paragraph, payments of interest in respect of the notes will not be subject to taxation in Curaçao and no withholding will be required on such payments to any holders of a note, including beneficial owners that are U.S. Holders (as defined above in United States Federal Income Tax Considerations).

Beneficial owners of the notes that are individuals residing in the European Union will generally be subject to a withholding tax on payments of interest in respect of the notes based on the Land Ordinance on savings income P.B. 2006/50. The withholding tax rate is 20% until July 1, 2011. As of July 1, 2011 the withholding tax rate will be increased to 35%. This withholding tax may be avoided, however, if the individual residing in the European Union makes a written request to Teva Finance certifying as to the accuracy of the following information to Teva Finance in order for Teva Finance to exchange the following information with the Curaçao tax authorities who would in turn share such information with the relevant EU Member State:

1. Full name of the beneficiary as stated in the passport or other identification document;

2. Country of residence of the beneficiary;

3. Tax identification number of the beneficiary;

4. Day of birth;

4. Address (street name, city and zip code) of the beneficiary;

5. Dates of interest payment;

6. Type of interest payment and amount of interest payment; and

7. Bank account number of the beneficiary.

Sale, Exchange or Retirement of the Notes

Under existing Curaçao laws, gains derived from the sale of notes by a holder of the notes will not be subject to taxation in Curaçao.

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ISRAELI TAX ISSUES

The following is a summary of certain material Israeli tax considerations relating to the purchase, ownership and disposition of the notes by persons who are not residents of the State of Israel for Israeli tax purposes. It is not, however, a complete analysis of all the potential tax considerations that may be applicable to all potential investors.

The following discussion is for general information only. Investors considering the purchase of the notes should consult their own tax advisors with respect to the application of Israeli income tax laws to their particular situations as well as any tax consequences arising under any non-Israeli taxing jurisdiction or under any applicable tax treaty.

Withholding Taxes on Interest Payable by Teva to Non-Israeli Residents

An Israeli company paying interest on a note denominated in a foreign currency to an individual who is a non-Israeli resident is required to withhold tax at a rate of 20%, except for interest paid to material shareholders, who are subject to tax according to their marginal tax rate. Material shareholders for these purposes are shareholders who hold directly or indirectly, including with others, at least 10% of any means of control in the company. Taxes to be withheld from interest paid to non-Israeli residents by an Israeli company may be reduced under an applicable tax treaty.

An Israeli company paying interest on a similar note to a corporate entity will be subject to withholding tax in accordance with the applicable corporate tax rate for the year in which the interest is paid, such rates being 24% in 2011, 23% in 2012, 22% in 2013, 21% in 2014, 20% in 2015 and 18% in 2016 and thereafter.

The aforementioned might only apply if Teva as a guarantor pays interest on the notes.

In the event that interest is paid by Teva as a guarantor to a United States tax resident entitled to the reduced tax rate under the U.S.-Israel tax treaty, then the tax rate on such gross interest amounts paid shall not exceed 17.5% (whether the recipient is an individual or a corporation).

Teva and Teva Finance have agreed to pay certain additional amounts in connection with withholding taxes or deductions that may be imposed by Israeli or Curaçao authorities. See Description of the Notes and the Guarantees Additional Tax Amounts.

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UNDERWRITING

We have entered into an underwriting agreement with Barclays Capital Inc., Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated, as representatives of the underwriters, pursuant to which, and subject to the terms and conditions of which, we have agreed to sell to the underwriters and the underwriters have severally agreed to purchase from us the principal amount of notes set forth in the following table.

Underwriters	Principal Amount of the Fixed Rate Notes	Principal Amount of the Floating Rate Notes
Barclays Capital Inc.	$ 65,500,000	$131,000,000
Goldman, Sachs & Co.	65,500,000	131,000,000
Morgan Stanley & Co. Incorporated	65,500,000	131,000,000
BNP Paribas Securities Corp.	13,400,000	26,800,000
Citigroup Global Markets Inc.	13,400,000	26,800,000
HSBC Securities (USA) Inc.	13,400,000	26,800,000
Credit Suisse Securities (USA) LLC	6,650,000	13,300,000
J.P. Morgan Securities LLC	6,650,000	13,300,000
Total	$250,000,000	$500,000,000

The underwriting agreement provides that the underwriters obligation to purchase the notes depends on the satisfaction of certain customary conditions contained in the underwriting agreement.

The underwriters have advised us that they intend to offer the notes of each series initially at the applicable offering price shown on the cover page of this prospectus supplement and may offer notes to certain dealers at the offering price less a selling concession not to exceed $1.50 per $1,000 aggregate principal amount with respect to the fixed rate notes and $1.50 per $1,000 aggregate principal amount with respect to the floating rate notes. The underwriters may allow, and dealers may reallow, a concession on sales to other dealers not to exceed $1.25 per $1,000 in aggregate principal amount with respect to the fixed rate notes and $1.25 per $1,000 aggregate principal amount with respect to the floating rate notes. After the initial offering of the notes, the underwriters may change the public offering price and the concession to selected dealers. The offering of the notes by the underwriters is subject to receipt and acceptance and subject to the underwriters right to reject any order in whole or in part.

Commission and Expenses

The following table shows the underwriting discounts and commissions to be paid to the underwriters in connection with this offering. The underwriting discounts and commissions are equal to 0.250% of the principal amount of the fixed rate notes and 0.250% of the principal amount of the floating rate notes.

	Per Note	Total
Fixed Rate Notes	$2.50	$ 625,000
Floating Rate Notes	$2.50	$1,250,000
Total		$1,875,000

The expenses of the offering that are payable by us, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding underwriting discounts and commissions, will be approximately $200,000.

Prior to this offering, there has been no public market for the notes. The underwriters have advised us that they intend to make a market in the notes as permitted by applicable laws and regulations. The underwriters are not obligated, however, to make a market in the notes, and they may discontinue this market making at any time in their sole discretion. Accordingly, we cannot assure investors that there will be adequate liquidity or an adequate trading market for the notes.

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Price Stabilization and Short Positions

The underwriters may engage in over-allotment and stabilizing transactions or purchases and passive market making for the purpose of pegging, fixing or maintaining the price of the notes in accordance with Regulation M under the Exchange Act:

Over-allotment involves sales by the underwriters of notes in excess of the number of notes the underwriter is obligated to purchase, which creates a short position. Since the underwriters in this offering do not have an option to purchase additional securities, their short position will be a naked short position. A naked short position can only be closed out by buying notes in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. These stabilizing transactions as well as other purchases made by the underwriters for their own accounts may have the effect of raising or maintaining the market price of the notes or preventing or retarding a decline in the market price of the notes. As a result, the price of the notes may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the Nasdaq National Market or otherwise, and, if commenced, may be discontinued at any time. The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

Neither we nor the underwriters make any representations or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes. In addition, neither we nor the underwriters make representations that the representatives will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

Lock-up Agreements

Teva Finance and Teva have agreed with the underwriters that, unless we receive the prior written consent of the representatives of Barclays Capital Inc., Goldman, Sachs & Co. and Morgan Stanley & Co. Incorporated, which we refer to as the representatives, we may not, subject to certain customary exceptions, from the date of the underwriting agreement to the closing date of this offering, directly or indirectly, offer, sell, or contract to sell, or otherwise dispose of any debt securities issued or guaranteed by Teva Finance or Teva.

Indemnification

We have agreed to indemnify the several underwriters against liabilities relating to the offering, including liabilities under the Securities Act of 1933, as amended, and liabilities arising from breaches of certain representations and warranties contained in the underwriting agreement, and to contribute to payments that the underwriters may be required to make for these liabilities.

Stamp Taxes

Purchasers of the notes offered by this prospectus supplement may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering price listed on the cover page of this prospectus supplement. Accordingly, we urge you to consult a tax advisor with respect to whether you may be required to pay taxes or charges, as well as any other consequences that may arise under the laws of the country of purchase.

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Israeli Legal Matters

This prospectus supplement and the accompanying prospectus are not, and under no circumstances are to be construed as, an advertisement or a public offering of securities in Israel. Any public offer or sale of notes in Israel may be made only in accordance with the Israeli Securities Act-1968 (which requires, inter alia, the filing of a prospectus in Israel).

United Kingdom Legal Matters

Each underwriter has represented, warranted and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (FSMA)) received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to Teva Finance or Teva;

- and it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

European Economic Area Legal Matters

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each underwriter has represented, warranted and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of notes to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of notes in any circumstances falling within Article 3(2) of the Prospectus Directive.

For the purposes of this provision, the expression an offer of notes to the public in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

Other Legal Matters

The contents of this prospectus have not been reviewed by any regulatory authority in Hong Kong. The notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and each underwriter has agreed that it will not offer or

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sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the notes under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

Each underwriter has represented and agreed that it will comply with applicable laws and regulations in each jurisdiction (including each jurisdiction in the European Economic Area that has not, as of the date of this prospectus supplement, implemented the Prospectus Directive) in which it acquires, offers, sells or delivers the notes, or has in its possession or distributes any free writing prospectus and any preliminary prospectus or final prospectus relating to the notes.

Conflicts of Interest

Certain underwriters of this offering or their affiliates are lenders under Teva s unsecured credit facilities. Because more than 5% of the proceeds of this offering will be used to repay a portion of the amounts outstanding under such credit facilities, a conflict of interest under FINRA Rule 5121 is deemed to exist, and this offering will be conducted in accordance with that rule.

Other Relationships

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. From time to time, the underwriters and their respective affiliates have directly and indirectly provided investment and/or commercial banking services to us, and may do so in the future, for which they have received customary compensation and expense reimbursement, including, but not limited to, serving as:

financial advisors to us and assisting in obtaining financing; and

lenders under our credit facilities.

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As described above, affiliates of certain underwriters are lenders under our unsecured credit facilities and we intend to use the approximately $747.8 million of net proceeds from this offering to repay amounts outstanding under such credit facilities. See Use of Proceeds.

In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of Teva Finance or Teva. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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EXPERTS

The consolidated financial statements of Teva as of December 31, 2010 and 2009, and for each of the three years in the period ended December 31, 2010, the related financial statement schedule, incorporated in this prospectus supplement by reference to Teva s Annual Report on Form 20-F for the year ended December 31, 2010, and the effectiveness of Teva s internal control over financial reporting have been audited by Kesselman & Kesselman, independent registered public accounting firm in Israel and a member of PricewaterhouseCoopers International Limited, as stated in their reports, which are incorporated by reference herein. Such consolidated financial statements and financial statement schedule have been so incorporated in reliance upon the reports of such firm given on their authority as experts in auditing and accounting.

LEGAL MATTERS

Certain legal matters with respect to United States and New York law with respect to the validity of the notes offered by this prospectus supplement will be passed upon for Teva Finance by Willkie Farr & Gallagher LLP, New York, New York. Certain legal matters with respect to Curaçao law with respect to the validity of the notes offered by this prospectus supplement will be passed upon for Teva Finance by VanEps Kunneman VanDoorne, Curaçao. Certain legal matters with respect to Israeli law with respect to the validity of the notes offered by this prospectus supplement will be passed upon for Teva Finance by Tulchinsky Stern Marciano Cohen Levitsky & Co., Israel. Certain legal matters relating to this offering will be passed upon for the underwriters by Cleary Gottlieb Steen & Hamilton LLP, New York, New York and, with respect to Israeli law, by Meitar Liquornik Geva & Leshem Brandwein, Ramat Gan, Israel.

WHERE YOU CAN FIND MORE INFORMATION

This prospectus supplement is part of a registration statement that we filed with the SEC. The registration statement, including the attached exhibits, contains additional relevant information about us. The rules and regulations of the SEC allow us to omit some of the information included in the registration statement from this prospectus supplement. In addition, we file annual and special reports and other information with the SEC. You may read and copy such material at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549, as well as at the SEC s regional offices. You may also obtain copies of such material from the SEC at prescribed rates by wiring to the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms.

The SEC maintains an Internet website at http://www.sec.gov that contains reports, proxy, information statements and other material that are filed through the SEC s Electronic Data Gathering, Analysis and Retrieval (EDGAR) system and filed electronically with the SEC. We began filing through the EDGAR system on October 31, 2002.

Our ADSs are quoted on the Nasdaq Global Select Market under the symbol TEVA. You may inspect certain reports and other information concerning us at the offices of the Financial Industry Regulatory Authority, 1735 K Street, N.W., Washington, D.C. 20006.

Information about us is also available on our website at http://www.tevapharm.com. Such information on our website is not part of this prospectus supplement.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The rules of the SEC allow us to incorporate by reference information into this prospectus. The information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information.

The following documents filed with the SEC are incorporated in this prospectus by reference:

(1) Our Annual Report on Form 20-F for the year ended December 31, 2010; and

(2) Our Reports of Foreign Private Issuer on Form 6-K, filed with the SEC on January 5, 2011, January 10, 2011, January 25, 2011, January 26, 2011, January 27, 2011, February 2, 2011, February 9, 2011, February 10, 2011 and March 1, 2011.

All reports and other documents filed by Teva pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date hereof and until this offering is completed shall be deemed to be incorporated by reference into this prospectus supplement.

Any statement contained in a document incorporated or deemed to be incorporated by reference shall be deemed to be modified or superseded for purposes of this prospectus supplement to the extent that a statement contained in this prospectus or in any other subsequently filed document which is incorporated or deemed to be incorporated by reference modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement.

You may also obtain copies of these documents free of charge by contacting us at our address or telephone number set forth below:

Teva Pharmaceutical Industries Limited

Investor Relations

5 Basel Street

P.O. Box 3190

Petach Tikva 49131 Israel

972-3-926-7267

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

American Depositary Shares, each representing

one Ordinary Share, Debt Securities,

Purchase Contracts, Units and Warrants

TEVA PHARMACEUTICAL FINANCE III, LLC

TEVA PHARMACEUTICAL FINANCE IV, LLC

TEVA PHARMACEUTICAL FINANCE II B.V.

TEVA PHARMACEUTICAL FINANCE III B.V.

Debt Securities, fully and unconditionally guaranteed by

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

We and our finance subsidiaries may offer and sell from time to time:

- American Depositary Shares, or ADSs, each representing one ordinary share;
- senior or subordinated debt securities;
- purchase contracts;
- units; and
- warrants.

We will provide the specific terms and initial public offering prices of these securities in supplements to this prospectus. You should read this prospectus and any supplement carefully before you invest.

We may sell these securities to or through underwriters and also to other purchasers or through agents. The names of any underwriters or agents will be stated in an accompanying prospectus supplement.

Our ADSs are quoted on the Nasdaq National Market under the symbol TEVA. If we decide to list any of these other securities on a national securities exchange upon issuance, the applicable prospectus supplement to this prospectus will identify the exchange and the date when we expect trading to begin.

Investing in our securities involves risks. See Risk Factors beginning on page 3 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is December 4, 2008.

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ABOUT THIS PROSPECTUS

This prospectus is part of a Registration Statement that Teva and the other registrants filed with the SEC utilizing a shelf registration process. Under this shelf process, any of the registrants may, from time to time, sell the securities described in this prospectus in one or more offerings.

This prospectus provides you with a general description of the securities which we may offer and the related guarantees, if any, of those securities. Each time we sell securities we will provide a prospectus supplement that will contain specific information about the terms of the offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described below under the heading Where You Can Find More Information before purchasing any of our securities.

You should rely only on the information contained or incorporated by reference in this prospectus. Incorporated by reference means that we can disclose important information to you by referring you to another document filed separately with the SEC. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making, nor will we make, an offer to sell securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus and any supplement to this prospectus is current only as of the dates on their respective covers. Our business, financial condition, results of operations and prospects may have changed since that date.

Unless the context otherwise requires, references in this prospectus and any supplement to this prospectus to Teva, we, us and our refer to Teva Pharmaceutical Industries Limited and its subsidiaries, collectively. References to Teva Finance III LLC refer to Teva Pharmaceutical Finance III, LLC. References to Teva Finance IV LLC refer to Teva Pharmaceutical Finance IV, LLC. References to the LLCs refer to Teva Finance III LLC and Teva Finance IV LLC. References to Teva Finance II BV refer to Teva Pharmaceutical Finance II B.V. References to Teva Finance III BV refer to Teva Pharmaceutical Finance III B.V. References to the BVs refer to Teva Finance II BV and Teva Finance III BV. References to the finance subsidiaries refer to the LLCs and BVs, collectively.

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

We are a global pharmaceutical company that develops, produces and markets generic drugs covering all major treatment categories. We are the leading generic drug company in the world, as well as in the United States, in terms of total and new prescriptions. We also have a significant and growing innovative pharmaceutical business, whose principal products are Copaxone® for multiple sclerosis and Azilect® for Parkinson s disease, as well as an expanding proprietary specialty pharmaceutical business, which consists primarily of respiratory products. Our active pharmaceutical ingredients (API) business sells to third-party manufacturers and provides significant vertical integration to our own pharmaceutical production.

Our global operations are conducted in North America, Europe, Latin America, Asia and Israel. We have operations in more than 50 countries, as well as 36 pharmaceutical manufacturing sites in 16 countries, 17 generic R&D centers operating mostly within certain manufacturing sites and 18 API manufacturing sites around the world. During the first nine months of 2008, we generated approximately 57% of its sales in North America, 27% in Europe and 16% in the rest of the world (primarily Latin America and Israel).

On July 17, 2008, we signed a definitive agreement with Barr Pharmaceuticals, Inc. (Barr), under which we will acquire Barr for an aggregate consideration of $7.5 billion plus the assumption of net debt of approximately $1.5 billion. Under the terms of the agreement, each share of Barr common stock will be converted into $39.90 in cash and 0.6272 Teva ADSs. The shareholders of Barr approved the merger on

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November 21, 2008. The merger remains subject to antitrust notification and clearance statutes in North America and Europe, as well as other customary conditions. We expect the transaction to close in December 2008.

We were incorporated in Israel on February 13, 1944, and are the successor to a number of Israeli corporations, the oldest of which was established in 1901. Our executive offices are located at 5 Basel Street, P.O. Box 3190, Petach Tikva 49131 Israel, telephone number 972-3-926-7267.

FINANCE SUBSIDIARIES

Teva has organized various finance subsidiaries for the purpose of issuing debt securities pursuant to this prospectus. There are no separate financial statements of the finance subsidiaries in this prospectus because these entities are, or will be treated as, subsidiaries of Teva for financial reporting purposes. We do not believe the financial statements would be helpful to the holders of the securities of these entities because:

- Teva is a reporting company under the Securities Exchange Act of 1934 (referred to in this prospectus as the Exchange Act) and owns, directly or indirectly, all of the voting interests of these entities;
- these entities do not have any independent operation and do not propose to engage in any activities other than issuing securities and investing the proceeds in Teva or its affiliates; and
- these entities obligations under the securities will be fully and unconditionally guaranteed by Teva.

These entities are exempt from the information reporting requirements of the Exchange Act.

Teva Finance III LLC

Teva Finance III LLC is a limited liability company that was formed on December 5, 2003 under the Delaware Limited Liability Company Act, as amended. Its address is 1090 Horsham Road, North Wales, Pennsylvania 19454, telephone number (215) 591-3000.

Teva Finance IV LLC

Teva Finance IV LLC is a limited liability company that was formed on December 1, 2008 under the Delaware Limited Liability Company Act, as amended. Its address is 1090 Horsham Road, North Wales, Pennsylvania 19454, telephone number (215) 591-3000.

Teva Finance II BV

Teva Finance II BV is a Netherlands Antilles limited liability company that was formed on June 13, 2003. Its address is Teva Pharmaceutical Finance II B.V., Schottegatweg Oost 29-D, Curaçao, Netherlands Antilles, telephone number +5999 7366066.

Teva Finance III BV

Teva Finance III BV is a Netherlands Antilles limited liability company that was formed on December 9, 2003. Its address is Teva Pharmaceutical Finance III B.V., Schottegatweg Oost 29-D, Curaçao, Netherlands Antilles, telephone number +5999 7366066.

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RISK FACTORS

Before you invest in our securities, you should carefully consider the risks involved. In addition, we may include additional risk factors in a prospectus supplement to the extent there are additional risks related to the securities offered by that prospectus supplement. Accordingly, you should carefully consider the following factors, other information in this prospectus or in the documents incorporated by reference and any additional risk factors included in the relevant prospectus supplement:

Risks Associated with Teva and the Pharmaceutical Industry

Our success depends on our ability to successfully develop and commercialize additional pharmaceutical products.

Our financial results depend, to a significant degree, upon our ability to successfully commercialize additional generic and innovative pharmaceutical products as well as active pharmaceutical ingredients. We must develop, test and manufacture generic products as well as prove that our generic products are the bio-equivalent of their branded counterparts. All of our products must meet and continue to comply with regulatory and safety standards and receive regulatory approvals; we may be forced to withdraw a product from the market if health or safety concerns arise with respect to such product. The development and commercialization process, particularly with respect to innovative products, is both time-consuming and costly and involves a high degree of business risk. Our products currently under development, if and when fully developed and tested, may not perform as we expect, necessary regulatory approvals may not be obtained in a timely manner, if at all, and we may not be able to successfully and profitably produce and market such products. Delays in any part of the process or our inability to obtain regulatory approval of our products could adversely affect our operating results by restricting or delaying our introduction of new products. Our ability to introduce and benefit from new products may depend upon our ability to successfully challenge patent rights held by branded companies or otherwise develop non-infringing products. The continuous introduction of new pharmaceutical products as well as active pharmaceutical ingredients is critical to our business.

Our revenues and profits from generic pharmaceutical products generally decline as competitors introduce their own generic equivalents.

Net selling prices of generic drugs typically decline, sometimes dramatically, especially as additional companies receive approvals and enter the market for a given product and competition intensifies. In particular, we face increasing competition from brand-name companies in addition to local and foreign generic companies. Our ability to sustain our sales and profitability on any product over time is dependent on both the number of new companies selling such product and the timing of approvals of those products. Our overall profitability depends on, among other things, our ability to continuously and timely introduce new products.

Our revenues and profits are closely tied to our success in obtaining U.S. market exclusivity for generic versions of significant products.

To the extent that we succeed in being the first to market a generic version of a significant product, and particularly if we obtain the 180-day period of market exclusivity for the U.S. market provided under the Hatch-Waxman Act, our sales, profits and profitability can be substantially increased in the period following the introduction of such product and prior to a competitor s introduction of the equivalent product. For example, our 2007 operating results included major contributions from products sold with U.S. market exclusivity, such as pantoprazole. Our ability to achieve sales growth and profitability is dependent on our success in challenging patents and/or developing non-infringing products and launching products with U.S. market exclusivity. In addition, the flow of potential new generic products with exclusivity and the size of the product opportunities vary significantly from year-to-year, or even from quarter-to-quarter. Failure to continue to obtain such market exclusivities could have a material adverse effect on our sales and profitability.

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If we elect to sell a generic product prior to the final resolution of outstanding patent litigation, we could be subject to liability for damages.

At times, we or our partners seek approval to market generic products before the expiration of patents relating to those products, based upon our belief that such patents are invalid or otherwise unenforceable, or would not be infringed by our products. As a result, we are involved in patent litigation, the outcome of which, in certain cases, could materially adversely affect our business. Based upon a complex analysis of a variety of legal and commercial factors, we may elect to sell a generic product even though litigation is still pending whether before any court decision is rendered or while an appeal of a lower court decision is pending. For example, we launched, and continue to sell, generic versions of Neurontin®, Lotrel® and Protonix®, despite the fact that litigation with the companies that sell these branded products is still pending.

To the extent we elect to proceed in this manner, and the final court decision is adverse to us, we could be required to cease selling the infringing products, causing us to lose future sales revenue from such products and to face substantial liability for patent infringement, in the form of either payment for the innovator s lost profits or a royalty on our sales of the infringing products. These damages may be significant, and could materially adversely affect our business. In the event of a finding of willful infringement, the damages may be up to three times the profits lost by the patent owner and not based on the profits we earned. Because of the discount pricing typically involved with generic pharmaceutical products, patented brand products generally realize a significantly higher profit margin than generic pharmaceutical products.

Although we currently have insurance coverage for certain of the specified types of damage described above, we may be subject to claims that are subject to our deductible, involve a co-insurance participation, exceed our policy limits or relate to damages that are not covered by our policy. In addition, there is a very limited market for such insurance coverage, and consequently it may be more difficult, in comparison with other types of insurance, to continue maintaining this insurance coverage.

Our revenues and profits from generic pharmaceutical products may decline as a result of intense competition from brand-name companies that are under increased pressure to counter generic products.

Our generic pharmaceutical products face intense competition from brand-name companies that have taken aggressive steps to thwart competition from generic companies. In particular, brand-name companies continue to sell or license their products directly or through licensing arrangements or strategic alliances with generic pharmaceutical companies (so-called authorized generics). No significant regulatory approvals are required for a brand-name company to sell directly or through a third party to the generic market, and brand-name companies do not face any other significant barriers to entry into such market. In addition, such companies continually seek to delay generic introductions and to decrease the impact of generic competition, using tactics which include:

- obtaining new patents on drugs whose original patent protection is about to expire;
- filing patent applications that are more complex and costly to challenge;
- filing suits for patent infringement that automatically delay approval of the U.S. Food and Drug Administration (FDA);
- filing citizens petitions with the FDA contesting approval of the generic versions of products due to alleged health and safety issues;
- developing controlled-release or other next-generation products, which often reduce demand for the generic version of the existing product for which we are seeking approval;
- changing product claims and product labeling;
- developing and marketing as over-the-counter products those branded products which are about to face generic competition; and

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making arrangements with managed care companies and insurers to reduce the economic incentives to purchase generic pharmaceuticals.

These strategies may increase the costs and risks associated with our efforts to introduce generic products and may delay or prevent such introduction altogether.

Our sales of innovative products, especially Copaxone®, could be adversely affected by competition.

Our innovative products face or may face intense competition from competitors products, which may adversely affect our sales and profitability. Copaxone® is our leading innovative product, from which we derive substantial revenues and profits. To date, we and our marketing partners have been successful in our efforts to establish Copaxone® as the leading therapy for multiple sclerosis and have increased our global market share among the currently available major therapies for multiple sclerosis. However, Copaxone® faces intense competition from existing products, such as Avonex®, Betaseron®, Rebif® and Tysabri®. We may also face competition from additional products in development, including an orally administered treatment for multiple sclerosis. In addition, the exclusivity protections afforded us in the United States through orphan drug status for Copaxone® expired on December 20, 2003. If our patents on Copaxone® are successfully challenged, we may also face generic competition for this product. In July 2008, Sandoz Inc., the U.S. generic drug division of Novartis AG, in conjunction with Momenta Pharmaceuticals, Inc., filed an ANDA with the FDA for a generic version of Copaxone®. In August 2008, we filed a complaint against Sandoz/Momenta, which triggered a stay of any FDA approval of the ANDA until the earlier of January 2011 or a district court decision (if any) in favor of the ANDA filer.

Sales of our products may be adversely affected by the continuing consolidation of our U.S. distribution network, seasonality, other pricing factors, financial constraints of pharmaceutical distributors and the concentration of our customer base.

A significant proportion of our sales are made to relatively few U.S. retail drug chains, wholesalers, managed care purchasing organizations, mail order distributors and hospitals. These customers, which represent an essential part of the distribution chain of pharmaceutical products, are continuing to undergo significant consolidation. This consolidation may provide our customers with additional purchasing leverage and consequently increase the pricing pressures that we face. Additionally, the emergence of large buying groups representing independent retail pharmacies and the prevalence and influence of managed care organizations and similar institutions enable those groups to extract price discounts on our products.

Our net sales and quarterly growth comparisons may be affected by fluctuations in the buying patterns of retail chains, major distributors and other trade buyers. These fluctuations may result from seasonality, pricing, wholesaler buying decisions or other factors. In addition, many of the major pharmaceutical distributors have experienced downturns and financial constraints, which may impact both our sales and the collectibility of our receivables and result in even greater consolidation among our customers. These developments may have a material adverse effect on our business, financial condition and results of operations.

Changes in the regulatory environment may prevent us from utilizing the exclusivity periods that are important to the success of our generic products.

The Medicare Prescription Drug Act provides that the 180-day market exclusivity period provided under the Hatch-Waxman Act is only triggered by commercial marketing of the product. However, the Medicare Act also contains forfeiture provisions which would deprive the first Paragraph IV filer of exclusivity if certain conditions are met. Accordingly, we may face the risk of forfeiture and therefore may not be able to exploit a given exclusivity period for specific products.

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Research and development efforts invested in our innovative pipeline may not achieve expected results.

We invest increasingly greater resources to develop our innovative pipeline, both through our own efforts and through collaborations with third parties, which results in higher risks.

The time from discovery to a possible commercial launch of an innovative product is substantial and involves multiple stages during which the product may be abandoned as a result of such factors as serious developmental problems, the inability to achieve our clinical goals, the inability to obtain necessary regulatory approvals in a timely manner, if at all, and the inability to produce and market such innovative products successfully and profitably. In addition, we face the risk that some of the third parties we collaborate with may fail to perform their obligations. Accordingly, our investment in research and development of innovative products can involve significant costs with no assurances of future revenues or profits.

We are subject to government regulation that increases our costs and could prevent us from marketing or selling our products.

We are subject to extensive pharmaceutical industry regulations in countries where we operate. We cannot predict the extent to which we may be affected by legislative and other regulatory developments concerning our products.

We are dependent on obtaining timely approvals before marketing most of our products. In the United States, any manufacturer failing to comply with FDA or other applicable regulatory agency requirements may be unable to obtain approvals for the introduction of new products and, even after approval, initial product shipments may be delayed. The FDA also has the authority to revoke drug approvals previously granted and remove from the market previously approved drug products containing ingredients no longer approved by the FDA. Our major facilities, both within and outside the United States, and our products are periodically inspected by the FDA, which has extensive enforcement powers over the activities of pharmaceutical manufacturers, including the power to seize, force to recall and prohibit the sale or import of non-complying products, and to halt operations of and criminally prosecute non-complying manufacturers. In addition, we are subject in the U.S. to other regulations, including those related to quotas for controlled substances, which may from time to time limit our ability to meet demand for products containing such substances.

In the European Union (EU) and Israel, the manufacture and sale of pharmaceutical products is regulated in a manner substantially similar to that in the United States. Legal requirements generally prohibit the handling, manufacture, marketing and importation of any pharmaceutical product unless it is properly registered in accordance with applicable law. The registration file relating to any particular product must contain medical data related to product efficacy and safety, including results of clinical testing and references to medical publications, as well as detailed information regarding production methods and quality control. Health ministries are authorized to cancel the registration of a product if it is found to be harmful or ineffective or manufactured and marketed other than in accordance with registration conditions.

Data exclusivity provisions exist in many countries where we operate, although their application is not uniform. In general, these exclusivity provisions prevent the approval by, and/or submission of generic drug applications to, the health authorities for a fixed period of time following the first approval of a novel brand-name product in that country or other recognized countries. As these exclusivity provisions operate independently of patent exclusivity, they may prevent the approval and/or submission of generic drug applications for some products even after patent protection has expired.

We are subject to legislation in Israel, primarily relating to patents and data exclusivity provisions. Modifications of this legislation or court decisions regarding this legislation may adversely affect us and may prevent us from exporting Israeli-manufactured products in a timely fashion. Additionally, the existence of third-party patents in Israel, with the attendant risk of litigation, may cause us to move production outside of Israel or

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otherwise adversely affect our ability to export certain products from Israel. Exports from Europe may similarly be affected by legislation relating to patents and data exclusivity provisions and also by the risk of patent litigation.

Current economic conditions may adversely affect our industry, business and results of operations.

The global economy is currently undergoing a period of unprecedented volatility, and the future economic environment may be less favorable than that of recent years. This has led, and could further lead, to reduced consumer spending in the foreseeable future, which may include reduced spending on healthcare. While generic drugs present an alternative to higher-priced branded products, our sales could be negatively impacted if patients forego obtaining healthcare and purchasing pharmaceutical products. In addition, reduced consumer spending may drive us and our competitors to decrease prices. These conditions may adversely affect our industry, business and results of operations.

Regulations to permit the sale of biotechnology-based products as bioequivalent or biosimilar drugs, primarily in the U.S., may be delayed, or may otherwise jeopardize our investment in such products.

We have made, and expect to continue to make, significant investments in our ability to develop and produce biotechnology-based products, including our recent acquisition of CoGenesys Inc. Although some of these products may be sold as branded, innovative products, one of our key strategic goals in making these investments is to position Teva at the forefront of the development of bioequivalent or biosimilar generic versions of currently marketed biotechnology products. To date, in many markets, most notably the U.S., there does not yet exist a clear legislative or regulatory pathway for the registration and approval of such biogeneric products. Significant delays in the development of such pathways, or significant impediments that may be built into such pathways, could diminish the value of the investments that we have made, and will continue to make, in our biotechnology capabilities.

The manufacture of our products is highly complex, and sometimes single-sourced, and a supply interruption or delay could adversely affect our business, financial condition or results of operations.

The products we market, distribute and sell are either manufactured at our own manufacturing facilities or, in certain cases, through supply agreements with third parties. Many of our products are the result of complex manufacturing processes, and are sometimes dependent on highly specialized raw materials. In addition, for certain of our products, and certain key raw materials, we have only a single source of supply. As a result, we can provide no assurances that supply sources will not be interrupted from time to time. For these same reasons, the volume of production of any product cannot be rapidly altered. As a result, if we fail to accurately predict market demand for any of our products, we may not be able to produce enough of the product to meet that demand, which could affect our business, financial condition or results of operations.

We may not be able to consummate and integrate future acquisitions.

In the past, we have grown, in part, through a number of significant acquisitions, including our pending acquisition of Barr and our acquisitions of Ivax Corporation in January 2006 and Sicor Inc. in January 2004. We continue to be engaged in various stages of evaluating or pursuing potential acquisitions and may in the future acquire other pharmaceutical and active pharmaceutical ingredients businesses and seek to integrate them into our own operations. In particular, we have recently agreed to acquire Barr for an aggregate consideration of $7.5 billion in cash and ADSs, plus the assumption of net debt of approximately $1.5 billion. Closing of the acquisition remains subject to various conditions including clearance under the U.S. Hart-Scott Rodino Antitrust Improvements Act of 1976 and approval from the European Competition Commission. For a more detailed discussion regarding our acquisition of Barr, read carefully the section below entitled Risks Associated with our Pending Acquisition of Barr.

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Future acquisitions involve known and unknown risks that could adversely affect our future revenues and operating results. For example:

- We may fail to identify acquisitions that enable us to execute our business strategy.
- We compete with others to acquire companies. We believe that this competition has intensified and may result in decreased availability of, or increased prices for, suitable acquisition candidates.
- We may not be able to obtain the necessary regulatory approvals, including those of competition authorities, in countries where we are seeking to consummate acquisitions.
- We may ultimately fail to consummate an acquisition even if we announce that we plan to acquire a company.
- Potential acquisitions may divert management s attention away from our primary product offerings, resulting in the loss of key customers and/or personnel and exposing us to unanticipated liabilities.
- We may fail to successfully integrate acquisitions in accordance with our business strategy, including the pending acquisition of Barr.
- We may not be able to retain the skilled employees and experienced management that may be necessary to operate the businesses we acquire and, if we cannot retain such personnel, we may not be able to attract new skilled employees and experienced management to replace them.
- We may purchase a company that has contingent liabilities that include, among others, known or unknown patent infringement or product liability claims.

We may be susceptible to product liability claims that are not covered by insurance, including potential claims relating to products that we previously sold or currently sell and that are not covered by insurance.

Our business inherently exposes us to claims relating to the use of our products. We sell, and will continue to sell, pharmaceutical products for which product liability insurance coverage is not available to us, and, accordingly, we may be subject to claims that are not covered by insurance. Additional products for which we currently have coverage may be excluded in the future. In addition, we may be subject to claims that are subject to our deductible, exceed our policy limits or relate to damages that are not covered by our policy. Because of the nature of these claims, we are generally not permitted under U.S. GAAP to establish reserves in our accounts for such contingencies. In addition, product liability coverage for pharmaceutical companies is becoming more expensive and increasingly difficult to obtain and, as a result, we may not be able to obtain the type and amount of coverage we desire or to maintain our current coverage.

Reforms in the healthcare industry and the uncertainty associated with pharmaceutical pricing, reimbursement and related matters could adversely affect the marketing, pricing and demand for our products.

Increasing expenditures for healthcare have been the subject of considerable public attention almost everywhere we conduct business. Both private and governmental entities are seeking ways to reduce or contain healthcare costs. In many countries where we currently operate, pharmaceutical prices are subject to regulation. In the United States, numerous proposals that would effect changes in the U.S. healthcare system have been introduced in Congress (as well as in some state legislatures), including expanded Medicare coverage for drugs, which became effective in January 2006. Similar measures are being taken or introduced throughout Western Europe, Israel, Russia and certain countries in Central and Eastern Europe. These changes may cause delays in market entry or adversely affect pricing and profitability. We cannot predict which measures may be adopted or their impact on the marketing, pricing and demand for our products.

In the United States, the Deficit Reduction Act of 2005 mandated a new regulation, which became effective in part on October 1, 2007, establishing the method by which pharmaceutical manufacturers, including us, must

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calculate average manufacturer price. The Act strongly encouraged state Medicaid programs to utilize this average manufacturer price in the future as the benchmark for prescription drug reimbursement in place of the previous, widely used benchmark of average wholesale price. The Act also changed the method used to determine the federal upper limit on payment for generic drugs. Payments to pharmacies for Medicaid-covered outpatient prescription drugs are set by the states. Federal reimbursements to states for the federal share of those payments are subject to this federal ceiling, which, effective January 1, 2007, was 250% of the average manufacturer price for generic drugs. This price limit may have the effect of reducing the reimbursement rates for certain medications that we currently sell. We are reviewing the potential impact of these provisions on our business and profitability and have not yet been able to draw conclusions, because the implementation of certain provisions of the final regulations promulgated under the Act has been stayed by litigation. We do not know how long the court-ordered stay will remain in effect or what the final outcome will be.

A number of markets in which we operate (including, most recently, the Netherlands and Germany) have implemented tender systems for generic pharmaceuticals in an effort to lower prices. Under such tender systems, manufacturers submit bids which establish prices for generic pharmaceutical products. The measure is likely to impact marketing practice and reimbursement of drugs and may increase pressure on competition and reimbursement margins. Certain other countries may consider the implementation of a tender system. Failing to win tenders, or the implementation of similar systems in other markets leading to further price declines, could have a material adverse affect on our business, financial position and results of operations.

The success of our innovative products depends on the effectiveness of our patents, confidentiality agreements and other measures to protect our intellectual property rights.

The success of our innovative products depends, in part, on our ability to obtain patents and to defend our intellectual property rights. If we fail to protect our intellectual property adequately, competitors may manufacture and market products identical or similar to ours. We have been issued numerous patents covering our innovative products, and have filed, and expect to continue to file, patent applications seeking to protect newly developed technologies and products in various countries, including the United States. Any existing or future patents issued to or licensed by us may not provide us with any competitive advantages for our products or may be challenged or circumvented by competitors. In addition, such patent rights may not prevent our competitors from developing, using or commercializing products that are similar or functionally equivalent to our products, especially Copaxone®, our leading innovative product. In July 2008, Sandoz Inc., the U.S. generic drug division of Novartis AG, in conjunction with Momenta Pharmaceuticals, Inc., filed an ANDA with the FDA for a generic version of Copaxone®. In August 2008, we filed a complaint against Sandoz/Momenta, which triggered a stay of any FDA approval of the ANDA until the earlier of January 2011 or a district court decision (if any) in favor of the ANDA filer.

We also rely on trade secrets, unpatented proprietary know-how, trademarks, data exclusivity and continuing technological innovation that we seek to protect, in part by confidentiality agreements with licensees, suppliers, employees and consultants. If these agreements are breached, it is possible that we will not have adequate remedies. Disputes may arise concerning the ownership of intellectual property or the applicability of confidentiality agreements. Furthermore, our trade secrets and proprietary technology may otherwise become known or be independently developed by our competitors or we may not be able to maintain the confidentiality of information relating to such products.

We have significant operations in countries that may be adversely affected by acts of terrorism, political or economical instability or major hostilities.

We are a global pharmaceutical company with worldwide operations. Over 80% of our sales are in North America and Western Europe. However, we expect to derive an increasing portion of our sales and future growth from other regions such as Latin America and Central and Eastern Europe, which may be more susceptible to political or economic instability.

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Significant portions of our operations are conducted outside the markets in which our products are sold, and accordingly we often import a substantial number of products into such markets. We may, therefore, be denied access to our customers or suppliers or denied the ability to ship products from any of our sites as a result of a closing of the borders of the countries in which we sell our products, or in which our operations are located, due to economic, legislative, political and military conditions, including hostilities and acts of terror, in such countries.

Our executive offices and a substantial percentage of our manufacturing capabilities are located in Israel. Our Israeli operations are dependent upon materials imported from outside Israel. We also export significant amounts of products from Israel. Accordingly, our operations could be materially and adversely affected by acts of terrorism or if major hostilities should occur in the Middle East or trade between Israel and its present trading partners should be curtailed, including as a result of acts of terrorism in the United States or elsewhere.

Because we have substantial international operations, our sales and, to a lesser extent, our profits may be adversely affected by currency fluctuations and restrictions as well as credit risks.

Over 40% of our revenues is from sales outside of the United States. As a result, we are subject to significant foreign currency risk, including foreign currency payment restrictions in certain countries. An increasing amount of our sales, particularly in Latin America and Central and Eastern European countries, is recorded in local currencies, which exposes us to the direct risk of local currency devaluations or fluctuations. We may also be exposed to credit risks in some of these less developed markets.

In particular, although the majority of our net sales and operating costs were denominated in, or linked to, the U.S. dollar, due to our geographic diversity of our operations, we used in the first nine months of 2008 over 30 functional currencies in addition to the U.S. dollar. Approximately one third of our operating costs in 2008 were incurred outside the United States in other currencies, particularly in Israeli Shekels, and Hungarian Forints.

As a result, fluctuations in exchange rates between the currencies in which such costs are incurred and the U.S. dollar may have a material adverse effect on our results of operations, the value of balance sheet items denominated in foreign currencies and our financial condition.

We use derivative financial instruments to further reduce our net exposure to currency exchange rate fluctuations in the major foreign currencies in which we operate. However, we cannot assure you that we will be able to effectively limit all of our exposure to currency exchange rate fluctuations which could affect our financial results.

The imposition of exchange or price controls or other restrictions on the conversion of foreign currencies could also have a material adverse effect on our business, results of operations and financial condition.

Termination or expiration of governmental programs or tax benefits could adversely affect our overall effective tax rate

We can not assure you that our estimated annual tax rate of 11% for 2008 will not change over time as a result of changes in corporate income tax rates or other changes in the tax laws of the various countries in which we operate. We have benefited or currently benefit from a variety of government programs and tax benefits that generally carry conditions that we must meet in order to be eligible to obtain any benefit.

If we fail to meet the conditions upon which certain favorable tax treatment is based, we would not be able to claim future tax benefits and could be required to refund tax benefits already received. Additionally, some of these programs and the related tax benefits are available to us for a limited number of years, and these benefits expire from time to time.

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Any of the following could have a material effect on our overall effective tax rate:

- some programs may be discontinued,
- we may be unable to meet the requirements for continuing to qualify for some programs,
- these programs and tax benefits may be unavailable at their current levels,
- upon expiration of a particular benefit, we may not be eligible to participate in a new program or qualify for a new tax benefit that would offset the loss of the expiring tax benefit, or
- we may be required to refund previously recognized tax benefits if we are found to be in violation of the stipulated conditions.

Because we and certain of the finance subsidiaries are foreign entities, you may have difficulties enforcing your rights under the securities offered by this prospectus.

We are an Israeli company and the BVs are non-U.S. entities. In addition, most of our officers, directors or persons of equivalent position reside outside the United States. As a result, service of process on them may be difficult or impossible to effect in the United States. Furthermore, due to the fact that a substantial portion of our assets are located outside of the United States, it may difficult to enforce judgments obtained against us or any of our directors and officers in a United States Court. See Enforcement of Civil Liabilities below.

Our failure to comply with applicable environmental laws and regulations worldwide could adversely impact our business and results of operations.

We are subject to laws and regulations concerning the environment, safety matters, regulation of chemicals and product safety in the countries where we manufacture and sell our products or otherwise operate our business. These requirements include regulation of the handling, manufacture, transportation, use and disposal of materials, including the discharge of pollutants into the environment. In the normal course of our business, we are exposed to risks relating to possible releases of hazardous substances into the environment, which could cause environmental or property damage or personal injuries, and which could require remediation of contaminated soil and groundwater. Under certain laws, we may be required to remediate contamination at certain of our properties, regardless of whether the contamination was caused by us or by previous occupants of the property.

In recent years, the operations of all companies have become subject to increasingly stringent legislation and regulation related to occupational safety and health, product registration and environmental protection. Such legislation and regulations are complex and constantly changing, and we cannot assure you that future changes in laws or regulations would not require us to install additional controls for certain of our emission sources, to undertake changes in our manufacturing processes or to remediate soil or groundwater contamination at facilities where such clean-up is not currently required.

An increasing amount of intangible assets and goodwill on our books may lead to significant impairment charges in the future.

We regularly review our long-lived assets, including identifiable intangible assets and goodwill, for impairment. Goodwill, trade names and acquired product and marketing rights are subject to impairment review at least annually. Other long-lived assets are reviewed for impairment when there is an indication that an impairment may have occurred. The amount of goodwill and other intangible assets on our consolidated balance sheet has increased significantly in recent years, primarily as a result of our recent acquisitions. For a more detailed discussion regarding our acquisition of Barr, read carefully the section below entitled Risks Associated with our Pending Acquisition of Barr. Impairment testing under U.S. GAAP may lead to further impairment charges in the future. Any significant impairment charges could have a material adverse effect on our results of operations.

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Risks Associated with our Pending Acquisition of Barr

We may experience difficulties in integrating Barr s business with our existing businesses.

The merger with Barr involves the integration of two companies that have previously operated independently. The difficulties of combining the companies operations include:

the necessity of coordinating and consolidating geographically separated organizations, systems and facilities; and

integrating the management and personnel of Teva and Barr, maintaining employee morale and retaining key employees, particularly in Europe, where Barr s European operations were recently acquired and have not yet been fully integrated into Barr s operations.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of one or more of the combined company s businesses and the loss of key personnel. The diversion of management s attention and any delays or difficulties encountered in connection with the merger and the integration of the two companies operations could have an adverse effect on the business, results of operations, financial conditions or prospects of the combined company after the merger.

Achieving the anticipated benefits of the merger will depend in part upon whether Teva and Barr can integrate their businesses in an efficient and effective manner. We may not accomplish this integration process smoothly or successfully. If management is unable to successfully integrate the operations of the two companies, the anticipated benefits of the merger may not be realized.

We may not achieve the revenue and cost synergies we have anticipated for the combined company.

Our rationale for the merger is, in part, predicated on the projected ability of the combined company to realize certain revenue and cost synergies. Achieving these synergies is dependent upon a number of factors, some of which are beyond our control. These synergies may not be realized in the amount or time frame that we currently anticipate.

Uncertainties associated with the merger may cause Barr to lose employees.

The success of the combined company after the merger will depend in part upon Teva s and Barr s ability to retain key Barr employees. Competition for qualified personnel in the pharmaceutical industry can be very intense. Accordingly, we cannot assure you that the combined company will be able to retain key Barr employees. Additionally, employee stock options and stock appreciation rights will vest upon the adoption of the merger agreement and the transactions by the Barr shareholders, which would potentially take place significantly in advance of the closing of a transaction. Such acceleration of employee stock options and stock appreciation rights could potentially reduce employee productivity or result in the loss of employees before closing.

Obtaining required approvals and satisfying closing conditions may delay or prevent completion of the merger or affect the combined company in an adverse manner.

Completion of the merger is conditioned upon the receipt of all material governmental authorizations, consents, orders and approvals, including the expiration or termination of the applicable waiting periods, and any extension of the waiting periods, under the HSR Act and from the European Commission. We cannot assure you, however, that these approvals will be obtained or that the required conditions to closing will be satisfied, and, if all such approvals are obtained and the conditions are satisfied, we cannot assure you as to the terms, conditions and timing of the approvals or that they will satisfy the terms of the merger agreement or that such terms and conditions, including the need for the divestiture of certain products, will not have an adverse effect on the combined company.

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Failure to complete the merger will subject Teva to financial risks, and could negatively impact the market price of our ordinary shares.

If the merger is not completed for any reason, we will be subject to a number of material risks, including:

- the market price of our ordinary shares may decline, to the extent that the current market price of our ordinary shares reflects a market assumption that the merger will be completed;
- costs related to the merger, such as legal and accounting fees and a portion of the investment banking fees, must be paid even if the merger is not completed;
- benefits that we expect to realize from the merger, including cost savings and other synergies, would not be realized; and
- the diversion of management attention from the day-to-day business of the companies, reduction in capital spending and the unavoidable disruption to their employees and their relationships with customers and suppliers during the period before completion of the merger, may make it difficult for us to regain our financial and market position if the merger does not occur.

Charges to earnings resulting from the merger could have a material adverse impact on the combined company s results of operations.

In accordance with United States generally accepted accounting principles, the combined company will allocate the total purchase price of the merger to Barr s net tangible assets, amortizable intangible assets, intangible assets with indefinite lives and in-process research and development, based on their fair values as of the date of completion of the merger. The combined company will record the excess of the purchase price over those fair values as goodwill. The portion of the estimated purchase price allocated to in-process research and development will be expensed by the combined company in the quarter in which the merger is completed. The preliminary estimate of the amount to be expensed in the quarter in which the merger is completed related to in-process research and development is $1,400 million. The combined company will incur additional depreciation and amortization expense over the useful lives of certain of the net tangible and intangible assets acquired in connection with the merger. Amortization of intangible assets resulting from the pending acquisition of Barr is currently estimated at approximately $334 million for the first year and $155 million for subsequent years. Our current estimate of goodwill and intangibles as a result of the acquisition is $5 billion. In addition, to the extent the value of goodwill or intangible assets becomes impaired in the future, the combined company may be required to incur material charges relating to the impairment of those assets. These amortization and in-process research and development and potential impairment charges could have a material impact on the combined company s results of operations.

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FORWARD LOOKING STATEMENTS

The disclosure and analysis in this prospectus, including statements that are predictive in nature, or that depend upon or refer to future events or conditions, contain or incorporate by reference some forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, referred to as the Exchange Act, and Section 27A of the Securities Act of 1933, as amended, referred to as the Securities Act. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Such statements may include words such as anticipate, estimate, expect, project, intend, plan, believe and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these statements include, among other things, statements relating to:

our business strategy;

management forecasts;

efficiencies/cost avoidance;

cost savings;

income and margins;

earnings per share;="white"> Dispensers		516	146
Flavorstation	261	–	
Corporate	12	78	
	$2,169	$9,045	

Identifiable assets:	At June 30, 2012	At December 31, 2011
Water	$ 71,852	$ 72,709
Dispensers	14,623	12,419
Flavorstation	3,388	11,200
Corporate	3,891	2,865
	$ 93,754	$ 99,193
Goodwill:		
Water	$ 67,263	$ 78,823
Dispensers	–	–
Flavorstation	–	6,433
	$ 67,263	$ 85,256

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our historical consolidated financial statements and related notes thereto in this Quarterly Report on Form 10-Q and with our Annual Report on Form 10-K for the year ended December 31, 2011. The discussion below contains forward-looking statements that are based upon our current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to inaccurate assumptions and known or unknown risks and uncertainties, including those identified in "Cautionary Note Regarding Forward-Looking Statements" in this Item 2 and in "Risk Factors" in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2011.

Overview

Primo Water Corporation (together with its consolidated subsidiaries, "Primo", "we", "our," "us") is a rapidly growing provider of multi-gallon purified bottled water, self-serve filtered drinking water, water dispensers and sparkling beverage appliances and related consumables sold through major retailers in the United States and Canada. We believe the market for purified water is growing due to evolving taste preferences, perceived health benefits and concerns regarding the quality of municipal tap water. Our products provide an environmentally friendly, economical, convenient and healthy solution for consuming purified and filtered water.

Our business is designed to generate recurring demand for our purified bottled water or self-serve filtered drinking water through the sale of innovative water dispensers. This business strategy is commonly referred to as "razor-razorblade" because the initial sale of a product creates a base of users who frequently purchase complementary consumable products. We believe dispenser owners consume an average of 35 multi-gallon bottles of water annually. Once our bottled water is consumed using a water dispenser, empty bottles are exchanged at our recycling center displays, which provide a recycling ticket that offers a discount toward the purchase of a new bottle of Primo purified water (exchange) or they are refilled at a self-serve filtered drinking water location (refill). Each of our multi-gallon water bottles can be sanitized and reused up to 40 times before being taken out of use, crushed and recycled, substantially reducing landfill waste compared to consumption of equivalent volumes of single-serve bottled water. As of June 30, 2012, our dispensers and water services were offered in each of the contiguous United States and in Canada at approximately 24,200 combined retail locations, including Lowe's Home Improvement, Walmart, Kroger, Safeway, Winn Dixie, H-E-B Grocery and Walgreens. In addition, the launch of Flavorstation is an extension of our overall razor/razorblade strategy, which we believe will result in the recurring demand of consumables such as flavors, CO2 cylinders, and accessories through the sale of our innovative carbonation appliances.

We provide major retailers throughout the United States and Canada with single-vendor solutions for water bottle exchange and refill vending services, addressing a market demand that we believe was previously unmet. Our solutions are easy for retailers to implement, require minimal management supervision and store-based labor, and provide centralized billing and detailed performance reports. Our exchange solution offers retailers attractive financial margins and the ability to optimize typically unused retail space with our displays. Our refill solution provides filtered water through the installation and servicing of reverse osmosis water filtration systems in the back room of the retailer's store location, which minimizes the usage of the customer's retail space. The refill vending machine, which is typically accompanied by a sales display containing empty reusable bottles, is located within the retailer customer's floor space. Additionally, due to the recurring nature of water consumption, retailers benefit from year-round customer traffic and highly predictable revenue.

Business Segments

At June 30, 2012, we had three operating segments and three reportable segments: Primo Water ("Water"), Primo Dispensers ("Dispensers") and Primo Flavorstation ("Flavorstation"), which, prior to 2012, was reported in "Other."

Our Water segment sales consist of the sale of multi-gallon purified bottled water (exchange services), which includes the Canada Exchange Business acquired in March 2011, and our self-serve filtered drinking water vending service (refill services) offered through retailers in each of the contiguous United States and Canada. Our Water services are offered through point of purchase display racks or self-serve filtered water vending displays and recycling centers that are prominently located at major retailers in space that is often underutilized.

Our Dispensers segment sells water dispensers that are designed to dispense Primo and other dispenser-compatible bottled water. Our Dispensers sales are primarily generated through major U.S. retailers and are sold primarily through a direct-import model, where we recognize revenues for the sale of the water dispensers when title is transferred to our retailer customers. We support retail sell-through with domestic inventory. We design, market and arrange for certification and inspection of our water dispensers.

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In 2011, we added the Flavorstation segment, which includes the Omnifrio Single-Serve Beverage Business acquired in April 2011. This segment consists of sales of our Flavorstation products, which include home beverage appliances, flavor concentrates, CO2 cylinders and accessories. Flavorstation financial activity began in the fourth quarter of 2011. We recognize revenues for the sale of Flavorstation products when title is transferred to our retailer customers.

We evaluate the financial results of these segments focusing primarily on segment net sales and segment income (loss) from operations before depreciation and amortization ("segment income (loss) from operations"). We utilize segment net sales and segment income (loss) from operations because we believe they provide useful information for effectively allocating our resources between business segments, evaluating the health of our business segments based on metrics that management can actively influence and gauging our investments and our ability to service, incur or pay down debt.

Cost of sales for Water consists primarily of costs for distribution, bottles and related packaging materials for our exchange services and servicing and material costs for our refill services. Cost of sales for Dispensers and Flavorstation consist primarily of contract manufacturing, freight and duty costs.

Selling, general and administrative expenses for all segments consist primarily of personnel costs for operations support as well as other supporting costs for operating each segment.

Expenses not specifically related to operating segments are shown separately as Corporate. Corporate expenses are comprised mainly of compensation and other related expenses for corporate support, information systems, sales, marketing, and human resources and administration. Corporate expenses also include certain professional fees and expenses and compensation of our Board of Directors.

In this Management's Discussion and Analysis of Financial Condition and Results of Operations, when we refer to "same-store unit growth" for our Water segment, we are comparing retail locations at which our services have been available for at least 12 months at the beginning of the relevant period. In addition, "gross margin percentage" is defined as net sales less cost of sales, as a percentage of net sales.

Recent Transactions

Goodwill and Developed Technology Impairment

Effective June 30, 2012, we performed a step one interim impairment test of our goodwill and other identifiable intangible assets due to events and changes in circumstances that indicated impairment might have occurred. This test was performed for each of our reporting units that have goodwill: Water and Flavorstation. The factor deemed by management to have constituted a potential impairment triggering event was the sustained decrease in our stock price relative to our book value. In addition, for the Flavorstation reporting unit, delays in the development and manufacturing of the Omnifrio Single-Serve Business appliance created an indication of impairment of the related goodwill and the developed technology definite-lived intangible asset. The first step involves a comparison of the fair value of a reporting unit to its carrying value. The fair value is estimated based on a number of factors including operating results, business plans and future cash flows.

Based on the results of the step one test we determined that our Water and Flavorstation reporting units both had carrying values higher than their respective estimated fair values. For the Flavorstation reporting unit, because of delays in product development and manufacturing we determined that the Omnifrio Single-Serve Business appliance would not be available for this 2012 holiday season. The delays resulted in discounted cash flows that were substantially below the carrying value of the identifiable assets. For the Water reporting unit, the impairment was the result of lower projected growth in store locations due to capital restraints related to the Term Loan and the Senior

Revolving Credit Facility.

Because of the results of the step one test, we performed the second step of impairment testing for both reporting units, which required us to compare the implied value of the reporting unit goodwill with the carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. We had to determine the implied fair value of goodwill in the same manner as if it had acquired the reporting units in an arm's length transaction as of the testing date of June 30, 2012. We performed this analysis by deducting the estimated fair value of all tangible and identifiable intangible net assets of the reporting unit from the estimated fair value of the reporting unit. Because the recorded amount of goodwill exceeded the amount of goodwill that would have been recorded under the second step as of the impairment testing date, we recorded non-cash goodwill impairment charges of $6.4 million for the Flavorstation reporting unit and $11.5 million for the Water reporting unit.

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In addition to performing an interim goodwill impairment analysis during the quarter ended June 30, 2012, management also performed an undiscounted cash flow test for selected asset group with definite lives. As a result of delays in product development and manufacturing we determined that the Omnifrio Single-Serve Business appliance would not be available for this 2012 holiday season. Therefore, the developed technology intangible asset is considered impaired as the carrying value exceeds the undiscounted cash flows. We recorded a non-cash impairment charge of $7.0 million for the developed technology intangible asset.

Omnifrio Single-Serve Beverage Business

On April 11, 2011, we completed the acquisition of certain intellectual property and other assets (the “Omnifrio Single-Serve Beverage Business”) from Omnifrio Beverage Company, LLC (“Omnifrio”) for total consideration of up to $14.1 million, consisting of: (i) a cash payment at closing of $2.0 million; (ii) the issuance at closing of 501,080 shares of our common stock; (iii) a cash payment of $2.0 million on the 15-month anniversary of the closing date (subject to our setoff rights in the asset purchase agreement); (iv) up to $3.0 million in cash milestone payments; and (v) the assumption of certain specified liabilities relating to the Omnifrio Single-Serve Beverage Business.

On March 15, 2012, we entered into the Second Amendment to Asset Purchase Agreement (the "Second Amendment") with Omnifrio and the other parties thereto. The Second Amendment amends the Asset Purchase Agreement dated March 8, 2011, as amended on May 11, 2011, by and among the Primo, Omnifrio and the other parties thereto (the "Purchase Agreement”) to revise the cash milestone payments and deferred purchase price payments payable under the Purchase Agreement.

Under the Second Amendment, we agreed to make milestone payments consisting of (i) a cash payment of $1.0 million, subject to certain offset amounts, upon our shipment of 5,000 single-serve beverage dispensing appliances to a retail customer, (ii) a second cash payment of $1.0 million, subject to certain offset amounts, upon our shipment of the next 10,000 single-serve beverage dispensing appliances to a retail customer, and (iii) a final cash payment of $1.0 million, subject to certain offset amounts, upon our shipment of the next 10,000 single-serve beverage dispensing appliances to a retail customer. Additionally, under the Second Amendment, our deferred purchase price payments were revised as follows: (i) $1.0 million on June 11, 2012 and (ii) $1.0 million on January 4, 2013.

Delays in the development and manufacturing of the Omnifrio appliance have caused us to significantly decrease our future sales projections, which caused the reduction in the estimated fair value of the milestone payments. We currently expect to make cash milestone payments of $0.5 million in 2014. The decrease in estimated milestone payments resulted in other operating income of $2.0 million for the three and six months ended June 30, 2012.

The deferred purchase price payments are included within accrued expenses and other current liabilities on the condensed consolidated balance sheets. The Omnifrio Single-Serve Beverage Business has been accounted for as a business combination in accordance with the acquisition method.

The Omnifrio Single-Serve Beverage Business primarily consisted of technology related to single-serve cold carbonated beverage appliances and consumable flavor cups and CO2 cylinders used with the appliances to make a variety of cold beverages. The acquisition of the Omnifrio Single-Serve Beverage Business served as an entry point into the U.S. market for carbonated beverages and the rapidly growing self-carbonating appliance and single-serve beverage segments.

Canada Exchange Business

On March 8, 2011, we completed the acquisition of certain assets of Culligan of Canada Ltd., related to its bulk water exchange business (the “Canada Exchange Business”). The consideration paid for the Canada Exchange Business was

$4.8 million, which consisted of a cash payment of $1.6 million, the issuance of 307,217 shares of our common stock and the assumption of certain specified liabilities. The Canada Exchange Business provides refill and delivery of water in 18-liter containers to commercial retailers in Canada for resale to consumers. The acquisition of the Canada Exchange Business expanded our existing exchange service offering and provided us with an immediate network of regional operators and major retailers in Canada with approximately 780 retail locations. The Canada Exchange Business has been accounted for as a business combination in accordance with the acquisition method.

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Results of Operations

The following table sets forth our results of operations:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Consolidated statements of operations data:				
Net sales	$24,961	$20,701	$44,742	$37,840
Operating costs and expenses:				
Cost of sales	20,595	15,085	35,245	27,197
Selling, general and administrative expenses	4,677	4,485	9,647	8,545
Other operating income	(2,000)	–	(2,000)	–
Non-recurring and acquisition-related costs	369	216	395	919
Depreciation and amortization	2,906	2,259	5,474	4,160
Goodwill and developed technology impairment	24,933	–	24,933	–
Total operating costs and expenses	51,480	22,045	73,694	40,821
Loss from operations	(26,519)	(1,344)	(28,952)	(2,981)
Interest expense and other, net	1,273	479	2,177	766
Loss before income taxes	(27,792)	(1,823)	(31,129)	(3,747)
Income tax (benefit) provision	(1,487)	153	(959)	342
Net loss	$(26,305)	$(1,976)	$(30,170)	$(4,089)

The following table sets forth our results of operations expressed as a percentage of net sales:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Consolidated statements of operations data:				
Net sales	100.0%	100.0%	100.0%	100.0%
Operating costs and expenses:				
Cost of sales	82.5	72.9	78.8	71.9
Selling, general and administrative expenses	18.7	21.7	21.6	22.6
Other operating income	(8.0)	–	(4.5)	–
Non-recurring and acquisition-related costs	1.5	1.0	0.9	2.4
Depreciation and amortization	11.6	10.9	12.2	11.0
Goodwill and developed technology impairment	99.9	–	55.7	–
Total operating costs and expenses	206.2	106.5	164.7	107.9
Loss from operations	(106.2)	(6.5)	(64.7)	(7.9)
Interest expense and other, net	5.1	2.3	4.9	2.0
Loss before income taxes	(111.3)	(8.8)	(69.6)	(9.9)
Income tax (benefit) provision	(5.9)	0.7	(2.2)	0.9
Net loss	(105.4%)	(9.5%)	(67.4%)	(10.8%)

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The following table sets forth our segment net sales and segment income (loss) from operations presented on a segment basis and reconciled to our consolidated loss from operations.

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Segment net sales				
Water	$15,386	$14,848	$30,360	$27,995
Dispensers	9,249	5,853	14,076	9,845
Flavorstation	326	–	307	–
Total net sales	$24,961	$20,701	$44,743	$37,840
Segment income (loss) from operations				
Water	$3,754	$3,601	$7,787	$7,181
Dispensers	(299)	474	(781)	56
Flavorstation	(942)	(271)	(1,499)	(287)
Corporate	(2,824)	(2,673)	(5,656)	(4,852)
Other operating income	2,000	–	2,000	–
Non-recurring and acquisition-related costs	(369)	(216)	(395)	(919)
Depreciation and amortization	(2,906)	(2,259)	(5,474)	(4,160)
Goodwill and developed technology impairment	(24,933)	–	(24,933)	–
Loss from operations	$(26,519)	$(1,344)	$(28,951)	$(2,981)

Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011

Net Sales. Net sales increased 20.6%, or $4.3 million, to $25.0 million for the three months ended June 30, 2012 from $20.7 million for the three months ended June 30, 2011. The increase in net sales resulted from a $3.4 million increase in Dispenser sales, a $0.6 million increase in Water sales and from $0.3 million in Flavorstation sales.

Water. Water net sales increased 3.6% to $15.4 million, representing 61.6% of our total net sales, for the three months ended June 30, 2012. Five-gallon equivalent units for Water increased 1.7% to 6.8 million units for the second quarter of 2012 from 6.7 million units in the same period of the prior year. The increase in Water net sales was primarily due to a 10.1% increase in exchange sales, driven by a 14.2% increase in U.S. exchange sales that resulted from new location growth and same-store unit growth of 14.7% in our exchange services compared to the second quarter of 2011.

Dispensers. Dispensers net sales increased 58.0% to $9.3 million, representing 37.1% of our total net sales, for the three months ended June 30, 2012. The increase is due primarily to the increase in the number of retail locations offering our dispensers. Our dispenser unit sales to retailers increased by 37.6% for the three months ended June 30, 2012 compared to the same period in the prior year. Sales increased at a greater level than unit sales due to the increase in sales mix for higher value dispensers.

Flavorstation. Our Flavorstation segment had net sales of $0.3 million for the three months ended June 30, 2012.

Gross Margin Percentage. Our overall gross margin percentage decreased to 17.5% for the three months ended June 30, 2012 from 27.1% for the three months ended June 30, 2011. The decrease in margin was primarily a result of the negative gross margin for our Flavorstation business and a decrease in the Dispenser gross margin.

Water. Gross margin as a percentage of net sales in our Water segment decreased to 31.8% for the three months ended June 30, 2012 from 34.6% for the same period in the prior year. The decrease in gross margin percentage for the three months ended June 30, 2012 was primarily due to a greater mix of lower margin exchange net sales as well as increased costs related to the transition of service providers in our Refill services. We expect gross margin percentages for Water to improve over the remainder of 2012.

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Dispensers. Gross margin as a percentage of net sales in our Dispensers segment decreased to 0.7% for the three months ended June 30, 2012 from 8.3% for the same period in the prior year. The decrease in gross margin percentage is primarily due to increased third-party manufacturing costs. In an effort to improve our margins, we initiated price increases to our customers, which went into effect late in the second quarter.

Flavorstation. Due to low sales volumes, our Flavorstation segment had a negative gross margin percentage for the three months ended June 30, 2012. Gross margins were negatively impacted by $0.5 million in inventory obsolescence charges recorded primarily due to lower than expected sales resulting from delays in the development and manufacturing of the Omnifrio appliance.

Selling, General and Administrative Expenses ("SG&A"). SG&A increased 4.3% to $4.7 million for the three months ended June 30, 2012 from $4.5 million for the three months ended June 30, 2011. As a percentage of net sales, SG&A decreased to 18.7% for the three months ended June 30, 2012 from 21.7% for the three months ended June 30, 2011. The dollar increase in SG&A is primarily the result of $0.4 million in expenses related to the Flavorstation business, which began selling in the fourth quarter of 2011. We currently expect that SG&A as a percentage of net sales for the remainder of 2012 will compare favorably with 2011 as we leverage costs with increased sales growth.

Water. SG&A for our Water segment decreased 25.8% to $1.1 million for the three months ended June 30, 2012 from $1.5 million for the three months ended June 30, 2011. Water segment SG&A as a percentage of Water segment net sales decreased to 7.4% for the three months ended June 30, 2012 compared to 10.3% for the three months ended June 30, 2011. The decrease in Water segment SG&A is primarily a result of a reduction in duplicate costs related to the refill business acquisition, which occurred in November 2010. We expect to continue to leverage costs with sales growth.

Dispensers. SG&A for our Dispensers segment increased to $0.4 million for the three months ended June 30, 2012 from $0.01 million for the three months ended June 30, 2011. SG&A as a percentage of Dispensers segment net sales increased to 3.9% for the three months ended June 30, 2012 from 0.2% for the three months ended June 30, 2011.

Flavorstation. SG&A for our Flavorstation segment was $0.4 million for the three months ended June 30, 2012. Flavorstation SG&A was primarily related to product development, marketing and consulting expenses related to the Flavorstation business that launched in the fourth quarter of 2011.

Corporate. Corporate SG&A increased 5.6% to $2.8 million for the three months ended June 30, 2012 from $2.7 million for the three months ended June 30, 2011. Corporate SG&A as a percentage of consolidated net sales decreased to 11.3% for the three months ended June 30, 2012 from 12.9% for the three months ended June 30, 2011. The increase in Corporate SG&A dollars is primarily from an increase in non-cash stock-based compensation expense. We currently expect Corporate SG&A as a percentage of consolidated net sales to decrease for the remainder of 2012 as we leverage expenses with sales growth.

Other Operating Income. Other operating income was $2.0 million for the three months ended June 30, 2012. Other operating income was related to the change in the estimated fair value of the milestone payments related to the acquisition of the Omnifrio Single-Serve Beverage Business (see Note 4 in the Notes to Condensed Consolidated Financial Statements).

Non-Recurring and Acquisition-Related Costs. Non-recurring and acquisition-related costs increased to $0.4 million for the three months ended June 30, 2012 from $0.2 million for the three months ended June 30, 2011. Non-recurring and acquisition-related costs for the three months ended June 30, 2012 is primarily related to employee severance costs associated with the elimination of duplicate management roles related to the refill services business and the restructuring and consolidation of Water operations. We expect these changes to result in annual savings of

approximately $2.0 million. Non-recurring and acquisition-related costs during 2011 consisted primarily of costs associated with the acquisitions of the refill business, the Canada Exchange Business and the Omnifrio Single-Serve Beverage Business.

Depreciation and Amortization. Depreciation and amortization increased 28.6% to $2.9 million for the three months ended June 30, 2012 from $2.3 million for the three months ended June 30, 2011. The increase is primarily due to depreciation on additional property and equipment and amortization for identifiable intangible assets, both related to our 2011 business acquisitions.

Goodwill Impairment and Developed Technology Impairment. We recorded non-cash goodwill impairment charges of $6.4 million for the Flavorstation reporting unit and $11.5 million for the Water reporting unit for the three months ended June 30, 2012. In addition, we recorded a non-cash impairment charge of $7.0 million related to the developed technology intangible asset for the Flavorstation reporting unit for the three months ended June 30, 2012.

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Interest Expense and Other, net. Interest expense increased to $1.3 million for the three months ended June 30, 2012 from $0.5 million for the three months ended June 30, 2011. The increase is primarily due to increased amortization of deferred loan costs as a result of the accelerated maturity of our Senior Revolving Credit Facility and increased interest rates for our Term Loan compared to our prior senior revolving credit facility. Interest expense related to deferred loan costs amortization increased to $0.7 for the three months ended June 30, 2012 from $0.2 million for the same period in the prior year.

Income Taxes (Benefit) Provision. We recorded an income tax benefit for the three months ended June 30, 2012 compared to a provision for the three months ended June 30, 2011. In 2011 the income tax provision was a result of the recognition of a deferred tax liability related to tax deductible goodwill. In 2012 the impairment of the goodwill (See Note 2 of the Notes to the Condensed Consolidated Financial Statements) resulted in a reversal of the related deferred tax liability and the recognition of a deferred tax asset. We have provided valuation allowances to fully offset the net deferred tax assets at June 30, 2012.

Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011

Net Sales. Net sales increased 18.2%, or $6.9 million, to $44.7 million for the six months ended June 30, 2012 from $37.8 million for the six months ended June 30, 2011. The increase in net sales resulted from a $4.2 million increase in Dispenser sales, a $2.4 million increase in Water sales and from $0.3 million in Flavorstation sales.

Water. Water net sales increased 8.4% to $30.4 million, representing 67.9% of our total net sales, for the six months ended June 30, 2012. Five-gallon equivalent units for Water increased 5.1% to 13.5 million units for the first half of 2012 from 12.8 million units in the same period of the prior year. The increase in Water net sales was primarily due to a 19.4% increase in exchange sales, driven by an 18.2% increase in U.S. exchange sales that resulted from new location growth and same-store unit growth of 5.3% in our exchange services compared to the first half of 2011.

Water net sales included $1.4 million and $1.1 million in net sales and 0.4 million and 0.3 million five-gallon equivalent units attributable to the Canada Exchange Business, which was acquired in March 2011, for the six months ended June 30, 2012 and 2011, respectively.

Dispensers. Dispensers net sales increased 43.0% to $14.1 million, representing 31.5% of our total net sales, for the six months ended June 30, 2012. The increase is due primarily to the increase in the number of retail locations offering our dispensers. Our dispenser unit sales to retailers increased by 33.3% for the six months ended June 30, 2012 compared to the same period in the prior year. Sales increased at a greater level than unit sales due to the increase in sales mix for higher value dispensers.

Gross Margin Percentage. Our overall gross margin percentage decreased to 21.2% for the six months ended June 30, 2012 from 28.1% for the six months ended June 30, 2011.

Water. Gross margin as a percentage of net sales in our Water segment decreased to 33.3% for the six months ended June 30, 2012 from 35.5% for the same period in the prior year. The decrease in gross margin percentage for the six months ended June 30, 2012 was primarily due to a greater mix of lower margin exchange net sales as well as increased costs related to the transition of service providers in our Refill services. We expect gross margin percentages for Water to improve over the remainder of 2012.

Dispensers. Gross margin as a percentage of net sales in our Dispensers segment decreased to 0.8% for the six months ended June 30, 2012 from 7.1% for the same period in the prior year. The decrease in gross margin percentage is primarily due to increased third-party manufacturing costs. In an effort to improve our margins, we initiated price increases to our customers, which went into effect late in the second quarter.

Flavorstation. Due to low sales volumes, our Flavorstation segment had a negative gross margin percentage for the six months ended June 30, 2012. Gross margins were negatively impacted by $0.5 million in inventory obsolescence charges recorded primarily due to lower than expected sales resulting from delays in the development and manufacturing of the Omnifrio appliance.

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Selling, General and Administrative Expenses ("SG&A"). SG&A increased 12.9% to $9.6 million for the six months ended June 30, 2012 from $8.5 million for the six months ended June 30, 2011. As a percentage of net sales, SG&A decreased to 21.6% for the six months ended June 30, 2012 from 22.6% for the six months ended June 30, 2011. The dollar increase in SG&A is primarily the result of increased compensation expense, including a $0.4 million increase in non-cash stock-based compensation expense, and $0.8 million in expenses related to the Flavorstation business, which began selling in the fourth quarter of 2011. We currently expect that SG&A as a percentage of net sales for the remainder of 2012 will compare favorably with 2011 as we leverage costs with increased sales growth.

Water. SG&A for our Water segment decreased 15.9% to $2.3 million for the six months ended June 30, 2012 from $2.8 million for the six months ended June 30, 2011. Water segment SG&A as a percentage of Water segment net sales decreased to 7.7% for the six months ended June 30, 2012 compared to 9.9% for the six months ended June 30, 2011. The decrease in Water segment SG&A is primarily a result of a reduction in duplicate costs related to the refill business acquisition, which occurred in November 2010. We expect to continue to leverage costs with sales growth.

Dispensers. SG&A for our Dispensers segment increased 39.4% to $0.9 million for the six months ended June 30, 2012 from $0.6 million for the six months ended June 30, 2011. SG&A as a percentage of Dispensers segment net sales decreased to 6.3% for the six months ended June 30, 2012 from 6.5% for the six months ended June 30, 2011.

Flavorstation. SG&A for our Flavorstation segment was $0.8 million for the six months ended June 30, 2012. Flavorstation SG&A was primarily related to product development, marketing and consulting expenses related to the Flavorstation business that launched in the fourth quarter of 2011.

Corporate. Corporate SG&A increased 16.6% to $5.7 million for the six months ended June 30, 2012 from $4.9 million for the six months ended June 30, 2011. Corporate SG&A as a percentage of consolidated net sales decreased to 12.6% for the six months ended June 30, 2012 from 12.8% for the six months ended June 30, 2011. The increase in Corporate SG&A dollars is primarily from an increase in non-cash stock-based compensation expense. We currently expect Corporate SG&A as a percentage of consolidated net sales to decrease for the remainder of 2012 as we leverage expenses with sales growth.

Other Operating Income. Other operating income was $2.0 million for the six months ended June 30, 2012. Other operating income was related to the change in fair value of the milestone payments related to the acquisition of the Omnifrio Single-Serve Beverage Business (see Note 4 in the Notes to Condensed Consolidated Financial Statements).

Non-Recurring and Acquisition-Related Costs. Non-recurring and acquisition-related costs decreased to $0.4 million for the six months ended June 30, 2012 from $0.9 million for the six months ended June 30, 2011. Non-recurring and acquisition-related costs for the six months ended June 30, 2012 is primarily related to employee severance costs associated with the elimination of duplicate management roles related to the refill services business and the restructuring and consolidation of Water operations. We expect these changes to result in annual savings of approximately $2.0 million. Non-recurring and acquisition-related costs during 2011 consisted primarily of costs associated with the acquisitions of the refill business, the Canada Exchange Business and the Omnifrio Single-Serve Beverage Business.

Depreciation and Amortization. Depreciation and amortization increased 31.6% to $5.5 million for the six months ended June 30, 2012 from $4.2 million for the six months ended June 30, 2011. The increase is primarily due to depreciation on additional property and equipment and amortization for identifiable intangible assets, both related to our 2011 business acquisitions.

Goodwill Impairment and Developed Technology Impairment. We recorded non-cash goodwill impairment charges of $6.4 million for the Flavorstation reporting unit and $11.5 million for the Water reporting unit for the six months

ended June 30, 2012. In addition, we recorded non-cash impairment charge of $7.0 million related to the developed technology intangible asset for the Flavorstation reporting unit for the six months ended June 30, 2012.

Interest Expense and Other, net. Interest expense increased to $2.2 million for the six months ended June 30, 2012 from $0.8 million for the six months ended June 30, 2011. The increase is primarily due to increased amortization of deferred loan costs as a result of the accelerated maturity of our Senior Revolving Credit Facility and increased interest rates for our Term Loan compared to our prior senior revolving credit facility. Interest expense related to deferred loan costs amortization increased to $1.3 for the six months ended June 30, 2012 from $0.3 million for the same period in the prior year.

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Income Taxes (Benefit) Provision. We recorded an income tax benefit for the six months ended June 30, 2012 compared to a provision for the six months ended June 30, 2011. In 2011 the income tax provision was a result of the recognition of a deferred tax liability related to tax deductible goodwill. In 2012 the impairment of the goodwill (See Note 2 of the Notes to the Condensed Consolidated Financial Statements) resulted in a reversal of the related deferred tax liability and the recognition of a deferred tax asset. We have provided valuation allowances to fully offset the net deferred tax assets at June 30, 2012.

Liquidity and Capital Resources

Adequacy of Capital Resources

Since our inception, we have financed our operations primarily through the sale of stock, the issuance of debt and borrowings under credit facilities. While we had no material commitments for capital expenditures as of June 30, 2012, we do anticipate capital expenditures to range between $2.0 million and $2.5 million for the remainder of 2012. Anticipated capital expenditures are related primarily to growth in Water locations and new Dispenser product lines.

At June 30, 2012, our cash totaled $0.9 million and we had approximately $4.2 million in additional availability under the Senior Revolving Credit Facility. This availability is subject to borrowing base requirements related to our eligible accounts receivable and inventory.

Our future capital requirements may vary materially from those now anticipated and will depend on many factors including: the rate of growth in new locations and related display and rack costs, cost to develop new water dispensers and carbonating appliances, sales and marketing resources needed to further penetrate our markets, the expansion of our operations in the United States and Canada, the response of competitors to our solutions and products, as well as acquisitions of other businesses. Historically, we have experienced increases in our capital expenditures consistent with the growth in our operations and personnel, and we anticipate that our expenditures will continue to increase as we grow our business, subject to limits related to our Term Loan and Senior Revolving Credit Facility.

Our ability to satisfy our obligations or to fund planned capital expenditures will depend on our future performance, which to a certain extent is subject to general economic, financial, competitive, legislative, regulatory and other factors beyond our control. We also believe that if we pursue any material acquisitions in the foreseeable future we will need to finance this activity through additional equity or debt financing.

Changes in Cash Flows

The following table shows the components of our cash flows for the periods presented (in millions):

	Six Months Ended June 30,	
	2012	2011
Net cash (used in) provided by operating activities	$ (0.3)	$ 1.1
Net cash used in investing activities	$ (2.7)	$ (12.8)
Net cash provided by financing activities	$ 3.1	$ 21.5

Net Cash Flows from Operating Activities

Net cash used in operating activities was $0.3 million for the six months ended June 30, 2012, compared to net cash provided by operating activities of $1.1 million for the six months ended June 30, 2011. The decrease in cash flow

from operations is primarily due to the $1.2 million increase in the loss from operations in our Flavorstation business as well as the $0.7 million loss from operations in our Dispenser segment partially offset by the $0.5 million increase in the income from operations in our Water segment.

For the six months ended June 30, 2012, cash flows from operating activities include $24.9 million in goodwill and developed technology impairment charges that have no current or expected future impact on cash flows and are shown as a reconciling item to net cash used in operating activities.

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Net Cash Flows from Investing Activities

Net cash used in investing activities decreased to $2.7 million for the six months ended June 30, 2012 from $12.8 million for the six months ended June 30, 2011, caused by decreases in cash used for business acquisitions and cash used for capital expenditures. During the first half of 2011, we completed the acquisitions of the Canada Exchange Business in March 2011 and the Omnifrio Single-Serve Beverage Business in April 2011, which included cash payments of $1.6 million and $2.0 million, respectively.

Our primary investing activities are typically capital expenditures for business acquisitions, property, equipment and bottles. Our capital expenditures are primarily for the installation of our recycle centers, display racks and reverse osmosis filtration systems at new Water locations.

Net Cash Flows from Financing Activities

Net cash provided by financing activities decreased to $3.1 million for the six months ended June 30, 2012 from $21.5 million for the six months ended June 30, 2011. For the six months ended June 30, 2012, cash provided by financing activities was primarily related to net borrowings on our credit facilities of $5.3 million, partially offset by debt issuance costs of $2.0 million.

During the first six months of 2011, cash provided by financing activities was primarily from our issuance of common stock in connection with our secondary public offering. The proceeds to us from the secondary public offering, net of underwriting discounts, commissions and issuance costs were $39.5 million. Partially offsetting those proceeds were net payments of $17.9 million under our revolving credit facility.

Senior Revolving Credit Facility

We entered into the Senior Revolving Credit Facility on April 30, 2012 that replaced our prior senior credit facility. The Senior Revolving Credit Facility provides for total borrowing availability of up to $20.0 million subject to borrowing base requirements related to our eligible accounts receivable and inventory and subject to a $2.0 million reserve requirement. The Senior Revolving Credit Facility has a three and one-half year term and is secured either on a first priority or second priority basis by substantially all of our assets. The term of the Senior Revolving Credit Facility may be extended up to April 30, 2017 so long as the maturity of the Term Loan (as defined below) is extended to at least October 30, 2017. At June 30, 2012, our outstanding balance under our Senior Revolving Credit Facility was $4.7 million and we had approximately $4.2 million in additional availability. The Senior Revolving Credit Facility contains a limit on capital expenditures of $5.5 million for the year ended December 31, 2012 and $6.0 million for each year thereafter. The limit for capital expenditures may be increased for 2013 and thereafter based upon meeting the fixed charge coverage ratio, as stipulated and defined in the Senior Revolving Credit Facility. In addition, the Senior Revolving Credit Facility does cross default to the Term Loan.

Term Loan

We entered into a credit and security agreement on April 30, 2012, pursuant to which the $15.2 million Term Loan was provided. The outstanding balance of the Term Loan is due and payable in a single installment on April 30, 2016, subject to prepayment in specified circumstances, including sales or dispositions of assets outside the ordinary course of business and sales of equity or debt securities by Primo. The Term Loan is secured by substantially all of our assets on either a first priority or second priority basis. The first priority assets consist of substantially all of the assets related to our refill services business. The security interest in all of our other assets is subordinate to the security interest securing the Senior Revolving Credit Facility. At June 30, 2012, our outstanding balance under our Term Loan was $15.2 million

The Term Loan contains the following financial covenants: (i) a limit on capital expenditures of $5.5 million for the year ended December 31, 2012 and $12.0 million for each year thereafter; (ii) an increasing minimum EBITDA threshold that is measured at the end of each quarter, (iii) a decreasing total debt to EBITDA ratio that is measured at the end of each quarter, and (iv) a requirement that the gross profit of our refill services business for the trailing 12-month period measured at the end of each quarter be no less than $10.5 million.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, investments in special purpose entities or undisclosed borrowings or debt. Additionally, we are not a party to any derivative contracts or synthetic leases.

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Inflation

During the last three years, inflation and changing prices have not had a material effect on our business and we do not expect that inflation or changing prices will materially affect our business in the foreseeable future.

Seasonality; Fluctuations of Results

We have experienced and expect to continue to experience seasonal fluctuations in our sales and operating income. Our sales and operating income have been highest in the spring and summer and lowest in the fall and winter. Our Water segment, which generally enjoys higher margins than our Dispensers segment, experiences higher sales and operating income in the spring and summer. Our Dispensers segment had historically experienced higher sales and operating income in spring and summer; however, we believe the seasonality of this segment will be more dependent on retailer inventory management and purchasing cycles and not correlated to weather. Sustained periods of poor weather, particularly in the spring and summer, can negatively impact our sales in our higher margin Water segment. Accordingly, our results of operations in any quarter will not necessarily be indicative of the results that we may achieve for a year or any future quarter.

Critical Accounting Policies and Estimates

Other than the goodwill impairment discussion below, there have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in our Annual Report on Form 10-K for the year ended December 31, 2011.

Goodwill Impairment

Effective June 30, 2012, we performed a step one interim impairment test of our goodwill and other identifiable intangible assets due to events and changes in circumstances that indicated impairment might have occurred. This test was performed for each of our reporting units that have goodwill: Water and Flavorstation. The factor deemed by management to have constituted a potential impairment triggering event was the sustained decrease in our stock price relative to our book value. In addition, for the Flavorstation reporting unit, delays in the development and manufacturing of the Omnifrio Single-Serve Business (see Note 4 of the Notes to Condensed Consolidated Financial Statements) appliance created an indication of impairment of the related goodwill and the developed technology definite-lived intangible asset. The first step of impairment testing involves a comparison of the fair value of a reporting unit to its carrying value. The fair value is estimated based on a number of factors including operating results, business plans and future cash flows.

Based on the results of the step one test we determined that our Water and Flavorstation reporting units both had carrying values higher than their respective estimated fair values. For the Flavorstation reporting unit, because of delays in product development and manufacturing we determined that the Omnifrio Single-Serve Business appliance would not be available for this 2012 holiday season. The delays resulted in discounted cash flows that were substantially below the carrying value of the identifiable assets. For the Water reporting unit, the impairment was the result of lower projected growth in store locations due to capital restraints related to the Term Loan and the Senior Revolving Credit Facility (see Note 5 of the Notes to Condensed Consolidated Financial Statements).

Because of the results of the step one test, we performed the second step of impairment testing for both reporting units, which required us to compare the implied value of the reporting unit goodwill with the carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. We had to determine the implied

fair value of goodwill in the same manner as if we had acquired the reporting units in an arm's length transaction as of the testing date of June 30, 2012. We performed this analysis by deducting the estimated fair value of all tangible and identifiable intangible net assets of the reporting unit from the estimated fair value of the reporting unit. Because the recorded amount of goodwill exceeded the amount of goodwill that would have been recorded under the second step as of the impairment testing date, we recorded non-cash goodwill impairment charges of $6.4 million for the Flavorstation reporting unit and $11.5 million for the Water reporting unit.

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A summary of the significant assumptions used in our impairment analyses of goodwill and developed technology as of June 30, 2012 is presented below.

	As of June 30, 2012	
	Water	Flavorstation
Reporting unit significant assumptions:		
Forecast period	9.5 Years	9.5 Years
Increase in revenue for projection year 1 compared to latest historical period	4.3% to 9.9%	3.0% to 117.6%
Gross margin	30.9% to 32.6%	13.3% to 22.0%
Operating cash flow margin	1.1% to 15.5%	(12.5)% to 12.4%
Discount rate	14.2%	40.0%

When estimating the fair value of our goodwill and developed technology, we make assumptions regarding net sales growth rates, gross margins and discount rates. These assumptions require substantial judgment, and actual rates and margins may differ materially. The use of judgments and estimates involves inherent uncertainties. The measurement of the fair values of our reporting units is dependent on the accuracy of the assumptions used and how the estimates compare to our future operating performance.

While we did record an impairment charge in our Water and Flavorstation reporting units for the six months ended June 30, 2012, the Water reporting unit impairment charge of $11.5 million would vary if we had changed certain assumptions. The following table contains a sensitivity analysis of the Water reporting unit assumptions and a hypothetical increase in the impairment charge that would have resulted if our Water reporting unit revenue growth rate and gross margin had been revised lower or if the discount rate had been revised higher.

Hypothetical change:	Water Reporting Unit Hypothetical increase in the Impairment Charge as of June 30, 2012 (in thousands)
An annual 100 basis point decrease in net sales growth rate throughout the forecast period	$ 6,760
An annual 100 basis point decrease in gross margins throughout the forecast period	$ 4,386
A 100 basis point increase in the applicable discount rate	$ 7,255

These hypothetical non-cash impairment charges would not have any direct impact on our liquidity, debt covenant compliance or future results of operations. Our historical operating results may not be indicative of our future operating results. Our future ten-year discounted cash flow analysis reflected certain assumptions relating to the expected impact of the current general economic environment.

Market Capitalization

When we test our goodwill for impairment, we also consider our market capitalization. As of June 30, 2012, our market capitalization was less than our book value and it remains less than book value as of the date of this filing. We believe the decline in and sustained level of our stock price has been influenced, in part, by uncertainties related to our new Flavorstation business segment that is in the developmental stages and is requiring the use of

capital. Additionally, we believe the stock price has been negatively influenced by the risk that our current debt structure could further limit our ability to execute our growth plan and the risk that a covenant violation could impair the stockholders' value. We believe that it is appropriate to view the risks and uncertainties related to our Flavorstation segment and debt structure as relatively temporary in relation to the established business and operations of our Water reporting unit. Accordingly, we believe that a variance between market capitalization and fair value can exist and such variance could be significant at points in time due to intervening influences. Further sustained negative market place indicators such as a continued price of our common stock less than book value or limitations in obtaining liquidity to carry out our growth plans may reflect a reduced estimate of the implied fair value of goodwill in the Water unit resulting in future impairment charges.

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Recent Accounting Pronouncements

Presentation of Comprehensive Income

In June 2011, the Financial Accounting Standards Board ("FASB") issued guidance to amend the presentation of comprehensive income to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both instances, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. In December 2011, the FASB issued guidance to indefinitely defer provisions requiring reclassification adjustments out of other comprehensive income to be presented on the face of the financial statements. The other portions of the original guidance remain unchanged. These standards are effective for interim and annual periods beginning after December 15, 2011, and are to be applied retrospectively. We have included such disclosures within this quarterly report.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

For quantitative and qualitative disclosures about our market risks, see Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Through June 30, 2012, there have been no material changes to our market risk since our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including the chief executive officer ("CEO") and chief financial officer ("CFO"), of the effectiveness of the design and operation of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to Rule 13a-15(b) of the Exchange Act. Based on that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures are effective for the purpose of providing reasonable assurance that the information required to be disclosed in the reports we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Class Action Suit

On December 2, 2011, Primo, certain members of our board of directors, certain members of management, certain shareholders and company advisors were named as defendants in a purported class-action lawsuit filed in the United States District Court for the Middle District of North Carolina. On June 22, 2012, plaintiffs filed an amended complaint. The amended complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder, and Sections 11, 12(a)(2), and 15 of the Securities Act of 1933. The amended complaint asserts claims on behalf of a class of persons who acquired our common stock in or traceable to our initial public offering and our secondary offering as well as purchasers of our common stock between November 4, 2010 and November 10, 2011. The amended complaint alleges that defendants violated the federal securities laws by making misrepresentations about, among other things, the number of locations where our water exchange services were offered and where our dispensers were sold, the performance of our sales locations, location growth opportunities, various operational issues, and our projected financial results and business operations in order to artificially inflate the price of our stock. The amended complaint requests unspecified damages and costs. We do not believe the lawsuit has merit and plan to vigorously contest and defend against it. We are insured for potential losses subject to limits. We are required to indemnify each of the named defendants that are party to the lawsuit against losses and expenses they incur in connection with the litigation.

Electrotemp

On October 14, 2011, Primo, through a wholly-owned subsidiary, filed a complaint against Electrotemp Technologies China, Inc. ("Electrotemp") in Mecklenburg County (North Carolina) Superior Court, alleging breach of contract, quantum meruit/unjust enrichment, and violation of the North Carolina Products Liability Act/breach of implied warranty. Our claims arise out of Electrotemp's failure to credit us for defective water coolers manufactured by Electrotemp and sold by us which were returned by unsatisfied customers. We are seeking damages of $3,100, which consists primarily of claims for defective water dispensers manufactured by Electrotemp of approximately $2,900 that are included in prepaid and other current assets on the condensed consolidated balance sheets. Electrotemp removed the action to the United States District Court for the Western District of North Carolina based on diversity of citizenship. The parties filed a Joint Motion to Stay litigation so that they could proceed with mediation and arbitration pursuant to the dispute resolution clause in their agreement. On May 1, 2012, the Court ordered that the litigation would be stayed once the parties formally enter into arbitration. On June 5, 2012, Electrotemp filed its answer to the complaint. On June 26, 2012, Electrotemp filed an amended answer and counterclaim alleging breach of contract and breach of duty of good faith arising from our alleged failure to use our best commercial efforts to market and promote Electrotemp water coolers and for our alleged use of other water cooler manufacturers. Our response to Electrotemp’s counterclaim is due August 20, 2012.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011, and in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012, as supplemented and updated by the discussion below. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

Our results of operations could be adversely affected as a result of the impairment of goodwill or other intangibles.

When we acquire a business, we record an asset called "goodwill" equal to the excess amount we pay for the business, including liabilities assumed, over the fair value of the tangible and intangible assets of the business we acquire. In accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), we must identify and value intangible assets that we acquire in business combinations, such as customer arrangements, customer relationships and non-compete agreements, that arise from contractual or other legal rights or that are capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged. The fair value of identified intangible assets is based upon an estimate of the future economic benefits expected to result from ownership, which represents the amount at which the assets could be bought or sold in a current transaction between willing parties, other than in a forced or liquidation sale.

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U.S. GAAP provides that goodwill and other intangible assets that have indefinite useful lives not be amortized, but instead must be tested at least annually for impairment, and intangible assets that have finite useful lives should continue to be amortized over their useful lives. U.S. GAAP also provides specific guidance for testing goodwill and other non-amortized intangible assets for impairment. U.S. GAAP requires management to make certain estimates and assumptions to allocate goodwill to reporting units and to determine the fair value of reporting unit net assets and liabilities, including, among other things, an assessment of market conditions, projected cash flows, investment rates, cost of capital and growth rates, which could significantly impact the reported value of goodwill and other intangible assets. Fair value is determined using a combination of the discounted cash flow, market multiple and market capitalization valuation approaches. Absent any impairment indicators, we perform our impairment tests annually during the fourth quarter.

We review our intangible assets with definite lives for impairment when events or changes in business conditions indicate the carrying value of the assets may not be recoverable, as required by U.S. GAAP. An impairment of intangible assets with definite lives exists if the sum of the undiscounted estimated future cash flows expected is less than the carrying value of the assets. If this measurement indicates a possible impairment, we compare the estimated fair value of the asset to the net book value to measure the impairment charge, if any.

In connection with the preparation of the financial statements to be included in this Quarterly Report on Form 10-Q, we performed an interim impairment test of our goodwill and other identifiable intangible assets due to events and changes in circumstances that indicated an impairment might have occurred. The factor deemed by management to have constituted a potential impairment triggering event was the sustained decrease in our stock price relative to our book value. In addition, for the Flavorstation reporting unit, delays in the development and manufacturing of the Omnifrio Single-Serve Business appliance created an indication of impairment of the related goodwill and the developed technology definite-lived intangible asset. The analysis indicated that our Water and Flavorstation reporting units both had carrying values higher than their respective estimated fair values. Based on further analysis, we recorded non-cash goodwill impairment charges of $6.4 million for the Flavorstation reporting unit and $11.5 million for the Water reporting unit. Additionally, we recorded a non-cash impairment charge of $7.0 million for the developed technology intangible asset.

When estimating the fair value of our goodwill and developed technology, we made assumptions regarding net sales growth rates, gross margins and discount rates. These assumptions require substantial judgment, and actual rates and margins may differ materially. The use of judgments and estimates involves inherent uncertainties. The measurement of the fair values of our reporting units is dependent on the accuracy of the assumptions used and how the estimates compare to our future operating performance.

We cannot predict the occurrence of certain future events that might adversely affect the reported value of goodwill and other intangible assets that totaled $80.2 million at June 30, 2012. Such events include our stock price continuing at a low price relative to our book value as well as strategic decisions made in response to economic and competitive conditions, limitations in obtaining liquidity to carry out growth plans, delays in the development and manufacturing of our appliances, the impact of the economic environment on our customer base, material negative changes in our relationships with material customers and other parties breaching their contractual obligations under non-compete agreements. Future impairments, if any, will be recognized as operating expenses.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities

The following table provides information about repurchases of our common stock during the three months ended June 30, 2012:

Period	Total Number of Shares and Units Purchased (1)	Average Price Paid Per Share and Unit ($)	Total Number of Shares Purchased as Part of a Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased under the Program
April 1, 2012 through April 30, 2012	–	–	–	–
May 1, 2012 through May 31, 2012	4,397	$1.30	–	–
June 1, 2012 through June 30, 2012	–	–	–	–
Total shares purchased for the three months ended June 30, 2012	4,397			

(1) Represents shares of common stock withheld for income tax purposes in connection with the vesting of shares of restricted stock and restricted stock units issued to certain employees.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description
3.1	Sixth Amended and Restated Certificate of Incorporation of Primo Water Corporation (incorporated by reference to Exhibit 3.1 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1/A (File No. 333-173554) filed on May 31, 2011)
3.2	Amended and Restated Bylaws of Primo Water Corporation (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed November 16, 2010)
10.1	Loan and Security Agreement dated April 30, 2012 by and among the Company, certain subsidiaries of the Company party thereto, the lenders party thereto and TD Bank, N.A., as arranger and syndication agent and bookrunner for the lenders thereunder (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed May 2, 2012)
10.2	Credit and Security Agreement dated as of April 30, 2012 by and among the Company, certain subsidiaries of the Company party thereto and Comvest Capital II, L.P. (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed May 2, 2012)
10.3	Term Note dated as of April 30, 2012 by and among the Company, certain subsidiaries of the Company party thereto and Comvest Capital II, L.P. (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K filed May 2, 2012)
10.4	Form of Warrant to Purchase Common Stock dated as of April 30, 2012 (incorporated by reference to Exhibit 10.4 to the Company's Form 8-K filed May 2, 2012)
10.5	Registration Rights Agreement dated as of April 30, 2012 by and among the Company and certain holders of warrants issued by the Company on April 30, 2012 (incorporated by reference to Exhibit 10.5 to the Company's Form 8-K filed May 2, 2012)
10.6	Amended and Restated 2010 Omnibus Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed May 17, 2012)
10.7	Amendment No. 1 to 2010 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed May 17, 2012)
31.1	Certification of Periodic Report by Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14a and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Periodic Report by Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14a and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
101.INS**	XBRL Instance Document (1, 2)
101.SCH**	XBRL Taxonomy Extension Schema Document (1, 2)
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document (1, 2)
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document (1, 2)
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document (1, 2)
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document (1, 2)

(1) Included herewith

(2) These interactive data files shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability

under those sections.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PRIMO WATER CORPORATION
(Registrant)

Date: August 9, 2012	By:	/s/ Billy D. Prim Billy D. Prim Chairman, Chief Executive Officer and President
Date: August 9, 2012	By:	/s/ Mark Castaneda Mark Castaneda Chief Financial Officer