

ELEMENT 21 GOLF CO
Form 10QSB
November 13, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No. 0-15260

Element 21 Golf Company

(Exact name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

88-0218411
(Internal Revenue Service Employer Identification No.)

200 Queens Quay East, Unit #1, Toronto, Ontario, Canada, M5A 4K9

(Address of principal Executive offices Zip Code)

416-362-2121

Issuer's telephone number, including area code

Former name, former address and formal fiscal year if changed since last report

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

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).
Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date, 121,479,253 shares of common stock, par value \$.01 per share as of November 9, 2007.

Transitional Small Business Disclosure Format (Check One) Yes No

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PART 1 - FINANCIAL INFORMATION**Item 1 - Financial Statements****ELEMENT 21 GOLF COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2007 (unaudited)	June 30, 2007
- ASSETS -		
CURRENT ASSETS:		
Cash	\$ 813,057	\$ 1,751,178
Accounts receivable - net of allowance for doubtful accounts of \$15,000	80,134	123,155
Inventories	1,015,482	921,820
Prepaid expenses and other current assets	508,317	158,147
TOTAL CURRENT ASSETS	2,416,990	2,954,300
FIXED ASSETS - NET	190,337	244,234
TOTAL ASSETS	\$ 2,607,327	\$ 3,198,534
- LIABILITIES AND SHAREHOLDERS' DEFICIT -		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,095,413	\$ 697,649
Accrued interest	-	46,750
Deferred revenue	-	17,300
Convertible notes	-	475,000
Derivative liability	3,033,278	2,386,011
TOTAL CURRENT LIABILITIES	4,128,691	3,622,710
LONG-TERM LIABILITIES:		
Accounts payable - related parties	482,076	482,076
Loans and advances - officers/shareholders	140,321	95,006
	622,397	577,082
SHAREHOLDERS' DEFICIT:		
Preferred stock, \$.10 par value, authorized 2,447,000 shares, no shares issued and outstanding	-	-
Series A Preferred stock, \$.001 par value, authorized 2,200,000 shares, 2,113,556 shares issued and outstanding	2,114	2,114
Series B Preferred stock, \$.01 par value, authorized 353,000 shares, 352,946 shares issued and outstanding	35,295	35,295
Common stock, \$.01 par value; 300,000,000 shares authorized, 121,401,862 and 118,882,645 shares issued and outstanding at September 30, and June 30, 2007, respectively	1,214,020	1,188,826

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Additional paid-in capital	19,333,696	18,987,733
Accumulated deficit	(22,728,886)	(21,215,226)
TOTAL SHAREHOLDERS' DEFICIT	(2,143,761)	(1,001,258)
TOTAL LIABILITIES AND SHAREHOLDERS'		
DEFICIT	\$ 2,607,327	\$ 3,198,534

See notes to condensed consolidated financial statements.

ELEMENT 21 GOLF COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(unaudited)

	Three months Ended September 30,	
	2007	2006
REVENUES	\$ 131,131	\$ 1,227
COSTS AND EXPENSES		
Costs of sales	59,543	14,823
General and administrative	939,261	1,252,067
TOTAL COSTS AND EXPENSES	998,804	1,266,890
LOSS FROM OPERATIONS	(867,673)	(1,265,663)
OTHER INCOME (EXPENSE)		
Interest income	1,280	-
Interest expense	-	(554,076)
Derivative expense	(647,267)	(214,842)
	(645,987)	(768,918)
LOSS BEFORE PROVISION FOR INCOME TAXES	(1,513,660)	(2,034,581)
Provision for income taxes	-	-

redeemable at Teva Finance's option on or after August 1, 2008 with respect to Series A and on or after February 1, 2010 with respect to Series B, in either case at the principal amount, plus accrued and unpaid interest;

subject to repurchase by Teva Finance at your option on August 1, 2008, February 1, 2014 and February 1, 2019 with respect to Series A debentures and February 1, 2010, February 1, 2014 and February 1, 2019 with respect to Series B debentures or, in the case of both series, if a change of control or a termination of trading as defined in this prospectus supplement occurs; and

due on February 1, 2024, unless earlier redeemed by Teva Finance at its option or converted or repurchased by Teva Finance at your option.

The indenture restricts Teva Finance from paying dividends, incurring other indebtedness or repurchasing its or Teva's securities, except with respect to the issuance of additional securities that have the same ranking, interest rate and other terms as the debentures. The indenture does not, however, contain any other financial covenants with respect to Teva Finance or any financial covenants applicable to Teva. The indenture does not protect you in the event of a highly leveraged transaction or change of control of Teva or Teva Finance except to the extent described under **Repurchase at Option of Holders Upon a Change of Control or Termination of Trading** below.

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You may present definitive debentures for conversion, 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 conversion, registration of transfer and exchange of global debentures, see Form, Denomination and Registration.

Description of the Guarantee

Teva will irrevocably and unconditionally guarantee the punctual payment when due, whether at maturity, upon redemption or 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 debentures. The guarantee will be enforceable by the trustee, the holders and their successors, transferees and assigns.

The guarantee will be an unsecured senior obligation of Teva. As indebtedness of Teva, it will be effectively subordinated against all indebtedness and liabilities of Teva's subsidiaries.

Interest

The debentures will bear interest from January 27, 2004 at the rate of •% per year with respect to the Series A debentures and •% per year with respect to the Series B debentures, subject to adjustment upon the occurrence of a Reset Transaction. See Interest Rate Adjustments below. Teva Finance will pay interest semiannually in arrears on February 1 and August 1 of each year to the holders of record at the close of business on the preceding January 15 and July 15, respectively, beginning August 1, 2004. In general, Teva Finance will not pay interest accrued and unpaid on any debenture that is converted into Teva's ADRs. See Conversion Rights below.

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

the global debentures to DTC in immediately available funds;

any definitive debentures having an aggregate principal amount of \$5,000,000 or less by check mailed to the holders of these debentures; and

any definitive debentures 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 debentures.

At maturity, Teva Finance will pay interest on the definitive debentures 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 debentures to DTC in immediately available funds;

any definitive debentures at our office or agency in New York City, which initially will be the office or agency of the trustee in New York City.

Interest generally will be computed on the basis of a 360-day year comprised of twelve 30-day months. References to payments of interest in this section, unless the context otherwise requires, refer to the payment of interest and Additional Amounts, if any.

Interest Rate Adjustments

If a Reset Transaction occurs, the interest rate with respect to a series will be adjusted to equal the Adjusted Interest Rate for such series from the effective date of such Reset Transaction to, but not including, the effective date of any succeeding Reset Transaction.

A Reset Transaction means:

a merger, consolidation or statutory share exchange to which the issuer of the ordinary shares is a party;

a sale of all or substantially all the assets of that issuer;

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a recapitalization of those ordinary shares; or

a distribution described in clause (4) of the ninth paragraph under Conversion Procedures below, after the effective date of which transaction or distribution the debentures would be convertible into:

ordinary shares or ADRs which had a dividend yield for the four fiscal quarters of such entity immediately preceding the public announcement of the transaction or distribution that was more than 2.5 percentage points higher than the dividend yield on Teva's ADRs or ordinary shares for the four fiscal quarters preceding the public announcement of the transaction or distribution; or

ordinary shares or ADRs of an entity that announces a dividend policy prior to the effective date of the transaction or distribution which policy, if implemented, would result in a dividend yield on that entity's ordinary shares for the next four fiscal quarters that would result in such a 2.5 percentage point increase.

The Adjusted Interest Rate with respect to any Reset Transaction and any series of debentures will be the rate per year that is the arithmetic average of the rates quoted by two dealers engaged in the trading of convertible securities selected by Teva Finance or its successor as the rate at which interest should accrue so that the fair market value, expressed in dollars, of a debenture of such series immediately after the later of:

the public announcement of the Reset Transaction; or

the public announcement of a change in dividend policy in connection with the Reset Transaction,

will most closely equal the average Trading Price (as defined below) of a debenture of such series for the 20 trading days preceding the date of such public announcement. However, the Adjusted Interest Rate will not be less than $\bullet\%$ per year with respect to the Series A debentures and $\bullet\%$ with respect to the Series B debentures.

For purposes of the definition of Reset Transaction, the dividend yield on any security, including an ADR, for any period means the dividends paid or proposed to be paid pursuant to an announced dividend policy on the security or, in the case of an ADR, on the aggregate securities represented by that ADR for that period, divided by, if with respect to dividends paid on that security, the average Trading Price of the security during that period and, if with respect to dividends proposed to be paid on the security, the Trading Price of such security on the effective date of the related Reset Transaction.

The Trading Price of a security on any date of determination means:

the closing sale price of that security on the New York Stock Exchange (NYSE) on that date;

if that security is not listed on the NYSE on that date, the closing sale price as reported on that date by the Nasdaq National Market;

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if that security is not so listed on the NYSE and not quoted on the Nasdaq National Market on that date, the closing sale price as reported on that date in the composite transactions for the principal U.S. securities exchange on which that security is listed;

if that security is not so listed on a U.S. national or regional securities exchange or quoted on the Nasdaq National Market on that date, the dollar equivalent of the closing sale price of the security on that date on the Tel Aviv Stock Exchange;

if that security is not so reported, the last price quoted by Interactive Data Corporation for that security on that date or, if Interactive Data Corporation is not quoting such price, a similar quotation service selected by us;

if that security is not so quoted, the average of the mid-point of the last bid and ask prices for that security on that date from at least two dealers recognized as market-makers for that security selected by us for this purpose;

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if such bid and ask prices are not available, the average of that last bid and ask prices for that security on that date from a dealer engaged in the trading of securities of the same type as such security selected by us for this purpose; or

if such bid and ask prices are not available, the conversion value of the debentures, as described in Conversion Rights Conversion Upon Satisfaction of Market Price Conditions below.

Conversion Rights

General

You may convert any outstanding debentures at the times described below into Teva's ADRs, initially at the initial conversion rate per \$1,000 principal amount of debentures of:

- (which is equivalent to a conversion price of approximately \$• per ADR) with respect to Series A debentures; and
- (which is equivalent to a conversion price of approximately \$• per ADR) per ADR with respect to Series B debentures.

The conversion rate is, however, subject to adjustment as described below. You will not receive fractional ADRs upon conversion of debentures. Instead, Teva Finance will pay a cash adjustment based upon the Trading Price of Teva's ADRs on the business day immediately preceding the conversion date. You may convert debentures only in denominations of \$1,000 and whole multiples of \$1,000. Upon a conversion, we will have the right to deliver cash or a combination of cash and ADRs, as described below.

Holders may surrender debentures of a series for conversion into Teva's ADRs only under the following circumstances:

during any conversion period, as described below, if the Trading Price, as defined above, of Teva's ADRs for at least 20 trading days in the 30-trading-day period ending on the first day of the conversion period was more than 130% of the conversion price in effect per ADR at that thirtieth trading day;

during the five-business-day period following any 10-consecutive-trading-day period in which the average of the Trading Prices for the debentures of such series for that 10-trading-day period was less than 98% of the average conversion value, as described below, for the debentures of such series during that period;

during any period in which the senior unsecured debt rating assigned to Teva by Standard & Poor's is below BB+, or during which Standard & Poor's has no such rating;

if Teva Finance has called the debentures for redemption; or

upon the occurrence of the specified corporate transactions discussed below.

You may exercise conversion rights under the conditions described above prior to, but not later than, the close of business on the business day preceding the maturity date of the debentures of such series. However, if you are a holder of debentures of such series that have been called for redemption, you must exercise your conversion rights prior to the close of business on the second business day preceding the redemption date for such series, unless Teva Finance defaults in payment of the redemption price. In addition, if you have exercised your right to require Teva Finance to repurchase your debentures you may convert your debentures into Teva's ADRs only if you withdraw your notice and convert your debentures prior to the close of business on the business day immediately preceding the repurchase date.

Conversion Upon Satisfaction of Market Price Conditions

You may surrender any of your debentures for conversion into Teva's ADRs during any conversion period if the Trading Price, as defined above, of Teva's ADRs for at least 20 trading days in the 30-trading-day period

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ending on the first day of the conversion period exceeds 130% of the conversion price per share of Teva's ADRs on that thirtieth trading day. A conversion period will be the period from and including the thirtieth trading day in a fiscal quarter to but not including the thirtieth trading day in the immediately following fiscal quarter.

You also may surrender any of your debentures of a series for conversion into Teva's ADRs during the five-business-day period following any 10-consecutive-trading-day period in which the average of the Trading Prices for the debentures of that series for that 10-trading-day period was less than 98% of the average conversion value for the debentures of such series during that period. Conversion value with respect to debentures of a series is equal to the product of the Trading Price for Teva's ADRs on a given day multiplied by the then-current conversion rate with respect to that series, which is the number of Teva's ADRs into which each debenture of such series is then convertible.

Conversion Upon Credit Rating Event

You may surrender any of your debentures for conversion during any conversion period in which the senior unsecured debt rating assigned to Teva by Standard & Poor's Ratings Group is below BB+, or in which such rating assigned to Teva is suspended or withdrawn by Standard & Poor's or in which Standard & Poor's is not rating Teva.

Conversion Upon Notice of Redemption

You may surrender for conversion any debentures we call for redemption at any time prior to the close of business on the day that is two business days prior to the redemption date, even if the debentures are not otherwise convertible at that time. If you already have exercised your right to require Teva Finance to repurchase your debentures, you may not surrender such debentures for conversion until you have withdrawn the notice in accordance with the indenture.

Conversion Upon Specified Corporate Transactions

If Teva elects to:

distribute to all holders of Teva's ordinary shares certain rights entitling them to purchase, for a period expiring within 60 days, Teva's ordinary shares (directly or indirectly through ADRs) at less than the Trading Price of Teva's ordinary shares at that time; or

distribute to all holders of Teva's ordinary shares assets, debt securities or certain rights to purchase Teva's securities, which distribution has a per share value exceeding 5% of the Trading Price of Teva's ordinary shares on the day preceding the declaration date for the distribution,

Teva Finance must notify the holders of debentures at least 20 days prior to the ex-dividend date for the distribution. Once Teva Finance has given that notice, holders may surrender their debentures for conversion at any time until the earlier of close of business on the business day prior to the ex-dividend date or its announcement that the distribution will not take place. No adjustment to the ability of a holder of debentures to convert will be made if the holder will otherwise participate in the distribution without conversion.

In addition, if Teva is party to a consolidation, merger or binding share exchange pursuant to which Teva's ordinary shares would be converted into cash, securities or other property, a holder may surrender debentures for conversion at any time from and after the date which is 15 days prior to the anticipated effective date of the transaction until 15 days after the actual date of the transaction. If Teva is party to a consolidation, merger or binding share exchange pursuant to which Teva's ordinary shares are converted into cash, securities or other property, then at the effective time of the transaction, the right to convert a debenture into Teva's ordinary shares will be changed into a right to convert the debentures into the kind and amount of cash, securities or other property which the holder would have received if the holder had converted such debentures immediately prior to the transaction. If the transaction also constitutes a change of control, as defined below, the holder can require us to repurchase all or a portion of its debentures as described under "Repurchase at Option of Holders Upon a Change of Control or Termination of Trading."

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Conversion Procedures

Upon exercise of your conversion rights or, if Teva Finance so elects, following exercise of your repurchase rights, Teva Finance will be obligated to deliver the number of Teva ADRs to which you are entitled. In the indenture Teva has agreed with Teva Finance and with each holder to deliver its ADRs (or, in the event we make the election described below, cash in lieu of ADRs) to Teva Finance to satisfy exercises of such rights. Teva has reserved • of its ordinary shares for issuance, which shares it has agreed to deposit in exchange for its ADRs upon the conversion of the debentures (reflecting exercise in full of the underwriters' over-allotment option).

Except as provided below, if you convert your debentures into Teva's ADRs on any day other than an interest payment date, you will not receive any interest that has accrued on these debentures. By delivering to the holder the number of ADRs issuable upon conversion, together with a cash payment, if any, in lieu of fractional ADRs, Teva Finance will satisfy its obligation with respect to the debentures. However, for U.S. federal income tax purposes, accrued but unpaid interest will be deemed to be paid in full rather than canceled, extinguished or forfeited.

If you convert after a record date for an interest payment but prior to the corresponding interest payment date, you will receive on the interest payment date interest accrued and unpaid on such debentures, notwithstanding the conversion of such debentures prior to such interest payment date, because you will have been the holder of record on the corresponding record date. However, at the time you surrender such debentures for conversion, you must pay Teva Finance an amount equal to the interest that is scheduled to be paid on such interest payment date in respect of the debentures being converted.

You are not required to make such payment if you convert your debentures after they are called by Teva Finance for redemption. Accordingly, if Teva Finance calls your debentures for redemption on a date that is after a record date for an interest payment but prior to the corresponding interest payment date, and prior to the redemption date you choose to convert your debentures, you will not be required to pay Teva Finance at the time you surrender such debentures for conversion the amount of interest on such debentures you will receive on the date that has been fixed for redemption. Furthermore, if Teva Finance calls your debentures for redemption on a date that is prior to a record date for an interest payment date, and prior to the redemption date you choose to convert your debentures, you will receive on the date that has been fixed for redemption the amount of interest you would have received if you had not converted your debentures.

You will not be required to pay any taxes (other than income taxes, if any) or duties relating to the issuance or delivery of Teva's ADRs if you exercise your conversion rights, but you will be required to pay any tax or duty which may be payable relating to any transfer involved in the issuance or delivery of the ADRs in a name other than yours. ADRs will be issued or delivered only after all applicable taxes and duties, if any, payable by you have been paid. In addition, you will be required to pay charges upon conversion of the debentures into ADRs. See "Description of American Depositary Shares" - "Charges of Depositary" in the accompanying prospectus.

To convert interests in the global debentures, you must deliver to DTC, Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") or Clearstream Banking S.A. (formerly Cedelbank) ("Clearstream"), as applicable, the appropriate instruction form for conversion pursuant to DTC's conversion program or in accordance with the normal operating procedures of Euroclear or Clearstream, as applicable, after application has been made to make the underlying ADRs eligible for trading on Euroclear or Clearstream, as applicable. To convert a definitive debenture, you must:

complete the conversion notice on the back of the debenture or a copy of the notice;

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deliver the completed conversion notice and the debentures to be converted to the specified office of the conversion agent;

pay all funds required, if any, relating to interest on the debentures to be converted to which you are not entitled, as described in the second and third preceding paragraphs; and

pay all taxes or duties, if any, and ADR issuance fees, as described in the preceding paragraph.

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The conversion date will be the date on which all of the foregoing requirements have been satisfied. The debentures will be deemed to have been converted immediately prior to the close of business on the conversion date. An ADR into which the debentures are converted, and cash in lieu of any fractional ADRs, will be delivered as soon as practicable on or after the conversion date.

In lieu of delivering all or a portion of the Teva ADRs otherwise deliverable upon conversion of any debentures, we may elect to pay holders an amount in cash per ADR equal to the applicable ADR Trading Price in effect for the relevant conversion date. We will inform the holders through the trustee no later than two business days following the conversion date whether we will deliver Teva ADRs or pay cash in lieu of delivering the shares, or a combination thereof. Our ADRs and cash deliverable upon conversion will be delivered through the conversion agent no later than the third business day following the determination of the applicable stock price. If the principal amount of the debentures has been accelerated and such acceleration has not been rescinded, we may not pay cash upon conversion of any debentures or portion of the debentures (other than cash for fractional ADRs).

Teva Finance will adjust the initial conversion rate with respect to debentures of a series upon:

- (1) the issuance of Teva ordinary shares as a dividend or a distribution on Teva's ordinary shares, in which event the conversion rate will be adjusted by multiplying the conversion rate by a fraction:

the numerator of which is the sum of (a) the number of Teva ordinary shares outstanding on the record date fixed for the dividend or distribution plus (b) the total number of shares constituting the dividend or distribution; and

the denominator of which is the number of Teva ordinary shares outstanding on the record date fixed for the dividend or distribution;

- (2) subdivisions, splits and combinations of Teva's ordinary shares, in which event the conversion rate will be proportionately increased or reduced;

- (3) the issuance by Teva of rights or warrants to all holders of Teva ordinary shares entitling holders to subscribe for or purchase Teva ordinary shares for less than their current market price, in which event the conversion rate will be adjusted by multiplying the conversion rate by a fraction:

the numerator of which is the sum of (a) the number of Teva ordinary shares outstanding on the record date fixed for the distribution plus (b) the total number of additional Teva ordinary shares offered for subscription or purchase; and

the denominator of which is the sum of (a) the number of Teva ordinary shares outstanding on the record date fixed for the distribution plus (b) the total number of Teva ordinary shares which the aggregate offering price of the total number of Teva ordinary shares offered for subscription or purchase would purchase at the current market price;

- (4) distributions to all holders of Teva ordinary shares of our assets, debt securities, shares of our capital stock or rights or warrants to purchase our securities (excluding (A) any dividend, distribution or issuance covered by clause (1) or (3) above and (B) any dividend or distribution paid exclusively in cash), in which event the conversion rate will be adjusted by multiplying the conversion rate by a fraction:

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the numerator of which is the current market price of a share of Teva's ordinary shares; and

the denominator of which is (a) the current market price of a share of Teva's ordinary shares minus (b) the fair market value, as determined by our board of directors, except as described in the following paragraph, of the portion of those assets, debt securities, shares of capital stock or rights or warrants so distributed applicable to one share of common stock.

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In the event that we make a distribution to all holders of Teva ordinary shares consisting of capital stock of, or similar equity interests in, a subsidiary or other business unit of ours, the conversion rate will be adjusted based on the market value of the securities so distributed relative to the market value of Teva's ordinary shares, in each case based on the average of the closing sales prices of those securities for each of the 10 trading days commencing on and including the fifth trading day after the date on which ex-dividend trading commences for such dividend or distribution on the NYSE, Nasdaq National Market, or such other national or regional exchange or market on which the securities are then listed or quoted;

- (5) distributions by us consisting exclusively of cash to all holders of Teva ordinary shares, excluding any cash dividend on Teva ordinary shares to the extent that the aggregate cash dividend per share of Teva ordinary shares in any quarterly period does not exceed the greater of:
- (A) the preceding quarterly cash dividend on Teva ordinary shares to the extent that such quarterly dividend did not exceed the greater of the amounts under this clause (A) and the following clause (B) calculated at the time of payment, as adjusted to reflect subdivisions or combinations of our ordinary shares after payment of such preceding quarterly dividend;
 - (B) 0.125% of the arithmetic average of the closing prices of Teva ordinary shares during the ten trading days immediately prior to the declaration of the dividend; and
 - (C) \$.075 per share, as adjusted to reflect subdivisions or combinations of Teva ordinary shares;

in which event the conversion rate will be adjusted by multiplying the conversion rate by a fraction:

the numerator of which will be the current market price of a share of Teva's ordinary shares; and

the denominator of which will be (a) the current market price of a share of Teva's ordinary shares minus (b) the amount per share of such dividend increase (as determined below) or distribution.

If an adjustment is required to be made under this clause (5) as a result of a cash dividend in any three-month period that exceeds the dividend threshold amounts, the adjustment would be based upon the amount by which the distribution exceeds the dividend threshold amount (the dividend increase). If an adjustment is otherwise required to be made under this clause (5), the adjustment would be based upon the full amount of the distribution; and

- (6) purchases of Teva ordinary shares or ADRs pursuant to a tender offer made by Teva or any of its subsidiaries to the extent that the same involves an aggregate consideration that, together with:
- (A) any cash and the fair market value of any other consideration paid in any other tender offer by Teva or any of its subsidiaries for Teva ordinary shares or ADRs expiring within the 12 months preceding such tender offer for which no adjustment has been made, plus
 - (B) the aggregate amount of any all-cash distributions referred to in clause (5) above to all holders of Teva ordinary shares within 12 months preceding the expiration of such tender offer for which no adjustments have been made,

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exceeds 10% of Teva's market capitalization on the expiration of such tender offer, in which event the conversion rate will be adjusted by multiplying the conversion rate by a fraction:

the numerator of which will be the product of (a) the number of Teva ordinary shares outstanding (including any tendered shares) at the expiration of the tender offer and (b) the current market price of a share of Teva's ordinary shares at such expiration time; and

the denominator of which will be (a) the product of (X) the number of Teva ordinary shares outstanding (including any tendered shares) at the expiration of the tender offer and (Y) the current market price of Teva's ordinary shares at such expiration time minus (b) the amount by which such combined amounts exceeds 10% of Teva's market capitalization.

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If rights or warrants for which an adjustment to the conversion ratio has been made expire unexercised, the conversion ratio will be readjusted to take into account the actual number of such rights or warrants which were exercised.

The above adjustments assume that each ADR continues to represent one Teva ordinary share. If the number of Teva ordinary shares represented by each ADR changes, the conversion ratio will be adjusted accordingly.

We will not be required to make an adjustment in the base conversion rate unless the adjustment would require a change of at least 1% in the base conversion rate; provided that we will carry forward any adjustments that are less than 1% of the base conversion rate and make such carried forward adjustments within one year of the first such adjustment carried forward, regardless of whether the aggregate adjustment is less than 1%, or, if earlier, the date on which such carried forward adjustments first exceed 1% of the base conversion rate.

If Teva:

reclassifies or changes its ordinary shares (other than changes resulting from a subdivision, split or combination); or

consolidates or combines with or merges into any person, or sells or conveys to another person all or substantially all of the property and assets of Teva and its subsidiaries, or liquidates, dissolves or winds up

and the holders of Teva's ordinary shares receive ordinary shares, other securities or other property or assets (including cash or any combination thereof) with respect to or in exchange for their ordinary shares, the debentures will become convertible into the consideration they would have received if they had converted their debentures immediately prior to such reclassification, change, consolidation, combination, merger, sale or conveyance. Teva may not become a party to any such transaction unless its terms are consistent with the foregoing.

The conversion price at which, and the property or assets into which, the debentures are convertible after an adjustment described in this section Conversion Procedures shall be subject to further adjustment in the same manner when subsequent events of the type described in this section occur.

If a taxable distribution to holders of Teva's ADRs or ordinary shares or other transaction occurs which results in any adjustment of the conversion ratio, you may be deemed to have received a distribution subject to U.S. income tax as a dividend. In other circumstances, the absence of an adjustment may result in a taxable dividend to the holders of our ADRs. See United States Federal Income Tax Considerations.

Teva Finance may from time to time, to the extent permitted by law, increase the conversion ratio of the debentures by any amount for any period of at least 20 days. In that case, Teva Finance will give at least 15 days' notice of such increase.

Distribution of Teva Ordinary Shares Instead of Teva ADRs

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Upon conversion of your debentures, you will receive ADRs representing Teva ordinary shares. If you receive Teva ADRs and prefer to hold Teva ordinary shares directly, you may withdraw the underlying Teva ordinary shares by following the relevant procedures of the depositary for the Teva ordinary shares. Such withdrawals are expected to be subject only to

- (1) any temporary delays caused by closing transfer books of the depositary or Teva or the deposit of shares in connection with voting at a shareholders meeting, or the payment of dividends, if applicable,

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- (2) the payment of any related fees, taxes, and similar charges (which you will be responsible for), and
- (3) compliance with any U.S. or foreign laws or governmental regulations in force at that time relating to Teva ADRs or to the withdrawal of deposited securities.

If, following conversion of your debentures into ADRs, you decide to withdraw the underlying Teva ordinary shares in exchange for your ADRs, your ability to sell the ordinary shares on the Tel Aviv Stock Exchange may be restricted under Israeli law under one of the following restrictions:

- (1) you may not sell the ordinary shares on the Tel Aviv Stock Exchange for a period of 24 months following the initial issuance of the debentures; or
- (2) you may not sell the ordinary shares for a period of three to twelve months following the initial issuance of the debentures, and in addition, you may be subject to certain volume limitations on the sale of such shares for an additional twelve to twenty-four month period.

However, these restrictions will not affect your ability to sell the ADRs or your ability to sell the ordinary shares other than on the Tel Aviv Stock Exchange.

Each Teva ADR currently represents one Teva ordinary share. Teva ADRs may, however, in the future represent other securities or property as well, as a result of any non-cash distributions in respect of Teva ordinary shares that are not distributed to Teva ADR holders but instead are held by the depositary on behalf of Teva ADR holders. The terms of the deposit agreement defining the rights of holders of Teva ADRs may be altered at any time, and the deposit agreement may be replaced by another deposit agreement with differing terms.

Any Teva ADRs we deliver to you will be transferable by you to the same extent as the debentures you held (assuming you are not affiliated with Teva or Teva Finance and excepting any transfer restrictions you have yourself caused). You will be responsible for paying any and all brokerage costs if you sell any Teva ADRs you receive. Teva will not issue fractional Teva ADRs.

If Teva ordinary shares cease to be represented by ADRs issued under a depositary receipt program sponsored by Teva, or Teva ADRs cease to be quoted on the Nasdaq National Market (and are not at that time listed on the New York Stock Exchange or another United States national securities exchange), all references in this offering memorandum to the Teva ADRs will be deemed to have been replaced by a reference to:

- (1) the number of Teva ordinary shares corresponding to the Teva ADRs on the last day on which the Teva ADRs were quoted on the Nasdaq National Market; and
- (2) as adjusted pursuant to the adjustment provisions above, any other property the Teva ADRs represented as if such other property had been distributed to holders of the Teva ADRs on that day.

Optional Redemption by Teva Finance

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At any time on or after August 1, 2008 with respect to Series A and on or after February 1, 2010 with respect to Series B, Teva Finance may redeem some or all of the debentures at a redemption price equal to 100% of the principal amount of the debentures plus accrued and unpaid interest, except for debentures that it is required to repurchase as provided under Repurchase at Option of Holders On Specified Dates. Teva Finance must give at least 20 but not more than 60 days notice of any redemption. The notice of redemption will inform the holders of our election to deliver Teva ADRs or to pay cash or a combination of cash and Teva ADRs in the event that a holder elects to convert debentures in connection with the redemption.

In addition, Teva Finance will pay interest on the debentures being redeemed, including those debentures that are converted into Teva's ADRs after the date the notice of the redemption is mailed and prior to the redemption date. This interest will include interest accrued and unpaid to, but excluding, the redemption date. If

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the redemption date is an interest payment date, Teva Finance will pay the interest to the holder of record on the corresponding record date, which may or may not be the same person to whom Teva Finance will pay the redemption price.

If Teva Finance does not redeem all of the debentures, the trustee will select the debentures to be redeemed in principal amounts of \$1,000 or whole multiples of \$1,000 by lot or on a pro rata basis. If any debentures are to be redeemed in part only, Teva Finance will issue a new debenture or debentures in principal amount equal to the unredeemed principal portion thereof. If a portion of your debentures is selected for partial redemption and you convert or elect repurchase of a portion of your debentures, the converted or repurchased portion will be deemed to be taken from the portion selected for redemption.

If you have exercised your right to require Teva Finance to repurchase your debentures, you may participate in a redemption by Teva Finance only if you withdraw your notice prior to the close of business on the business day preceding the repurchase date.

Repurchase at Option of Holders

On Specified Dates

Each holder may require the Teva Finance to purchase the debentures on the following dates:

in the case of Series A debentures, on August 1, 2008, February 1, 2014 and February 1, 2019; and

in the case of Series B debentures, on February 1, 2010, February 1, 2014 and February 1, 2019.

On these dates, you will have the right to require Teva Finance to repurchase all of your debentures, or any portion of those debentures, that is equal to \$1,000 or a whole multiple of \$1,000, for which a written purchase notice has been properly delivered and not withdrawn. You may submit your debentures for repurchase to The Bank of New York, as paying agent (the "paying agent") at any time from the opening of business on the date that is 20 business days prior to the repurchase date until the close of business on the business day prior to the repurchase date.

The repurchase price of a debenture will be equal to 100% of its principal amount plus accrued and unpaid interest.

With respect to a repurchase on August 1, 2008, in the case of the Series A debentures, or on February 1, 2010, in the case of the Series B debentures, instead of paying the repurchase price in cash, Teva Finance may, at its option, pay the purchase price in cash or Teva ADRs, or any combination of cash or ADRs. The number of Teva's ADRs a holder will receive will equal the repurchase price divided by the average Trading Price of Teva's ADRs for the five trading day period ending on the third business day prior to the applicable repurchase date, appropriately adjusted to take into account the occurrence of events that would result in an adjustment of the conversion rate with respect to Teva's ADRs.

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Teva Finance will be required to give notice on a date not less than 20 business days prior to the repurchase date to all holders of debentures, stating among other things:

whether Teva Finance will pay the purchase price of debentures in cash or Teva's ADRs or any combination of cash and ADRs, specifying the percentages of each;

if Teva Finance elects to pay in ADRs the method of calculating the price of the ADRs; and

the procedures that holders must follow to require Teva Finance to purchase their debentures.

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The repurchase notice given by each holder electing to require Teva Finance to repurchase debentures shall state:

the certificate numbers of the holder's debentures to be delivered for repurchase;

the portion of the principal amount of debentures to be repurchased, which must be \$1,000 or an integral multiple of \$1,000;

that the debentures are to be purchased by Teva Finance pursuant to the applicable provisions of the debentures; and

in the event Teva Finance elects, in the notice that it is required to give, to pay the repurchase price in Teva's ADRs, in whole or in part, but the repurchase price is ultimately to be paid to the holder entirely in cash because any of the conditions to payment of the repurchase price or portion of the repurchase price in ADRs is not satisfied prior to the close of business on the repurchase date, as described below, whether the holder elects:

- (1) to withdraw the repurchase notice as to some or all of the debentures to which it relates, or
- (2) to receive cash in respect of the entire purchase price for all debentures or portions of debentures subject to such repurchase notice.

If the holder fails to indicate the holder's choice with respect to the election described in the final bullet point above, the holder shall be deemed to have elected to receive cash in respect of the entire purchase price for all debentures subject to the purchase notice in these circumstances.

Any repurchase notice may be withdrawn by the holder by a written notice of withdrawal delivered to the paying agent prior to the close of business on the business day prior to the purchase date. In the event that Teva Finance exercises its right to redeem the debentures, you may participate in a redemption only if you provide such written notice of withdrawal on a timely basis.

The notice of withdrawal shall state:

the principal amount at maturity being withdrawn;

the certificate numbers of the debentures being withdrawn; and

the principal amount at maturity, if any, of the debentures that remains subject to the purchase notice.

Teva Finance will pay cash based on the average market price for all fractional shares of ADRs in the event it elects to deliver ADRs in payment, in whole or in part, of the purchase price.

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Because the average market price of the ADRs is determined prior to the applicable purchase date, holders of debentures bear the market risk with respect to the value of the ADRs to be received from the date such average market price is determined to such purchase date. Teva Finance may pay the purchase price or any portion of the purchase price in ADRs only if the information necessary to calculate the average Trading Price is published in a daily newspaper of national circulation within the United States.

Upon determination of the actual number of ADRs in accordance with the foregoing provisions, Teva Finance will publish such information in The Wall Street Journal and on Teva's Web site on the World Wide Web.

Teva Finance's right to purchase debentures, in whole or in part, with Teva's ADRs is subject to our satisfying various conditions, including the registration of the ADRs under the Securities Act and the Securities Exchange Act of 1934, as amended (the Exchange Act), if required.

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If such conditions are not satisfied with respect to a holder prior to the close of business on the purchase date, Teva Finance will pay the purchase price of the debentures of the holder entirely in cash. Teva Finance may not change the form or components or percentages of components of consideration to be paid for the debentures once Teva Finance has given the notice that it is required to give to holders of debentures, except as described in the first sentence of this paragraph.

In connection with any purchase offer, Teva Finance will:

comply with the provisions of Rule 13e-4, Rule 14e-1 and any other tender offer rules under the Exchange Act which may then be applicable; and

file Schedule 13E-4 or any other required schedule under the Exchange Act.

Payment of the purchase price for a debenture for which a purchase notice has been delivered and not validly withdrawn is conditioned upon delivery of the debenture, together with necessary endorsements, to the paying agent at any time after delivery of the purchase notice. Payment of the purchase price for the debenture will be made promptly following the later of the purchase date or the time of delivery of the debenture.

Holders may surrender a debenture for purchase by Teva Finance by means of book entry delivery in accordance with the provisions set forth in the indenture and the regulations of DTC. A security will be considered to have been surrendered to a paying agent upon receipt by such paying agent of a copy of an irrevocable notice given by DTC to the holder of the certificate corresponding to such security instructing it to deliver such certificate to the relevant registrar for cancellation.

If the paying agent holds money or securities sufficient to pay the purchase price of the debenture on the business day following the purchase date in accordance with the terms of the indenture, then, immediately after the purchase date, the debenture will cease to be outstanding and interest on such debenture will cease to accrue, whether or not the debenture is delivered to the paying agent. Thereafter, all other rights of the holder shall terminate, other than the right to receive the purchase price upon delivery of the debenture.

No debentures may be purchased for cash at the option of holders if there has occurred and is continuing an event of default with respect to the debentures described under **Events of Default** other than a default in the payment of the purchase price with respect to such debentures.

Upon a Change of Control or a Termination of Trading

If a change of control (as defined below) or a termination of trading occurs, you will have the right to require Teva Finance to repurchase all of your debentures not previously called for redemption, or any portion of those debentures that is equal to \$1,000 or a whole multiple of \$1,000. The repurchase date is 45 days after the date Teva Finance gives notice of a change of control or a termination of trading.

The repurchase price of a debenture will be equal to 100% of its principal amount plus accrued and unpaid interest.

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Instead of paying the repurchase price in cash upon a change of control, Teva Finance may, at its option, pay the repurchase price in cash or Teva ADRs, or any combination of cash and ADRs. The number of ADRs a holder will receive will equal the repurchase price divided by 100% of the average Trading Price of Teva ADRs calculated as described above under **Repurchase at Option of Holders On Specified Dates**.

Within 30 days after the occurrence of a change of control or a termination of trading, Teva Finance is required to notify you of such occurrence and your resulting repurchase right. The notice will be similar to the

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notice described under Repurchase at Option of Holders On Specified Dates. To exercise the repurchase right, you must deliver prior to or on the 30th day after the date of Teva Finance's notice, written notice to the trustee of your exercise of your repurchase right.

The repurchase notice given by each holder electing to require Teva Finance to repurchase debentures shall contain the information described under Repurchase at Option of Holders On Specified Dates.

Teva Finance will pay cash based on the average market price for all fractional shares of ADRs in the event Teva Finance elects to deliver ADRs in payment of the repurchase price upon a change of control.

You may withdraw this notice by delivering to the paying agent a notice of withdrawal prior to the close of business on the business day immediately preceding the repurchase date, so long as you also convert these debentures prior to the close of business on the business day immediately preceding the repurchase date. Teva Finance will not pay interest accrued and unpaid on any of the debentures you convert.

A change of control will be deemed to have occurred at such time after the original issuance of the debentures when either of the following has occurred:

the acquisition by any person, including any syndicate or group deemed to be a person under Section 13(d)(3) of the Exchange Act of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of transactions of shares of Teva's capital stock entitling that person to exercise 50% or more of the total voting power of all shares of Teva's capital stock entitled to vote generally in elections of directors, other than any acquisition by Teva, any of its subsidiaries, including Teva Finance, or any employee benefit plans; or

Teva's consolidation or merger with or into any other person, any merger of another person into Teva, or any conveyance, transfer, sale, lease or other disposition of all or substantially all of Teva's properties and assets to another person, other than any transaction (A) that does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of Teva's capital stock or (B) pursuant to which holders of Teva's capital stock immediately prior to the transaction have the entitlement to exercise, directly or indirectly, 50% or more of the total voting power of all shares of Teva's capital stock entitled to vote generally in the election of directors of the continuing or surviving person immediately after the transaction.

However, a change of control will be deemed not to have occurred if

(1) at least 90% of the consideration in the transaction or transactions constituting a change in control consists of securities traded or to be traded immediately following such change in control on a U.S. national securities exchange or the Nasdaq National Market and, as a result of such transaction or transactions, the debentures become convertible solely into such security; or

(2) the closing sale price per share of Teva's ADRs for any five trading days within:

the period of 10 consecutive trading days ending immediately after the later of the change of control or the public announcement of the change of control, in the case of a change of control under the first clause of the definition of change of control above, or

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the period of 10 consecutive trading days ending immediately before the change of control, in the case of a change of control under the second clause of the definition of change of control above,

equals or exceeds 110% of the conversion price of the debentures in effect on each such trading day.

The beneficial owner shall be determined in accordance with Rule 13d-3 promulgated by the SEC under the Exchange Act. The term person includes any syndicate or group which would be deemed to be a person under Section 13(d)(3) of the Exchange Act.

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A termination of trading will be deemed to have occurred if neither our ADRs nor our ordinary shares are listed for trading on a U.S. national securities exchange, reported on a U.S. national securities system subject to last sale reporting or quoted on the Nasdaq National Market.

Teva Finance's right to purchase debentures, in whole or in part, with Teva's ADRs upon a change of control is subject to our satisfying various conditions, including the registration of the ADRs under the Securities Act and the Exchange Act, if required.

If such conditions are not satisfied with respect to a holder prior to the close of business on the purchase date, Teva Finance will pay the purchase price of the debentures of the holder entirely in cash. Teva Finance may not change the form or components or percentages of components of consideration to be paid for the debentures once Teva Finance has given the notice it is required to give to holders of debentures, except as described in the first sentence of this paragraph.

In connection with any purchase offer, Teva Finance will:

comply with the provisions of Rule 13e-4, Rule 14e-1 and any other tender offer rules under the Exchange Act which may then be applicable; and

file Schedule 13E-4 or any other required schedule under the Exchange Act.

Teva Finance may, to the extent permitted by applicable law, at any time purchase the debentures in the open market or by tender at any price or by private agreement. Any debenture so purchased may, to the extent permitted by applicable law, be reissued or resold or may be surrendered to the trustee for cancellation. Any debentures surrendered to the trustee may not be reissued or resold and will be canceled promptly.

The change of control feature of the debentures may in certain circumstances make more difficult or discourage a takeover of Teva and thus, the removal of incumbent management. The repurchase right is not the result of Teva or Teva Finance's knowledge of any effort of any party to accumulate any ADRs or ordinary shares or to obtain control of Teva by means of a merger, tender offer, solicitation, or otherwise, or part of a plan by us to adopt a series of anti-takeover provisions. Instead, this right is the result of negotiations between us and the initial purchasers.

The foregoing provisions would not necessarily protect holders of the debentures if highly leveraged or other transactions involving us occur that may adversely affect holders.

Teva Finance's ability to repurchase debentures on August 1, 2008, February 1, 2010, February 1, 2014 and February 1, 2019, upon the occurrence of a change of control or upon a termination of trading is subject to important limitations. The occurrence of a change of control or a termination of trading could cause an event of default under, or be prohibited or limited by, the terms of debt that Teva may incur in the future. If Teva is restricted from issuing ADRs to pay the repurchase price, as permitted under the indenture, it may not have sufficient financial resources or may not be able to arrange financing to pay the repurchase price in cash. Any failure by Teva to repurchase the debentures when required would result in an event of default under the indenture. Any such default may, in turn, cause a default under other debt that Teva may incur in the future.

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 debentures at maturity, upon redemption or exercise of a repurchase right or otherwise;

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- (2) Teva Finance's failure to pay an installment of interest on any of the debentures for 30 days after the date when due;
- (3) Teva's failure to perform its obligations under the guarantee;
- (4) Teva's or Teva Finance's failure to perform or observe any other term, covenant or agreement contained in the debentures or the indenture 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 debentures then outstanding;
- (5) 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 \$25 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 debentures 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

- (6) Teva or Teva Finance's bankruptcy, insolvency or reorganization.

The indenture will provide that the trustee shall (other than in the case of (6) above, which shall result in the debentures becoming immediately due and payable), within 90 days of the occurrence of a default, give to the registered holders of the debentures 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 or interest on, any of the debentures 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 the debentures then outstanding may declare the principal amount of the debentures 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 debentures by appropriate judicial proceedings. Such declaration may be rescinded or annulled either with the written consent of the holders of a majority in aggregate principal amount of the debentures then outstanding or a majority in aggregate principal amount of the debentures represented at a meeting at which a quorum is present, in each case upon the conditions provided in the indenture.

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 by the holders of debentures 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 debentures then outstanding through their written consent, or the holders of a majority in aggregate principal amount of the debentures 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.

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Indebtedness means, with respect to any person:

(1)