Teva Pharmaceutical Finance Netherlands III B.V.
Form 424B5
July 19, 2016
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Filed Pursuant to Rule 424(b)(5)
Registration Nos. 333-201984,
333-201984-09

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Amount of Registration Fee
Teva Pharmaceutical Finance Netherlands III B.V. 1.400% Senior Notes due 2018	$1,500,000,000	$151,050[1]
Teva Pharmaceutical Industries Limited Guarantee of Teva Pharmaceutical Finance Netherlands III B.V. 1.400% Senior Notes due 2018	(2)	(2)
Teva Pharmaceutical Finance Netherlands III B.V. 1.700% Senior Notes due 2019	$2,000,000,000	$201,400[1]
Teva Pharmaceutical Industries Limited Guarantee of Teva Pharmaceutical Finance Netherlands III B.V. 1.700% Senior Notes due 2019	(2)	(2)
Teva Pharmaceutical Finance Netherlands III B.V. 2.200% Senior Notes due 2021	$3,000,000,000	$302,100[1]
Teva Pharmaceutical Industries Limited Guarantee of Teva Pharmaceutical Finance Netherlands III B.V. 2.200% Senior Notes due 2021	(2)	(2)
Teva Pharmaceutical Finance Netherlands III B.V. 2.800% Senior Notes due 2023	$3,000,000,000	$302,100[1]
Teva Pharmaceutical Industries Limited Guarantee of Teva Pharmaceutical Finance Netherlands III B.V. 2.800% Senior Notes due 2023	(2)	(2)
Teva Pharmaceutical Finance Netherlands III B.V. 3.150% Senior Notes due 2026	$3,500,000,000	$352,450[1]
Teva Pharmaceutical Industries Limited Guarantee of Teva Pharmaceutical Finance Netherlands III B.V. 3.150% Senior Notes due 2026	(2)	(2)
Teva Pharmaceutical Finance Netherlands III B.V. 4.100% Senior Notes due 2046	$2,000,000,000	$201,400[1]
Teva Pharmaceutical Industries Limited Guarantee of Teva Pharmaceutical Finance Netherlands III B.V. 4.100% Senior Notes due 2046	(2)	(2)
Total	$15,000,000,000	$1,510,500

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933, as amended. A filing fee of $1,510,500 has been transmitted to the SEC in connection with the securities offered from the registration statement (File Nos. 333-201984 and 333-201984-09) 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 July 13, 2016)

$15,000,000,000

Teva Pharmaceutical Finance Netherlands III B.V.

$1,500,000,000 1.400% Senior Notes due 2018

$2,000,000,000 1.700% Senior Notes due 2019

$3,000,000,000 2.200% Senior Notes due 2021

$3,000,000,000 2.800% Senior Notes due 2023

$3,500,000,000 3.150% Senior Notes due 2026

$2,000,000,000 4.100% Senior Notes due 2046

Payment of principal and interest unconditionally guaranteed by

Teva Pharmaceutical Industries Limited

Teva Pharmaceutical Finance Netherlands III B.V. (Teva Finance) is offering

$1,500,000,000 of its 1.400% Senior Notes due 2018 (the 2018 notes);

$2,000,000,000 of its 1.700% Senior Notes due 2019 (the 2019 notes);

$3,000,000,000 of its 2.200% Senior Notes due 2021 (the 2021 notes);

$3,000,000,000 of its 2.800% Senior Notes due 2023 (the 2023 notes);

$3,500,000,000 of its 3.150% Senior Notes due 2026 (the 2026 notes); and

$2,000,000,000 of its 4.100% Senior Notes due 2046 (the 2046 notes and, collectively with the 2018 notes, the 2019 notes, the 2021 notes, the 2023 notes and the 2026 notes, the notes).

The 2018 notes will mature on July 20, 2018, the 2019 notes will mature on July 19, 2019, the 2021 notes will mature on July 21, 2021, the 2023 notes will mature on July 21, 2023, the 2026 notes will mature on October 1, 2026 and the 2046 notes will mature on October 1, 2046. Interest on the 2018 notes will be payable semi-annually in arrears on January 20 and July 20 of each year, beginning January 20, 2017, to the holders of record at the close of business on the preceding January 5 and July 5, respectively (whether or not a business day). Interest on the 2019 notes will be payable semi-annually in arrears on January 19 and July 19 of each year, beginning January 19, 2017, to the holders of record at the close of business on the preceding January 4 and July 4, respectively (whether or not a business day). Interest on the 2021 notes and the 2023 notes will be payable semi-annually in arrears on January 21 and July 21 of each year, beginning January 21, 2017, to the holders of record at the close of business on the preceding January 6 and July 6, respectively (whether or not a business day). Interest on the 2026 notes and the 2046 notes will be payable semi-annually in arrears on April 1 and October 1 of each year, beginning April 1, 2017, to the holders of record at the close of business on the preceding March 15 and September 15, respectively (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 its 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 notes will be redeemable at a redemption price equal to the greater of (1) 100% of the principal amount of the notes to be redeemed and (2) the sum of the present values of the Remaining Scheduled Payments (as defined below) discounted on a semi-annual basis, at a rate equal to the sum of the Treasury Rate plus 12.5 basis points, in the case of the 2018 notes, 15 basis points, in the case of the 2019 notes, 20 basis points, in the case of the 2021 notes, 25 basis points, in the case of the 2023 notes, 25 basis points, in the case of the 2026 notes, or 30 basis points, in the case of the 2046 notes, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. If the closing of the acquisition of Actavis Generics (as defined below) does not occur on or prior to October 26, 2016, or if the Master Purchase Agreement (as defined below) is terminated at any time prior thereto, the notes will be subject to a special mandatory redemption (the special mandatory redemption) at a redemption price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest, if any, from the date of initial issuance of the notes up to, but not including, the special redemption date. See Description of the Notes and the Guarantees Special Mandatory Redemption.

The notes will be unsecured senior obligations of Teva Finance, which is an indirect subsidiary of Teva, and the guarantees will be unsecured senior obligations of Teva. Teva estimates that it will receive net proceeds of approximately $14.9 billion from this offering after deducting the underwriting discounts and estimated offering expenses payable by Teva. Teva intends to use such net proceeds, together with the net proceeds of its anticipated Euro and Swiss Franc (CHF) denominated senior note offerings, cash on hand, borrowings under its new term loan facility and additional borrowings under its short-term credit facilities, to finance its acquisition of Allergan plc s worldwide generic pharmaceuticals business and certain other assets, to pay related fees and expenses, and/or otherwise for general corporate purposes. See Use of Proceeds.

Investing in the notes involves risks. See Risk Factors beginning on page S-12 of this prospectus supplement and page 5 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.

Total	Per 2019 Note	Total	Per 2021 Note	Total	Per 2023 Note	Total	Per 2026 Note	Total
$ 1,498,710,000	99.991%	$ 1,999,820,000	99.835%	$ 2,995,050,000	99.666%	$ 2,989,980,000	99.734%	$ 3,490,690,000
$ 3,375,000	0.250%	$ 5,000,000	0.350%	$ 10,500,000	0.400%	$ 12,000,000	0.450%	$ 15,750,000
$ 1,495,335,000	99.741%	$ 1,994,820,000	99.485%	$ 2,984,550,000	99.266%	$ 2,977,980,000	99.284%	$ 3,474,940,000

The underwriters expect to deliver the notes to investors through the book-entry facilities of The Depository Trust Company (DTC) and its direct participants, including Euroclear Bank S.A./N.V. (Euroclear), as operator of the Euroclear System, and Clearstream Banking, société anonyme (Clearstream), on or about July 21, 2016.

Joint Book-Running Managers

Barclays **BofA Merrill Lynch** **BNP PARIBAS** **Credit Suisse** **HSBC** **Mizuho Securities**
Citigroup **Morgan Stanley** **RBC Capital Markets** **SMBC Nikko**

Co-Managers

Bank of China **BBVA** **COMMERZBANK** **Lloyds Securities**
MUFG **PNC Capital Markets LLC** **Scotiabank** **TD Securities**

The date of this prospectus supplement is July 18, 2016.

We have not, and the underwriters 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 and the underwriters 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 the accompanying prospectus are only being distributed to and are only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order), (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 or (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any notes may otherwise lawfully be communicated or caused to be communicated (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 the accompanying prospectus have been prepared on the basis that any offer of notes in any Member State of the European Economic Area (each, a Relevant Member State) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, 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 of the Prospectus Directive, in each case, in relation to such offer. Neither Teva Finance nor the underwriters 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 underwriters 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 joint book-running managers (or persons acting on behalf of any of the joint 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 joint book-running manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the notes is made and, such stabilizing, if commenced, may be discontinued at any time but must be ended no later than the earlier of 30 days after the issue date of the notes and 60 days after the date of allotment of the notes. Any stabilization action or over-allotment must be conducted by the relevant joint book-running managers (or persons acting on behalf of any joint book-running manager) in accordance with all applicable laws and rules.

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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 or the issuer refer to Teva Pharmaceutical Finance Netherlands III B.V., an indirect subsidiary of Teva. All references to the accompanying prospectus are to the prospectus dated July 13, 2016.

The Company

We are a global pharmaceutical company, committed to increasing access to high-quality healthcare by developing, producing and marketing affordable generic medicines and a focused portfolio of specialty medicines. We operate in pharmaceutical markets worldwide, with a significant presence in the United States, Europe and other markets. As a world-leading pharmaceutical company, we are strategically positioned to benefit from ongoing changes in the global healthcare environment.

We seek to address unmet patient needs while capitalizing on evolving market, economic and legislative dynamics in global healthcare. These dynamics include the aging population, increased spending on pharmaceuticals in emerging markets, economic pressure on governments and private payors to provide accessible healthcare solutions, legislative and regulatory reforms, an increase in patient awareness and the growing importance of over-the-counter (OTC) medicines.

We believe that our dedicated leadership and employees, world-leading generics expertise and portfolio, focused specialty portfolio, global reach, robust research and development (R&D) capabilities and global infrastructure and scale position us to take advantage of opportunities created by these dynamics.

Segments

We operate our business in two segments:

- **Generic medicines**, which include chemical and therapeutic equivalents of originator medicines in a variety of dosage forms, including tablets, capsules, injectables, inhalants, liquids, ointments and creams. We are the leading generic drug company in the United States and Europe, and we have a significant or growing presence in our Rest of the World markets. We are also one of the world s leading manufacturers of active pharmaceutical ingredients.

- **Specialty medicines**, which include several franchises, most significantly our core therapeutic areas of central nervous system medicines such as Copaxone®, Azilect® and Nuvigil® and of respiratory medicines such as ProAir® HFA and QVAR®. Our specialty medicines segment includes other therapeutic areas, such as oncology medicines, including Treanda®, women s health and selected other areas.

In addition to these two segments, we have other activities, primarily PGT Healthcare (PGT), our OTC joint venture with The Procter & Gamble Company (P&G).

Actavis Generics Acquisition

On July 26, 2015, we entered into a definitive agreement (the Master Purchase Agreement) with Allergan plc (Allergan) to acquire its worldwide generic pharmaceuticals business and certain other assets (Actavis Generics). Following an amendment to the Master Purchase Agreement, dated July 11, 2016, we will pay total

consideration of $33.5 billion in cash and approximately 100 million of Teva s ordinary shares, to be issued to Allergan at the closing of the transaction. Closing of the transaction is subject to certain conditions, including relevant regulatory approvals. Other than the closing conditions that can only be satisfied on the closing date, we believe that the only unsatisfied closing condition is the approval of the U.S. Federal Trade Commission (FTC). We expect that closing will occur shortly, based upon our current estimate of the timing to obtain clearance from the FTC. We previously received regulatory approval from the European Commission for the acquisition, subject to certain divestitures. In connection with the closing of the Actavis Generics acquisition, due to regulatory requirements, Teva expects to divest products with aggregate revenues in 2015 of approximately $1.1 billion.

Following consummation of the acquisition, our generic medicines segment is expected to make up a much larger percentage of our revenues. Further information about the Actavis Generics acquisition, including a copy of the Master Purchase Agreement, as amended, is contained in our Reports of Foreign Private Issuer on Form 6-K filed by us with the U.S. Securities and Exchange Commission (the SEC) on July 28, 2015 and July 13, 2016.

We expect to finance the $33.5 billion cash consideration for the Actavis Generics acquisition, together with related fees and expenses, with the net proceeds of this offering, together with the net proceeds of our anticipated Euro senior notes offering and CHF senior notes offering (each as defined below), which we expect to commence shortly after this offering, cash on hand (including the proceeds of our offerings of American Depositary Shares (ADSs) and mandatory convertible preferred shares in December 2015), borrowings under our new term loan facility and additional borrowings under our short-term credit facilities. Depending on the timing of the closing of the Actavis Generics acquisition, we may need to borrow additional funds under our bridge facility, which we expect to repay with the proceeds of this offering and the other contemplated offerings.

Actavis Generics

Actavis Generics includes, with certain exceptions, Allergan s U.S. and international generic commercial units, third-party supplier Medis, global generic manufacturing operations, global generic R&D unit, international OTC commercial unit (excluding OTC eye care products) and some mature international brands. Actavis Generics has operations in more than 60 countries, with the United States representing more than half of the revenues of the business in 2015 and for the three months ended March 31, 2016. Its other major markets include the United Kingdom (which Teva is divesting), Russia and Poland. As of March 31, 2016, Actavis Generics marketed over 300 generic pharmaceutical product families in the U.S.

Actavis Generics growth strategy has focused on (i) internal development of differentiated and high-demand products, including challenging patents associated with these products, (ii) establishment of strategic alliances and collaborations and (iii) acquisitions of complementary products and companies. Actavis Generics also develops and out-licenses generic pharmaceutical products through its Medis third party business.

Actavis Generics sells generic pharmaceutical products primarily to drug wholesalers, retailers and distributors, including national retail drug and food store chains, hospitals, clinics, mail order retailers, government agencies and managed healthcare providers such as health maintenance organizations and other institutions.

Actavis Generics has devoted significant resources to R&D. It conducts its R&D activities through a network of global R&D centers, the majority of which are being acquired by Teva. As a result of these activities, Actavis Generics had a pipeline of more than 220 Abbreviated New Drug Applications (ANDAs) on file in the United States as of March 31, 2016.

The special purpose combined financial statements and other information relating to Actavis Generics are included in a Report of Foreign Private Issuer on Form 6-K filed by us with the SEC on July 13, 2016. See also the pro forma financial information included herein under Unaudited Pro Forma Condensed Combined Financial Statements.

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Strategic Rationale

The acquisition will combine two generics businesses with complementary strengths, brands and cultures, creating a leading product portfolio and pipeline. The resulting product portfolio will be complemented by a significantly expanded and more efficient global footprint, including strengthened operations, sales and R&D platforms in attractive markets around the world. Teva will seek to leverage this expanded generics pipeline, R&D capabilities, operational network, supply chain, global commercial deployment and infrastructure to achieve greater efficiencies across the healthcare system and provide patients and consumers worldwide with better access to high quality affordable medicines.

In acquiring Actavis Generics, Teva seeks to create a dynamic generics and specialty pharmaceutical company that integrates and leverages our combined expertise to develop innovative products. Teva will continue to seek to develop high-value medicines, with an emphasis on complex and branded generics, focused on the needs of patients and the people who care for them. In particular, Teva believes that the acquisition will:

Provide Substantial Financial Benefits. The transaction is expected to provide substantial financial benefits for Teva, including more highly diversified revenues and profits, and substantial cost synergies and tax savings. Actavis Generics had net revenues and total direct expenses of $6,184.4 million and $5,367.4 million, respectively, in the year ended December 31, 2015, and $1,289.6 million and $1,201.3 million, respectively, in the three months ended March 31, 2016. In addition, Teva expects to achieve substantial cost synergies and tax savings due to increased efficiencies in operations, G&A, manufacturing, and sales and marketing.

Create Leading Generics Portfolio and Pipeline. Following the acquisition (giving effect to required divestitures), Teva will have an enhanced portfolio of generic products and an attractive pipeline of approximately 326 pending ANDAs in the United States, including approximately 123 exclusive U.S. first-to-file pending ANDAs (including shared exclusivities).

Enhance R&D Capabilities and Technology. Following the acquisition, Teva will have what it believes will be among the most advanced R&D capabilities in the generics industry. These capabilities will enhance Teva s ability to develop and offer a portfolio of complex and differentiated generic products.

Bolster Specialty Development Pipeline. Teva further expects to leverage these enhanced R&D capabilities with its expertise in its core specialty therapeutic areas to develop novel products based on known molecules, thereby expanding its specialty product portfolio.

Expand Global Commercial Reach. Through the acquisition, Teva will have a commercial presence across 100 markets, including a leading position in over 40 markets, positioning Teva to significantly enhance the global scale and efficiency of its sales and R&D platforms.

We caution you that we may not realize the anticipated benefits of the acquisition. See Risk Factors Risks Related to the Actavis Generics Acquisition. Additionally, Actavis Generics business is subject to risks similar to those described in the risk factors that are incorporated herein by reference, and the combined business will continue to be subject to

risks including ongoing consolidation of the pharmaceutical industry customer base.

Financing Transactions

In connection with the Actavis Generics acquisition, the following transactions (collectively, the Financing Transactions) have occurred or are expected to occur:

- we issued 59,400,000 ADSs and 3,712,500 mandatory convertible preferred shares in December 2015 (including ADSs and shares issued pursuant to the underwriters exercise of over-allotment options in January 2016);

in addition to the $15 billion aggregate principal amount of the notes in this offering, finance subsidiaries of Teva plan to issue senior notes denominated in Euro (the Euro senior notes offering) and senior notes denominated in Swiss francs (the CHF senior notes offering), which are expected to comprise an aggregate principal amount of approximately $5 billion;

we plan to borrow approximately $5 billion under the new term loan facility that we entered into in November 2015; and

we plan to borrow approximately $2.8 billion under our short-term credit facilities (our bridge facility and/or revolving line of credit).

The foregoing description of the Financing Transactions is included herein solely for informational purposes. The Euro senior notes offering and the CHF senior notes offering will each be made by means of a separate, standalone offering memorandum, and not by means of this prospectus supplement. The amount and terms and conditions of the Euro senior notes offering and the CHF senior notes offering are subject to market conditions. There can be no assurance that we will be able to complete the Euro senior notes offering or the CHF senior notes offering on terms and conditions acceptable to us or at all. This offering is not contingent on the completion of the Euro senior notes offering or the CHF senior notes offering.

Teva

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 4951033, Israel, and our telephone number is +972-3-926-7267.

Teva Finance

Teva Finance is a Dutch private limited liability company that was formed on September 21, 2015. Its address is Piet Heinkade 107, 1019 GM Amsterdam, Netherlands, telephone number +31 (0)20-2193000.

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The Offering

Issuer	Teva Pharmaceutical Finance Netherlands III B.V. (Teva Finance), which is an indirect, wholly owned subsidiary of Teva Pharmaceutical Industries Limited (Teva) and has no assets or operations other than in connection with this offering.
Securities Offered	$1,500,000,000 aggregate principal amount of the 1.400% Senior Notes due 2018 (the 2018 notes);
	$2,000,000,000 aggregate principal amount of the 1.700% Senior Notes due 2019 (the 2019 notes);
	$3,000,000,000 aggregate principal amount of the 2.200% Senior Notes due 2021 (the 2021 notes);
	$3,000,000,000 aggregate principal amount of the 2.800% Senior Notes due 2023 (the 2023 notes);
	$3,500,000,000 aggregate principal amount of the 3.150% Senior Notes due 2026 (the 2026 notes); and
	$2,000,000,000 aggregate principal amount of the 4.100% Senior Notes due 2046 (the 2046 notes and, collectively with the 2018 notes, the 2019 notes, the 2021 notes, the 2023 notes and the 2026 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 of each series.
Ranking	As indebtedness of Teva, the guarantees will rank:

senior to the rights of creditors under any 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 Dates

The 2018 notes will mature on July 20, 2018;

The 2019 notes will mature on July 19, 2019;

The 2021 notes will mature on July 21, 2021;

The 2023 notes will mature on July 21, 2023;

The 2026 notes will mature on October 1, 2026; and

The 2046 notes will mature on October 1, 2046.

Interest Payment Dates

January 20 and July 20 of each year, beginning January 20, 2017, and at maturity, with respect to the 2018 notes;

January 19 and July 19 of each year, beginning January 19, 2017, and at maturity, with respect to the 2019 notes;

January 21 and July 21 of each year, beginning January 21, 2017, and at maturity, with respect to the 2021 notes and the 2023 notes; and

April 1 and October 1 of each year, beginning April 1, 2017, and at maturity, with respect to the 2026 and the 2046 notes.

Interest Rates

1.400% per year in the case of the 2018 notes;

1.700% per year in the case of the 2019 notes;

2.200% per year in the case of the 2021 notes;

2.800% per year in the case of the 2023 notes;

3.150% per year in the case of the 2026 notes; and

4.100% per year in the case of the 2046 notes.

Optional Redemption

Teva Finance may redeem the notes of any series, 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 notes of each series will be redeemable at a redemption price equal to the greater of (1) 100% of the principal amount of the notes to be redeemed and (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 the Issuer) 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 the Issuer) plus 12.5 basis points, in the case of the 2018

	notes, 15 basis points, in the case of the 2019 notes, 20 basis points, in the case of the 2021 notes, 25 basis points, in the case of the 2023 notes, 25 basis points, in the case of the 2026 notes, or 30 basis points, in the case of the 2046 notes, plus accrued and unpaid interest, if any, to, but excluding, the redemption date.
Special Mandatory Redemption	If the closing of the Actavis Generics acquisition does not occur on or prior to October 26, 2016, or if the Master Purchase Agreement is terminated at any time prior thereto, the notes will be subject to a special mandatory redemption at a redemption price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest, if any, from the date of initial issuance of the notes up to, but not including, the special redemption date. See Description of the Notes and the Guarantees Special Mandatory Redemption.

Use of Proceeds

Teva estimates that it will receive net proceeds of approximately $14.9 billion from this offering after deducting the underwriting discounts and estimated offering expenses payable by Teva.

Teva intends to use such net proceeds, together with the net proceeds of its anticipated Euro senior notes offering and CHF senior notes offering, cash on hand (including the proceeds of our offerings of ADSs and mandatory convertible preferred shares in December 2015), borrowings under its new term loan facility and additional borrowings under its short-term credit facilities, to finance its acquisition of Actavis Generics, to pay related fees and expenses and/or otherwise for general corporate purposes. Depending on the timing of the closing of the Actavis Generics acquisition, we may need to borrow additional funds under our bridge facility, which we expect to repay with the proceeds of this offering and the other contemplated offerings. See Use of Proceeds.

As described above, if the closing of the Actavis Generics acquisition does not occur on or prior October 26, 2016, or if the Master Purchase Agreement is terminated at any time prior thereto, the notes will be subject to a special mandatory redemption at a redemption price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest, if any, from the date of initial issuance of the notes up to, but not including, the special redemption date (as defined under Description of the Notes and the Guarantees Special Mandatory Redemption). See Description of the Notes and the Guarantees Special Mandatory Redemption.

Form, Denomination and Registration

The notes of each series 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. Each series of notes will be evidenced by one or more global registered notes deposited with the trustee of the notes, as custodian for 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. One or more of the underwriters have advised us that they intend to make markets in the notes as permitted by applicable laws and regulations. The underwriters are not obligated, however, to make markets in the notes, and they may discontinue this market making at any time in their sole discretion. We cannot assure you that any active or liquid market will develop in the notes.

Listing	The notes will not be listed on any securities exchange or included in any automated quotation system.
Trustee and Paying Agent	The Bank of New York Mellon

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Conflicts of Interest

As described in Use of Proceeds, depending on the timing of the closing of the Actavis Generics acquisition, Teva may need to borrow additional funds under its bridge facility, which it expects to repay with the proceeds of this offering and the other contemplated offerings. Affiliates of each of the underwriters are lenders under the new term loan facility, the revolving line of credit and the bridge facility and, in the event that the net proceeds of this offering are used to repay the borrowings under the bridge facility, the underwriters and their affiliates that are lenders under that facility will receive 5% or more of the proceeds from this offering. Because of the manner in which the net proceeds from this offering may be used, this offering will be conducted in accordance with FINRA Rule 5121. Under FINRA Rule 5121, the appointment of a qualified independent underwriter is not necessary in connection with this offering. See Underwriting (Conflicts of Interest) Conflicts of Interest.

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 discussions under Risk Factors beginning on page S-12.

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Summary Selected Historical and Pro Forma Financial Data of Teva

The following summary selected operating data of Teva for each of the years in the three-year period ended December 31, 2015 and summary selected balance sheet data at December 31, 2015 and 2014 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, 2012 and summary selected balance sheet data at December 31, 2013, 2012 and 2011 are derived from other audited consolidated financial statements of Teva, which have been prepared in accordance with U.S. GAAP.

The summary selected unaudited financial information of Teva as of March 31, 2016 and for each of the three-month periods ended March 31, 2016 and 2015 are derived from unaudited consolidated financial statements incorporated by reference into this prospectus supplement. Such financial statements include, in Teva s opinion, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the unaudited periods. You should not rely on these interim results as being indicative of results Teva may expect for the full year or any other interim period.

The unaudited pro forma financial information of Teva is based upon the historical financial statements of Teva and the special purpose combined statements of net assets acquired and revenues and direct expenses of Actavis Generics for the year ended December 31, 2015 and for the three-month period ended March 31, 2016, which are incorporated by reference herein, adjusted to give effect to the Actavis Generics acquisition and related financing, as described under Unaudited Pro Forma Condensed Combined Financial Statements included in this prospectus supplement.

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 and unaudited consolidated financial statements and related notes and Operating and Financial Review and Prospects included in Teva s Annual Report on Form 20-F for the year ended December 31, 2015 and Reports of Foreign Private Issuer on Form 6-K incorporated into this prospectus supplement by reference. See the section entitled Where You Can Find More Information for information on where you can obtain copies of these documents.

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Operating Data

	For the three months ended March 31,			For the year ended December 31,					
	Pro forma 2016	2016	2015	Pro forma 2015	2015	2014	2013	2012	2011
		(unaudited)		(unaudited)					
	U.S. dollars in millions (except per share and share amounts)								
Net revenues	5,803	4,810	4,982	24,708	19,652	20,272	20,314	20,317	18,312
Cost of sales	3,029	2,019	2,146	12,560	8,296	9,216	9,607	9,665	Three months ended September 30, 2004 (2) 65
Nine months ended September 30, 2003 (2)	(148)								
Nine months ended September 30, 2004 (2)	309								

(1) The adjustment represents an opening retained earnings adjustment on January 1, 2003.

(2) The adjustment represents the retained earnings impact of the restatement to net income in the respective period.

The consolidated financial statements reflect the effects of the restatement on (i) net policy acquisition costs amortized and unamortized deferred policy acquisition costs, (ii) benefits to policyholders expense and policy reserves, (iii) the Federal income tax benefit and deferred income taxes and (iv) basic and diluted earnings per share. A summary of the effects of the restatement on reported amounts as of September 30, 2004 and December 31, 2003 is presented below.

	Consolidated Balance Sheets					
	September 30, 2004			December 31, 2003		
	As Previously Reported	Adjustment	As Restated	As Previously Reported	Adjustment	As Restated
Unamortized deferred policy acquisition costs	$ 151,110	$ (1)	$ 151,109	$ 160,740	$ 18	$ 160,758
Policy reserves (accident and health)	(541,943)	(9,760)	(551,703)	(508,344)	(10,256)	(518,600)
Deferred income tax liability	(32,857)	3,415	(29,442)	(19,314)	3,583	(15,731)
Total shareholders' equity	203,264	(6,346)	196,918	150,734	(6,655)	144,079

A summary of the effects of the restatement on reported amounts for the three and nine months ended September 30, 2004 and September 30, 2003 is presented below.

	Consolidated Statements of Income and Comprehensive Income for the Three Months Ended					
	September 30, 2004			September 30, 2003		
	As Previously Reported	Adjustment	As Restated	As Previously Reported	Adjustment	As Restated
Benefits to policyholders	$ (56,151)	$ (105)	$ (56,256)	$ (63,763)	$ 145	$ (63,618)
Net policy acquisition costs amortized	(1,251)	5	(1,246)	(3,870)	--	(3,870)
Federal income tax (provision) benefit	(23,371)	35	(23,336)	13,085	(53)	13,032
Net income (loss)	41,805	(65)	41,740	(25,398)	92	(25,306)
Basic earnings per share from net income (loss)	$ 1.03	$ --	$ 1.03	$ (1.20)	$ --	$ (1.20)
Diluted earnings per share from net income (loss)	$ 0.48	$ --	$ 0.48	$ (1.20)	$ --	$ (1.20)

	Consolidated Statements of Income and Comprehensive Income for the Nine Months Ended					
	September 30, 2004			September 30, 2003		
	As Previously Reported	Adjustment	As Restated	As Previously Reported	Adjustment	As Restated
Benefits to policyholders	$ (172,906)	$ 494	$ (172,412)	$ (188,803)	$ (585)	$ (189,388)
Net policy acquisition costs amortized	(9,630)	(19)	(9,649)	(9,065)	358	(8,707)
Federal income tax provision	(14,491)	(166)	(14,657)	(398)	79	(319)
Net income	24,568	309	24,877	772	(148)	624
Basic earnings per share from net income	$ 0.68	$ --	$ 0.68	$ 0.04	$ (0.01)	$ 0.03
Diluted earnings per share from net income	$ 0.33	$ --	$ 0.33	$ 0.04	$ (0.01)	$ 0.03

The restatement did not have any impact on total cash flows from operations, investing or financing activities.

2. Stock Based Employee Compensation:

The following table reflects net income, basic and diluted earnings per share as reported and pro-forma as if the Company had adopted the fair value based method of accounting for its stock-based employee compensation awards:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004 Restated (1)	2003 Restated (1)	2004 Restated (1)	2003 Restated (1)
Net income (loss) as reported	$ 41,740	$ (25,306)	$ 24,877	$ 624
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(88)	(75)	(249)	(178)
Pro forma net income (loss)	$ 41,652	$ (25,381)	$ 24,628	$ 446
Earnings per share:				
Basic - as reported	$ 1.03	$ (1.20)	$ 0.68	$ 0.03
Basic - pro-forma	$ 1.03	$ (1.20)	$ 0.68	$ 0.02
Diluted - as reported	$ 0.48	$ (1.20)	$ 0.33	$ 0.03
Diluted - pro-forma	$ 0.48	$ (1.20)	$ 0.33	$ 0.02

(1) See Note 1 to consolidated financial statements

3. Regulatory Developments:

Pennsylvania Corrective Action Plan

The Company s primary insurance subsidiary, Penn Treaty Network America Insurance Company (PTNA), which represented approximately 91% of the Company s direct premium revenue during the nine months ended September 30, 2004, is subject to a Corrective Action Plan (the Plan), as approved by the Pennsylvania Insurance Department (the Department). American Network Insurance Company (ANIC), which is wholly owned by PTNA, is also subject to the provisions of the Plan.

The Plan principally:

a) required the Company to enter into a reinsurance agreement with Centre Solutions (Bermuda) Limited (the 2001 Centre Agreement) for substantially all of its existing business at December 31, 2001;

b) limits new investments to those rated by the National Association of Insurance Commissioners (NAIC) as 1 or 2;

c) limits and requires Department approval for certain affiliated transactions; and

d) requires a $125,000 increase in statutory reserves over a three-year period, of which a $5,000increase remains to be made by December 31, 2004.

The 2001 Centre Agreement is accounted for as reinsurance for statutory accounting purposes, but does not qualify as reinsurance under generally accepted accounting principles (GAAP). As the agreement is treated as reinsurance for statutory accounting purposes, it results in the ceding (or removal) of substantially all of PTNA s and ANIC s policy reserve and claim reserve liabilities for statutory accounting purposes. Furthermore, subject to certain limitations, any adverse development of the 2001 and prior policy and claim reserves, including the $125,000 of reserve increases mentioned above, is ceded to the reinsurer and is not reflected on PTNA s or ANIC s statutory financial statements.

The agreement is subject to certain coverage limitations, including an aggregate limit of liability that is a function of certain factors and that may be reduced in the event that the premium rate increases that the reinsurance agreement may require are not obtained. The Company is required to perform annual comparisons of its actual to expected claims experience. If the Company has reason to believe, whether from this analysis or other available information, that at least a 5% premium rate increase is necessary, the Company is obligated to file and obtain such premium rate increases in order to comply with the requirements of the agreement. If the Company does not file and obtain such premium rate increases, the aggregate limit of liability would be reduced by 50% of the premium amount that would have otherwise been received. The Company is currently in compliance with the agreement.

In the event the statutory policy and claim reserves for the reinsured policies ultimately exceed the limit of liability established in the reinsurance agreement, either as a result of additions to reserves or reductions in the amount of the reinsurer s limit of liability, PTNA or ANIC would have to retain any reserve liabilities in excess of the limit of liability, which could have a materially adverse impact upon their statutory surplus.

The estimation of policy reserves for statutory accounting purposes differs from that utilized in GAAP. For statutory accounting purposes, the assumptions utilized and the methodology applied may be at the discretion of the Department in its interpretation of its regulations. As noted above, as part of the Plan, the Department has provided the Company with guidelines for establishing its statutory policy reserves. Because PTNA and ANIC have limited statutory capital and the 2001 Centre Agreement has a limit of liability, any changes in the Department s interpretation or view of how the Company s insurance subsidiaries determine their statutory policy reserves could have a material adverse impact on PTNA or ANIC, possibly resulting in regulatory control or liquidation.

New Policy Sales

The Company is licensed and receives renewal premium revenue from policyholders in all states, but is currently prohibited from issuing new policies in 9 states. In February 2004, the Company received approval for the recommencement of sales in California, subject to certain continuing conditions and pending approval of certain of its policy forms. California represented approximately 15% of the Company s direct premium revenue for the nine months ended September 30, 2004. The Company is approved for sales in Florida and Pennsylvania (subject to consent orders), which accounted for approximately 16% and 13% respectively, of the Company s direct premium revenue for the nine months ended September 30, 2004. No other state s sales accounted for more than 10% of the Company s direct premium revenue for the period ended September 30, 2004.

4. 2001 Centre Agreement:

As a primary component of the Plan, effective December 31, 2001, the Company entered the 2001 Centre Agreement to reinsure, on a quota share basis, substantially all of its long-term care insurance policies then in-force.

This agreement does not qualify for reinsurance treatment in accordance with GAAP because it does not result in the reasonable possibility that the reinsurer may realize a significant loss. This is due to a number of factors related to the agreement, including experience refund provisions, expense and risk charges due to the reinsurer and an aggregate limit of liability. Accordingly, the contract is being accounted for in accordance with deposit accounting for reinsurance contracts. However, this agreement meets the requirements to qualify for reinsurance treatment under statutory accounting rules.

The initial premium and future cash flows from the reinsured policies, less claims payments, ceding commissions and risk charges, are credited to a notional experience account, which is held for the Company s benefit in the event of commutation and recapture on or after December 31, 2007. The notional experience account balance receives an investment credit based upon the total return from a series of benchmark indices and derivative hedges that are intended to match the duration of the Company s reserve liability.

The notional experience account represents a hybrid instrument, containing both a fixed debt host contract and an embedded derivative. The economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the fixed debt host contract. The Company is accounting for the investment credit received on the notional experience account as follows:

a) The fixed debt host yields a fixed return based on the yield to maturity of the underlying benchmark indices. The return on the fixed debt host is reported as investment income in the Statements of Income and Comprehensive Income.

b) The change in fair value of the embedded derivative represents the percentage change in the underlying indices applied to the notional experience account, similar to that of an unrealized gain/loss on a bond. The change in the fair value of the embedded derivative is reported as market gain (loss) on notional experience account in the Statements of Income and Comprehensive Income.

The benchmark indices are comprised of US treasury strips, agencies and investment grade corporate bonds, with weightings of approximately 25%, 15% and 60%, respectively, and have a duration of approximately 11 years.

For the periods ended September 30, 2004 and 2003, respectively, the notional experience account activity was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Beginning balance	$ 801,893	$ 791,853	$ 784,778	$ 708,982
Premiums, net of claims and ceding allowance	8,861	12,612	38,133	38,103
Investment credit:				
Investment income	11,863	10,627	34,271	30,633
Market gain (loss)	54,438	(34,540)	26,388	8,726
Expense and risk charges	(2,807)	(2,768)	(8,422)	(8,305)
Broker/custodian/trustee fees	(346)	(110)	(1,246)	(465)
Ending balance	$ 873,902	$ 777,674	$ 873,902	$ 777,674

The reinsurance agreement contains commutation provisions and allows the Company to recapture the reserve liabilities and the current notional experience account balance as of December 31, 2007, or on December 31 of any year thereafter. The Company intends, but is not required, to commute the agreement on December 31, 2007. In the event the Company does not commute the agreement on December 31, 2007, the expense and risk charges applied to the notional experience account will increase significantly. Additionally, the reinsurance provisions contain covenants and conditions that, if breached, may result in the immediate commutation of the agreement and the payment of $2,500 per quarter from the period of the breach through December 31, 2007.

The Company s current modeling and actuarial projections, which were completed as of September 30, 2004, suggest that it is likely to be able to commute the agreement, as planned, on December 31, 2007. In order to commute the agreement, PTNA s and ANIC s statutory surplus following commutation must be sufficient to support the reacquired business in compliance with all statutory requirements. Upon commutation, the Company will receive cash or other liquid assets equaling the value of the notional experience account from the reinsurer. The Company would also record the necessary reserves for the business in PTNA s and ANIC s statutory financial statements. Accordingly, the Company s ability to commute the agreement is highly dependent upon the value of the notional experience account exceeding the level of required statutory reserves to be established. As of September 30, 2004, the statutory basis reserve liabilities of $1,016 exceeded the combination of the notional experience account value and funds held due to the reinsurer of $912. Management expects the value of the notional experience account to exceed the reserve liabilities at December 31, 2007. In addition to the performance of the reinsured policies from now through 2007, the notional experience account value is susceptible to market interest rate changes. Currently, a market interest rate increase of 100 basis points could reduce the value of the current notional experience account by approximately $86,000 and jeopardize the Company s ability to commute as planned. As the intended commutation date approaches, the sensitivity of the notional experience account to market interest rate movement will decline as the duration of the benchmark indices becomes shorter. However, the amount of assets susceptible to such interest sensitivity will continue to grow as additional net cash flows are credited to the notional experience account balance prior to commutation.

In the event the Company determines that commutation of the reinsurance agreement is unlikely on December 31, 2007, but likely at some future date, it will include additional annual reinsurer expense and risk charges in its deferred policy acquisition costs (DAC) recoverability analysis. As a result, it could impair the value of its DAC asset and record the impairment in its financial statements at that time. However, the Company currently believes that PTNA and ANIC will have sufficient statutory capital and surplus to commute the agreement on December 31, 2007 or that sufficient alternatives, such as the issuance of additional capital or new reinsurance opportunities, will be available to enable it to commute the agreement on December 31, 2007.

5. <u>2002 Centre Agreement:</u>

The 2001 Centre Agreement granted the reinsurer an option to participate in reinsuring new business sales on a quota share basis. In August 2002, the reinsurer exercised its option to reinsure up to 50% of future sales, subject to a limitation of the reinsurer s risk. The reinsurer had the option to continue this level of participation on the first $100 million in new policy premium issued after January 1, 2002. The final agreement, which was entered into in December 2002, further provided the reinsurer the option to reinsure a portion of the next $1 billion in newly issued long-term care annual insurance premium, subject to maximum quota share amounts of up to 40% as additional policies were written.

This agreement does not qualify for reinsurance treatment in accordance with GAAP because the agreement does not result in the reasonable possibility that the reinsurer may realize a significant loss. This is due to an aggregate limit of liability that reduces the likelihood of the reinsurer realizing a significant loss on the agreement. The agreement meets the requirements to qualify for reinsurance treatment under statutory accounting rules.

In March 2004, the reinsurer notified the Company that it would discontinue the 2002 Centre Agreement for any new long-term care insurance policies issued after July 31, 2004. Policies issued prior to this date and policies covered by the 2001 Centre Agreement are unaffected. If we are unable to replace this agreement, our statutory surplus could be negatively impacted as a result of the surplus strain caused by new premium growth.

6. Contingencies:

The Company s subsidiaries are parties to various lawsuits generally arising in the normal course of their business. The Company does not believe that the eventual outcome of any of these suits to which it is party will have a material adverse effect on its financial condition or results of operations. However, the outcome of any single event could have a material impact upon the quarterly or annual financial results of the period in which it occurs.

The Company and its subsidiary, PTNA, are defendants in an action in the Fifth Judicial Circuit of the State of Florida in and for Marion County, Civil Division. Plaintiffs filed this matter on January 10, 2003 in Florida State Court, on behalf of themselves and a class of similarly situated Florida long-term care policyholders. The Company removed this case to United States District Court, Middle District of Florida, Ocala Division for a second time in November 2003. Plaintiffs motion to remand the case to Florida State Court was granted in April 2004. Plaintiffs claim wrongdoing in connection with the sale of long-term care insurance policies to the Plaintiffs and the class. Plaintiffs allege claims for reformation, breach of fiduciary duty, breach of the implied duty of good faith and fair dealing, negligent misrepresentation, fraudulent misrepresentation, and restitution and pray for relief in the form of compensatory damages and restitution, an order of reformation of the polices, and attorney fees and court costs. No amounts were specified for compensatory damages and restitution. The Company has filed motions to dismiss for failure to state a claim, lack of personal jurisdiction against the Company, and to strike certain allegations of the complaint as irrelevant and improper. While the Company cannot predict the outcome of this case, it could have a material adverse impact upon its financial condition and results of operations in the event of an unfavorable outcome. The Company believes that the complaint is without merit and intends to continue to defend the matter vigorously.

The Company and its subsidiary, PTNA, are defendants in an action in the Orange County Superior Court in the state of California. Plaintiffs filed this matter in November 2003 on behalf of themselves, all other persons similarly situated and the general public. Plaintiffs claim wrongdoing in violation of the California Business & Professions Code in connection with the sale of long term care insurance policies. Plaintiffs allege unlawful business acts, claims for reformation, breach of fiduciary duty, breach of the implied duty of good faith and fair dealing, and negligent misrepresentation and pray for relief in the form of compensatory damages and restitution, punitive damages, an order of reformation of the policies, and attorney fees and court costs. No amounts were specified for compensatory damages and restitution. After review of the Company s motions related to the plaintiffs complaint, the court dismissed plaintiffs claim for breach of fiduciary duty, and the Company filed an answer to the plaintiffs other claims in the complaint. While the Company cannot predict the outcome of this case, it could have a material adverse impact upon its financial condition and results of operations in the event of an unfavorable outcome. The Company believes that the complaint is without merit and intends to continue to defend the matter vigorously.

The Company and two of its subsidiaries, PTNA and Senior Financial Consultants Company, are defendants in an action instituted on June 5, 2002 in the United States District Court for the Eastern District of Pennsylvania by National Healthcare Services, Inc. The complaint seeks compensatory damages in excess of $150 and punitive damages in excess of $5,000 for an alleged breach of contract and misappropriation. On December 18, 2003, the Plaintiffs voluntarily dismissed their claim for misappropriation and the attendant punitive damages claim. The claims arise out of a joint venture related to the AllRisk Healthcare program, which was marketed first by PTNA and then later by Senior Financial Consultants Company. Depositions of fact witnesses were completed on October 30, 2003. Motions for summary judgment were filed by both parties in December 2003, and in February 2004 the court granted the Company s motion for summary judgment with respect to one claim, and denied the remaining motions. Pursuant to court order, a conference was held with a federal magistrate judge in August 2004. The parties have scheduled a second meeting with the federal magistrate judge. While the Company cannot predict the outcome of this case, it could have a material adverse impact upon its financial condition and results of operations in the event of an unfavorable outcome. The Company believes that the complaint is without merit and intends to continue to defend the matter vigorously.

The Company s subsidiary, PTNA, is a defendant in an action in the Los Angeles County Superior Court in the state of California. Plaintiff filed this matter on May 28, 2004 on behalf of herself and all other persons similarly situated and the general public. The plaintiff alleges wrongdoing in connection with the payment of long-term care insurance claims. The Plaintiff alleges violations of the California Consumer Legal Remedies Act, the California Business and Professions Code, breach of the implied duty of good faith and fair dealing, financial elder abuse and prays for relief in the form of compensatory damages and restitution, punitive damages, an accounting, attorney fees and court costs. No amounts were specified for compensatory damages and restitution or punitive damages. The Company has filed a demurrer to all counts of the Plaintiff s complaint, and a motion to strike allegations of the complaint, including Plaintiff s class allegations. On October 26, 2004, the complex litigation panel of the Los Angeles Superior Court admitted the matter into the complex program, and ordered the matter stayed until parties meet with the judge assigned to handle this matter as part of the complex program. While the Company cannot predict the outcome of this case, it could have a material adverse impact upon its financial condition and results of operations in the event of an unfavorable outcome. However, the Company believes that the complaint is without merit and intends to continue to defend the matter vigorously.

PTNA is a party to a reinsurance agreement to cede the risk of certain home health care claims that extend beyond 36 months. The reinsurance recoverable related to this treaty was $10,970 and $10,614 at September 30, 2004 and December 31, 2003, respectively. The reinsurer has notified PTNA that it believes that the Company is in breach of its current agreement as a result of entering into the 2001 Centre Agreement without the prior written approval of the reinsurer. PTNA has contested this assertion of breach based upon its verbal and written notification to the reinsurer prior to entering into the 2001 Centre Agreement. PTNA further believes that the 2001 Centre Agreement substantially improved PTNA s financial strength and further protected the reinsurer. The ultimate resolution of this dispute cannot be determined at this time.

7. Investments:

Management has categorized all of its investment securities as available for sale because they may be sold in response to changes in interest rates, prepayments and similar factors. Investments in this category are reported at their current market value, with net unrealized gains and losses, net of the applicable deferred income tax effect, being added to or deducted from the Company s total shareholders equity on the balance sheet. As of September 30, 2004, there is accumulated other comprehensive gain of $379 in shareholders equity due to unrealized gains of $583 in the investment portfolio. As of December 31, 2003, there was accumulated other comprehensive income of $598 in shareholders equity due to unrealized gains of $920 in the investment portfolio.

The amortized cost and estimated market value of the Company s available for sale investment portfolio as of September 30, 2004 and December 31, 2003 are as follows:

	September 30, 2004		December 31, 2003	
	Amortized Cost	**Estimated Market Value**	**Amortized Cost**	**Estimated Market Value**
U.S. Treasury securities and obligations of U.S. Government authorities and agencies	$ 35,392	$ 35,855	$ 20,699	$ 21,285
Mortgage backed securities	1,869	1,981	2,020	2,056
Debt securities issued by foreign governments	877	738	236	245
Corporate securities	21,479	21,626	19,978	20,267
Policy loans	342	342	288	288
Total investments	$ 59,959	$ 60,542	$ 43,221	$ 44,141
Net unrealized gain	$ 583		$ 920	

Pursuant to certain statutory licensing requirements, as of September 30, 2004 and December 31, 2003, the Company had on deposit bonds with an estimated market value aggregating $12,378 and $12,585, respectively, in Insurance Department special deposit accounts. The Company is not permitted to remove the bonds from these accounts without approval of the regulatory authority.

The Company maintains assets in a trust account under a reinsurance agreement with an unaffiliated insurer. The Company is required to hold assets equal to 102% of the reserves for the policies assumed under this agreement. At September 30, 2004 and December 31, 2003, the company was required to hold $18,491 and $15,905, respectively.

8. Reconciliation of Earnings Per Share:

A reconciliation of the numerator and denominator of the basic earnings per share computation to the numerator and denominator of the diluted earnings per share computation follows. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Anti-dilutive effects are not included.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004 Restated (1)	**2003 Restated (1)**	**2004 Restated (1)**	**2003 Restated (1)**
Net income (loss)	$ 41,740	$ (25,306)	$ 24,877	$ 624
Weighted average common shares outstanding	40,621	21,099	36,362	20,026
Basic earnings per share from net income (loss)	$ 1.03	$ (1.20)	$ 0.68	$ 0.03
Net income (loss)	$ 41,740	$ (25,306)	$ 24,877	$ 624
Adjustments net of tax:				
Change in preferred interest on early conversion liability	(1,444)	--	(1,393)	--
Interest expense on convertible debt	1,047	--	4,566	--
Amortization of debt offering costs	64	--	479	--
Diluted net income (loss)	$ 41,407	$ (25,306)	$ 28,529	$ 624
Weighted average common shares outstanding	40,621	21,099	36,362	20,026
Common stock equivalents due to dilutive effect of stock options/warrants	72	--	84	--
Shares converted from convertible debt	46,179	--	48,946	--
Total outstanding shares for diluted earnings per share computation	86,872	21,099	85,392	20,026
Diluted earnings per share from net income (loss)	$ 0.48	$ (1.20)	$ 0.33	$ 0.03

(1) See Note 1 to consolidated financial statements.

The weighted average of securities that could potentially dilute basic earnings per share in the future that were not included in the computation of diluted earnings per share were 47,541 and 98,811 for the three months ended September 30, 2004 and 2003, respectively, and 46,738 and 82,987 for the nine months ended September 30, 2004 and 2003, respectively, because to do so would have been anti-dilutive. These securities include options, warrants and convertible debt securities that have exercise prices above the current period market price or the inclusion of which would result in a lower net income (loss) per share.

9. Long-Term Debt:

Principal repayment of the Company s long-term debt outstanding at September 30, 2004 is as follows:

2004	$ --
2005	--
2006	--
2007	--
2008	80,686
Total	$ 80,686

All of the Company s long-term debt is 6.25% convertible subordinated notes due 2008 (the 2008 Notes). The 2008 Notes have a conversion price of $1.75 per share and are mandatorily convertible if, at any time after October 15, 2005, the 15-day average closing price of the Company s common stock exceeds 110% of the conversion price. The 2008 Notes also provide that, upon conversion prior to October 15, 2005, the Company will pay the holder additional interest (referred to as preferred interest on early conversion) equal to the amount, on a discounted basis, that would otherwise have been paid from the date of conversion until October 15, 2005. The interest amount, which is discounted from October 15, 2005 to the date of early conversion at a rate of 6.25%, is payable at the Company s discretion in cash or in shares of common stock. If the interest is paid in common stock, the number of shares issued will be determined based on a per share value equal to 90% of the current market price of the Company s common stock.

During the nine months ended September 30, 2004 and 2003, $25,406 and $3,217 of the Company s 2008 Notes were converted into 14,518 and 1,838 shares of common stock, respectively. The Company issued 1,359 and 213 shares of common stock as payment for preferred interest on early conversion for the nine months ended September 30, 2004 and 2003, respectively. During the three months ended September 30, 2004 and 2003, $1,101 and $3,166 of the Company s 2008 Notes were converted into 629 and 1,809 shares of common stock, respectively. The Company issued 43 and 208 shares of common stock as payment for preferred interest on early conversion for the three months ended September 30, 2004 and 2003, respectively. In connection with these conversions, the Company recognized additional interest expense of $88 and $2,563 for the three and nine months ended September 30, 2004, respectively, and $483 and $490 of additional interest expense for the three and nine months ended September 30, 2003, respectively.

As noted above, holders of the 2008 Notes are entitled to convert their notes into shares of common stock before October 2005 and receive a discounted amount of interest that they would have otherwise received until that date. This feature is an embedded derivative as defined in Statement of Financial Accounting Standards No. 133 Accounting for Derivative Instruments and Hedging Activities. This embedded derivative is not clearly and closely related to the host contract, the convertible subordinated notes because it could at least double the investor s initial rate of return on the host contract and could also result in a rate of return that is at least twice what otherwise would be the market return for a contract that has the same terms as the host contract and that involves a debtor with a similar credit quality.

The Company has valued and bifurcated the embedded derivative from the host contract. At each balance sheet date, the embedded derivative is recorded at fair value, with any change in fair value recognized in current operations.

As of September 30, 2004 and December 31, 2003, the fair value of the embedded derivative was $1,291 and $3,018, respectively. In determining the fair value of the embedded derivative, the Company makes certain assumptions, including with respect to the future volatility and liquidity of the Company s common stock, as well as recent trends in the number of holders converting.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.
(*amounts in thousands, except per share data*)

Restatement

In March 2005, in conjunction with the preparation of the financial statements for the year ended December 31, 2004, we discovered that certain policy riders were not reserved for in prior years. The policy riders are options chosen by the policyholders and the previously unidentified policy riders include inflation, restoration of benefit and return of premium benefit. A significant majority of these policy riders were inflation riders. The premiums associated with the policies were properly billed and any claims incurred on these policies were properly paid. However, the policy riders were not identified in the data utilized to calculate policy reserves. As a result, we have restated our previously issued financial statements for the years ended December 31, 2003 and 2002 and the quarters ended March 31, 2004 and June 30, 2004 to reflect the inclusion of the policy riders. In addition, we are restating our previously issued financial statements for the quarter ended September 30, 2004.

The total cumulative impact of the restatement that affected shareholders equity as of December 31, 2003 was a decrease in shareholders equity of $6,655, which includes a decrease in beginning shareholders equity as of January 1, 2003 of $6,838. The overall decrease in shareholders equity as a result of the restatement as of December 31, 2002 and 2003 and the three and six months ended September 30, 2003 and 2004 was as follows:

December 31, 2002 (1)	$ (6,838)
Year ended December 31, 2003 (2)	183
Three months ended September 30, 2003 (2)	(92)
Three months ended September 30, 2004 (2)	65
Nine months ended September 30, 2003 (2)	(148)
Nine months ended September 30, 2004 (2)	309

(1) The adjustment represents an opening retained earnings adjustment on January 1, 2003.

(2) The adjustment represents the retained earnings impact of the restatement to net income in the respective period.

The consolidated financial statements reflect the effects of the restatement on (i) net policy acquisition costs amortized and unamortized deferred policy acquisition costs, (ii) benefits to policyholders expense policy reserves, (iii) the Federal income tax benefit and deferred income taxes and (iv) basic and diluted earnings per share. A summary of the effects of the restatement on reported amounts as of September 30, 2004 and December 31, 2003 is presented below.

	Consolidated Balance Sheets					
	September 30, 2004			December 31, 2003		
	As Previously Reported	Adjustment	As Restated	As Previously Reported	Adjustment	As Restated
Unamortized deferred policy acquisition costs	$ 151,110	$ (1)	$ 151,109	$ 160,740	$ 18	$ 160,758
Policy reserves (accident and health)	(541,943)	(9,760)	(551,703)	(508,344)	(10,256)	(518,600)
Deferred income tax liability	(32,857)	3,415	(29,442)	(19,314)	3,583	(15,731)
Total shareholders' equity	203,264	(6,346)	196,918	150,734	(6,655)	144,079

A summary of the effects of the restatement on reported amounts for the three and nine months ended September 30, 2004 and September 30, 2003 is presented below.

	Consolidated Statements of Income and Comprehensive Income for the Three Months Ended					
	September 30, 2004			September 30, 2003		
	As Previously Reported	Adjustment	As Restated	As Previously Reported	Adjustment	As Restated
Benefits to policyholders	$ (56,151)	$ (105)	$ (56,256)	$ (63,763)	$ 145	$ (63,618)
Net policy acquisition costs amortized	(1,251)	5	(1,246)	(3,870)	--	(3,870)
Federal income tax (provision) benefit	(23,371)	35	(23,336)	13,085	(53)	13,032
Net income (loss)	41,805	(65)	41,740	(25,398)	92	(25,306)
Basic earnings per share from net income (loss)	$ 1.03	$ --	$ 1.03	$ (1.20)	$ --	$ (1.20)
Diluted earnings per share from net income (loss)	$ 0.48	$ --	$ 0.48	$ (1.20)	$ --	$ (1.20)

	Consolidated Statements of Income and Comprehensive Income for the Nine Months Ended					
	September 30, 2004			September 30, 2003		
	As Previously Reported	Adjustment	As Restated	As Previously Reported	Adjustment	As Restated
Benefits to policyholders	$ (172,906)	$ 494	$ (172,412)	$ (188,803)	$ (585)	$ (189,388)
Net policy acquisition costs amortized	(9,630)	(19)	(9,649)	(9,065)	358	(8,707)
Federal income tax provision	(14,491)	(166)	(14,657)	(398)	79	(319)
Net income	24,568	309	24,877	772	(148)	624
Basic earnings per share from net income	$ 0.68	$ --	$ 0.68	$ 0.04	$ (0.01)	$ 0.03
Diluted earnings per share from net income	$ 0.33	$ --	$ 0.33	$ 0.04	$ (0.01)	$ 0.03

The restatement did not have any impact on total cash flows from operations, investing or financing activities. We have restated all pertinent historical information in Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

Our principal products are individual, defined benefit accident and health insurance policies that consist of nursing home care, home health care and Medicare supplement.

Our insurance subsidiaries are subject to the insurance laws and regulations of the states in which they are licensed to write insurance. These laws and regulations govern matters such as payment of dividends, settlement of claims and loss ratios. State regulatory authorities must approve premiums charged for insurance products. In addition, our insurance subsidiaries are required to establish and maintain reserves with respect to reported and incurred but not reported claims, as well as estimated future benefits payable under our insurance policies. These reserves must, at a minimum, comply with mandated standards. Our reserves are certified annually by our consulting actuary as to standards required by the insurance departments for our domiciliary states and for the other states in which we conduct business. We believe we maintained adequate reserves as mandated by each state in which we are currently writing business at September 30, 2004.

Our insurance subsidiaries are regulated by various state insurance departments. The National Association of Insurance Commissioners (NAIC) has Risk-Based Capital (RBC) requirements for insurance companies to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks, such as asset quality, mortality and morbidity, asset and liability matching, benefit and loss reserve adequacy, and other business factors. The RBC formula is used by state insurance regulators as an early warning tool to identify, for the purpose of initiating regulatory action, insurance companies that potentially are inadequately capitalized. In addition, the formula defines minimum capital standards that an insurer must maintain. Regulatory compliance is determined by a ratio of the enterprise s regulatory Total Adjusted Capital to its Authorized Control Level RBC, as defined by the NAIC. Companies below specific trigger points or ratios are classified within certain levels, each of which may require specific corrective action depending upon the insurer s state of domicile.

At December 31, 2000, Penn Treaty Network America Insurance Company (PTNA) had Total Adjusted Capital at the Regulatory Action level, which required it to file a Corrective Action Plan (the Plan) with the Pennsylvania Insurance Department (the Department). In addition, American Network Insurance Company (ANIC), which is wholly owned by PTNA, is also subject to the provisions of the Plan. On February 12, 2002, the Department approved the Plan. As a primary component of the Plan, effective December 31, 2001, PTNA and ANIC entered a reinsurance transaction to reinsure, on a quota share basis, substantially all of their long-term care insurance policies then in-force (the 2001 Centre Agreement). The agreement is subject to certain coverage limitations, including an aggregate limit of liability that is a function of certain factors and that may be reduced in the event that the premium rate increases that the reinsurance agreement may require are not obtained. We are required to perform annual comparisons of our actual to expected claims experience. If we have reason to believe, whether from this analysis or other available information, that at least a 5% premium rate increase is necessary, we are obligated to file and obtain such premium rate increases in order to comply with the requirements of the agreement. If we do not file and obtain such premium rate increases, our aggregate limit of liability would be reduced by 50% of the premium amount that would have otherwise been received. We are currently in compliance with the agreement.

As part of this agreement, annual risk charges of approximately $11,000 are credited against our notional experience account by the reinsurer. The annual amount will increase if we do not commute on December 31, 2007. This agreement does not qualify for reinsurance treatment in accordance with generally accepted accounting principles (GAAP) because it does not result in the reasonable possibility that the reinsurer may realize a significant loss. This is due to a number of factors related to the agreement, including experience refund provisions, the expense and risk charges credited to the notional experience account by the reinsurer and the aggregate limit of liability. However, this agreement meets the requirements to qualify for reinsurance treatment under statutory accounting rules.

The initial premium and future cash flows from the reinsured policies, less claims payments, ceding commissions and risk charges, are credited to a notional experience account, which is held for our benefit in the event of commutation and recapture on or after December 31, 2007. The notional experience account balance receives an investment credit based upon the total return from a series of benchmark indices and derivative hedges that are intended to closely match the duration of our reserve liability.

Our current modeling and actuarial projections, which were completed as of September 30, 2004, suggest that we are likely to be able to commute the agreement, as planned, on December 31, 2007. In order to commute the agreement, our statutory capital following commutation must be sufficient to support the reacquired business in compliance with all statutory requirements. Upon commutation, PTNA and ANIC would receive cash or other liquid assets equaling the market value of our notional experience account from the reinsurer. We would also record the necessary reserves for the business in PTNA s and ANIC s statutory financial statements. Our ability to commute the agreement is highly dependent upon the market value of the notional experience account exceeding the level of required reserves to be established. As of September 30, 2004, the statutory basis reserve liabilities of $1,016 exceeded the combination of the notional experience account value and funds held due to the reinsurer of $912. We expect the value of the notional experience account to exceed the reserve liabilities at December 31, 2007. In addition to the performance of the reinsured policies from now until 2007, the notional experience account value is susceptible to market interest rate changes. A current market interest rate increase of 100 basis points could reduce the market value of the notional experience account by approximately $86,000 and jeopardize our ability to commute as planned. As we approach the intended commutation date, the sensitivity of our notional experience account to market interest rate movement will decline as the duration of the benchmark indices becomes shorter, however the amount of assets susceptible to such interest sensitivity will continue to grow as additional net cash flows are added to the notional experience account balance prior to commutation. We intend to give notice to the reinsurer of our intention to commute on December 31, 2007 at such time as we are highly confident of our ability to support the reacquired policies. The reinsurer has agreed to invest the underlying assets of the notional experience account in a manner that we request in order to minimize short term volatility at that time.

In the event we determine that commutation of the reinsurance agreement is unlikely on December 31, 2007, but likely at some future date, we will include additional annual expense and risk charge credits against our notional experience account in our deferred policy acquisition costs (DAC) recoverability analysis. As a result, we could impair the value of our DAC asset and record the impairment in our financial statements. However, we currently believe that we will have sufficient statutory capital and surplus to commute the reinsurance agreement on December 31, 2007 or that sufficient alternatives, such as proceeds from additional capital issuance or new reinsurance opportunities, will be available to enable us to commute the agreement as planned.

In addition to the requirement to enter into the 2001 Centre Agreement, the Plan principally:

a) limits new investments to those rated by the NAIC as 1 or 2;
b) limits and requires Department approval for certain affiliated transactions; and
c) requires a $125,000 increase in statutory reserves over a three-year period, of which a $5,000 increase remains to be made by the end of 2004.

Upon the Department s approval of the Plan in February 2002, we recommenced new policy sales in 23 states, including Pennsylvania. We have now recommenced new policy sales in 18 additional states. These 41 states represented approximately 91% of our direct premium revenue in the three months ended September 30, 2004. We are actively working with the remaining states to recommence new policy sales in all jurisdictions.

The 2001 Centre Agreement also granted the reinsurer an option to participate in reinsuring new business sales on a quota share basis. In August 2002, the reinsurer exercised its option to reinsure up to 50% of future sales, subject to a limitation of the reinsurer s risk. This agreement does not qualify for reinsurance treatment in accordance with GAAP because the agreement does not result in the reasonable possibility that the reinsurer may realize a significant loss. This is due to an aggregate limit of liability that reduces the likelihood of the reinsurer realizing a significant loss on the agreement. However, this agreement meets the requirements to qualify for reinsurance treatment under statutory accounting rules.

In March 2004, the reinsurer notified us that, for reasons unrelated to us, it would discontinue its quota share reinsurance of new long-term care insurance policies issued after July 31, 2004. Policies issued and reinsured prior to this date and policies covered by the 2001 Centre Agreement are unaffected by the reinsurer s notification to us. We are in discussions with several reinsurers regarding a new reinsurance relationship and anticipate that, if successfully entered into, a new treaty could retroactively include policies issued on or after August 1, 2004. If we are unable to replace this agreement our statutory surplus could be negatively impacted as a result of the surplus strain caused by new premium growth.

Our financial condition and results of operations are affected significantly by the following factors:

Level of required reserves for policies in-force. Our insurance policies are accounted for as long duration contracts. As a result, there are two components of policyholder liabilities. The first is a policy reserve liability for future policyholder benefits, represented by the present value of future benefits less a portion of future premium collection. These reserves are calculated based on assumptions that include estimates for mortality, morbidity, interest rates, premium rate increases and policy persistency. The assumptions are based on our past experience, industry experience and current trends.

The second is a reserve for incurred, either reported or not yet reported, policy claims. The amount of reserves relating to reported and unreported claims incurred is determined by periodically evaluating statistical information with respect to the number and nature of historical claims. We compare actual experience with estimates and adjust our reserves in the current period on the basis of such comparisons to the extent that our analysis suggests that the estimates utilized differ from actual experience.

Additions to, or reductions in, reserves are recognized in our current Consolidated Statements of Income and Comprehensive Income as expense or income, respectively, through benefits to policyholders and are a material component of our net income or loss. Reserves are established based upon current assumptions and we cannot assure you that actual experience will not differ materially from the assumptions used in the establishment of our reserves. Any variance from these assumptions could affect our profitability in future periods.

Deferred policy acquisition costs. In connection with the sale of our insurance policies, we defer and amortize a portion of the policy acquisition costs over the related premium paying periods for the life of the policy. These costs include all expenses that are directly related to, and vary with, the acquisition of the policy, including commissions, underwriting and other policy issue expenses. The amortization of DAC is determined using the same projected actuarial assumptions used in computing policy reserves. DAC can be affected by unanticipated terminations of policies because, upon such terminations, we are required to expense fully the DAC associated with the terminated policies. In addition, the assumptions underlying DAC and our policy benefit reserves are periodically reviewed and updated to reflect current assumptions, including planned premium rate increases. In the event planned premium rate increases are not achieved, we could recognize an impairment of our DAC in the future. Whenever we determine that our DAC is not fully recoverable, we impair the carrying value of our DAC through an expense to our Consolidated Statements of Income and Comprehensive Income.

Policy premium levels. We attempt to set premium levels to maintain planned profit margins. Premium levels on new products, as well as rate increases on existing products, are subject to government review and regulation. We may be limited in our ability to gain approval for premium rate increases such that future profit margins could be reduced or prior losses may not be recouped.

Investment income and notional experience account. Our investment portfolio, excluding our notional experience account, consists primarily of investment grade fixed income securities. Income generated from this portfolio is largely dependent upon prevailing levels of interest rates. Due to the duration of our investments (approximately 3.2 years), investment income does not immediately reflect changes in market interest rates.

In connection with the 2001 Centre Agreement, we transferred substantially our entire investment portfolio in the first quarter of 2002 to the reinsurer as the initial premium payment. The initial and future premium for the reinsured policies, less claims payments, ceding commissions and risk charges, is credited to a notional experience account, the balance of which also receives an investment credit based upon the total market return of a series of benchmark indices and derivative hedges. The notional experience account balance represents an amount to be paid to us in the event of commutation of the agreement. We believe that the notional experience account represents a hybrid instrument, containing both a fixed debt host contract and an embedded derivative. The economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the fixed debt host contract. We are accounting for the investment credit received on the notional experience account as follows:

a) The fixed debt host yields a fixed return based upon the yield to maturity of the underlying benchmark indices. The return on the fixed debt host is reported as investment income in the Statements of Income and Comprehensive Income.

b) The change in fair value of the embedded derivative represents the percentage change in the underlying indices applied to the notional experience account, similar to that of an unrealized gain/loss on a bond. The change in the fair value of the embedded derivative is reported as market gain (loss) on notional experience account in the Statements of Income and Comprehensive Income.

As a result, our results of operations are subject to significant volatility. Recorded market value gains or losses, although recognized in current earnings, are expected to be partially offset in future periods from the receipt of the most recent market interest rates for all subsequent periods. The benchmark indices are comprised of U.S. Treasury strips, agencies and investment grade corporate bonds, with weightings of approximately 25%, 15% and 60%, respectively, and have a duration of approximately 11 years.

Lapsation and persistency. Our financial condition and results of operations may be affected by lapsation and persistency, both of which relate to the renewal of insurance policies. Lapsation is the termination of a policy by non-renewal. Lapsation is automatic if and when premiums become more than 31 days overdue, although, in some cases, a lapsed policy may be reinstated within six months. Persistency represents the percentage of policies renewed.

Policies renew or lapse for a variety of reasons, both internal and external. We believe that our efforts to address policyholder concerns or questions help to ensure policy renewals. We work closely with our licensed agents, who play an integral role in policy persistency and policyholder communication.

Economic cycles can influence a policyholder s ability to continue the payment of insurance premiums when due. We believe that publicity regarding Federal and state tax legislation allowing medical deductions for certain long-term care insurance premiums has raised public awareness of the escalating costs of long-term care and the value provided to the consumer by long-term care insurance. The ratings assigned to our insurance subsidiaries by independent rating agencies also influence consumer decisions.

Lapsation and persistency can both positively and adversely affect future earnings. Reduced lapsation and higher persistency generally result in higher renewal premiums and lower amortization of DAC, but may lead to increased claims in future periods. Higher lapsation can result in reduced premium collection, a greater percentage of higher-risk policyholders, and accelerated expensing of DAC. However, higher lapsation may also lead to decreased claims in future periods. Actual persistency, on an annualized basis, for the quarter ended September 30, 2004 was approximately 90%, which was higher than our assumption of 87%.

Results of Operations

Three Months Ended September 30, 2004 and 2003

Premiums. Total premium revenue earned in the three month period ended September 30, 2004 (the 2004 quarter), including long-term care, disability, life and Medicare supplement, decreased 1.4% to $80,309, compared to $81,471 in the same period in 2003 (the 2003 quarter).

Total first year premium revenue in the 2004 quarter increased 39.7% to $2,892, compared to $2,070 in the 2003 quarter. First year long-term care premium revenue in the 2004 quarter increased 47.5% to $2,704, compared to $1,833 in the 2003 quarter. We anticipate that first year premium revenue will continue to increase as independent agents who sold our policies prior to the cessation of sales are reengaged and independent agents who had not previously sold our policies are recruited. In addition, we anticipate that we will recommence sales in additional states in which we are currently not writing new business. The rate of growth could be negatively impacted by our inability to increase our financial ratings with A.M. Best and Standard and Poor s rating services, continued consumer and agent concerns regarding our financial strength and our ability to enter into a reinsurance agreement for new business sold after July 31, 2004.

Total renewal premium revenue in the 2004 quarter decreased 2.5% to $77,421, compared to $79,401 in the 2003 quarter. Renewal long-term care premium revenue in the 2004 quarter decreased 3.0% to $74,117, compared to $76,397 in the 2003 quarter. We may continue to experience reduced renewal premium revenue in the future, primarily driven by the reduced level of new premium revenue in recent prior periods as discussed above and the lapsation of existing policies.

Net investment income. Net investment income earned for the 2004 quarter increased 8.2% to $12,055, from $11,144 for the 2003 quarter.

Our average yield on invested assets at cost, including the notional experience account and cash equivalents, was 5.36% and 5.21% in the 2004 and 2003 quarters, respectively. The investment income component of our notional experience account investment credit generated $11,863 and $10,627 in the 2004 and 2003 quarters, respectively. The yield on our notional experience account was 5.76% and 5.59% in the 2004 and 2003 quarters, respectively. The increase in our average yield is due to an increase in market interest rates, which has the greatest impact on our notional experience account. The notional experience account return is based upon the yield to maturity of the underlying benchmark indices, which are comprised of U.S. Treasury strips, agencies and investment grade corporate bonds, with weightings of approximately 25%, 15% and 60%, respectively, and has a duration of approximately 11 years.

Market gain (loss) on notional experience account. We recorded a market gain on our notional experience account balance of $54,438 in the 2004 quarter compared to a market loss of $34,540 in the 2003 quarter.

During the 2004 quarter, interest rates decreased, leading to a market gain on the notional experience account. The yield on the notional experience account was 5.9% at June 30, 2004 compared to 5.4% at September 30, 2004. During the 2003 quarter, interest rates increased, leading to a market loss on the notional experience account. The yield on the notional experience account was 5.1% at June 30, 2003 compared to 5.4% at September 30, 2003.

Change in preferred interest on early conversion. We recorded $2,251 of income and a loss of $354 in the 2004 and 2003 quarters, respectively, to reflect the change in value of the preferred interest on early conversion. The fair value of the embedded derivative was $1,291 and $2,305 as of September 30, 2004 and 2003, respectively. We believe that the value of the embedded derivative is significantly affected by the ability of investors to liquidate their shares in the market. We further believe that the number of shares of our common stock outstanding and the average daily trading volume of our common stock provide an indication of the ability of the market to bear additional sales of stock without a material reduction of the current market value of those shares. Throughout 2003 and the first two quarters of 2004, the liquidity of our common stock rose significantly, as did the average daily trading volume. As a result, we increased our estimates of the value of the embedded derivative based on an assumption that conversions were more likely to occur without stock price deflation. The decrease in value in the 2004 quarter is due primarily to a decrease in the closing price of our common stock at September 30, 2004 compared to June 30, 2004. If we assumed that all holders converted on September 30, 2004, without giving any consideration to the relationship of the current share price to the conversion price or to the impact of this level of conversions on the stock price, the value of the embedded derivative would be $5,317, compared to $7,011 at June 30, 2004. If actual experience deviates from current assumptions, our financial results may be significantly impacted in future periods.

Other income. We recorded $1,180 in other income during the 2004 quarter, down from $1,719 in the 2003 quarter. There was a decrease in the income generated from our ownership of corporate owned life insurance policies due to a reduction in our balance due to the payment of death benefits and a decrease in our crediting rate.

Benefits to policyholders. (Restated to reflect the impact of previously unreserved policy riders.) Total benefits to policyholders in the 2004 quarter decreased 11.6% to $56,256, compared to $63,618 in the 2003 quarter. Our loss ratio, or policyholder benefits to premium revenue, was 70.1% in the 2004 quarter, compared to 78.1% in the 2003 quarter. The loss ratio has decreased due to premium rate increases and certain claims processing improvements.

Claims experience can differ from our expectations due to numerous factors, including mortality rates, duration of care and type of care utilized. When we experience deviation from our estimates, we typically seek premium rate increases that are sufficient to offset future deviation. In 2001 and 2002, we filed for premium rate increases on the majority of our policies in-force. These rate increases were necessary because we expected higher loss ratios as a result of higher claims expectations than existed at the time of the original premium rate filings. We have filed additional premium rate increases on many policies in-force as result of new claim assumptions we established in the third quarter of 2002. We have been generally successful in the past in obtaining state insurance department approvals for increases. If we are unsuccessful in obtaining the recently filed or future rate increases when deemed necessary, or if we do not pursue rate increases when actual claims experience exceeds our expectations, we would suffer a financial loss.

Historically, we have observed variations throughout the year in the payment or incurrals of new claims. Management employs seasonal assumptions throughout the year, based upon observed historical trends, in the establishment of its claim reserves so that it can more consistently monitor loss ratio variances from its expectations based upon other significant factors such as claims duration and incidence. We reduced our claims reserves by approximately $3,129 and $3,278 as of September 30, 2004 and 2003, respectively, to reflect this seasonal variation.

Our policy reserves, which are held for policyholders not currently on claim, are highly dependent upon several factors, including policyholder persistency and the mix of policies with varying benefit amounts or types. We project the growth of our policy reserves based upon the current and projected mix of policies in-force. Variances from our expectations result from future changes in this mix that differ from our assumptions.

Commissions. Commissions to agents decreased 6.5% to $9,564 in the 2004 quarter, compared to $10,234 in the 2003 quarter.

First year commissions on accident and health business in the 2004 quarter increased 52.1% to $1,717, compared to $1,129 in the 2003 quarter, due to the increase in first year accident and health premium revenue. The ratio of first year accident and health commissions to first year accident and health premium revenue was 59.4% in the 2004 quarter and 54.5% in the 2003 quarter. The first year commission ratio for both the 2004 and 2003 quarters is lower than the first year commission ratio prior to the cessation of sales in 2001 due to the increased portion of premium revenue attributable to the sale of our Secured Risk, Medicare Supplement and franchise group policies. All of these policies pay a lower commission as a percentage of premium revenue to agents than our individual long-term care policies. Individual long-term care policy sales have declined as a result of our lower financial ratings with A.M. Best and Standard and Poor s rating services and continued consumer and agent concerns regarding our financial strength. We believe that this ratio will continue to increase as the sale of our individual long-term care policies increase as a percentage of total sales.

Renewal commissions on accident and health business in the 2004 quarter decreased 11.3% to $8,550, compared to $9,642 in the 2003 quarter, due to the decrease in renewal accident and health premium revenue. The ratio of renewal accident and health commissions to renewal accident and health premiums was 11.1% in the 2004 quarter and 12.2% in the 2003 quarter. We have implemented premium rate increases on a majority of policies written prior to December 31, 2001. We do not pay commissions on the additional premium collected as a result of a rate increase, which reduces the ratio of renewal commissions to renewal premium revenue.

Net policy acquisition costs amortized. (Restated to reflect the impact of previously unreserved policy riders.) The net policy acquisition costs amortized in the 2004 quarter decreased to $1,246, compared to $3,870 in the 2003 quarter.

Deferred costs are typically all costs that are directly related to, and vary with, the acquisition of new premiums. The deferred costs include the variable portion of commissions, which are defined as the first year commissions less ultimate renewal commissions, and variable general and administrative expenses related to policy sales, underwriting and issuance. Deferred costs are amortized over the life of the policy based on actuarial assumptions, including persistency of policies in-force. In the event a policy lapses prematurely due to death or termination of coverage, the remaining unamortized portion of the deferred amount is immediately recognized as expense in the current period.

The net amortization of deferred policy acquisition costs is affected by new business generation, imputed interest on prior reserves and policy persistency. The amortization of deferred costs is generally offset largely by the deferral of costs associated with new premium generation. However, lower new premium revenue throughout 2003 and continuing through the 2004 quarter produced significantly less expense deferral to offset amortized costs.

General and administrative expenses. General and administrative expenses in the 2004 quarter decreased 10.2% to $12,672, compared to $14,118 in the 2003 quarter. The ratio of total general and administrative expenses to premium revenues was 15.8% in the 2004 quarter, compared to 17.3% in the 2003 quarter.

Salaries and benefits expense was approximately $350 less in the 2004 quarter than the 2003 quarter due to the elimination of positions in both 2003 and 2004. Legal fees were approximately $450 less in the 2004 quarter than the 2003 quarter due to a reduction in activity related to our litigation. In addition, expenses at one of our agency subsidiaries was approximately $700 less in the 2004 quarter compared to the 2003 quarter due to reductions in staff and the closing of certain unprofitable satellite offices.

We believe that we currently have capacity for premium growth at our current staff levels, print inventories and other expense categories. We also believe that our current expense levels represent the minimum requirements necessary to reengage new sales territories, design competitive product lines and properly underwrite new policy applications. However, we believe that if we remain unable to write new business in certain states where we have ceased new production, or if we are unable to use our existing staff and infrastructure capacity to generate additional premium revenue, we will need to decrease production expenses, which could result in decisions to reduce our staff or other operating functions.

Expense and risk charges on reinsurance and excise tax expense. Our 2001 Centre Agreement provides the reinsurer with annual expense and risk charges, which are credited against our notional experience account in the event of future commutation of the agreement. The annual charge consists of a fixed cost and a variable component based upon reserve and capital levels needed to support the reinsured business. In the 2004 and 2003 quarters, we incurred charges of $2,807 and $2,768, respectively, for this item. In addition, we are subject to an excise tax for premium payments made to a foreign reinsurer equal to one percent of the net premium revenue ceded to the foreign reinsurer. We recorded $730 and $961 for excise tax expenses in the 2004 and 2003 quarters, respectively.

Interest expense. Interest expense in the 2004 quarter decreased 16.8% to $1,851, compared to $2,225 in the 2003 quarter. The interest expense in both the 2004 and 2003 quarters is primarily related to our convertible subordinated notes, which pay interest at an annual percentage rate of 6.25%. The decrease in interest expense is due to a reduction in the average debt outstanding in the 2004 quarter compared to the 2003 quarter and a reduction in the amount of debt converted in the 2004 quarter compared to the 2003 quarter. We incur interest expense related to the conversion of our convertible subordinated notes. Holders of our convertible subordinated notes are entitled to convert their notes into shares of our common stock before October 15, 2005 and receive a discounted amount of interest that they would have otherwise received through October 15, 2005 had they not converted the notes. We incurred $88 of interest expense from the conversion of $1,101 in convertible subordinated notes during the 2004 quarter. During the 2003 quarter, we incurred $483 of interest expense from the conversion of $3,166 in convertible subordinated notes.

Federal income tax benefit (provision). (Restated to reflect the impact of previously unreserved policy riders.) Our provision for Federal income taxes was $23,336 in the 2004 quarter, compared to a benefit of $13,032 in the 2003 quarter. The effective tax rate was 36% and 34% in the 2004 and 2003 quarters, respectively. The increase is due to a reduction in the income received on our corporate owned life insurance policies, which is not included in taxable income.

Nine Months Ended September 30, 2004 and 2003

Premiums. Total premium revenue earned in the nine month period ended September 30, 2004 (the 2004 period), including long-term care, disability, life and Medicare supplement, decreased 0.8% to $241,795, compared to $243,756 in the same period in 2003 (the 2003 period).

Total first year premium revenue in the 2004 period increased 56.8% to $8,319, compared to $5,305 in the 2003 period. First year long-term care premium revenue in the 2004 period increased 65.6% to $7,689, compared to $4,636 in the 2003 period. We anticipate that first year premium revenue will continue to increase as independent agents who sold our policies prior to the cessation of sales are reengaged and independent agents who had not previously sold our policies are recruited. In addition to this increase in states in which we have recommenced sales, we anticipate that we will recommence sales in additional states in which we are currently not writing new business. The rate of growth could be negatively impacted by our inability to increase our financial ratings with A.M. Best and Standard and Poor s rating services, continued consumer and agent concerns regarding our financial strength and our ability to enter into a reinsurance agreement for new business sold after July 31, 2004.

Total renewal premium revenue in the 2004 period decreased 2.1% to $233,479 compared to $238,451 in the 2003 period. Renewal long-term care premium revenue in the 2004 period decreased 2.4% to $223,946, compared to $229,522 in the 2003 period. We may continue to experience reduced renewal premium revenue in the future, primarily driven by the reduced level of new premium revenue in recent prior periods as discussed above and the lapsation of existing policies.

Net investment income. Net investment income earned for the 2004 period increased 7.9% to $34,584, from $32,064 for the 2003 period.

Our average yield on invested assets at cost, including cash and cash equivalents, was 5.17% and 5.35% in the 2004 and 2003 periods, respectively. The investment income component of our notional experience account investment credit generated $34,271 and $30,633 in the 2004 and 2003 periods, respectively. The yield on our notional experience account was 5.64% and 5.61% in the 2004 and 2003 periods, respectively.

Market (loss) gain on notional experience account. We recorded a market gain on our notional experience account balance of $26,388 in the 2004 period compared to a market gain of $8,726 in the 2003 period. The notional experience account is susceptible to market interest rate changes. As a result, our future financial results are subject to significant volatility.

During the 2004 period, interest rates decreased, leading to a market gain on the notional experience account. The yield on the notional experience account was 5.6% on December 31, 2003 compared to 5.4% at September 30, 2004. During the 2003 period, interest rates also decreased, leading to a market loss on the notional experience account. The yield on the notional experience account was 5.7% at December 31, 2002 compared to 5.4% at September 30, 2003.

Change in preferred interest on early conversion. We recorded a gain of $2,215 and an expense of $267 in the 2004 and 2003 periods, respectively, to reflect the change in value of the preferred interest on early conversion. The fair value of the embedded derivative was $1,291 and $2,305 as of September 30, 2004 and 2003, respectively. We believe that the value of the embedded derivative is significantly affected by the ability of investors to liquidate their shares in the market. We further believe that the number of shares of our common stock outstanding and the average daily trading volume of our common stock provide an indication of the ability of the market to bear additional sales of stock without a material reduction of the current market value of those shares. Throughout 2003 and the 2004 period, the liquidity of our common stock rose significantly, as did the average daily trading volume. As a result, we increased our estimates of the value of the embedded derivative based on an assumption that conversions were more likely to occur without stock price deflation. The decrease in value in the 2004 period is due primarily to a decrease in the closing price of our common stock at September 30, 2004 compared to December 31, 2003. If we assumed that all holders converted on September 30, 2004, without giving any consideration to the relationship of the current share price to the conversion price or to the impact of this level of conversions on the stock price, the value of the embedded derivative would be $5,317. If actual experience deviates from current assumptions, our financial results may be significantly impacted in future periods.

Other income. We recorded $4,222 in other income during the 2004 period, down from $6,162 in the 2003 period. The decrease is attributable primarily to a decrease in the income generated from our ownership of corporate owned life insurance policies due to reduced outstanding balances and a decrease in our crediting rate. In addition, net commission payments earned by our agency subsidiaries were less in the 2004 period than in the 2003 period, primarily as a result of decreased production.

Benefits to policyholders. (Restated to reflect the impact of previously unreserved policy riders.) Total benefits to policyholders in the 2004 period decreased 9.0% to $172,412, compared to $189,388 in the 2003 period. Our loss ratio, or policyholder benefits to premium revenue, was 71.3% in the 2004 period, compared to 77.7% in the 2003 period. The loss ratio has decreased due to premium rate increases and certain claims processing improvements.

Historically, we have observed variations throughout the year in the payment or incurrals of new claims. Management employs seasonal assumptions throughout the year, based upon observed historical trends, in the establishment of its claim reserves so that it can more consistently monitor loss ratio variances from its expectations based upon other significant factors such as claims duration and incidence. We reduced our claims reserves by approximately $3,129 and $3,278 as of September 30, 2004 and 2003, respectively, to reflect this seasonal variation.

Commissions. Commissions to agents decreased 4.5% to $29,792 in the 2004 period, compared to $31,198 in the 2003 period.

First year commissions on accident and health business in the 2004 period increased 72.9% to $4,868, compared to $2,816 in the 2003 period, primarily due to the increase in first year accident and health premium revenue. The ratio of first year accident and health commissions to first year accident and health premium revenue was 58.5% in the 2004 period and 53.1% in the 2003 period. The first year commission ratio for both the 2004 and 2003 periods is lower than the first year commission ratio prior to the cessation of sales in 2001 due to the increased sale of our Secured Risk, Medicare Supplement and franchise group policies as a percentage of new sales. All of these policies pay a lower commission as a percentage of premium revenue to agents than our individual long-term care policies. Individual long-term care policy sales have declined as a result of our lower financial ratings with A.M. Best and Standard and Poor s rating services and continued consumer and agent concerns regarding our financial strength. We believe that this ratio will continue to increase as the sale of our individual long-term care policies increase as a percentage of total sales.

Renewal commissions on accident and health business in the 2004 period decreased 10.5% to $26,856, compared to $30,014 in the 2003 period, due to the decrease in renewal accident and health premium revenue. The ratio of renewal accident and health commissions to renewal accident and health premiums was 11.6% in the 2004 period and 12.7% in the 2003 period. We have implemented premium rate increases on a majority of policies written prior to December 31, 2001. We do not pay commissions on the additional premium collected as a result of a rate increase, which reduces the ratio of renewal commissions to renewal premium revenue.

Net policy acquisition costs amortized. (Restated to reflect the impact of previously unreserved policy riders.) The net policy acquisition costs amortized in the 2004 period increased to $9,649, compared to $8,707 in the 2003 period.

Deferred costs are typically all costs that are directly related to, and vary with, the acquisition of new premiums. The deferred costs include the variable portion of commissions, which are defined as the first year commissions less ultimate renewal commissions, and variable general and administrative expenses related to policy sales, underwriting and issuance. Deferred costs are amortized over the life of the policy based on actuarial assumptions, including persistency of policies in-force. In the event a policy lapses prematurely due to death or termination of coverage, the remaining unamortized portion of the deferred amount is immediately recognized as expense in the current period.

The net amortization of deferred policy acquisition costs is affected by new business generation, imputed interest on prior reserves and policy persistency. The amortization of deferred costs is generally offset largely by the deferral of costs associated with new premium generation. However, lower new premium revenue throughout 2003 and continuing through the 2004 period produced significantly less expense deferral to offset amortized costs.

General and administrative expenses. General and administrative expenses in the 2004 period decreased 10.8% to $39,446, compared to $44,222 in the 2003 period. The ratio of total general and administrative expenses to premium revenues was 16.3% in the 2004 period, compared to 18.1% in the 2003 period.

During the 2003 period, we recorded expense of approximately $2,500 related to the initial recognition of future retirement benefits payable to our former chairman and severance related expenses for certain managers whose positions were eliminated during the third quarter of 2003. Legal fees were approximately $420 less in the 2004 period than the 2003 period due to a reduction in activity related to our litigation. In addition, expenses at one of our agency subsidiaries was approximately $1,400 less in the 2004 quarter due to reductions in staff and the closing of certain unprofitable satellite offices.

We believe that we currently have capacity for premium growth at our current staff levels, print inventories and other expense categories. We also believe that our current expense levels represent the minimum requirements necessary to reengage new sales territories, design competitive product lines and properly underwrite new policy applications. However, we believe that if we remain unable to write new business in certain states where we have ceased new production, or if we are unable to use our existing staff and infrastructure capacity to generate additional premium revenue, we will need to decrease production expenses, which could result in decisions to reduce our staff or other operating functions.

Expense and risk charges on reinsurance and excise tax expense. Our 2001 Centre Agreement provides the reinsurer with annual expense and risk charges, which are credited against our notional experience account in the event of future commutation of the agreement. The annual charge consists of a fixed cost and a variable component based upon reserve and capital levels needed to support the reinsured business. In the 2004 and 2003 periods, we incurred charges of $8,422 and $8,305, respectively, for this item. In addition, we are subject to an excise tax for premium payments made to a foreign reinsurer equal to one percent of the net premium revenue ceded to the foreign reinsurer. We recorded $2,259 and $2,136 for excise tax expenses in the 2004 and 2003 periods, respectively.

Interest expense. Interest expense in the 2004 period increased 35.0% to $7,838, compared to $5,807 in the 2003 period. The interest expense in both the 2004 and 2003 periods is primarily related to our convertible subordinated notes, which pay interest at an annual percentage rate of 6.25%. We incur additional interest expense related to the conversion of our convertible subordinated notes. Holders of our convertible subordinated notes are entitled to convert their notes into shares of our common stock before October 15, 2005 and receive a discounted amount of interest that they would have otherwise received through October 15, 2005 had they not converted the notes. We incurred $2,563 of interest expense from the conversion of $25,406 in convertible subordinated notes during the 2004 period. During the 2003 period, we incurred $490 of interest expense from the conversion of $3,217 in convertible subordinated notes. This increase in interest expense was partially offset by the decrease in outstanding notes due to the conversions.

Federal income tax benefit (provision). (Restated to reflect the impact of previously unreserved policy riders.) Our provision for Federal income taxes was $14,657 in the 2004 period, compared to $319 in the 2003 period. The effective tax rate was 37% and 34% in the 2004 and 2003 periods, respectively. The increase in the effective tax rate is due to an increase in the amount of interest paid in shares of our common stock at the time of conversion of our subordinated convertible debt and a decrease in the income received from our corporate owned life insurance policies.

Liquidity and Capital Resources

Our consolidated liquidity requirements have historically been met from the operations of our insurance subsidiaries, from our agency subsidiaries and from funds raised in the capital markets. Our primary sources of cash from normal operations are premiums, investment income and maturities of investments. We have obtained, and may in the future obtain, cash through public and private offerings of our common stock, the exercise of stock options and warrants and other capital markets activities including the sale or exchange of debt instruments. Our primary uses of cash are policy acquisition costs (principally commissions), payments to policyholders, investment purchases and general and administrative expenses.

In the 2004 period, our cash flows were attributable to cash provided by operations, cash used in investing and cash provided by financing. Our cash decreased $9,957 in the 2004 period primarily due to payments made to our reinsurer of $40,190 and the purchase of $41,236 in bonds. Our cash was increased during the period primarily due to $16,000 in additional funds generated from the sale of convertible subordinated debt. This was supplemented by $26,716 from operations and $23,377 from the sales of bonds. The major source of cash from operations was premium revenue and investment income received and the major use of cash was for claims paid to policyholders and commission paid to agents.

In the 2003 period, our cash flows were attributable to cash provided by operations, cash used in investing and cash provided by financing. Our cash decreased $15,518 in the 2003 period primarily due to payments made to our reinsurer of $41,241 and the purchase of $54,230 in bonds. In the 2003 period, our cash was also decreased as a result of the repayment of approximately $9,000 of convertible subordinated notes due 2003. Our cash was increased during the period due primarily to $32,421 in additional funds generated from the issuance of convertible subordinated debt. This was supplemented by $35,691 from operations. The major source of cash from operations was premium revenue and investment income received and the major use of cash was for claims paid to policyholders and commission paid to agents.

Parent company operations

We have engaged in financing activities, including issuance of debt securities, over the past two years to fund our liquidity and subsidiary capital needs. These activities have included:

1. In the first quarter of 2003, we completed the sale of 2008 Notes and received proceeds of $32,421. We used $16,000 of the proceeds to satisfy the premium to surplus requirements of our voluntary consent order with the Florida Insurance Department. We used the remaining proceeds to supplement parent liquidity, retire our remaining 2003 Notes, and for general working capital purposes.

2. In the first quarter of 2004, we issued an additional $16,000 in 2008 Notes. We used the proceeds to supplement parent liquidity, for general working capital purposes and to further supplement our subsidiaries statutory surplus.

In addition, during 2003, holders of $8,122 of our 2008 Notes elected to convert their 2008 Notes for 5,184 shares of our common stock, which includes 543 shares issued for interest paid for conversion prior to October 15, 2005, and during 2004, holders of $25,406 of our 2008 Notes elected to convert their 2008 Notes for 15,876 shares of our common stock, which includes 2,563 shares issued for interest paid for conversion prior to October 15, 2005.

At September 30, 2004, our total principal payment and lease obligations through 2008 were as follows:

	Debt	Lease Obligations	Total
2004	$ --	$ 173	$ 173
2005	--	380	380
2006	--	189	189
2007	--	91	91
2008	80,686	37	80,723
Total	$ 80,686	$ 870	$ 81,556

The parent company s cash needs primarily include interest payments on outstanding debt, capital contributions to our insurance subsidiaries and operating expenses. The funding has been primarily derived from the operating cash flow of our agency subsidiary operations and the issuance of debt and equity securities. We believe that our cash currently on hand and the dividend capabilities of our agency subsidiaries will be sufficient to meet our liquidity needs through April 15, 2005, but may be insufficient to meet our interest payments thereafter. If we are unable to generate sufficient funds through operations or raise additional capital to meet our debt service obligations on or after April 15, 2005, or if our assumptions about our ability to service our debt through that date are not correct, we may default on our debt obligations. We will need to raise additional capital to satisfy any parent company liquidity needs, beyond October 2005, particularly if the price of our common stock on or after October 15, 2005 is insufficient to cause mandatory conversion of our 2008 Notes.

Our anticipated cash needs for the remainder of 2004 are as follows:

Debt interest payments	$ 2,500
Capital contribution to PTNA	2,000
Parent expenses	200
Cash requirements	$ 4,700

Our anticipated sources to meet our 2004 obligations are:

Cash and investments on hand	$ 5,600
Subsidiary sources	1,100
Cash sources	$ 6,700

There can be no assurance that we will be able to access the capital markets to raise funds necessary to meet our future obligations.

Subsidiary operations

The majority of our insurance subsidiaries cash flow results from our existing long-term care policies, which have been ceded to the reinsurer under this agreement. Our subsidiaries ability to meet additional liquidity needs and cover fixed expenses in the future is highly dependent upon our ability to issue new policies and to control expense growth. Our future growth and new policy issuance is dependent upon our ability to continue to expand our historical markets, retain and expand our network of agents and effectively market our products and fund our marketing and expansion while maintaining minimum statutory levels of capital and surplus required to support such growth.

Under the insurance laws of Pennsylvania and New York, where our insurance subsidiaries are domiciled, insurance companies can pay ordinary dividends only out of earned surplus. In addition, under Pennsylvania and New York law, insurance subsidiaries must give the Department and the New York Insurance Department at least 30 days advance notice of any proposed extraordinary dividend and cannot pay such a dividend if the Department disapproves the payment during that 30-day period. For purposes of Pennsylvania law, an extraordinary dividend is a dividend that, together with all other dividends paid during the preceding twelve months, exceeds the greater of 10% of the insurance company s surplus as shown on the company s last annual statement filed with Department or its statutory net income as shown on that annual statement. Statutory earnings are generally lower than earnings reported in accordance with generally accepted accounting principles due to the immediate or accelerated recognition of all costs associated with premium growth and benefit reserves. For purposes of New York law, approval must be obtained for any dividend that, together with all other dividends paid during the preceding twelve months, exceeds the lesser of 10% of the insurance company s surplus as of the preceding December 31 or its adjusted net investment income for the year ended the preceding December 31. Additionally, the Plan requires the Department to approve all dividends made by PTNA, regardless of normal statutory requirements for allowable dividends. We believe that the Department is unlikely to approve any dividend in the foreseeable future as a result of PTNA s current statutory surplus position. Although not stipulated in the Plan, this requirement is likely to continue until such time as PTNA meets normal statutory allowances, including reported net income and positive cumulative earned surplus. We do not expect that this will occur in the foreseeable future.

PTNA and ANIC have not paid any dividends to the parent company for the past three years and are unlikely in the foreseeable future to be able to make dividend payments due to insufficient statutory surplus and anticipated earnings. We do not anticipate that American Independent Network Insurance Company of New York will make a dividend payment to the parent company in 2004.

Forward Looking Statements

Certain statements made by us may be considered forward looking within the meaning of the Private Securities Litigation Reform Act of 1995. Although we believe that our expectations are based upon reasonable assumptions within the bounds of our knowledge of our business and operations, there can be no assurance that actual results of our operations will not differ materially from our expectations. An investment in our securities includes certain risks, which may be specific to us or to the long-term care insurance industry. Factors which could cause actual results to differ from expectations include, among others, our ability to comply with the Corrective Action Plan, the Florida Consent Order, the orders or directives of other states in which we do business or any special provisions imposed by states in connection with the resumption of writing new business, our ability to commute our reinsurance agreement and to recapture our reinsured policies and accumulated notional experience account balance, our ability to meet our future risk-based capital goals, the adverse financial impact of suspending new business sales, our ability to raise adequate capital to meet regulatory requirements and to support anticipated growth, our ability to refinance, convert or repay our outstanding debt and associated interest requirements, the volatility of market interest rates and the resultant impact upon our notional experience account, the cost associated with recommencing new business sales, liquidity needs and debt obligations, the adequacy of our loss reserves and the recoverability of our DAC asset, our ability to sell insurance products in certain states, including California, our ability to resume generating new business in all states, our ability to comply with government regulations and the requirements which may be imposed by state regulators as a result of our capital and surplus levels, the ability of senior citizens to purchase our products in light of the increasing costs of health care, our ability to defend ourselves against adverse litigation, the success of our new marketing arrangement with Long Term Care Exchange, Ltd. and our ability to recapture, expand and retain our network of productive independent agents, especially in light of the suspension of new business.

Item 3. Quantitative and Qualitative Disclosures About Market Risk (amounts in thousands)

We invest in securities and other investments authorized by applicable state laws and regulations and follow an investment policy designed to maximize yield to the extent consistent with liquidity requirements and preservation of assets. A significant portion of assets and liabilities are financial instruments which are subject to the market risk of potential losses from adverse changes in market rates and prices. Our primary market risk exposures relate to interest rate risk on our notional experience account and fixed rate domestic medium-term instruments and, to a lesser extent, domestic short-term and long-term instruments. We have established strategies, asset quality standards, asset allocations and other relevant criteria for our portfolio to manage our exposure to market risk.

Our financial instruments are held for purposes other than trading. Our portfolio does not contain any significant concentrations in single issuers (other than U.S. treasury and agency obligations), industry segments or geographic regions. However, our notional experience account balance, which represents approximately 94% of our investable assets at September 30, 2004, is with one reinsurer. Although sufficient assets to support our statutory reserve liabilities are secured by trust accounts and irrevocable letters of credit with major United States financial institutions, the accumulated profits of our reinsured business are susceptible to significant credit risk of the reinsurer.

We urge caution in evaluating overall market risk from the information below. Actual results could differ materially because the information was developed using estimates and assumptions as described below, and because insurance liabilities and reinsurance receivables are excluded in the hypothetical effects (insurance liabilities represent approximately 87% of total liabilities). Long-term debt, although not carried at fair value, is included in the hypothetical effect calculation.

The hypothetical effects of changes in market rates or prices on the fair values of our financial instruments (including our notional experience account balance, as discussed below) as of September 30, 2004, excluding insurance liabilities and reinsurance receivables on unpaid losses because such insurance related assets and liabilities are not carried at fair value, would have been as follows:

If interest rates had increased by 100 basis points at September 30, 2004, there would have been a decrease of approximately $91,000 in the net fair value of our investment portfolio less our long-term debt. A 200 basis point increase in market rates at September 30, 2004 would have resulted in a decrease of approximately $173,000 in the net fair value. If interest rates had decreased by 100 and 200 basis points, there would have been a net increase of approximately $102,000 and $215,000, respectively, in the net fair value of our total investments and debt.

We hold certain mortgage and asset backed securities as part of our investment portfolio. The fair value of these instruments may react in a convex or non-linear fashion when subjected to interest rate increases or decreases. The anticipated cash flows of these instruments may differ from expectations in changing interest rate environments, resulting in duration drift or a varying nature of predicted time-weighted present values of cash flows. The result of unpredicted cash flows from these investments could cause the above hypothetical estimates to change. However, we believe that the minimal amount we have invested in these instruments and their broadly defined payment parameters sufficiently outweigh the cost of computer models necessary to accurately predict the possible impact on our investment income of hypothetical effects of changes in market rates or prices on the fair values of financial instruments as of September 30, 2004.

Item 4. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and the Company s Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to Exchange Act Rule 13a-15 as of September 30, 2004. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company s disclosure controls and procedures were not effective as of September 30, 2004 because in March 2005, in conjunction with the preparation of the financial statements for the year ended December 31, 2004, the Company discovered that certain policy riders were not reserved for in prior years. This conclusion with respect to the effectiveness of the Company s disclosure controls and procedures as of September 30, 2004 is different from the conclusion disclosed in the Company s previously filed Quarterly Report on Form 10-Q. The premiums associated with the policies were properly billed and any claims incurred on these policies were properly paid. However, the policy riders were not properly identified in the data utilized to calculate policy reserves. Therefore, the Company has determined that it did not properly account for benefits expense and policy reserves. As a result, the Company restated its previously issued financial statements for the years ended December 31, 2003 and 2002 and the quarters ended March 31, 2004 and June 30, 2004. In addition, the Company is restating its previously issued financial statements for the quarter ended September 30, 2004 to reflect the inclusion of the policy riders. In determining whether this control deficiency constitutes a material weakness, the Company referred to PCAOB Auditing Standard No. 2, An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements, noting that a material weakness is defined as a significant deficiency that, by itself, or in a combination with other significant deficiencies, results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The Company has concluded that the omission of the policy riders from benefits expense and policy reserves was the result of a material weakness. In light of the material weakness described above, the Company performed additional procedures to ensure that its consolidated financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the financial statements included in this report fairly present in all material respects the Company s financial condition, results of operations and cash flows for the periods presented.

There were no significant changes in the Company s internal controls that occurred during the quarter ended September 30, 2004. However, during the first fiscal quarter of 2005, the Company implemented a control related to the control deficiency noted above. A system report is run that identifies all policies issued with an inflation rider. This report is cross-referenced to the data utilized to calculate policy reserves to ensure that the policy rider is properly identified.

PART II OTHER INFORMATION

Item 1. Legal Proceedings (amounts in thousands)

Our subsidiaries are parties to various lawsuits generally arising in the normal course of their business. We do not believe that the eventual outcome of any of these suits to which we are party will have a material adverse effect on our financial condition or results of operations. However, the outcome of any single event could have a material impact upon the quarterly or annual financial results of the period in which it occurs.

The Company and its subsidiary, Penn Treaty Network America Insurance Company (PTNA), are defendants in an action in the Fifth Judicial Circuit of the State of Florida in and for Marion County, Civil Division. Plaintiffs filed this matter on January 10, 2003 in Florida State Court, on behalf of themselves and a class of similarly situated Florida long-term care policyholders. We removed this case to United States District Court, Middle District of Florida, Ocala Division for a second time in November 2003. Plaintiffs motion to remand the case to Florida State Court was granted in April 2004. Plaintiffs claim wrongdoing in connection with the sale of long-term care insurance policies to the Plaintiffs and the class. Plaintiffs allege claims for reformation, breach of fiduciary duty, breach of the implied duty of good faith and fair dealing, negligent misrepresentation, fraudulent misrepresentation, and restitution and pray for relief in the form of compensatory damages and restitution, an order of reformation of the policies, and attorney fees and court costs. No amounts were specified for compensatory damages and restitution. We have filed motions to dismiss for failure to state a claim, lack of personal jurisdiction against us, and to strike certain allegations of the complaint as irrelevant and improper. While we cannot predict the outcome of this case, it could have a material adverse impact upon our financial condition and results of operations in the event of an unfavorable outcome. We believe that the complaint is without merit and intend to continue to defend the matter vigorously.

The Company and its subsidiary, PTNA, are defendants in an action in the Orange County Superior Court in the state of California. Plaintiffs filed this matter in November 2003 on behalf of themselves, all other persons similarly situated and the general public. Plaintiffs claim wrongdoing in violation of the California Business & Professions Code in connection with the sale of long-term care insurance policies. Plaintiffs allege unlawful business acts, claims for reformation, breach of fiduciary duty, breach of the implied duty of good faith and fair dealing, and negligent misrepresentation and pray for relief in the form of compensatory damages and restitution, punitive damages, an order of reformation of the policies, and attorney fees and court costs. No amounts were specified for compensatory damages and restitution. After review of our motions related to plaintiffs complaint, the court dismissed plaintiffs claim for breach of fiduciary duty, and we filed an answer to the plaintiffs other claims in the complaint. While we cannot predict the outcome of this case, it could have a material adverse impact upon our financial condition and results of operations in the event of an unfavorable outcome. We believe that the complaint is without merit and intend to continue to defend the matter vigorously.

The Company and two of its subsidiaries, PTNA and Senior Financial Consultants Company (SFCC), are defendants in an action instituted on June 5, 2002 in the United States District Court for the Eastern District of Pennsylvania by National Healthcare Services, Inc. The complaint seeks compensatory damages in excess of $150 and punitive damages in excess of $5,000 for an alleged breach of contract and misappropriation. On December 18, 2003, the Plaintiffs voluntarily dismissed their claim for misappropriation and the attendant punitive damages claim. The claims arise out of a joint venture related to the AllRisk Healthcare program, which was marketed first by PTNA and then later by SFCC. Depositions of fact witnesses were completed on October 30, 2003. Motions for summary judgment were filed by both parties in December 2003, and in February 2004 the court granted our motion for summary judgment with respect to one claim, and denied the remaining motions. Pursuant to court order, a conference was held with a federal magistrate judge in August 2004. The parties have scheduled a second meeting with the federal magistrate judge. While we cannot predict the outcome of this case, it could have a material adverse impact upon our financial condition and results of operations in the event of an unfavorable outcome. We believe that the complaint is without merit and intend to continue to defend the matter vigorously.

The Company s subsidiary, PTNA, is a defendant in an action in the Los Angeles County Superior Court in the state of California. Plaintiff filed this matter on May 28, 2004 on behalf of herself and all other persons similarly situated and the general public. The Plaintiff alleges wrongdoing in connection with the payment of long-term care insurance claims. The Plaintiff alleges violations of the California Consumer Legal Remedies Act, the California Business and Professions Code, breach of the implied duty of good faith and fair dealing, financial elder abuse and prays for relief in the form of compensatory damages and restitution, punitive damages, an accounting, attorney fees and court costs. No amounts were specified for compensatory damages and restitution or punitive damages. We have filed a demurrer to all counts of the Plaintiff s complaint, and a motion to strike allegations of the complaint, including Plaintiff s class allegations. On October 26, 2004, the complex litigation panel of the Los Angeles Superior Court admitted the matter into the complex program, and ordered the matter stayed until parties meet with the judge assigned to handle this matter as part of the complex program. While the Company cannot predict the outcome of this case, it could have a material adverse impact upon its financial condition and results of operations in the event of an unfavorable outcome. However, we believe that the complaint is without merit and intend to continue to defend the matter vigorously.

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

None

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Number	Description
10.1	Letter of Agreement dated October 27, 2004 between Penn Treaty Network America Insurance Company and the LTC Exchange, Ltd. *
31.1	Rule 13a-14(a)/15d-14(a) Certification of President and Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Senior Vice President and Chief FinancialOfficer
32.1	Section 1350 Certification of President and Chief Executive Officer
32.2	Section 1350 Certification of Senior Vice President and Chief Financial Officer

* Previously filed.

SIGNATURES

Pursuant to the requirements 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.

PENN TREATY AMERICAN CORPORATION
Registrant

Date: September 28, 2005

/s/ William W. Hunt
William W. Hunt
President and
Chief Executive Officer

Date: September 28, 2005

/s/ Mark Cloutier
Mark Cloutier
Senior Vice President and
Chief Financial Officer

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