

MYLAN INC.
Form 10-Q
July 26, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
For the quarterly period ended June 30, 2012
OR

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

Commission File Number 1-9114

MYLAN INC.

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction
of incorporation or organization)

1500 Corporate Drive, Canonsburg, Pennsylvania 15317

(Address of principal executive offices)

(724) 514-1800

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class of	Outstanding at
Common Stock	July 20, 2012
\$0.50 par value	405,887,535

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 For the Quarterly Period Ended
 June 30, 2012

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PART I — FINANCIAL INFORMATION

MYLAN INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited; in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Revenues:				
Net revenues	\$1,677,985	\$1,570,364	\$3,251,060	\$3,006,873
Other revenues	13,552	3,513	32,885	15,961
Total revenues	1,691,537	1,573,877	3,283,945	3,022,834
Cost of sales	992,358	904,448	1,918,493	1,762,460
Gross profit	699,179	669,429	1,365,452	1,260,374
Operating expenses:				
Research and development	94,361	72,494	175,320	147,804
Selling, general and administrative	359,216	314,220	695,985	594,215
Litigation settlements, net	(12,206)) 2,244	(10,033)) 26,210
Total operating expenses	441,371	388,958	861,272	768,229
Earnings from operations	257,808	280,471	504,180	492,145
Interest expense	75,666	84,654	158,075	169,064
Other income, net	7,837	7,218	2,145	10,470
Earnings before income taxes and noncontrolling interest	189,979	203,035	348,250	333,551
Income tax provision	50,843	56,049	79,687	82,020
Net earnings	139,136	146,986	268,563	251,531
Net earnings attributable to the noncontrolling interest	(586)) (540)) (934)) (910)
Net earnings attributable to Mylan Inc. common shareholders	\$138,550	\$146,446	\$267,629	\$250,621
Earnings per common share attributable to Mylan Inc. common shareholders:				
Basic	\$0.33	\$0.34	\$0.63	\$0.58
Diluted	\$0.33	\$0.33	\$0.62	\$0.56
Weighted average common shares outstanding:				
Basic	420,281	433,236	423,766	435,192
Diluted	424,394	445,391	428,380	446,932
See Notes to Condensed Consolidated Financial Statements				

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MYLAN INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive (Loss) Earnings
(Unaudited; in thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
Net earnings	\$ 139,136	\$ 146,986	\$ 268,563	\$ 251,531
Other comprehensive (loss) earnings, before tax:				
Foreign currency translation adjustment	(218,222)	116,123	(116,784)	279,929
Change in unrecognized (loss) gain and prior service cost related to post-retirement plans	(9)	513	(19)	522
Net unrecognized (loss) gain on derivatives	(34,806)	(1,181)	(12,160)	3,469
Net unrealized gain (loss) on marketable securities	88	237	(80)	(131)
Other comprehensive (loss) earnings, before tax	(252,949)	115,692	(129,043)	283,789
Income tax related to items of other comprehensive (loss) earnings	(11,198)	(154)	(4,008)	1,406
Other comprehensive (loss) earnings, net of tax	(241,751)	115,846	(125,035)	282,383
Comprehensive (loss) earnings	(102,615)	262,832	143,528	533,914
Comprehensive earnings attributable to the noncontrolling interest	(586)	(540)	(934)	(910)
Comprehensive (loss) earnings attributable to Mylan Inc. common shareholders	\$(103,201)	\$262,292	\$142,594	\$533,004
See Notes to Condensed Consolidated Financial Statements				

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MYLAN INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited; in thousands, except share and per share amounts)

	June 30, 2012	December 31, 2011
ASSETS		
Assets		
Current assets:		
Cash and cash equivalents	\$314,330	\$375,056
Restricted cash	1,413	9,274
Marketable securities	32,240	30,686
Accounts receivable, net	1,526,315	1,426,438
Inventories	1,473,360	1,396,742
Deferred income tax benefit	195,743	202,899
Prepaid expenses and other current assets	208,526	127,749
Total current assets	3,751,927	3,568,844
Property, plant and equipment, net	1,298,587	1,298,034
Intangible assets, net	2,491,377	2,630,747
Goodwill	3,467,924	3,517,935
Deferred income tax benefit	84,065	39,376
Other assets	508,091	543,207
Total assets	\$11,601,971	\$11,598,143
LIABILITIES AND EQUITY		
Liabilities		
Current liabilities:		
Trade accounts payable	\$678,451	\$703,235
Short-term borrowings	406,130	128,054
Income taxes payable	57,740	42,880
Current portion of long-term debt and other long-term obligations	98,379	691,614
Deferred income tax liability	1,132	1,215
Other current liabilities	922,180	996,158
Total current liabilities	2,164,012	2,563,156
Long-term debt	5,165,931	4,479,080
Contingent consideration	393,339	376,110
Other long-term obligations	385,767	366,100
Deferred income tax liability	293,801	308,915
Total liabilities	8,402,850	8,093,361
Equity		
Mylan Inc. shareholders' equity		
Common stock — par value \$0.50 per share		
Shares authorized: 1,500,000,000		
Shares issued: 532,294,070 and 530,315,453 as of June 30, 2012 and December 31, 2011	266,147	265,158
Additional paid-in capital	3,834,631	3,795,373
Retained earnings	1,688,149	1,420,520
Accumulated other comprehensive loss	(212,874)	(87,839)
	5,576,053	5,393,212
Noncontrolling interest	13,932	13,007

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Less: treasury stock — at cost		
Shares: 126,455,343 and 103,637,016 as of June 30, 2012 and December 31, 2011	2,390,864	1,901,437
Total equity	3,199,121	3,504,782
Total liabilities and equity	\$11,601,971	\$11,598,143
See Notes to Condensed Consolidated Financial Statements		

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MYLAN INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited; in thousands)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net earnings	\$268,563	\$251,531
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	250,956	244,877
Stock-based compensation expense	22,435	21,198
Change in estimated sales allowances	180,391	38,861
Deferred income tax benefit	(57,076)	(54,005)
Other non-cash items	118,935	33,593
Litigation settlements, net	(10,033)	26,210
Changes in operating assets and liabilities:		
Accounts receivable	(288,011)	(300,200)
Inventories	(109,639)	(139,998)
Trade accounts payable	(8,975)	55,559
Income taxes	(32,837)	81,301
Deferred revenue	(14,645)	—
Other operating assets and liabilities, net	(127,426)	(115,581)
Net cash provided by operating activities	192,638	143,346
Cash flows from investing activities:		
Capital expenditures	(98,918)	(111,413)
Purchase of marketable securities	(7,957)	(2,890)
Proceeds from sale of marketable securities	6,568	571
Other items, net	(62,622)	2,132
Net cash used in investing activities	(162,929)	(111,600)
Cash flows from financing activities:		
Purchase of common stock	(499,953)	(349,998)
Change in short-term borrowings, net	283,108	4,924
Proceeds from issuance of long-term debt	835,000	—
Payment of long-term debt	(732,549)	(2,466)
Proceeds from exercise of stock options	27,676	61,166
Other items, net	4,335	4,020
Net cash used in financing activities	(82,383)	(282,354)
Effect on cash of changes in exchange rates	(8,052)	23,495
Net decrease in cash and cash equivalents	(60,726)	(227,113)
Cash and cash equivalents — beginning of period	375,056	662,052
Cash and cash equivalents — end of period	\$314,330	\$434,939
See Notes to Condensed Consolidated Financial Statements		

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MYLAN INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. General

The accompanying unaudited Condensed Consolidated Financial Statements (“interim financial statements”) of Mylan Inc. and subsidiaries (“Mylan” or the “Company”) were prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and the rules and regulations of the Securities and Exchange Commission (“SEC”) for reporting on Form 10-Q; therefore, as permitted under these rules, certain footnotes and other financial information included in audited financial statements were condensed or omitted. The interim financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the interim results of operations, financial position and cash flows for the periods presented.

These interim financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011. The December 31, 2011 Condensed Consolidated Balance Sheet was derived from audited financial statements.

The interim results of operations for the three and six months ended and the interim cash flows for the six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the full fiscal year or any other future period. The Company computed its provision for income taxes using an estimated effective tax rate for the full year with consideration of certain discrete tax items which occurred within the interim period. The estimated annual effective tax rate for 2012 includes an estimate of the full-year effect of foreign tax credits that the Company anticipates it will claim against its 2012 U.S. tax liabilities.

2. Revenue Recognition and Accounts Receivable

Mylan recognizes net revenue for product sales when title and risk of loss pass to its customers and when provisions for estimates, including discounts, sales allowances, price adjustments, returns, chargebacks and other promotional programs are reasonably determinable. Accounts receivable are presented net of allowances relating to these provisions. No revisions were made to the methodology used in determining these provisions during the six months ended June 30, 2012. Such allowances were \$928.8 million and \$763.0 million at June 30, 2012 and December 31, 2011. Other current liabilities include \$160.0 million and \$147.9 million at June 30, 2012 and December 31, 2011, for certain sales allowances and other adjustments that are paid to indirect customers.

In February 2012, Mylan Pharmaceuticals Inc. (“MPI”) entered into a receivable securitization facility (the “Receivables Facility”) of up to \$300.0 million (which was subsequently expanded to \$400.0 million in July 2012). Pursuant to the terms of the Receivables Facility, MPI transfers certain of its domestic receivables, on an ongoing basis, to Mylan Securitization LLC (“Mylan Securitization”), a wholly-owned bankruptcy remote subsidiary. In turn, from time to time, Mylan Securitization sells its interests in such receivables, related assets and collections to certain conduit purchasers, committed purchasers and letter of credit issuers in exchange for cash or letters of credit. Mylan Securitization maintains a subordinated interest, in the form of over collateralization, in a portion of the receivables sold. At June 30, 2012, there were \$300.0 million of short-term borrowings outstanding under the Receivables Facility, which are recorded as a secured loan and included in short-term borrowings in the Condensed Consolidated Balance Sheets. The receivables underlying any borrowings are included in accounts receivable, net, in the Condensed Consolidated Balance Sheets. There were \$688.7 million of securitized accounts receivable at June 30, 2012.

The Company utilizes proceeds from the sale of its accounts receivable as an alternative to other forms of debt, effectively reducing its overall borrowing costs. MPI has agreed to continue servicing the sold receivables for the financial institution at market rates.

3. Acquisitions

The Respiratory Delivery Platform

On December 23, 2011, Mylan completed its acquisition of the exclusive worldwide rights to develop, manufacture and commercialize a generic equivalent to GlaxoSmithKline's Advair[®] Diskus and Seretide[®] Diskus incorporating Pfizer Inc.'s ("Pfizer") proprietary dry powder inhaler delivery platform (the "Respiratory Delivery Platform"). As part of the agreement, Mylan will fund the remaining development and capital requirements to bring the products to market. In accordance with GAAP guidance regarding business combinations, the Company accounted for this transaction as a purchase of a business and utilized the purchase method of accounting. Under the purchase method of accounting, the assets acquired and liabilities assumed in the transaction were recorded at the date of acquisition at the estimate of their respective fair values.

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MYLAN INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued

The total purchase consideration was \$348 million. This amount consisted of an initial cash payment of \$22 million, approximately \$4 million in assumed liabilities, and \$322 million of contingent consideration. Pfizer is eligible to receive milestone payments, which are contingent upon future product development achievements including regulatory approvals, market launches, sales targets and profitability. The \$322 million of contingent consideration at the acquisition date represents the net present value of expected milestone and profit sharing payments. The purchase price allocation, including the valuation of the contingent payment elements of the purchase price, resulted in in-process research and development (“IPR&D”) of \$338 million, fixed assets of \$8 million and goodwill of \$2 million. The impact on our results of operations since the acquisition date was not material.

The amount allocated to acquired IPR&D represents an estimate of the fair value of purchased in-process technology that, as of the closing date of the acquisition, had not reached technological feasibility and had no alternative future use. The fair value of IPR&D was based on the excess earnings method, which utilizes forecasts of expected net cash inflows (including estimates for ongoing costs) and other contributory charges. A discount rate of 12.5% was utilized to discount net cash inflows to present values.

The project is in the early stages of development, and the expected costs to complete are estimated to be significant. The project is not expected to begin generating a material benefit to the Company until after 2016. There can be no certainty that these assets ultimately will yield a successful product. Failure to successfully complete this project would have a material impact on the IPR&D assets related to it. Additionally, no assurances can be given that the underlying assumptions used to prepare the discounted cash flow analysis will not change in future periods.

4. Stock-Based Incentive Plan

Mylan’s shareholders have approved the 2003 Long-Term Incentive Plan (as amended, the “2003 Plan”). Under the 2003 Plan, 55,300,000 shares of common stock are reserved for issuance to key employees, consultants, independent contractors and non-employee directors of Mylan through a variety of incentive awards, including: stock options, stock appreciation rights, restricted shares and units, performance awards, other stock-based awards and short-term cash awards. Stock option awards are granted at the fair value of the shares underlying the options at the date of the grant, generally become exercisable over periods ranging from three years to four years, and generally expire in ten years. In the 2003 Plan, no more than 8,000,000 shares may be issued as restricted shares, restricted units, performance shares and other stock-based awards.

Upon approval of the 2003 Plan, no further grants of stock options have been made under any other plan. However, there are stock options outstanding from frozen or expired plans and other plans assumed through acquisitions.

The following table summarizes stock option activity:

	Number of Shares Under Option	Weighted Average Exercise Price per Share
Outstanding at December 31, 2011	23,599,256	\$17.42
Options granted	2,457,343	22.94
Options exercised	(1,978,618)	13.99
Options forfeited	(369,908)	19.68
Outstanding at June 30, 2012	23,708,073	\$18.24
Vested and expected to vest at June 30, 2012	22,629,289	\$18.12
Options exercisable at June 30, 2012	16,027,140	\$16.83

As of June 30, 2012, options outstanding, options vested and expected to vest, and options exercisable had average remaining contractual terms of 6.05 years, 5.93 years and 4.77 years, respectively. Also at June 30, 2012, options outstanding, options vested and expected to vest and options exercisable had aggregate intrinsic values of \$85.0 million, \$83.3 million and \$75.5 million, respectively.

A summary of the status of the Company's nonvested restricted stock and restricted stock unit awards, including performance based restricted stock, as of June 30, 2012 and the changes during the six months ended June 30, 2012 is presented below:

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MYLAN INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued

	Number of Restricted Stock Awards	Weighted Average Grant-Date Fair Value per Share
Nonvested at December 31, 2011	2,520,487	\$20.16
Granted	926,512	23.28
Released	(788,398)	16.18
Forfeited	(59,020)	22.33
Nonvested at June 30, 2012	2,599,581	\$22.44

As of June 30, 2012, the Company had \$63.7 million of total unrecognized compensation expense, net of estimated forfeitures, related to all of its stock-based awards, which will be recognized over the remaining weighted average period of 1.75 years. The total intrinsic value of stock-based awards exercised and restricted stock units converted during the six months ended June 30, 2012 and June 30, 2011 was \$34.9 million and \$56.2 million.

5. Balance Sheet Components

Selected balance sheet components consist of the following:

(In thousands)	June 30, 2012	December 31, 2011
Inventories:		
Raw materials	\$414,577	\$ 370,423
Work in process	235,477	253,492
Finished goods	823,306	772,827
	\$1,473,360	\$ 1,396,742
Property, plant and equipment:		
Land and improvements	\$71,401	\$ 72,945
Buildings and improvements	675,971	676,028
Machinery and equipment	1,337,312	1,358,163
Construction in progress	267,257	263,948
	2,351,941	2,371,084
Less accumulated depreciation	1,053,354	1,073,050
	\$1,298,587	\$ 1,298,034
Other current liabilities:		
Legal and professional accruals, including litigation reserves	\$141,482	\$ 232,670
Payroll and employee benefit plan accruals	193,774	221,458
Accrued sales allowances	160,042	147,938
Accrued interest	73,711	74,754
Fair value of financial instruments	72,202	69,493
Other	280,969	249,845
	\$922,180	\$ 996,158

6. Earnings per Common Share attributable to Mylan Inc.

Basic earnings per common share is computed by dividing net earnings attributable to Mylan Inc. common shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per common share is computed by dividing net earnings attributable to Mylan Inc. common shareholders by the weighted average number of shares outstanding during the period increased by the number of additional shares that would have been

outstanding related to potentially dilutive securities or instruments, if the impact is dilutive.

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MYLAN INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued

On September 15, 2008, concurrent with the sale of \$575.0 million aggregate principal amount of Cash Convertible Notes due 2015 (the "Cash Convertible Notes"), Mylan entered into a convertible note hedge and warrant transaction with certain counterparties. Pursuant to the warrant transactions, the Company sold to the counterparties warrants to purchase in the aggregate up to approximately 43.2 million shares of Mylan common stock, subject to anti-dilution adjustments substantially similar to the anti-dilution adjustments for the Cash Convertible Notes, which under most circumstances represents the maximum number of shares that underlie the conversion reference rate for the Cash Convertible Notes. The sold warrants had an exercise price of \$20.00 and will be net share settled, meaning that Mylan will issue a number of shares per warrant corresponding to the difference between its share price at each warrant expiration date and the exercise price. The warrants meet the definition of derivatives under the guidance in FASB Accounting Standards Codification ("ASC") 815 Derivatives and Hedging ("ASC 815"); however, because these instruments have been determined to be indexed to the Company's own stock and meet the criteria for equity classification under ASC 815-40 Contracts in Entity's Own Equity, the warrants have been recorded in shareholders' equity in the Condensed Consolidated Balance Sheets.

In September 2011, the Company entered into amendments with the counterparties to exchange the original warrants with an exercise price of \$20.00 (the "Old Warrants") with new warrants with an exercise price of \$30.00 (the "New Warrants"). Approximately 41.0 million of the Old Warrants were exchanged in the transaction. All other terms and settlement provisions of the Old Warrants remain unchanged in the New Warrants. The New Warrants meet the definition of derivatives under the guidance in ASC 815; however, because these instruments have been determined to be indexed to the Company's own stock and meet the criteria for equity classification under ASC 815-40, the New Warrants have also been recorded in shareholders' equity in the Condensed Consolidated Balance Sheets.

The average market value of the Company's shares did not exceed the exercise price of the New Warrants during the three and six months ended June 30, 2012. For the three and six months ended June 30, 2012, the average market value of the Company's shares exceeded the exercise price of the Old Warrants, and as a result, the Company has included 0.2 million and 0.2 million shares, respectively, in the calculation of diluted earnings per share. For the three and six months ended June 30, 2011, the average market value of the Company's shares exceeded the exercise price of the Old Warrants, and as a result, the Company has included 6.5 million and 5.9 million shares, respectively, in the calculation of diluted earnings per share.

On May 10, 2012, the Company announced that its Board of Directors had approved the repurchase of up to \$500.0 million of the Company's common stock in the open market. As of June 30, 2012, the repurchase program was completed with approximately 23.4 million shares of common stock being repurchased for approximately \$500.0 million.

Basic and diluted earnings per common share attributable to Mylan Inc. are calculated as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(In thousands, except per share amounts)	2012	2011	2012	2011
Basic earnings attributable to Mylan Inc. common shareholders (numerator):				
Net earnings attributable to Mylan Inc. common shareholders	\$ 138,550	\$ 146,446	\$ 267,629	\$ 250,621
Shares (denominator):				
Weighted average common shares outstanding	420,281			