MYLAN LABORATORIES INC
Form 10-Q
August 07, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

OR

o **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 LABORATORIES INC.
(Exact name of registrant as specified in its charter)

Pennsylvania	**25-1211621**
(State of incorporation)	*(I.R.S. Employer Identification No.)*

1500 Corporate Drive
Canonsburg, Pennsylvania 15317
(Address of principal executive offices)
(Zip Code)

(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 twelve 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 þ NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o

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

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

Class of Common Stock	**Outstanding at August 3, 2007**
$0.50 par value	248,801,646

MYLAN LABORATORIES INC. AND SUBSIDIARIES

FORM 10-Q
For the Quarterly Period Ended
June 30, 2007

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MYLAN LABORATORIES INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Earnings
(Unaudited; in thousands, except per share amounts)

Three Months Ended June 30,	**2007**	**2006**
Revenues:		
Net revenues	$ 542,709	$ 348,789
Other revenues	3,612	7,351
Total revenues	546,321	356,140
Cost of sales	249,613	167,940
Gross profit	296,708	188,200
Operating expenses:		
Research and development	31,720	21,225
Selling, general and administrative	76,914	49,826
Total operating expenses	108,634	71,051
Earnings from operations	188,074	117,149
Interest expense	22,919	10,359
Other (expense) income, net	(36,358)	9,584
Earnings before income taxes and minority interest	128,797	116,374
Provision for income taxes	49,207	40,787
Earnings before minority interest	79,590	75,587
Minority interest	(137)	
Net earnings	$ 79,727	$ 75,587
Earnings per common share:		
Basic	$ 0.32	$ 0.36
Diluted	$ 0.32	$ 0.35
Weighted average common shares outstanding:		
Basic	248,477	209,955
Diluted	251,604	214,791
Cash dividend declared per common share	$ 0.06	$ 0.06

See Notes to Condensed Consolidated Financial Statements

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MYLAN LABORATORIES INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
(Unaudited; in thousands, except share and per share amounts)

	June 30, 2007	March 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,315,557	$ 1,252,365
Marketable securities	174,885	174,207
Accounts receivable, net	401,071	350,294
Inventories	432,348	429,111
Deferred income tax benefit	161,874	145,343
Prepaid expenses and other current assets	136,289	60,724
Total current assets	2,622,024	2,412,044
Property, plant and equipment, net	707,064	686,739
Intangible assets, net	343,808	352,780
Goodwill	610,248	612,742
Deferred income tax benefit	46,002	45,779
Other assets	146,375	143,783
Total assets	$ 4,475,521	$ 4,253,867
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Current liabilities:		
Trade accounts payable	$ 146,811	$ 160,286
Short-term borrowings	107,315	108,259
Income taxes payable	91,558	78,387
Current portion of long-term obligations	130,756	124,782
Cash dividends payable	14,923	14,902
Other current liabilities	337,604	213,919
Total current liabilities	828,967	700,535
Deferred revenue	102,995	90,673
Long-term debt	1,656,064	1,654,932
Other long-term obligations	40,467	29,760
Deferred income tax liability	85,382	85,900
Total liabilities	2,713,875	2,561,800
Minority interest	36,667	43,207
Shareholders equity		

Preferred stock par value $0.50 per share Shares authorized: 5,000,000 Shares issued: none		
Common stock par value $0.50 per share Shares authorized: 600,000,000 at June 30, 2007 and March 31, 2007 Shares issued: 339,712,852 at June 30, 2007 and 339,361,201 at March 31, 2007	169,856	169,681
Additional paid-in capital	976,444	962,746
Retained earnings	2,156,667	2,103,282
Accumulated other comprehensive earnings	10,286	1,544
	3,313,253	3,237,253
Less:		
Treasury stock at cost Shares: 90,963,658 at June 30, 2007 and 90,948,957 at March 31, 2007	1,588,274	1,588,393
Total shareholders equity	1,724,979	1,648,860
Total liabilities and shareholders equity	$ 4,475,521	$ 4,253,867

See Notes to Condensed Consolidated Financial Statements

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MYLAN LABORATORIES INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(Unaudited; in thousands)

Three Months Ended June 30,	**2007**	**2006**
Cash flows from operating activities:		
Net earnings	$ 79,727	$ 75,587
Adjustments to reconcile net earnings to net cash provided from operating activities:		
Depreciation and amortization	26,868	11,787
Stock-based compensation expense	4,569	6,806
Minority interest	(137)	
Net income from equity method investees	(2,281)	(5,038)
Change in estimated sales allowances	(14,090)	15,738
Deferred income tax benefit	(11,662)	(15,346)
Other non-cash items	5,932	(624)
Receipts from litigation settlements, net	1,998	2,000
Loss on foreign currency option contract	57,468	
Cash received from Somerset		5,740
Changes in operating assets and liabilities:		
Accounts receivable	(35,494)	(41,925)
Inventories	2,632	(10,747)
Trade accounts payable	(39,637)	(8,094)
Income taxes	(2,947)	49,204
Deferred revenue	12,372	(1,793)
Other operating assets and liabilities, net	(767)	9,594
Net cash provided by operating activities	84,551	92,889
Cash flows from investing activities:		
Capital expenditures	(27,869)	(27,717)
Purchase of marketable securities	(86,270)	(192,053)
Proceeds from sale of marketable securities	83,202	144,680
Other items, net	(306)	(159)
Net cash used in investing activities	(31,243)	(75,249)
Cash flows from financing activities:		
Cash dividends paid	(14,902)	(12,605)
Excess tax benefit from stock-based compensation	2,082	700
Proceeds from exercise of stock options	6,081	6,301
Change in outstanding checks in excess of cash in disbursement accounts	18,008	(7,605)
Change in short-term borrowings, net	(3,824)	
Other items, net	(1,572)	(632)
Net cash provided by (used in) financing activities	5,873	(13,841)

Effect on cash of changes in exchange rates	4,011	
Net increase in cash and cash equivalents	63,192	3,799
Cash and cash equivalents beginning of period	$ 1,252,365	$ 150,124
Cash and cash equivalents end of period	$ 1,315,557	$ 153,923

See Notes to Condensed Consolidated Financial Statements

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MYLAN LABORATORIES INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(Unaudited; in thousands, except share and per share amounts)

1. General

In the opinion of management, the accompanying unaudited condensed consolidated financial statements (interim financial statements) of Mylan Laboratories Inc. and subsidiaries (Mylan or the Company) were prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the Securities and Exchange Commission 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 fiscal year ended March 31, 2007.

The interim results of operations and interim cash flows for the three months ended June 30, 2007 are not necessarily indicative of the results to be expected for the full fiscal year or any other future period.

Certain prior year amounts were reclassified to conform to the current year presentation. Such reclassifications had no impact on reported net earnings, earnings per share or shareholders equity.

2. Revenue Recognition and Accounts Receivable

Revenue is recognized for product sales upon shipment when title and risk of loss transfer to the Company s customers and when provisions for estimates, including discounts, rebates, price adjustments, returns, chargebacks and other promotional programs are reasonably determinable. No revisions were made to the methodology used in determining these provisions during the three month period ended June 30, 2007.

As a result of significant uncertainties surrounding the pricing and market conditions with respect to a product launched by the Company in late March 2007, the Company is not able to reasonably estimate the amount of potential price adjustments. Therefore, revenues on shipments of this product are currently being deferred until the resolution of such uncertainties. Such uncertainties are resolved upon our customers sale of this product. As a result, the Company is recognizing revenue at this time only upon our customers sale of this product.

Accounts receivable are presented net of allowances relating to these provisions. Such allowances were $392,602 and $404,687 as of June 30, 2007 and March 31, 2007, respectively. Other current liabilities include $49,868 and $51,873 at June 30, 2007, and March 31, 2007, for certain rebates and other adjustments that are payable to indirect customers.

3. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. The statement is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS No. 157 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, (SFAS No. 159), providing companies with an option to report selected financial assets and liabilities at fair value. This statement is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS No. 159 on its consolidated financial statements.

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MYLAN LABORATORIES INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

4. Pending Acquisition

On May 12, 2007, Mylan and Merck KGaA announced the signing of a definitive agreement under which Mylan will acquire Merck s generics business (Merck Generics) for 4,900,000 (approximately $6,700,000) in an all-cash transaction. Management believes that the combination of Mylan and Merck Generics will create a vertically and horizontally integrated generics and specialty pharmaceuticals leader with a diversified revenue base and a global footprint, and also believes the combined company will be among the top tier of global generic companies, with a significant presence in the top five global generics markets. The transaction remains subject to regulatory review in the United States and certain other customary closing conditions and is expected to close in the second half of calendar 2007. In connection with the pending transaction, Mylan has obtained fully committed financing from Merrill Lynch, Citigroup, Goldman Sachs, and J.P. Morgan.

In conjunction with this planned transaction, the Company entered into a deal-contingent foreign currency option contract in order to mitigate the risk of foreign currency exposure related to the pending Euro denominated transaction. The contract is contingent upon the closing of this acquisition and the premium of approximately $121,900 will be paid only upon such closing.

The Company accounts for this instrument under the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). This instrument does not qualify for hedge accounting treatment under SFAS No. 133 and therefore is required to be adjusted to fair value with the change in the fair value of the instrument recorded in current earnings. The Company recorded a non-cash, unrealized loss of $57,468 in the three month period ended June 30, 2007 related to this deal-contingent foreign currency option contract. This amount is included as other (expense) income, net, in the Condensed Consolidated Statement of Earnings. The fair value of this contract at June 30, 2007 is included in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheet.

5. Stock-Based Incentive Plan

Mylan s shareholders approved the *Mylan Laboratories Inc. 2003 Long-Term Incentive Plan* on July 25, 2003, and approved certain amendments on July 28, 2006 (as amended, the 2003 Plan). Under the 2003 Plan, 22,500,000 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. 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 to four years, and generally expire in ten years.

Upon approval of the 2003 Plan, the *Mylan Laboratories Inc. 1997 Incentive Stock Option Plan* (the 1997 Plan) was frozen, and no further grants of stock options will be made under that plan. However, there are stock options outstanding from the 1997 Plan, expired plans and other plans assumed through acquisitions.

MYLAN LABORATORIES INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

The following table summarizes stock option activity:

	Number of Shares Under Option	Weighted Average Exercise Price per Share
Outstanding at March 31, 2007	17,647,728	$ 16.17
Options granted	101,000	19.95
Options exercised	(351,651)	14.49
Options forfeited	(124,202)	16.78
Outstanding at June 30, 2007	17,272,875	$ 16.22
Vested and expected to vest at June 30, 2007	16,976,874	$ 16.18
Options exercisable at June 30, 2007	11,537,656	$ 15.04

As of June 30, 2007, options outstanding, options vested and expected to vest, and options exercisable had average remaining contractual terms of 5.97 years, 5.93 years and 5.05 years, respectively. Also at June 30, 2007, options outstanding, options vested and expected to vest and options exercisable had aggregate intrinsic values of $44,487, $44,352 and $41,961, respectively.

A summary of the status of the Company s nonvested restricted stock and restricted stock unit awards as of June 30, 2007 and the changes during the three month period ended June 30, 2007, is presented below:

Restricted Stock Awards	Number of Restricted Stock Awards	Weighted Average Grant-Date Fair Value per Share
Nonvested at March 31, 2007	211,316	$ 23.10
Granted		
Released		
Forfeited	(14,700)	23.27
Nonvested at June 30, 2007	196,616	$ 23.09

As of June 30, 2007, the Company had $17,466 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 1.2 years. The total intrinsic value of stock-based awards exercised during the quarter ended June 30, 2007 was $696. The total fair value of all shares vested during the quarter ended June 30, 2007 was $3,988.

Subsequent to June 30, 2007, the Company granted approximately 4,200,000 options and restricted stock units. Compensation expense to be recognized in future periods related to this grant will be approximately $34,000.

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MYLAN LABORATORIES INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

6. Balance Sheet Components

Selected balance sheet components consist of the following:

	June 30, 2007	March 31, 2007
	(In thousands)	
Inventories:		
Raw materials	$ 153,393	$ 148,109
Work in process	93,052	95,655
Finished goods	185,903	185,347
	$ 432,348	$ 429,111
Property, plant and equipment:		
Land and improvements	$ 30,418	$ 29,850
Buildings and improvements	337,661	297,505
Machinery and equipment	520,963	471,990
Construction in progress	88,648	141,301
	977,690	940,646
Less accumulated depreciation	270,626	253,907
	$ 707,064	$ 686,739
Other current liabilities:		
Payroll and employee benefit plan accruals	$ 40,261	$ 47,282
Accrued rebates	49,868	51,873
Royalties	11,959	15,215
Deferred revenue	20,482	17,675
Accrued interest	14,945	4,575
Legal and professional	39,750	40,095
Foreign currency option contract	121,874	
Other	38,465	37,204
Total	$ 337,604	$ 213,919

7. Earnings per Common Share

Basic earnings per common share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period adjusted for the dilutive effect of stock options and restricted stock outstanding. The effect of dilutive stock options on the weighted average number of common shares outstanding was 3,127,000 and 4,836,000 for the three months ended June 30, 2007 and 2006.

Stock options or restricted stock units representing 1,982,000 and 1,511,000 shares of common stock were outstanding as of June 30, 2007 and 2006, but were not included in the computation of diluted earnings per share for the three months then ended because to do so would have been anti-dilutive.

MYLAN LABORATORIES INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

8. Goodwill and Intangible Assets

A rollforward of goodwill from March 31, 2007 to June 30, 2007 is as follows:

		Total (In thousands)
Goodwill balance at March 31, 2007	$	612,742
Additions		610
Foreign currency translation and other		(3,104)
Goodwill balance at June 30, 2007	$	610,248

Intangible assets consist of the following components:

	Weighted Average Life (Years)		Original Cost		Accumulated Amortization		Net Book Value
			(In thousands)				
June 30, 2007							
Amortized intangible assets:							
Patents and technologies	20	$	118,926	$	62,482	$	56,444
Product rights and licenses	8		370,052		96,491		273,561
Other	14		21,626		8,606		13,020
		$	510,604	$	167,579		343,025
Intangible assets no longer subject to amortization:							
Trademarks							783
						$	343,808
March 31, 2007							
Amortized intangible assets:							
Patents and technologies	20	$	118,927	$	61,000	$	57,927
Product rights and licenses	8		367,805		86,349		281,456
Other	14		20,821		8,207		12,614
		$	507,553	$	155,556		351,997

Intangible assets no longer subject to amortization:	
Trademarks	783
	$ 352,780

Amortization expense for the three months ended June 30, 2007 and 2006 was $11,949 and $3,370 and is expected to be $43,864, $46,434, $43,740, $43,294, and $37,404 for fiscal years 2008 through 2012, respectively.

MYLAN LABORATORIES INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

9. Long-Term Debt

A summary of long-term debt is as follows:

	June 30, 2007	March 31, 2007
	(In thousands)	
Senior Notes(A)	$ 500,000	$ 500,000
Credit facilities(B)	450,000	450,000
Senior convertible notes(C)	600,000	600,000
Matrix facility loans(D)	233,468	226,362
	$ 1,783,468	$ 1,776,362
Less: Current portion	127,404	121,430
Total long-term debt	$ 1,656,064	$ 1,654,932

(A) On July 21, 2005, the Company issued $500,000 in Senior Notes, which consisted of $150,000 of Senior Notes due August 15, 2010, and bearing interest at 53/4% per annum (the 2010 Restricted Notes) and $350,000 of Senior Notes due August 15, 2015, and bearing interest at 63/8% per annum (the 2015 Restricted Notes , and collectively the Restricted Notes). The Restricted Notes were exchanged on January 14, 2006, in accordance with a registration rights agreement in a transaction consummated on January 19, 2006. The form and terms of the registered notes (the Notes) are identical in all material respects to the original notes. Interest is payable semiannually on February 15 and August 15 and commenced on February 15, 2006.

Prior to maturity, the Company may, under certain circumstances, redeem the Notes in whole or in part at prices specified in the bond indenture governing the Notes. Upon a change of control (as defined in the indenture governing the Notes) of the Company, each holder of the Notes may require the Company to purchase all or a portion of such holder s Notes at 101% of the principal amount of such Notes, plus accrued and unpaid interest.

The Notes are senior unsecured obligations of the Company and rank junior to all of the Company s secured obligations. The Notes are guaranteed jointly and severally on a full and unconditional senior unsecured basis by all of the Company s wholly-owned domestic subsidiaries except a captive insurance company.

The Notes indenture contains covenants that, among other things, limit the ability of the Company to (a) incur additional secured indebtedness, (b) make investments or other restricted payments, (c) pay dividends on, redeem or repurchase the Company s capital stock, (d) engage in sale-leaseback transactions and (e) consolidate, merge or transfer all or substantially all of its assets. Certain of the covenants contained in the indenture will no longer be applicable or will be less restrictive if the Company achieves investment grade ratings as outlined in the indenture.

(B) On July 21, 2005, the Company entered into a $500,000 senior secured credit facility (the Credit Facility). The Credit Facility consisted of a $225,000 five-year revolving credit facility and a $275,000 five-year term loan (the Term Loan).

On July 24, 2006, the Company completed the refinancing of its existing Credit Facility by entering into a credit agreement for a five-year $700,000 senior unsecured revolving credit facility (the 2006 Credit Facility). At the Company s discretion, the 2006 Credit Facility was expandable to $1,000,000. Borrowings totaling $187,000 were made under the 2006 Credit Facility and, along with existing cash, were used to repay the Term Loan. Additional net borrowings of $263,000 were made under the 2006 Credit Facility in order to finance the acquisition of Matrix. The spread over LIBOR for borrowings is adjusted based upon the Company s total leverage ratio as discussed below. The Company s obligations under the 2006 Credit Facility

MYLAN LABORATORIES INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

are guaranteed on a senior unsecured basis by all of the Company s direct and indirect domestic subsidiaries, except a captive insurance company.

The 2006 Credit Facility includes covenants that (a) require the Company to maintain a minimum interest coverage ratio and a maximum total leverage ratio, (b) place limitations on the Company s subsidiaries ability to incur debt, (c) place limitations on the Company s and the Company s subsidiaries ability to grant liens, carry out mergers, consolidations and sales of all or substantially all of its assets and (d) place limitations on the Company s and the Company s subsidiaries ability to pay dividends or make other restricted payments. The 2006 Credit Facility contains customary events of default, including nonpayment, misrepresentation, breach of covenants and bankruptcy.

On March 26, 2007, Mylan and its wholly-owned indirect subsidiary Euro Mylan B.V. (Euro Mylan) entered into a credit agreement (the Credit Agreement), effective March 26, 2007 (the Closing Date), with a syndicate of bank lenders for a $750,000 senior unsecured credit facility including (i) a multicurrency revolving credit facility (the Revolving Credit Facility) in an aggregate amount of up to a U.S. dollar equivalent of $300,000 due July 24, 2011, and (ii) a term loan agreement (the Term Loan Agreement) denominated in U.S. dollars to the Company in an aggregate amount of $450,000 due December 26, 2011 (collectively, the 2007 Credit Facility).

On the Closing Date, the Company borrowed $450,000 under the Term Loan Agreement and used the proceeds to repay the revolving loans outstanding under the Company s existing 2006 Credit Facility. The Company intends to use the Revolving Credit Facility for working capital and general corporate purposes, including expansion of its global operations.

The 2007 Credit Facility also provides that the entire principal amount of the Revolving Credit Facility may be borrowed by the Company or Euro Mylan in Euros or other foreign currencies that are agreed to by the Company and the Administrative Agent. At the request of the Company, but subject to obtaining commitments from the lenders or new lenders and the other terms and conditions specified in the Credit Agreement, the Company may elect to increase the commitments under the 2007 Credit Facility up to an aggregate amount not to exceed $850,000. At June 30, 2007 and March 31, 2007, the Company had outstanding letters of credit of $13,117.

At the Company s option, loans under the 2007 Credit Facility will bear interest either at a rate equal to LIBOR plus an effective applicable margin or at a base rate, which is defined as the higher of the rate announced publicly by the Administrative Agent, from time to time, as its prime rate or 0.5% above the federal funds rate. The effective applicable margin will fluctuate with in a range of 0.40% to 1.00%, based on the Company s total leverage ratio. In addition, the Company is required to pay a facility fee on the average daily amount of the commitments (whether used or unused) of the Revolving Credit Facility at a rate, which ranges from 0.10% to 0.25%, based on the Company s total leverage ratio. The interest rate in effect on the outstanding borrowings under the Term Loan Agreement at June 30, 2007 and March 31, 2007 was 6.07% and 6.20%, respectively. At June 30, 2007, the Company had a total of $1,000,000 available under the 2006 and 2007 Credit Facilities.

The Company s and Euro Mylan s obligations under the 2007 Credit Facility are guaranteed on a senior unsecured basis by all of the Company s direct and indirect domestic subsidiaries, except a captive insurance company. Euro Mylan s obligations are also guaranteed by the Company.

The 2007 Credit Facility includes covenants similar to those of the 2006 Credit Facility. The 2007 Credit Facility contains customary events of default, including nonpayment, misrepresentation, breach of covenants and bankruptcy.

In addition, on March 26, 2007 the Company entered into an amendment (the Amendment) to the 2006 Credit Agreement to modify the interest rates to conform to the effective interest rates applicable to the Credit Agreement and to make certain other changes conforming the 2006 Credit Facility to the 2007 Credit Facility.

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Notes to Condensed Consolidated Financial Statements (Continued)

(C) On March 1, 2007, Mylan entered into a purchase agreement relating to the sale by the Company of $600,000 aggregate principal amount of the Company s 1.25% Senior Convertible Notes due 2012 (the Convertible Notes). The Convertible Notes bear interest at a rate of 1.25% per year, accruing from March 7, 2007. Interest is payable semiannually in arrears on March 15 and September 15 of each year, beginning September 15, 2007. The Convertible Notes will mature on March 15, 2012, subject to earlier repurchase or conversion. Holders may convert their notes subject to certain conversion provisions determined by, among others, the market price of the Company s common stock and the trading price of the Convertible Notes. The Convertible Notes have an initial conversion rate of 44.5931 shares of common stock per $1,000 principal amount (equivalent to an initial conversion price of approximately $22.43 per share), subject to adjustment, with the principal amount payable in cash and the remainder in cash or stock at the option of the Company.

On March 1, 2007, concurrently with the sale of the Convertible Notes, Mylan entered into a convertible note hedge transaction, comprised of a purchased call option, and two warrant transactions with each of Merrill Lynch International, an affiliate of Merrill Lynch, and JPMorgan Chase Bank, National Association, London Branch, an affiliate of JPMorgan, each of which we refer to as a counterparty. The net cost of the transactions was approximately $80,600. The purchased call options will cover approximately 26,755,853 shares of our common stock, subject to anti-dilution adjustments substantially similar to the anti-dilution adjustments for the Convertible Notes, which under most circumstances represents the maximum number of shares that underlie the Convertible Notes. Concurrently with entering into the purchased call options, we entered into warrant transactions with the counterparties. Pursuant to the warrant transactions, we will sell to the counterparties warrants to purchase in the aggregate approximately 26,755,853 shares of our common stock, subject to customary anti-dilution adjustments. The warrants may not be exercised prior to the maturity of the Convertible Notes, subject to certain limited exceptions.

The purchased call options are expected to reduce the potential dilution upon conversion of the Convertible Notes in the event that the market value per share of our common stock at the time of exercise is greater than approximately $22.43, which corresponds to the initial conversion price of the Convertible Notes. The sold warrants have an exercise price that is 60.0% higher than the price per share of $19.50 at which we offered our common stock in a concurrent equity offering. If the market price per share of our common stock at the time of conversion of any Convertible Notes is above the strike price of the purchased call options, the purchased call options will, in most cases, entitle us to receive from the counterparties in the aggregate the same number of shares of our common stock as we would be required to issue to the holder of the converted Convertible Notes. Additionally, if the market price of our common stock at the time of exercise of the sold warrants exceeds the strike price of the sold warrants, we will owe the counterparties an aggregate of approximately 26,755,853 shares of our common stock. The purchased call options and sold warrants may be settled for cash at our election.

The purchased call options and sold warrants are separate transactions entered into by the Company with the counterparties, are not part of the terms of the Convertible Notes, and will not affect the holders rights under the Convertible Notes. Holders of the Convertible Notes will not have any rights with respect to the purchased call options or the sold warrants. The purchased call options and sold warrants meet the definition of derivatives under SFAS No. 133 *(as amended by SFAS No. 138 and SFAS No. 149)*. However, because these instruments have been determined to be indexed to the Company s own stock (in accordance with the guidance of Emerging Issues Task Force (EITF) Issue No. 01-6, *The Meaning of Indexed to a Company s Own Stock*) and have been recorded in stockholders equity in the Company s Condensed Consolidated Balance Sheet (as determined under EITF Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock*) the instruments are exempted out of the scope of SFAS No. 133 and are not subject to the mark to market provisions of that standard.

(D) Matrix s borrowings consist primarily of two Facilities (Facility A and Facility B) both of which are denominated in Euros. Matrix s effective interest rate for these loans is Euro Interbank Offered Rate (Euribor) plus 110 basis points for Facility A of 82,500, or 5.19% and 4.96% at June 30, 2007 and March 31, 2007,

MYLAN LABORATORIES INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

respectively, and Euribor plus 129 basis points for Facility B of 82,500, or 5.24% and 5.15% at June 30, 2007 and March 31, 2007, respectively. Facility A was due in July 2007 and Facility B is payable over three years in semi-annual installments beginning in October 2007. These loans are collateralized by the pledge of certain of Matrix subsidiaries shares and by a Matrix corporate guarantee to ABN Amro Bank NV. These loans also require Matrix and certain of its subsidiaries to comply with certain covenants, under which the approval of the lenders is required for certain transactions which include incurring additional indebtedness or guarantees; declaration of payment of dividends; entering into acquisitions or mergers, joint ventures, consolidations or sales of Matrix assets; and entering into new lines of business. The covenants also prescribe certain maximum ratios of debt to earnings or equity ratios and minimum levels of interest and debt service coverage ratios. Subsequent to June 30, 2007, Facility A was repaid.

All financing fees associated with the Company s borrowings are being amortized over the life of the related debt. The total unamortized amounts of $25,227 and $26,801 are included in other assets in the Condensed Consolidated Balance Sheets at June 30, 2007 and March 31, 2007.

At June 30, 2007, and March 31, 2007, the fair value of the Convertible Notes was approximately $581,400 and $640,400, respectively, and the carrying values of the Notes, the Term Loan Facility, and on Matrix s term loan borrowings approximated fair value.

Certain of the Company s debt agreements contain certain cross-default provisions.

10. Comprehensive Earnings

Comprehensive earnings consists of the following:

Three Months Ended June 30, (In thousands)		**2007**		**2006**
Net earnings		$ 79,727		$ 75,587
Other comprehensive earnings (loss), net of tax:				
Foreign currency translation adjustments		9,934		
Change in unrecognized losses and prior service cost related to post-retirement plans		170		
Unrealized gains on securities				
Net unrealized gain on marketable securities	(1,602)		(898)	
Less: Reclassification for losses included in net earnings	240	(1,362)	735	(163)
Other comprehensive earnings (loss), net of tax:		$ 8,742		$ (163)
Comprehensive earnings, net of tax		$ 88,469		$ 75,424

Accumulated other comprehensive earnings, as reflected on the balance sheet, is comprised of the following:

	June 30, 2007	March 31, 2007
	(In thousands)	
Net unrealized gain in market securities	$ 188	$ 1,550
Change in unrecognized losses and prior service cost related to post-retirement plans	(1,102)	(1,272)
Foreign currency translation adjustments	11,200	1,266
Accumulated other comprehensive income	$ 10,286	$ 1,544

MYLAN LABORATORIES INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

11. Income Taxes

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109* (FIN 48) effective April 1, 2007. FIN 48 clarifies the accounting for uncertain tax positions. This Interpretation provides that the tax effects from an uncertain tax position be recognized in the Company s financial statements, only if the position is more likely than not of being sustained upon audit, based on the technical merits of the position. As a result of the implementation of FIN 48, the Company recognized a $16,400 increase in its existing liability for unrecognized tax benefits, with a corresponding decrease to the April 1, 2007 retained earnings of $11,400 and an increase to deferred tax assets of $5,000.

As of April 1, 2007, after the implementation of FIN 48, the Company s liability for unrecognized tax benefits was $42,900, excluding liabilities for interest and penalties. If the Company were to recognize these benefits, the effective tax rate would reflect a favorable net impact of $33,000. In addition, at April 1, 2007, liabilities for accrued interest and penalties relating to the unrecognized tax benefits totaled $6,300. As of June 30, 2007, the Company s Condensed Consolidated Balance Sheet reflects a liability for unrecognized tax benefits of $43,900, excluding liabilities for interest and penalties. Accrued interest and penalties included in the Condensed Consolidated Balance Sheet were $6,500 as of June 30, 2007.

The Company recognizes interest and penalties associated with uncertain tax positions as a component of income tax expense in the Condensed Consolidated Statement of Earnings.

It is anticipated that the amount of unrecognized tax benefits will change in the next 12 months; however, these changes are not expected to have a significant impact on the results of operations, cash flows or the financial position of the Company.

The tax years 2005 through 2007 remain open to examination by the Internal Revenue Service. The major state taxing jurisdictions applicable to the Company remain open from 2004 through 2007.

12. Segment Information

The Company has two reportable segments, the Mylan Segment and the Matrix Segment . The Mylan Segment primarily develops, manufactures, sells and distributes generic or branded generic pharmaceutical products in tablet, capsule or transdermal patch form, while the Matrix Segment engages mainly in the manufacture and sale of active pharmaceutical ingredients APIs and the distribution of branded generic products. Additionally, certain general and administrative expenses, as well as litigation settlements, and non-operating income and expenses are reported in Corporate/Other.

The Company s chief operating decision maker evaluates the performance of its reportable segments based on net revenues and segment earnings from operations. Items below the earnings from operations line of the Condensed Consolidated Statements of Earnings are not presented by segment, since they are excluded from the measure of segment profitability reviewed by the Company s chief operating decision maker. The Company does not report depreciation expense, total assets and capital expenditures by segment as such information is not used by the chief operating decision maker.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies included in our Annual Report on Form 10-K. Intersegment revenues are accounted for at current market values.

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MYLAN LABORATORIES INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

The table below presents segment information for the three months ended June 30, 2007 and 2006 and provides a reconciliation of segment information to total consolidated information. For the Mylan and Matrix Segments, segment earnings from operations (Segment profitability (loss)) represents segment gross profit less direct research and development expenses and direct selling, general and administrative expenses.

Three Months Ended June 30, 2007	Mylan Segment	Matrix Segment	Corporate/Other(1)	Consolidated
	(In thousands)			
Intersegment revenues	$	$ 9,169	$ (9,169)	$
Third-party net revenues	451,406	91,303		542,709
Segment profitability (loss)	251,310	(17,283)	(45,953)	188,074

Three Months Ended June 30, 2006	Mylan Segment	Matrix Segment	Corporate/Other(1)	Consolidated
	(In thousands)			
Intersegment revenues	$	$	$	$
Third-party net revenues	348,789			348,789
Segment profitability (loss)	155,298		(38,149)	117,149

(1) Includes corporate overhead, intercompany eliminations and charges not directly attributable to segments.

13. Contingencies

While it is not possible to determine with any degree of certainty the ultimate outcome of the following legal proceedings, the Company believes that it has meritorious defenses with respect to the claims asserted against it and intends to vigorously defend its position. An adverse outcome in any of these proceedings could have a material adverse effect on the Company s financial position and results of operations.

Omeprazole

In fiscal 2001, Mylan Pharmaceuticals Inc. (MPI), a wholly-owned subsidiary of Mylan Laboratories Inc. (Mylan Labs), filed an Abbreviated New Drug Application (ANDA) seeking approval from the U.S. Food and Drug Administration (FDA) to manufacture, market and sell omeprazole delayed-release capsules and made Paragraph IV certifications to several patents owned by AstraZeneca PLC (AstraZeneca) that were listed in the FDA s Orange Book. On September 8, 2000, AstraZeneca filed suit against MPI and Mylan Labs in the U.S. District Court for the Southern District of New York alleging infringement of several of AstraZeneca s patents. On May 29, 2003, the FDA approved MPI s ANDA for the 10 mg and 20 mg strengths of omeprazole delayed-release capsules, and, on August 4, 2003, Mylan Labs announced that MPI had commenced the sale of omeprazole 10 mg and 20 mg delayed-release capsules. AstraZeneca then amended the pending lawsuit to assert claims against Mylan Labs and MPI and filed a separate lawsuit against MPI s supplier, Esteve Quimica S.A. (Esteve), for unspecified money damages and a finding of willful infringement, which could result in treble damages, injunctive relief, attorneys fees, costs of litigation and such further relief as the court deems just and proper. MPI has certain indemnity obligations to Esteve in connection with this litigation. MPI, Esteve and the other generic manufacturers who are co-defendants in the case filed motions for summary judgment of non-infringement and patent invalidity. On January 12, 2006, those motions were denied. On May 31, 2007, the district court ruled in Mylan s and Esteve s favor by finding that the asserted patents were not infringed by Mylan s/Esteve s products. On July 18, 2007, AstraZeneca appealed the decision to the United States Court of Appeals for the Federal Circuit.

Lorazepam and Clorazepate

On June 1, 2005, a jury verdict was rendered against Mylan Labs and MPI in the U.S. District Court for the District of Columbia (D.C.) in the amount of approximately $12,000 which has been accrued for by the Company.

MYLAN LABORATORIES INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

The jury found Mylan willfully violated Massachusetts, Minnesota and Illinois state antitrust laws in connection with API supply agreements entered into between the Company and its API supplier and broker for two drugs, lorazepam and clorazepate, in 1997, and subsequent price increases on these drugs in 1998. The case was brought by four health insurers who opted out of earlier class action settlements agreed to by the Company in 2001 and represents the last remaining claims relating to Mylan s 1998 price increases for lorazepam and clorazepate. In post-trial filings, the plaintiffs have requested that the verdict be trebled. Plaintiffs are also seeking an award of attorneys fees, litigation costs and interest on the judgment in unspecified amounts. In total, the plaintiffs have moved for judgments that could result in a liability of approximately $69,000 for Mylan (not including the request for attorney s fees and costs). The Company filed a motion for judgment as a matter of law, a motion for a new trial, a motion to dismiss two of the insurers and a motion to reduce the verdict. On December 20, 2006, the Company s motion for judgment as a matter of law and motion for a new trial were denied. A hearing on the pending post-trial motions took place on February 28, 2007. The Company intends to appeal to the U.S. Court of Appeals for the D.C. Circuit.

Pricing and Medicaid Litigation

On June 26, 2003, MPI and UDL Laboratories Inc. (UDL), a subsidiary of Mylan Labs, received requests from the U.S. House of Representatives Energy and Commerce Committee (the Committee) seeking information about certain products sold by MPI and UDL in connection with the Committee s investigation into pharmaceutical reimbursement and rebates under Medicaid. MPI and UDL cooperated with this inquiry and provided information in response to the Committee s requests in 2003. Several states attorneys general (AG) have also sent letters to MPI, UDL and Mylan Bertek, demanding that those companies retain documents relating to Medicaid reimbursement and rebate calculations pending the outcome of unspecified investigations by those AGs into such matters. In addition, in July 2004, Mylan Labs received subpoenas from the AGs of California and Florida in connection with civil investigations purportedly related to price reporting and marketing practices regarding various drugs. As noted below, both California and Florida subsequently filed suits against Mylan, and the Company believes any further requests for information and disclosures will be made as part of that litigation.

Beginning in September 2003, Mylan Labs, MPI and/or UDL, together with many other pharmaceutical companies, have been named in a series of civil lawsuits filed by state AGs and municipal bodies within the state of New York alleging generally that the defendants defrauded the state Medicaid systems by allegedly reporting Average Wholesale Prices (AWP) and/or Wholesale Acquisition Costs that exceeded the actual selling price of the defendants prescription drugs. To date, Mylan Labs, MPI and/or UDL have been named as defendants in substantially similar civil lawsuits filed by the AGs of Alabama, Alaska, California, Florida, Hawaii, Idaho, Illinois, Kentucky, Massachusetts, Mississippi, Missouri, South Carolina, Texas and Wisconsin and also by the city of New York and approximately 40 counties across New York State. Several of these cases have been transferred to the AWP multi-district litigation proceedings pending in the U.S. District Court for the District of Massachusetts for pretrial proceedings. Others of these cases will likely be litigated in the state courts in which they were filed. Each of the cases seeks an unspecified amount in money damages, civil penalties and/or treble damages, counsel fees and costs, and injunctive relief. In each of these matters, with the exception of Florida, Idaho, South Carolina AG and Texas actions and the actions brought by various counties in New York, excluding the actions brought by Erie, Oswego and Schenectady counties, Mylan Labs, MPI and/or UDL have answered the respective complaints denying liability. Mylan Labs and its subsidiaries intend to defend each of these actions vigorously.

In addition by letter dated January 12, 2005, MPI was notified by the U.S. Department of Justice of an investigation concerning MPI s calculations of Medicaid drug rebates. MPI is cooperating fully with the government s investigation.

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Notes to Condensed Consolidated Financial Statements (Continued)

Modafinil Antitrust Litigation and FTC Inquiry

Beginning in April 2006, Mylan Labs, along with four other drug manufacturers, has been named in a series of civil lawsuits filed in the Eastern District of Pennsylvania by a variety of plaintiffs purportedly representing direct and indirect purchasers of the drug modafinil and one action brought by Apotex, Inc., a manufacturer of generic drugs seeking approval to market a generic modafinil product. These actions allege violations of federal and state laws in connection with the defendants settlement of patent litigation relating to modafinil. These actions are in their preliminary stages, and motions to dismiss each action are pending. Mylan Labs intends to defend each of these actions vigorously. In addition, by letter dated July 11, 2006, Mylan was notified by the U.S. Federal Trade Commission (FTC) of an investigation relating to the settlement of the modafinil patent litigation. In its letter, the FTC requested certain information from Mylan Labs, MPI and Mylan Technologies Inc. pertaining to the patent litigation and the settlement thereof. On March 29, 2007, the FTC issued a subpoena, and on April 26, 2007, the FTC issued a civil investigative demand to Mylan Labs requesting additional information from the Company relating to the investigation. Mylan is cooperating fully with the government s investigation and its outstanding requests for information.

Other Litigation

The Company is involved in various other legal proceedings that are considered normal to its business. While it is not feasible to predict the ultimate outcome of such other proceedings, the Company believes that the ultimate outcome of such other proceedings will not have a material adverse effect on its financial position or results of operations.

14. Guarantor Financial Statements

Each of the Company s wholly-owned domestic subsidiaries, except a captive insurance company, has guaranteed, on a full, unconditional and joint and several basis, the Company s performance under the Notes (collectively, the Guarantor Subsidiaries). Matrix is not a guarantor of the Notes. There are certain restrictions under the Notes indenture on the ability of the Company and the Guarantor Subsidiaries to receive or distribute funds in the form of cash dividends, loans or advances. The following combined financial data provides information regarding the financial position, results of operations and cash flows of the Guarantor Subsidiaries (condensed consolidating financial data). Separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented because management has determined that such information would not be material to the holders of the debt.

MYLAN LABORATORIES INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)
GUARANTOR SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEETS

June 30, 2007 (In thousands)	Mylan Labs	Guarantor Subs	Non-Guarantor Subs	Consolidating and Eliminating Entries	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 1,228,533	$ 2,959	$ 77,444	$ 6,621	$ 1,315,557
Marketable securities	144,419		30,466		174,885
Accounts receivable, net	9,972	315,887	87,433	(12,221)	401,071
Inventories		331,429	103,047	(2,128)	432,348
Deferred income tax benefits	27,425	132,325	2,124		161,874
Prepaid and other current assets	125,858	13,193	49,367	(52,129)	136,289
Total current assets	1,536,207	795,793	349,881	(59,857)	2,622,024
Intercompany receivables, net	(452,148)	1,062,013	(776,842)	166,977	
Property, plant and equipment, net	77,680	459,716	169,668		707,064
Intangible assets, net		86,073	257,735		343,808
Goodwill		102,578	507,670		610,248
Deferred income tax benefit	44,851	569	582		46,002
Other assets	68,153	9,203	69,019		146,375
Investments in subsidiaries	2,164,976			(2,164,976)	
Total assets	$ 3,439,719	$ 2,515,945	$ 577,713	$ (2,057,856)	$ 4,475,521
Liabilities and Shareholders Equity					
Current liabilities:					
Liabilities					
Trade accounts payable	$ 788	$ 41,061	$ 105,563	$ (601)	$ 146,811
Short-term borrowings			107,315		$ 107,315
Income taxes payable	(34,749)	124,156	3,907	(1,756)	91,558
Current portion of long-term obligations	3,352		127,404		130,756
Cash dividends payable	14,923				14,923
Other current liabilities	190,265	107,395	91,443	(51,499)	337,604

Total current liabilities	174,579	272,612	435,632	(53,856)	828,967
Deferred revenue		102,995			102,995
Long-term debt	1,550,000		106,064		1,656,064
Deferred income tax liability	(16,232)	(988)	102,602		85,382
Other long-term obligations	18,238	4,600	18,092	(463)	40,467
Total liabilities	1,726,585	379,219	662,390	(54,319)	2,713,875
Minority interest			37,454	(787)	36,667
Shareholders equity					
Preferred stock					
Common stock	169,856	7,493	210	(7,703)	169,856
Additional paid-in capital	975,565	600,176	10,596	(609,893)	976,444
Retained earnings	2,156,667	1,529,047	(143,893)	(1,385,154)	2,156,667
Accumulated other comprehensive earnings	(680)	10	10,956		10,286
	3,301,408	2,136,726	(122,131)	(2,002,750)	3,313,253
Less:					
Treasury stock at cost	(1,588,274)				(1,588,274)
Total shareholders equity	1,713,134	2,136,726	(122,131)	(2,002,750)	1,724,979
Total liabilities and shareholders equity	$ 3,439,719	$ 2,515,945	$ 577,713	$ (2,057,856)	$ 4,475,521

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Notes to Condensed Consolidated Financial Statements (Continued)

GUARANTOR SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEETS

March 31, 2007 (In thousands)	Mylan Labs	Guarantor Subs	Non-Guarantor Subs	Consolidating and Eliminating Entries	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 1,146,380	$ 21,689	$ 84,312	$ (16)	$ 1,252,365
Marketable securities	143,220		30,987		174,207
Accounts receivable, net	10,708	262,024	79,712	(2,150)	350,294
Inventories		324,767	108,096	(3,752)	429,111
Other current assets	5,400	158,488	47,129	(4,950)	206,067
Total current assets	1,305,708	766,968	350,236	(10,868)	2,412,044
Intercompany receivables, net	(390,417)	1,009,683	(776,231)	156,965	
Property, plant and equipment, net	16,741	510,853	159,145		686,739
Intangible assets, net		89,321	263,459		352,780
Goodwill		102,579	510,163		612,742
Other assets	162,480	12,191	64,891	(50,000)	189,562
Investments in subsidiaries	2,007,547			(2,007,547)	
Total assets	$ 3,102,059	$ 2,491,595	$ 571,663	$ (1,911,450)	$ 4,253,867
Liabilities and Shareholders Equity					
Current liabilities:					
Trade accounts payable	$ 302	$ 56,617	$ 105,532	$ (2,165)	$ 160,286
Income taxes payable	(177,857)	252,404	5,464	(1,624)	78,387
Current portion of long-term obligations	3,352		121,430		124,782
Cash dividends payable	14,902				14,902
Other current liabilities	61,312	114,255	148,295	(1,684)	322,178
Total current liabilities	(97,989)	423,276	380,721	(5,473)	700,535
Deferred revenue		90,673			90,673
Long-term debt	1,550,000		104,932		1,654,932

Other long-term obligations	2,700	1,309	161,651	(50,000)	115,660
Minority interest			44,469	(1,262)	43,207
Shareholders equity					
Preferred stock					