

MYLAN LABORATORIES INC

Form 10-Q

February 08, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 December 31, 2006
- 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 LABORATORIES INC.

(Exact name of registrant as specified in its charter)

Pennsylvania

(State of incorporation)

25-1211621

*(I.R.S. Employer
Identification No.)*

**1500 Corporate Drive
Canonsburg, Pennsylvania**

(Address of principal executive offices)

15317

(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 NO

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 Accelerated Filer Non-Accelerated Filer

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 Common Stock	Outstanding at January 30, 2007
\$0.50 par value	220,578,250

MYLAN LABORATORIES INC. AND SUBSIDIARIES

FORM 10-Q
For the Quarterly Period Ended
December 31, 2006

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Period Ended December 31,	Three Months		Nine Months	
	2006	2005	2006	2005
	(Unaudited; in thousands, except per share amounts)			
Revenues				
Net revenues	\$ 396,692	\$ 306,605	\$ 1,103,247	\$ 924,226
Other revenues	5,069	4,641	21,310	8,392
Total revenues	401,761	311,246	1,124,557	932,618
Cost of sales	177,230	155,449	515,736	465,757
Gross profit	224,531	155,797	608,821	466,861
Operating expenses:				
Research and development	22,922	29,375	66,844	82,807
Selling, general and administrative	52,602	48,039	152,784	176,060
Litigation settlements, net	(34,645)	345	(46,154)	12,407
Total operating expenses	40,879	77,759	173,474	271,274
Earnings from operations	183,652	78,038	435,347	195,587
Interest expense	10,491	10,621	31,292	19,563
Other income, net	32,422	4,517	39,785	14,420
Earnings before income taxes	205,583	71,934	443,840	190,444
Provision for income taxes	70,138	23,727	155,267	63,552
Net earnings	\$ 135,445	\$ 48,207	\$ 288,573	\$ 126,892
Earnings per common share:				
Basic	\$ 0.64	\$ 0.23	\$ 1.37	\$ 0.54
Diluted	\$ 0.63	\$ 0.22	\$ 1.34	\$ 0.53
Weighted average common shares outstanding:				
Basic	212,271	213,351	211,075	235,946
Diluted	215,958	218,705	215,275	240,409
Cash dividend declared per common share	\$ 0.06	\$ 0.06	\$ 0.18	\$ 0.18

See Notes to Condensed Consolidated Financial Statements

Table of Contents**MYLAN LABORATORIES INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets**

	December 31, 2006	March 31, 2006
	(Unaudited; in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 286,880	\$ 150,124
Marketable securities	179,125	368,003
Accounts receivable, net	312,282	242,193
Inventories	314,936	279,008
Deferred income tax benefit	136,533	137,672
Prepaid expenses and other current assets	45,416	14,900
Total current assets	1,275,172	1,191,900
Property, plant and equipment, net	461,653	406,875
Intangible assets, net	92,829	105,595
Goodwill	102,579	102,579
Investments in equity method investees	210,231	462
Other assets	64,184	63,115
Total assets	\$ 2,206,648	\$ 1,870,526
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities		
Current liabilities:		
Trade accounts payable	\$ 45,445	\$ 76,859
Income taxes payable	38,424	12,963
Current portion of long-term obligations	3,291	4,336
Cash dividends payable	12,784	12,605
Other current liabilities	185,834	158,487
Total current liabilities	285,778	265,250
Deferred revenue	93,252	89,417
Long-term debt	687,000	685,188
Other long-term obligations	21,393	22,435
Deferred income tax liability	17,320	20,585
Total liabilities	1,104,743	1,082,875
Shareholders' equity		
Preferred stock		
Common stock	156,064	154,575
Additional paid-in capital	483,175	418,954

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Retained earnings	2,189,473	1,939,045
Accumulated other comprehensive earnings	2,238	2,450
	2,830,950	2,515,024
Less:		
Treasury stock at cost	1,729,045	1,727,373
Total shareholders' equity	1,101,905	787,651
Total liabilities and shareholders' equity	\$ 2,206,648	\$ 1,870,526

See Notes to Condensed Consolidated Financial Statements

Table of Contents**MYLAN LABORATORIES INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows**

	Nine Months Ended December 31,	
	2006	2005
	(Unaudited; in thousands)	
Cash flows from operating activities:		
Net earnings	\$ 288,573	\$ 126,892
Adjustments to reconcile net earnings to net cash provided from operating activities:		
Depreciation and amortization	37,008	35,134
Stock-based compensation expense	17,217	
Net (income) loss from equity method investees	(5,038)	1,496
Change in estimated sales allowances	(9,244)	15,727
Restructuring provision		19,727
Deferred income tax benefit	(2,909)	(14,871)
Other non-cash items, net	5,820	3,529
Litigation settlements, net	(46,154)	12,407
Gain on foreign exchange forward contract	(14,032)	
Receipts from litigation settlements, net	15,258	1,691
Cash received from Somerset	5,870	
Changes in operating assets and liabilities:		
Accounts receivable	(33,251)	76,528
Inventories	(35,928)	31,296
Trade accounts payable	(23,810)	7,024
Income taxes	32,598	(26,650)
Deferred revenue	(2,875)	17,424
Other operating assets and liabilities, net	21,851	10,396
Net cash provided by operating activities	250,954	317,750
Cash flows from investing activities:		
Capital expenditures	(81,829)	(76,865)
Purchase of marketable securities	(548,827)	(595,278)
Proceeds from sale of marketable securities	736,356	881,275
Acquisition of Matrix common stock	(210,601)	
Other investing items, net	(1,589)	(3,438)
Net cash (used in) provided by investing activities	(106,490)	205,694
Cash flows from financing activities:		
Cash dividends paid	(37,966)	(37,167)
Payment of financing fees	(1,782)	(14,646)
Proceeds from long-term debt	187,000	775,000
Payments on long-term debt	(187,938)	(1,375)

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Purchase of common stock		(1,218,383)
Decrease in outstanding checks in excess of cash in disbursement accounts	(7,605)	(29,393)
Excess tax benefit from stock-based compensation	4,158	
Proceeds from exercise of stock options	36,425	35,118
Net cash used in financing activities	(7,708)	(490,846)
Net increase in cash and cash equivalents	136,756	32,598
Cash and cash equivalents beginning of period	150,124	137,733
Cash and cash equivalents end of period	\$ 286,880	\$ 170,331
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Income taxes	\$ 117,398	\$ 105,068
Interest	\$ 24,885	\$ 4,661

See Notes to Condensed Consolidated Financial Statements

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MYLAN LABORATORIES INC. AND SUBSIDIARIES

**Notes to Condensed Consolidated Financial Statements
(unaudited; dollars in thousands, except 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, 2006.

The interim results of operations for the three and nine months ended December 31, 2006, and the interim cash flows for the nine months ended December 31, 2006, 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 and nine month periods ended December 31, 2006. Accounts receivable are presented net of allowances relating to these provisions. Such allowances were \$380,928 and \$381,800 as of December 31, 2006 and March 31, 2006. Other current liabilities include \$52,002 and \$60,374 at December 31, 2006, and March 31, 2006, for certain rebates and other adjustments that are payable to indirect customers.

3. Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement 109* (FIN 48), which 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. The provisions of FIN 48 will be effective for Mylan as of the beginning of fiscal 2008. The Company is currently evaluating the impact of adopting FIN 48 on its consolidated financial statements.

4. Acquisition of Matrix Laboratories Limited