AMERISTAR CASINOS INC
Form 10-Q
November 10, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 September 30, 2008

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: 0-22494

AMERISTAR CASINOS, INC.

(Exact name of Registrant as Specified in its Charter)

Nevada	**88-0304799**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

3773 Howard Hughes Parkway
Suite 490 South
Las Vegas, Nevada 89169
(Address of principal executive offices)

(702) 567-7000
(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 þ No o

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 þ Accelerated filer o Non-accelerated filer o Smaller Reporting Company o
(Do not check if a 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 o No þ

As of November 5, 2008, 57,257,891 shares of Common Stock of the registrant were issued and outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AMERISTAR CASINOS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands, Except Share Data)

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 68,248	$ 98,498
Restricted cash	6,425	6,425
Accounts receivable, net	9,058	8,112
Income tax refunds receivable	2,362	13,539
Inventories	8,013	7,429
Prepaid expenses	9,636	12,501
Deferred income taxes	1,112	5,463
Total current assets	104,854	151,967
Property and Equipment, at cost:		
Buildings and improvements	1,648,004	1,296,474
Furniture, fixtures and equipment	506,487	466,977
	2,154,491	1,763,451
Less: accumulated depreciation and amortization	(633,373)	(568,354)
	1,521,118	1,195,097
Land	83,183	83,190
Construction in progress	144,812	360,675
Total property and equipment, net	1,749,113	1,638,962
Goodwill and other intangible assets	440,963	570,682
Deposits and other assets	62,452	50,485
TOTAL ASSETS	$ 2,357,382	$ 2,412,096
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		

Accounts payable	$ 24,882	$ 21,009
Construction contracts payable	40,431	31,239
Accrued liabilities	132,579	93,841
Current maturities of long-term debt	4,390	4,337
Total current liabilities	202,282	150,426
Long-term debt, net of current maturities	1,611,316	1,641,615
Deferred income taxes	49,753	75,172
Deferred compensation and other long-term liabilities	29,226	41,757
Commitments and contingencies (Note 11)		
Stockholders Equity:		
Preferred stock, $.01 par value: Authorized 30,000,000 shares; Issued None		
Common stock, $.01 par value: Authorized 120,000,000 shares; Issued 58,045,127 and 57,946,167 shares; Outstanding 57,257,891 and 57,158,931 shares	580	579
Additional paid-in capital	243,769	234,983
Treasury stock, at cost (787,236 shares)	(17,674)	(17,674)
Accumulated other comprehensive income	482	
Retained earnings	237,648	285,238
Total stockholders equity	464,805	503,126
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 2,357,382	$ 2,412,096

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AMERISTAR CASINOS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues:				
Casino	$ 329,841	$ 266,045	$ 1,000,514	$ 776,389
Food and beverage	39,636	33,612	120,521	98,493
Rooms	15,868	8,177	42,197	22,049
Other	10,120	7,903	29,806	22,018
	395,465	315,737	1,193,038	918,949
Less: promotional allowances	(74,064)	(50,365)	(218,772)	(141,202)
Net revenues	321,401	265,372	974,266	777,747
Operating Expenses:				
Casino	151,666	113,992	465,163	332,353
Food and beverage	18,941	17,812	56,643	51,294
Rooms	2,856	1,905	8,584	5,836
Other	5,318	5,115	16,568	14,532
Selling, general and administrative	69,494	58,013	201,766	164,306
Depreciation and amortization	26,773	22,532	78,901	70,051
Impairment loss on assets	110	50	129,449	166
Total operating expenses	275,158	219,419	957,074	638,538
Income from operations	46,243	45,953	17,192	139,209
Other Income (Expense):				
Interest income	190	867	593	1,717
Interest expense, net	(19,034)	(12,449)	(56,849)	(34,914)
Net loss on disposition of assets	(369)	(1,301)	(927)	(1,305)
Other	(1,132)	386	(1,459)	11
Income (Loss) Before Income Tax Provision (Benefit)	25,898	33,456	(41,450)	104,718
Income tax provision (benefit)	11,566	13,482	(11,875)	43,523
Net Income (Loss)	$ 14,332	$ 19,974	$ (29,575)	$ 61,195
Earnings (Loss) Per Share:				
Basic	$ 0.25	$ 0.35	$ (0.52)	$ 1.07

Diluted	$ 0.25	$ 0.34	$ (0.52)	$ 1.05
Cash Dividends Declared Per Share	$ 0.11	$ 0.10	$ 0.32	$ 0.31
Weighted-Average Shares Outstanding:				
Basic	57,198	57,206	57,177	57,043
Diluted	57,597	58,293	57,177	58,303

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AMERISTAR CASINOS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2008	**2007**
Cash Flows from Operating Activities:		
Net (loss) income	$ (29,575)	$ 61,195
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	78,901	70,051
Amortization of debt issuance costs and debt discounts	1,587	969
Stock-based compensation expense	7,731	9,010
Net change in deferred compensation liability	(163)	(696)
Impairment loss on assets	129,449	166
Net loss on disposition of assets	927	1,305
Net change in deferred income taxes	(31,007)	11,482
Excess tax benefit from stock option exercises	(172)	(4,432)
Net change in swap fair value	(654)	
Changes in operating assets and liabilities:		
Accounts receivable, net	(946)	3,727
Income tax refunds receivable	11,177	78
Inventories	(584)	179
Prepaid expenses	2,865	(2,128)
Accounts payable	3,873	380
Income taxes payable	172	
Accrued liabilities	32,866	20,578
Net cash provided by operating activities	206,447	171,864
Cash Flows from Investing Activities:		
Capital expenditures	(190,742)	(196,218)
Net cash paid for acquisition of Ameristar East Chicago (formerly Resorts East Chicago)		(671,420)
Increase in construction contracts payable	9,192	8,492
Proceeds from sale of assets	1,322	281
Increase in deposits and other non-current assets	(15,273)	(9,844)
Net cash used in investing activities	(195,501)	(868,709)
Cash Flows from Financing Activities:		
Principal payments of debt	(74,261)	(18,337)

Debt borrowings	44,015	737,000
Cash dividends paid	(12,006)	(17,539)
Proceeds from stock option exercises	884	16,915
Excess tax benefit from stock option exercises	172	4,432
Debt issuance costs		(3,666)
Purchases of treasury stock		(9,660)
Net cash (used in) provided by financing activities	(41,196)	709,145
Net (Decrease) Increase in Cash and Cash Equivalents	(30,250)	12,300
Cash and Cash Equivalents Beginning of Period	98,498	101,140
Cash and Cash Equivalents End of Period	$ 68,248	$ 113,440
Supplemental Cash Flow Disclosures:		
Cash paid for interest, net of amounts capitalized	$ 49,156	$ 30,684
Cash paid for federal and state income taxes, net of refunds received	$ 7,598	$ 32,101
Non-cash Investing and Financing Activities:		
Acquisition of Ameristar East Chicago (formerly Resorts East Chicago)		
Fair value of non-cash assets acquired	$	$ 681,820
Less net cash paid		(671,420)
Liabilities assumed	$	$ 10,400

The accompanying notes are an integral part of these condensed consolidated financial statements.

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AMERISTAR CASINOS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Principles of consolidation and basis of presentation

The accompanying condensed consolidated financial statements include the accounts of Ameristar Casinos, Inc. (ACI) and its wholly owned subsidiaries (collectively, the Company). Through its subsidiaries, the Company owns and operates eight casino properties in seven markets. The Company s portfolio of casinos consists of: Ameristar St. Charles (serving greater St. Louis, Missouri); Ameristar Kansas City (serving the Kansas City metropolitan area); Ameristar Council Bluffs (serving Omaha, Nebraska and southwestern Iowa); Ameristar East Chicago (serving the Chicagoland area); Ameristar Vicksburg (serving Jackson, Mississippi and Monroe, Louisiana); Ameristar Black Hawk (serving the Denver, Colorado metropolitan area); and Cactus Petes and The Horseshu in Jackpot, Nevada (serving Idaho and the Pacific Northwest). The Company views each property as an operating segment and all such operating segments have been aggregated into one reporting segment. All significant intercompany transactions have been eliminated.

The Company acquired Ameristar East Chicago (formerly known as Resorts East Chicago) on September 18, 2007. Accordingly, the condensed consolidated financial statements reflect the East Chicago property s operating results only from the acquisition date.

The accompanying condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, the condensed consolidated financial statements do not include all of the disclosures required by generally accepted accounting principles. However, they do contain all adjustments (consisting of normal recurring adjustments) that, in the opinion of management, are necessary to present fairly the Company s financial position, results of operations and cash flows for the interim periods included therein. The interim results reflected in these financial statements are not necessarily indicative of results to be expected for the full fiscal year.

Certain of the Company s accounting policies require that the Company apply significant judgment in defining the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. The Company s judgments are based in part on its historical experience, terms of existing contracts, observance of trends in the gaming industry and information obtained from independent valuation experts or other outside sources. There is no assurance, however, that actual results will conform to estimates. To provide an understanding of the methodology the Company applies, significant accounting policies and basis of presentation are discussed where appropriate in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations of this Quarterly Report. In addition, critical accounting policies and estimates are discussed in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and the notes to the Company s audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2007.

The accompanying condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

Note 2 Accounting pronouncements

Recently issued accounting pronouncements

In April 2008, the Financial Accounting Standards Board (FASB) issued Staff Position (FSP) No. FAS 142-3, Determination of the Useful Life of Intangible Assets, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized

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intangible asset under FASB Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. This FSP is effective for fiscal years beginning after December 15, 2008 and only applies prospectively to intangible assets acquired after the effective date. Early adoption is not permitted. The Company believes this FSP, when adopted, will not have a material impact on its financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. The provisions will be effective as of January 1, 2009. This statement requires enhanced disclosures about (i) how and why a company uses derivative instruments, (ii) how it accounts for derivative instruments and related hedged items under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and (iii) how derivative instruments and related hedged items affect a company s financial results. SFAS No. 161 also requires several added quantitative disclosures in the financial statements. The Company is in the process of evaluating the impact of this standard; however, the Company does not expect the adoption of SFAS No. 161 will have a material effect on its disclosures.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations (SFAS No. 141(R)). SFAS No. 141(R) will significantly change the accounting for business combinations. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value, with limited exceptions. SFAS No. 141(R) will change the accounting treatment for certain specific acquisition-related items, including: (1) expensing acquisition-related costs as incurred; (2) valuing noncontrolling interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. SFAS No. 141(R) also includes a substantial number of new disclosure requirements. SFAS No. 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The Company expects SFAS No. 141(R) will have an impact on its accounting for future business combinations once adopted, but the effect is dependent upon the acquisitions, if any, that are made in the future.

Recently adopted accounting pronouncements

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value, with unrealized gains and losses related to these financial instruments reported in earnings at each subsequent reporting date. The Company adopted the provisions of SFAS No. 159, but chose not to elect the fair value option for eligible items that existed at January 1, 2008. Accordingly, the Company s adoption of SFAS No. 159 did not have a material impact on its financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, as amended in February 2008 by FSP No. 157-2, Effective Date of FASB Statement No. 157. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 clarifies how to measure fair value as permitted under other accounting pronouncements, but does not require any new fair value measurements. FSP No. 157-2 defers the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until January 1, 2009. As such, the Company partially adopted the provisions of SFAS No. 157 effective January 1, 2008, without any material impact to the Company s financial position, results of operations or cash flows. The Company expects to adopt the remaining provisions of SFAS No. 157 beginning in 2009; however, the Company does not expect this adoption to have a material impact on its financial position, results of operations or cash flows.

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Note 3 Stockholders equity

Changes in stockholders equity for the nine months ended September 30, 2008, were as follows:

		(Amounts in Thousands)
Balance at December 31, 2007	$	503,126
Net loss		(29,575)
Dividends		(18,015)
Stock-based compensation		7,731
Proceeds from exercise of stock options		884
Tax benefit from stock option exercises		172
Change in accumulated other comprehensive income		482
Balance at September 30, 2008	$	464,805

Note 4 Earnings (loss) per share

The Company calculates earnings (loss) per share in accordance with SFAS No. 128, Earnings Per Share. Basic earnings (loss) per share are computed by dividing reported earnings (loss) by the weighted-average number of common shares outstanding during the period. For the three months ended September 30, 2008 and for the 2007 periods presented, all outstanding options with an exercise price lower than the market price have been included in the calculation of diluted earnings per share. For the nine months ended September 30, 2008, diluted loss per share excludes the additional dilution from all potentially dilutive securities such as stock options and restricted stock units.

The weighted-average number of shares of common stock and common stock equivalents used in the computation of basic and diluted earnings (loss) per share consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Amounts in Thousands)			
Weighted-average number of shares outstanding basic earnings (loss) per share	57,198	57,206	57,177	57,043
Dilutive effect of stock options and other stock-based awards	399	1,087		1,260
Weighted-average number of shares outstanding diluted earnings (loss) per share	57,597	58,293	57,177	58,303

For the three months ended September 30, 2008 and 2007, the potentially dilutive stock options excluded from the earnings per share computation, as their effect would be anti-dilutive, totaled 3.7 million and 1.4 million, respectively. Anti-dilutive stock options for the nine months ended September 30, 2008 and 2007 totaled 3.5 million and 1.3 million, respectively.

Note 5 Goodwill and other intangible assets

As required under SFAS No. 142, the Company performs an annual assessment of its goodwill and other intangible assets to determine if the carrying value exceeds the fair value. Additionally, SFAS No. 142 requires an immediate impairment assessment if a change in circumstances can materially negatively affect the fair value of the intangible assets. During the first quarter of 2008, the Company assessed its intangible assets at Ameristar

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East Chicago for impairment due to a significant deterioration of the debt and equity capital markets, weakening economic conditions and changes in the forecasted operations that materially affected the property s fair value. As a result, the Company recorded during the first quarter of 2008 a total of $129.0 million in non-cash impairment charges relating to the goodwill and gaming license acquired in the purchase of the East Chicago property. The impairment charge reduced the carrying value of goodwill by $77.0 million and the gaming license by $52.0 million. The Company will perform its annual review of goodwill and indefinite-lived intangible assets in the fourth quarter of 2008.

Note 6 Long-term debt

The Company s debt structure primarily consists of a $1.8 billion senior credit facility that includes a $1.4 billion revolving loan facility maturing in November 2010 and a $400.0 million term loan facility maturing in November 2012.

As of September 30, 2008, the principal debt outstanding under the senior credit facility consisted of $1.2 billion under the revolving loan facility and $389.0 million under the term loan facility. At September 30, 2008, the amount of the revolving loan facility available for borrowing was $169.6 million (after giving effect to $5.4 million of outstanding letters of credit); however, as of that date the Company s ability to borrow under the revolving loan facility was limited to approximately $60.0 million by the senior leverage ratio covenant described below. All mandatory principal repayments have been made through September 30, 2008.

The agreement governing the senior credit facility requires the Company to comply with various affirmative and negative financial and other covenants, including restrictions on the incurrence of additional indebtedness, restrictions on dividend payments and other restrictions and requirements to maintain certain financial ratios and tests. As of September 30, 2008, the Company was required to maintain a leverage ratio, defined as consolidated debt divided by EBITDA, of no more than 6.25:1, and a senior leverage ratio, defined as consolidated senior debt divided by EBITDA, of no more than 5.25:1. At both September 30, 2008 and December 31, 2007, the Company s leverage ratio was 5.07:1. The senior leverage ratio as of September 30, 2008 and December 31, 2007 was 5.06:1 and 5.07:1, respectively. As of September 30, 2008 and December 31, 2007, the Company was in compliance with all applicable covenants.

Note 7 Derivative instruments and hedging activities

On May 22, 2008, the Company entered into a forward interest rate swap with a commercial bank to fix the interest rate on certain LIBOR-based borrowings for a period of two years. The swap was designated as an effective hedge on June 2, 2008 and became effective July 18, 2008. Pursuant to the interest rate swap agreement, the Company is obligated to make quarterly fixed rate payments to the counterparty at an annualized fixed rate of 3.1975%, calculated on a notional amount of $500.0 million, while the counterparty is obligated to make quarterly floating rate payments to the Company based on three-month LIBOR for the same notional amount. The interest rate swap effectively fixes the annual interest rate payable on $500.0 million of the Company s borrowings under its senior revolving loan facility at 3.1975% plus the applicable margin, which is currently 1.75%.

The Company accounts for derivative instruments in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted. As required by SFAS No. 133, the Company records all derivatives on the balance sheet at fair value.

For derivatives such as the interest rate swap that are designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in accumulated other comprehensive income on the consolidated balance sheet and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. To the extent the effective portion of a hedge subsequently becomes ineffective, the corresponding amount of the change in fair value of the derivative initially reported in accumulated other

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comprehensive income is reclassified and is recognized directly in earnings. Accordingly, on a quarterly basis, the Company assesses the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of a hypothetical designated hedged item or transaction. If the change in the actual swap is greater than the change in the perfect hypothetical swap, the difference is referred to as ineffectiveness and is recognized in earnings in the current period.

The Company s objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements or other identified risks. To accomplish this objective, the Company primarily uses interest rate swaps as part of its cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of fixed-rate payments in exchange for variable-rate amounts over the life of the agreements without exchange of the underlying principal amount. The Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated as hedges. The Company may enter into additional swap transactions or other interest rate protection agreements from time to time in the future.

At September 30, 2008, the Company s interest rate swap had a fair value of $1.1 million and was included in other assets. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company s hedged variable-rate debt. For the quarter and nine months ended September 30, 2008, the Company recognized $0.5 million in incremental interest expense associated with the swap. During the second quarter of 2008, the Company recorded a total of $0.7 million in other income in the consolidated statement of operations as a result of hedge ineffectiveness and a change in the fair value of the swap before it was designated as a hedge. For the quarter ended September 30, 2008, the swap had no impact on other income due to the swap being designated as an effective hedge. Accordingly, changes in the swap s fair value during the third quarter of 2008 were recognized in accumulated other comprehensive income.

Subsequent to September 30, 2008, the Company entered into an additional forward interest rate swap with another commercial bank to fix the interest rate on certain LIBOR-based borrowings. The swap transaction has an effective date of October 20, 2008 and terminates on July 19, 2010. The Company is obligated to make quarterly fixed rate payments to the counterparty, calculated on a notional amount of $600.0 million, while the counterparty is obligated to make quarterly floating rate payments to the Company based on three-month LIBOR on the same notional amount. The interest rate swap effectively fixes the annual interest rate payable on $600.0 million of the Company s borrowings under the senior revolving loan facility at 2.98% plus the applicable margin. The Company expects the swap to be highly effective as a cash flow hedge and, therefore, the change in the value of the swap (net of tax) will be recorded as accumulated other comprehensive income. With this swap agreement, the Company now has a total of $1.1 billion of its debt hedged until July 2010 at a weighted-average fixed rate of 3.08% plus the applicable margin.

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Note 8 Stock-based compensation

The Company accounts for its stock-based compensation in accordance with SFAS No. 123(R), Share-Based Payment.

Stock-based compensation expense totaled $2.2 million and $3.3 million for the three months ended September 30, 2008 and 2007, respectively. During the first nine months of 2008 and 2007, stock-based compensation expense was $7.7 million and $9.0 million, respectively. As of September 30, 2008, there was approximately $26.1 million of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Company s stock incentive plans. This unrecognized compensation cost is expected to be recognized over a weighted-average period of 3.1 years.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Weighted-average fair value per share of options granted during the period (estimated on grant date using Black-Scholes-Merton option pricing method)	$3.97	$	$4.05	$10.30
Weighted-average assumptions:				
Expected stock price volatility	50.6%		50.2%	36.3%
Risk-free interest rate	2.9%		2.9%	4.8%
Expected option life (years)	4.2		4.2	4.0
Expected annual dividend yield	3.0%		3.0%	1.3%

Stock option activity during the nine months ended September 30, 2008 was as follows:

	Options (In Thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In Thousands)
Outstanding at December 31, 2007	5,632	$21.91		
Granted	761	12.85		
Exercised	(97)	8.79		
Forfeited or expired	(816)	24.29		
Outstanding at September 30, 2008	5,480	$20.53	5.2	$ 6,674
Exercisable at September 30, 2008	2,501	$17.83	3.9	$ 5,102

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value that would have been realized by the option holders had all option holders exercised their options on September 30, 2008. The intrinsic value of a stock option is the excess of the Company s closing stock price on September 30, 2008 over the exercise price, multiplied by the number of in-the-money options. The total intrinsic value of options exercised during the nine months ended September 30, 2008 and 2007 was $0.9 million and $15.0 million, respectively.

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The following table summarizes the Company s unvested stock option activity for the nine months ended September 30, 2008:

	Shares (Amounts in Thousands)	Weighted-Average Exercise Price (per Share)
Unvested at December 31, 2007	3,153	$ 25.63
Granted	761	12.85
Vested	(274)	23.08
Forfeited	(660)	24.73
Unvested at September 30, 2008	2,980	$ 22.80

The following table summarizes the Company s unvested restricted stock, restricted stock unit and performance share unit activity for the nine months ended September 30, 2008:

	Shares/Units (Amounts in Thousands)	Weighted-Average Grant Date Fair Value (per Share/Unit)
Unvested at December 31, 2007	437	$ 27.02
Granted	765	12.87
Vested	(32)	20.77
Forfeited	(93)	27.78
Unvested at September 30, 2008	1,077	$ 17.09

Note 9 Income taxes

In connection with the impairment of intangible assets at Ameristar East Chicago, the Company recorded a deferred tax benefit of $52.3 million during the first quarter of 2008. The tax effect of the impairment was also reflected in the effective tax rate for the first quarter of 2008.

During the three months ended September 30, 2008, the Company recognized $10.5 million of previously unrecognized tax benefits and reversed $2.0 million of interest expense previously recorded, of which $1.3 million reduced income tax expense. These tax benefits are primarily related to the expiration of the federal statute of limitations for the 2004 tax year and a change in estimate for the recognition of certain tax positions. In addition to the recognition of these benefits, the Company recorded other reductions in the reserve and interest related to uncertain tax positions of $0.5 million and $1.2 million, respectively, during the nine months ended September 30, 2008. As of September 30, 2008, unrecognized tax benefits and the related interest were $17.8 million and $2.8 million, respectively, of which $1.8 million of tax benefits and $1.9 million of interest would affect the effective tax rate if recognized.

Note 10 Acquisition of Ameristar East Chicago

On September 18, 2007, the Company acquired all of the outstanding membership interests of RIH Acquisitions IN, LLC, an Indiana limited liability company now known as Ameristar Casino East Chicago, LLC (ACEC), from Resorts International Holdings, LLC. ACEC owns and operates the Ameristar East Chicago casino and hotel in East Chicago, Indiana.

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The pro forma consolidated results of operations, as if the acquisition of Ameristar East Chicago had occurred on January 1, 2007, are as follows:

	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
	(Amounts in Thousands, Except Per Share Data)	
Pro Forma		
Net revenues	$ 329,446	$ 990,822
Operating income	$ 56,486	$ 153,712
Net income	$ 20,205	$ 48,746
Basic earnings per common share	$ 0.35	$ 0.85
Diluted earnings per common share	$ 0.35	$ 0.84

The pro forma consolidated results of operations are not necessarily indicative of what the actual consolidated results of operations of the Company would have been assuming the transaction had been completed as set forth above, nor do they purport to represent the Company s consolidated results of operations for future periods.

Note 11 Commitments and contingencies

Litigation. From time to time, the Company is a party to litigation, most of which arises in the ordinary course of business. The Company is not currently a party to any litigation that management believes would be likely to have a material adverse effect on the financial position, results of operations or cash flows of the Company.

Self-Insurance Reserves. The Company is self-insured for various levels of general liability, workers compensation and employee medical coverage. Insurance claims and reserves include accruals of estimated settlements for known claims, as well as accrued estimates of incurred but not reported claims. At September 30, 2008 and December 31, 2007, the estimated liabilities for unpaid and incurred but not reported claims totaled $12.3 million and $12.1 million, respectively. The Company utilizes actuaries who consider historical loss experience and certain unusual claims in estimating these liabilities, based upon statistical data provided by the independent third party administrators of the various programs. The Company believes the use of this method to account for these liabilities provides a consistent and effective way to measure these highly judgmental accruals; however, changes in health care costs, accident or illness frequency and severity and other factors can materially affect the estimates for these liabilities.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

We develop, own and operate casinos and related hotel, food and beverage, entertainment and other facilities, with eight properties in operation in Missouri, Iowa, Indiana, Mississippi, Colorado and Nevada. Our portfolio of casinos consists of: Ameristar St. Charles (serving greater St. Louis, Missouri); Ameristar Kansas City (serving the Kansas City metropolitan area); Ameristar Council Bluffs (serving Omaha, Nebraska and southwestern Iowa); Ameristar East Chicago (serving the Chicagoland area); Ameristar Vicksburg (serving Jackson, Mississippi and Monroe, Louisiana); Ameristar Black Hawk (serving the Denver, Colorado metropolitan area); and Cactus Petes and The Horseshu in Jackpot, Nevada (serving Idaho and the Pacific Northwest).

We acquired Ameristar East Chicago (formerly Resorts East Chicago) on September 18, 2007, and its operating results are included only from the acquisition date.

Our financial results are dependent upon the number of patrons that we attract to our properties and the amounts those patrons spend per visit. Management uses various metrics to evaluate these factors. Key metrics include:

Slots handle / Table games drop measurements of gaming volume;

Win / Hold percentages the percentage of handle or drop that is won by the casino and recorded as casino revenue;

Hotel occupancy rate the average percentage of available hotel rooms occupied during a period;

Average daily room rate average price of occupied hotel rooms per day;

REVPAR revenue per available room is a summary measure of hotel results that combines average daily room rate and hotel occupancy rate;

Market share share of gross gaming revenues in each of our markets other than Jackpot and our share of gaming devices in the Jackpot market (Nevada does not publish separate gaming revenue statistics for this market);

Fair share percentage a percentage of gross gaming revenues based on the number of gaming positions relative to the total gaming positions in the market; and

Win per patron the amount of gaming revenues generated per patron who enters our casinos in jurisdictions that record this information.

Our operating results may be affected by, among other things, competitive factors, gaming tax increases, the commencement of new gaming operations, charges associated with debt refinancing or property acquisition and disposition transactions, construction at existing facilities, general public sentiment regarding travel, overall economic conditions affecting the disposable income of our patrons and weather conditions affecting our properties. Consequently, our operating results for any quarter or year are not necessarily comparable and may not be indicative of future periods results.

The following significant factors and trends should be considered in analyzing our operating performance:

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General Economic Conditions; Colorado Smoking Ban Impact. Difficult economic conditions continue to adversely impact the gaming industry and our Company. We believe our customers have reduced their discretionary spending as a result of uncertainty and instability relating to employment, the credit, investment and housing markets and inflation. On a same-store basis, in the first nine months of 2008 our consolidated net revenues and operating income declined 1.8% and 12.6%, respectively, from the same period in 2007. In addition, high fuel costs earlier in the year appeared to deter potential customers from traveling, especially within our more geographically dispersed markets. During the first nine months of 2008, gross gaming revenues for the Black Hawk, Jackpot and Vicksburg markets contracted 11.0%, 6.0% and 2.4%, respectively, when compared to the first nine months of 2007. In addition to the general downturn in the economy and increased fuel prices, we believe the Black Hawk market was negatively affected by a statewide smoking ban that became effective for casinos on January 1, 2008.

Ballot initiatives. On November 4, 2008, voters in Missouri and Colorado approved ballot initiatives that are expected to favorably impact Ameristar properties in those states. In Missouri, voters approved Proposition A, which eliminates the $500 buy-in limit and the requirement for all customers to use player identification and tracking cards. Proposition A also raises taxes on gross gaming receipts from 20% to 21% and places a moratorium on new gaming licenses. Proposition A became effective immediately, and we implemented its operational enhancements on November 7, 2008 following receipt of regulatory approval. In Colorado, voters approved Amendment 50, which authorizes each of the three towns in Colorado in which casinos operate to hold a local referendum asking voters to allow casinos to extend hours of operation from 18 hours daily to up to 24 hours daily, increase bet limits from $5 to up to $100 and add roulette and craps, effective not earlier than July 1, 2009. The measure also provides that gaming tax rates can be raised only after a statewide voter referendum, as is required to increase other taxes in Colorado. We believe the ballot initiatives and the Black Hawk referendum, if successful, will allow us to more effectively market our properties to all guests, and particularly to high-end players locally and throughout the Midwest and Rocky Mountain region. During the three months and nine months ended September 30, 2008, costs associated with supporting these two initiatives totaled $5.2 million and $6.3 million, respectively. Total ballot initiative costs for 2008 are expected to be approximately $9 million.

Cost Efficiencies. In August 2008, we began to implement a strategic plan to improve efficiencies and reduce our cost structure as weak economic conditions continue to adversely impact business volumes. As part of this plan, we have reduced our workforce costs through terminations, adjusting staffing practices and attrition. We have also restructured the organization of our property management teams to be more efficient and streamlined. Actions taken to date are expected to produce annualized savings of approximately $22 million. During the three months ended September 30, 2008, we incurred $1.7 million in severance charges associated with the workforce reductions. Our strategic plan includes the continuous review of our operations, including exploring ways we can operate more efficiently and decrease our costs to preserve margins.

Promotional Spending. Financial results for the second and third quarters of 2008 were adversely impacted by a significant increase in promotional spending. During the third quarter of 2008, same-store promotional allowances increased 22.9% over the prior-year third quarter as a result of an aggressive companywide marketing program designed to capture profitable incremental revenue and our efforts to introduce gaming customers to the new hotel and spa in St. Charles mentioned below. The marketing program was ineffective in the current economic downturn, and as a result we began to curtail promotional spending commencing in the third quarter, and more significant reductions will occur in the fourth quarter of 2008.

Ameristar St. Charles. The St. Charles property s third quarter net revenues increased $2.0 million over the 2007 third quarter, primarily as a result of the new hotel, offset by weakening economic conditions.

However, operating income decreased $2.1 million from the prior-year third quarter due to the higher costs associated with operating the hotel and related amenities and the increased competition from a new casino-hotel that opened in the market in the fourth quarter of 2007. We believe our new hotel has helped

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counteract the negative impact of the increased competition, but the weak economy has constrained the short-term growth we expected from it.

Ameristar Vicksburg. We substantially completed the casino expansion and the new 1,000-space parking garage at our Vicksburg property in late May 2008. Since the opening of the garage and casino expansion, a new VIP lounge was completed in July and two additional restaurants were opened in September. As a result of this project, we further strengthened our dominant market share position and achieved 51.3% market share in the third quarter, an increase of 5.3 percentage points over the market share in the same period in 2007. On October 28, 2008, a new competitor opened a $100 million casino-hotel in Vicksburg. The additional competition may have an adverse effect on the financial performance of Ameristar Vicksburg and the other existing facilities operating in the market.

Ameristar East Chicago. We rebranded our East Chicago property to Ameristar on June 24, 2008, following the completion of a number of enhancements to the property. The total cost of the rebranding renovations and related promotional and other expenses was approximately $30 million, of which approximately $5.0 million was expensed in 2008. Our market share was negatively impacted in the third quarter by the major expansion of our primary competitor in August 2008.

Debt and Interest Expense. At September 30, 2008, total debt was $1.62 billion, a decrease of $30.2 million from December 31, 2007. During the third quarter of 2008, net debt repayments totaled $7.0 million. In October 2008, we borrowed $30.0 million under our revolving loan facility. We are currently required to maintain a senior leverage ratio, defined as senior debt divided by EBITDA, or no more than 5.25:1. At September 30, 2008 and December 31, 2007, our senior leverage ratio was 5.06:1 and 5.07:1, respectively. During the first nine months of 2008, net interest expense increased 62.8% from the first nine months of 2007, due primarily to a higher debt balance following our financing of the Ameristar East Chicago acquisition and the cessation of interest capitalization associated with the St. Charles hotel project. Effective July 18, 2008, we entered into a two-year interest rate swap agreement with a commercial bank to add stability to interest expense and manage our exposure to interest rate movements on our variable-rate debt. The interest rate swap effectively fixes the annual interest rate on $500.0 million of LIBOR-based borrowings under our senior revolving loan facility at 3.1975% plus the applicable margin, which is currently 1.75%. On October 9, 2008, we entered into a similar interest rate swap transaction with another commercial bank that effectively fixes the annual interest rate on $600.0 million of our revolving debt at 2.98% plus the applicable margin. The swap transaction has an effective date of October 20, 2008 and terminates on July 19, 2010. We now have $1.1 billion of our variable rate debt hedged until July 2010 at a weighted-average fixed rate of 3.08% plus the applicable margin.

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Results of Operations

The following table sets forth certain information concerning our consolidated cash flows and the results of operations of our operating properties:

AMERISTAR CASINOS, INC. AND SUBSIDIARIES
SUMMARY CONSOLIDATED FINANCIAL DATA
(Dollars in Thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Consolidated Cash Flow Information:				
Net cash provided by operating activities	$ 64,041	$ 74,482	$ 206,447	$ 171,864
Net cash used in investing activities	$ (62,329)	$ (706,468)	$ (195,501)	$ (868,709)
Net cash (used in) provided by financing activities	$ (12,665)	$ 664,672	$ (41,196)	$ 709,145
Net Revenues:				
Ameristar St. Charles	$ 73,070	$ 71,091	$ 220,085	$ 216,604
Ameristar Kansas City	59,795	63,464	183,657	191,054
Ameristar Council Bluffs	44,113	44,855	134,346	134,909
Ameristar Vicksburg	34,879	31,914	101,985	100,539
Ameristar East Chicago[(1)]	69,961	9,176	219,783	9,176
Ameristar Black Hawk	21,125	24,139	61,804	69,031
Jackpot Properties	18,458	20,733	52,606	56,434
Consolidated net revenues	$ 321,401	$ 265,372	$ 974,266	$ 777,747
Operating Income (Loss):				
Ameristar St. Charles	$ 14,816	$ 16,959	$ 45,694	$ 51,794
Ameristar Kansas City	12,224	13,488	37,731	40,443
Ameristar Council Bluffs	13,701	13,431	38,481	38,117
Ameristar Vicksburg	8,796	9,339	29,559	33,029
Ameristar East Chicago[(1)]	6,029	(331)	(104,752)	(331)
Ameristar Black Hawk	3,401	4,832	8,999	13,689
Jackpot Properties	3,908	4,567	9,624	11,604
Corporate and other	(16,632)	(16,332)	(48,144)	(49,136)
Consolidated operating income	$ 46,243	$ 45,953	$ 17,192	$ 139,209
Operating Income (Loss) Margins[(2)]:				
Ameristar St. Charles	20.3%	23.9%	20.8%	23.9%
Ameristar Kansas City	20.4%	21.3%	20.5%	21.2%
Ameristar Council Bluffs	31.1%	29.9%	28.6%	28.3%

Ameristar Vicksburg	25.2%	29.3%	29.0%	32.9%
Ameristar East Chicago[1]	8.6%	(3.6%)	(47.7%)	(3.6%)
Ameristar Black Hawk	16.1%	20.0%	14.6%	19.8%
Jackpot Properties	21.2%	22.0%	18.3%	20.6%
Consolidated operating income margin	14.4%	17.3%	1.8%	17.9%

(1) Ameristar East Chicago was acquired on September 18, 2007. Accordingly, only 13 days of operating results are included for this property for the three months and nine months ended September 30, 2007.

(2) Operating income (loss) margin is operating income (loss) as a percentage of net revenues.

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The following table presents detail of our net revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Amounts in Thousands) (Unaudited)			
Casino Revenues:				
Slots	$ 293,991	$ 238,648	$ 879,960	$ 694,791
Table games	32,375	24,409	108,490	72,599
Other	3,475	2,988	12,064	8,999
Casino revenues	329,841	266,045	1,000,514	776,389
Non-Casino Revenues:				
Food and beverage	39,636	33,612	120,521	98,493
Rooms	15,868	8,177	42,197	22,049
Other	10,120	7,903	29,806	22,018
Non-casino revenues	65,624	49,692	192,524	142,560
Less: Promotional Allowances	(74,064)	(50,365)	(218,772)	(141,202)
Total Net Revenues	$ 321,401	$ 265,372	$ 974,266	$ 777,747

Net Revenues

Consolidated net revenues for the quarter ended September 30, 2008 increased $56.0 million, or 21.1%, over the third quarter of 2007. The increase in consolidated net revenues was primarily attributable to Ameristar East Chicago, which contributed $60.8 million more than in the prior-year third quarter, when the Company owned the property for only 13 days. For the three months ended September 30, 2008, net revenues increased 9.3% at Ameristar Vicksburg and 2.8% at Ameristar St. Charles compared to the same period in 2007. Our Vicksburg property s net revenue improvement was mostly due to the completion of the expansion during the second quarter. The St. Charles property benefited from the new hotel and amenities. Net revenues declined at each of the other properties when compared to the prior-year third quarter primarily as a result of the poor economic conditions and high fuel prices. We believe Ameristar Black Hawk s 12.5% decline in net revenues from the 2007 third quarter was mostly attributable to the statewide smoking ban that became effective for casinos on January 1, 2008 in addition to the poor economic conditions and high fuel prices.

During the three months ended September 30, 2008, consolidated promotional allowances increased $23.7 million (47.1%) over the comparable 2007 period. Ameristar East Chicago s promotional allowances increased $12.8 million, representing 53.8% of the consolidated increase from the prior-year third quarter. The rise in promotional allowances on a same-store basis was primarily the result of our aggressive marketing program during the first half of the third quarter and the promotional activity associated with providing gaming customers complimentary rooms at our new hotel in St. Charles.

For the nine months ended September 30, 2008, consolidated net revenues grew by $196.5 million, or 25.3%, from the corresponding 2007 period. Ameristar East Chicago s net revenues increased $210.6 million for the nine-month period ended September 30, 2008. During the first nine months of 2008, increases in net revenues of 1.6% at Ameristar St. Charles and 1.4% at Ameristar Vicksburg were more than offset by net revenue declines from the same

prior-year period of 10.5% at Ameristar Black Hawk, 6.8% at our Jackpot properties and 3.9% at Ameristar Kansas City. We believe the weakening economic conditions, declining discretionary income, the Colorado smoking ban and increased fuel prices adversely impacted financial results throughout the first nine months of 2008 and that the impacts are likely to continue until economic conditions improve despite the recent moderation in fuel prices.

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For the nine months ended September 30, 2008, consolidated promotional allowances increased 54.9% over the same 2007 period as a result of the factors mentioned above.

Operating Income (Loss)

In the third quarter of 2008, consolidated operating income of $46.2 million was relatively flat compared to $46.0 million in the third quarter of 2007. Excluding Ameristar East Chicago, same-store operating income decreased $6.1 million, or 13.1%, from the prior-year third quarter. For the three months ended September 30, 2008, consolidated operating income margin declined 2.9 percentage points compared to the third quarter of 2007. The inclusion of the East Chicago property negatively impacted the consolidated operating income margin due to the higher gaming tax rate in Indiana compared to the other jurisdictions in which we operate. On a same-store basis, operating income margin decreased 2.1 percentage points compared to the 2007 third quarter. We believe the decline in operating income and the related margin mostly resulted from the impact of the weakening economy on our gaming revenues, ballot initiative costs, higher promotional spending, increased depreciation expense and severance charges mentioned above.

For the three months ended September 30, 2008, we achieved a significant reduction in corporate expense for payroll and related benefits and professional fees. However, the incurrence of $5.2 million to support the successful ballot initiatives in Missouri and Colorado resulted in total corporate expense being relatively flat year over year.

For the nine months ended September 30, 2008, operating income was $17.2 million, compared to operating income of $139.2 million for the same prior-year period. The decrease is primarily attributable to the $129.0 million non-cash impairment charge recorded in the first quarter of 2008 relating to East Chicago s intangible assets. On a same-store basis, consolidated operating income declined $17.6 million, or 12.6%, when compared to the first nine months of 2007 for the reasons mentioned above.

Interest Expense

The following table summarizes information related to interest on our long-term debt:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in Thousands) (Unaudited)			
Interest cost	$ 20,661	$ 17,819	$ 68,923	$ 48,398
Less: Capitalized interest	(1,627)	(5,370)	(12,074)	(13,484)
Interest expense, net	$ 19,034	$ 12,449	$ 56,849	$ 34,914
Cash paid for interest, net of amounts capitalized	$ 19,437	$ 8,435	$ 49,156	$ 30,684
Weighted-average total debt outstanding	$ 1,646,039	$ 1,016,035	$ 1,633,931	$ 935,239
Weighted-average interest rate	4.9%	6.9%	5.5%	6.8%

For the quarter ended September 30, 2008, consolidated interest expense, net of amounts capitalized, increased $6.6 million (52.9%) from the 2007 third quarter. The increase was due primarily to the greater weighted-average total debt outstanding principally related to the acquisition of the East Chicago property in the

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third quarter of 2007 and the cessation of capitalized interest associated with the St. Charles hotel construction project. The increase in net interest expense was offset slightly by a two percentage-point decrease in the weighted-average quarterly interest rate.

Year to date, consolidated interest expense, net of amounts capitalized, increased $21.9 million (62.8%) from the first nine months of 2007. The increase mostly resulted from the larger weighted-average debt balance during the first nine months of 2008 compared to the same 2007 period. We expect capitalized interest will decline relative to prior-year periods for the foreseeable future primarily due to the recent completion of several of our major construction projects.

Income Taxes

Our effective income tax rate was 44.7% for the quarter ended September 30, 2008, compared to 40.3% for the same period in 2007. The income tax benefit was $11.9 million for the nine months ended September 30, 2008, as compared to a provision of $43.5 million for the same period in 2007. For the nine months ended September 30, 2008 and 2007, our effective income tax rates were 28.6% and 41.6%, respectively. Excluding the impact of the intangible asset impairment at Ameristar East Chicago, the effective tax rate for the nine months ended September 30, 2008 would have been 46.5%, representing a 4.9 percentage-point increase over the effective tax rate for the first nine months of 2007. This increase was mostly attributable to the impact of the higher effective Indiana state tax rate on the blended consolidated effective tax rate.

Net Income (Loss)

For the three months ended September 30, 2008, consolidated net income decreased $5.6 million, or 28.2%, from the third quarter of 2007. Diluted earnings per share were $0.25 in the quarter ended September 30, 2008, compared to $0.34 in the corresponding prior-year quarter. For the nine months ended September 30, 2008 and 2007, we reported a net loss of $29.6 million and net income of $61.2 million, respectively. The decrease is primarily due to the $129.0 million East Chicago impairment charge and the declines in same-store revenues and operating margins as discussed above. The impairment charge affected net income by $83.9 million (calculated using the federal statutory tax rate of 35%). Diluted loss per share was $0.52 for the first nine months of 2008, compared to earnings per share of $1.05 in the corresponding prior-year period. The impairment charge adversely affected diluted earnings per share by $1.47 for the nine months ended September 30, 2008.

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Liquidity and Capital Resources

Cash Flows Summary

Our cash flows consisted of the following:

	Nine Months Ended September 30,	
	2008	2007
	(In Thousands)	
Net cash provided by operating activities	$ 206,447	$ 171,864
Cash flows from investing activities:		
Capital expenditures	(190,742)	(196,218)
Net cash paid for acquisition of Ameristar East Chicago		(671,420)
Increase in construction contracts payable	9,192	8,492
Proceeds from sale of assets	1,322	281
Increase in deposits and other non-current assets	(15,273)	(9,844)
Net cash used in investing activities	(195,501)	(868,709)
Cash flows from financing activities:		
Principal payments of debt	(74,261)	(18,337)
Debt borrowings	44,015	737,000
Cash dividends paid	(12,006)	(17,539)
Proceeds from stock option exercises	884	16,915
Excess tax benefit from stock option exercises	172	4,432
Debt issuance costs		(3,666)
Purchases of treasury stock		(9,660)
Net cash (used in) provided by financing activities	(41,196)	709,145
Net (decrease) increase in cash and cash equivalents	$ (30,250)	$ 12,300

Our business is primarily conducted on a cash basis. Accordingly, operating cash flows tend to follow trends in our operating income. The increase in operating cash flows from 2007 to 2008 was mostly attributable to Ameristar East Chicago, which we owned for a full nine months in 2008, compared to only 13 days during the nine months ended September 30, 2007.

Capital expenditures during the first nine months of 2008 were primarily related to the hotel project at Ameristar Black Hawk ($69.0 million), our expansion at Ameristar Vicksburg ($43.7 million) and the Ameristar St. Charles hotel and expansion ($22.7 million). Other 2008 capital expenditures include minor construction projects, slot machine purchases and the acquisition of long-lived assets relating to various capital maintenance projects at all our properties.

Capital expenditures during the first nine months of 2007 were primarily related to our hotel and expansion project at Ameristar St. Charles ($103.0 million), the Ameristar Black Hawk hotel project ($21.2 million) and our expansion at Ameristar Vicksburg ($13.8 million).

At Ameristar St. Charles, we substantially completed construction of the 400-room, all-suite hotel with an indoor/outdoor pool and a 7,000 square-foot, full-service spa at the end of the second quarter of 2008.

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We substantially completed the $100 million expansion and the new 1,000-space parking garage at our Vicksburg property in late May 2008. Since the opening of the garage and casino expansion, a new VIP lounge was completed in July and two additional restaurants opened in September.

The construction of our four-diamond-quality hotel is progressing at Ameristar Black Hawk. The 33-story tower s 536 well-appointed rooms will feature upscale furnishings and amenities. The tower will include a versatile meeting and ballroom center and will also have Black Hawk s only full-service spa, an enclosed rooftop swimming pool and indoor/outdoor whirlpool facilities. Once completed, Ameristar Black Hawk will offer destination resort amenities and services that we believe are unprecedented in the Denver gaming market. The hotel s completion date is expected to be in the fall of 2009, and the cost of the hotel is expected to be between $235 million and $240 million.

A renovation of the Cactus Petes hotel was completed in May 2008 at a cost of approximately $16 million.

Our debt structure primarily consists of a $1.8 billion senior credit facility that includes a $1.4 billion revolving loan facility maturing in November 2010 and a $400.0 million term loan facility maturing in November 2012. As of September 30, 2008, the principal debt outstanding under the senior credit facility consisted of $1.2 billion under the revolving loan facility and $389.0 million under the term loan facility. At September 30, 2008, the amount of the revolving loan facility available for borrowing was $169.6 million (after giving effect to $5.4 million of outstanding letters of credit); however, as of that date our ability to borrow under the revolving loan facility was limited to approximately $60.0 million by the senior leverage ratio coverage described below. All mandatory principal repayments have been made through September 30, 2008. In October 2008, we borrowed an additional $30.0 million under our revolving loan facility.

The agreement governing the senior credit facility requires us to comply with various affirmative and negative financial and other covenants, including restrictions on the incurrence of additional indebtedness, restrictions on dividend payments and other restrictions and requirements to maintain certain financial ratios and tests. As of September 30, 2008 and December 31, 2007, we were in compliance with all applicable covenants.

Historically, we have funded our daily operations through net cash provided by operating activities and our significant capital expenditures primarily through operating cash flows, bank debt and other debt financing. If our existing sources of cash are insufficient to meet our operations and liquidity requirements, or if we fail to remain in compliance with the covenants applicable to our senior credit facilities, we will be required to seek additional financing that would be significantly more expensive than our senior credit facilities, scale back our capital plans, reduce, suspend or eliminate our dividend payments and/or seek an amendment to the senior credit facilities. Without any change to our senior credit facilities or obtaining subordinated debt to replace senior debt, we may exceed the maximum permitted senior leverage ratio within the next 12 months. We anticipate that any amendment to the senior credit facilities would result in substantial additional costs and fees. Any loss from service of our properties for any reason could materially adversely affect us, including our ability to fund daily operations and to satisfy debt covenants.

As noted above, we had $169.6 million available for borrowing under the senior credit facilities at September 30, 2008; however, our ability to borrow under the senior credit facilities at any time is limited based upon, among other restrictions, our senior leverage ratio (defined as senior debt divided by EBITDA), which can be no more than 5.25:1 through March 31, 2009 and must be maintained at lower levels thereafter through the maturity of the senior credit facilities. As of September 30, 2008, our senior leverage ratio was 5.06:1. Under certain circumstances, the senior credit facilities permit us to incur subordinated note indebtedness of up to $500 million, subject to the maintenance of required leverage ratios. We continuously monitor credit markets and plan

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to seek subordinated debt to replace senior debt when the markets improve in order to provide greater credit flexibility. There can be no assurance as to when or the terms upon which subordinated debt may be available, but it is likely that any new subordinated debt would be significantly more expensive than our existing senior debt. In addition to the availability under the senior credit facilities, we had $68.2 million of cash and cash equivalents at September 30, 2008, approximately $60.0 million of which were required for daily operations.

During each of the initial three quarters of 2008 and 2007, our Board of Directors declared quarterly cash dividends in the amount of $0.105 per share and $0.1025 per share, respectively. Due to the continuation of adverse conditions in the credit markets that has made it difficult to refinance on acceptable terms a portion of our senior debt to improve our senior leverage ratio, our Board of Directors currently does not intend to declare a dividend during the fourth quarter of 2008.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Securities and Exchange Commission
Regulation S-K.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States. Certain of our accounting policies, including the estimated useful lives assigned to our assets, asset impairment, health benefit reserves, workers compensation and general liability reserves, purchase price allocations made in connection with acquisitions, the determination of bad debt reserves and the calculation of our income tax liabilities, require that we apply significant judgment in defining the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. Our judgments are based in part on our historical experience, terms of existing contracts, observance of trends in the gaming industry and information obtained from independent valuation experts or other outside sources. We cannot assure you that our actual results will conform to our estimates. For additional information on critical accounting policies and estimates, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and the notes to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007.

Forward-Looking Statements

This Quarterly Report contains certain forward-looking statements, including the plans and objectives of management for our business, operations and economic performance. These forward-looking statements generally can be identified by the context of the statement or the use of forward-looking terminology, such as believes, estimates, anticipates, intends, expects, plans, is confident that should or words of similar meaning, with reference to us management. Similarly, statements that describe our future operating performance, financial results, financial position, plans, objectives, strategies or goals are forward-looking statements. Although management believes that the assumptions underlying the forward-looking statements are reasonable, these assumptions and the forward-looking statements are subject to various factors, risks and uncertainties, many of which are beyond our control, including but not limited to uncertainties concerning operating cash flow in future periods, our borrowing capacity under the senior credit facilities or any replacement financing or the terms of any replacement financing, our properties future operating performance, our ability to undertake and complete capital expenditure projects in accordance with established budgets and schedules, changes in competitive conditions, regulatory restrictions and changes in regulation or legislation (including gaming tax laws) that could affect us. Accordingly, actual results could differ materially from those contemplated by any forward-looking statement. In addition to the other risks and uncertainties mentioned in connection with certain forward-looking statements throughout this Quarterly Report, attention is directed to Item 1A. Business Risk Factors and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2007 for a discussion of the factors, risks and uncertainties that could affect our future results.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. Our primary exposure to market risk is interest rate risk associated with our senior credit facilities. The senior credit facilities bear interest equal to LIBOR (in the case of Eurodollar loans) or the prime interest rate (in the case of base rate loans), plus an applicable margin, or add-on. As of September 30, 2008, we had $1.6 billion outstanding under our senior credit facilities, bearing interest at variable rates based on LIBOR with maturities up to three months from that date. At September 30, 2008, the average interest rate applicable to the senior credit facilities outstanding, before giving effect to interest rate hedging transactions in place on that date, was 4.8%.

During the second quarter, in order to hedge against increases in variable interest rates, we entered into an interest rate swap agreement with a commercial bank counterparty, effective July 18, 2008, pursuant to which we are obligated to make quarterly fixed rate payments to the counterparty at an annualized fixed rate of 3.1975%, calculated on a notional amount of $500.0 million, while the counterparty is obligated to make quarterly floating rate payments to us based on three-month LIBOR for the same notional amount. The interest rate swap effectively fixes the annual interest rate on $500.0 million of borrowings under our senior revolving loan facility at 3.1975% plus the applicable margin. The swap agreement terminates on July 19, 2010 and had a fair value of $1.1 million at September 30, 2008.

Subsequent to September 30, 2008, we entered into an additional interest rate swap transaction with another commercial bank counterparty. The swap transaction has an effective date of October 20, 2008 and terminates on July 19, 2010. We are obligated to make quarterly fixed rate payments to the counterparty, calculated on a notional amount of $600.0 million, while the counterparty is obligated to make quarterly floating rate payments to us based on three-month LIBOR on the same notional amount. The swap transaction effectively fixes the annual interest rate on $600.0 million of our revolving debt at 2.98% plus the applicable margin. With this swap agreement, we now have $1.1 billion of our variable rate debt hedged until July 2010 at a weighted-average fixed rate of 3.08% plus the applicable margin. (See Note 7 Derivative instruments and hedging activities of Notes to Condensed Consolidated Financial Statements for more discussion of the interest rate swaps.)

Assuming no change in our loan elections under our credit facility and giving effect to the $500 million interest rate swap transaction in place on September 30, 2008, an increase of one percentage point in LIBOR for all relevant maturities as of September 30, 2008 would increase our annual interest cost (and decrease pre-tax earnings) by approximately $11.1 million. At December 31, 2007, we had no interest rate hedging agreements in place. An increase of one percentage point in the average interest rate applicable to the senior credit facilities outstanding at December 31, 2007 would have increased our annual interest cost by approximately $16.4 million.

The decisions to enter into the swap agreements were based on analyses of risks to the Company presented by possible changes in interest rates and the financial instruments available to manage those risks. We continue to monitor interest rate markets and, in order to control interest rate risk, may enter into additional interest rate swap or collar agreements or other derivative instruments as market conditions warrant. We may also refinance a portion of our variable rate debt through the issuance of long-term fixed-rate securities. We do not use derivatives for trading or speculative purposes.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the Exchange Act), the Company s management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this

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Quarterly Report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective as of the end of the period covered by this Quarterly Report.

(b) Changes in Internal Control over Financial Reporting

As required by Rule 13a-15(d) under the Exchange Act, the Company s management, including our Chief Executive Officer and our Chief Financial Officer, has evaluated our internal control over financial reporting to determine whether any changes occurred during the third fiscal quarter of 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the third fiscal quarter of 2008.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

East Chicago Local Development Agreement Litigation. Reference is made to this matter described under the heading Legal Proceedings in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008. On September 4, 2008, the Superior Court of Marion County, Indiana issued an amended order granting summary judgment in favor of ACI and its subsidiary, Ameristar Casino East Chicago, LLC (formerly known as RIH Acquisitions IN, LLC), and denying summary judgment in favor of East Chicago Second Century, Inc. (Second Century), on Second Century s conversion claim. The court denied each party s motion for summary judgment on Second Century s breach of contract claim. The court entered a final judgment on the conversion claim on October 23, 2008. Second Century has filed a motion to reconsider the court s order directing entry of final judgment. If that motion is denied, Second Century must file any appeal of the judgment by November 24, 2008.

Other Litigation. There have been no other material developments during the three months ended September 30, 2008 relating to the matters described under the heading Legal Proceedings in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008.

Item 1A. Risk Factors

We incorporate by reference the risk factors discussed in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2007 and Item 1A. Risk Factors of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.

Conditions in the financial system and the capital and credit markets may negatively affect our business, results of operations and financial condition.

In addition to earnings and cash flows from operations, we rely on borrowed money to finance our business, which may be constrained if we are unable to borrow additional capital or refinance existing borrowings on reasonable terms. The recent crisis in the banking system and financial markets has resulted in a severe tightening in the credit markets, a low level of liquidity in many financial markets and other adverse conditions for issuers in fixed income, credit and equity markets. Within the past few months, these markets have experienced disruption that has had a dramatic impact on the availability and cost of capital and credit. The market interest rate for debt of companies similar to us has increased dramatically in the past several months. While the United States and other governments have enacted legislation and taken other actions to help alleviate these conditions, there is no assurance that such steps will have the effect of easing the conditions in credit and capital markets. Therefore, we have no assurance that we will have further access to credit or capital markets at desirable times or at rates that we would consider acceptable, and the lack of such funding could have a material adverse effect on our business,

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results of operations and financial condition. We are unable to predict the likely duration or severity of the current disruption in the capital and credit markets, or its impact on the larger economy.

The gaming industry is very competitive and increased competition could have a material adverse effect on our future operations.

In June 2008, the Kansas Supreme Court held that the recent Kansas law authorizing up to four state-owned and operated land-based casinos and three racetrack-slot machine parlors is constitutional. One of the land-based casinos and one of the racetrack-slot machine parlors would present direct additional competition to Ameristar Kansas City if the new facilities are constructed and opened. In September 2008, the Kansas Lottery Commission selected a proposal by a consortium of developers to develop a large land-based casino and entertainment facility at the Kansas Speedway, approximately 24 miles from Ameristar Kansas City. We believe the first phase of the project could open as early as the end of 2009 with approximately 2,000 slot machines and 75 table games. This potential new competition for Ameristar Kansas City could have a material adverse effect on the results of operations of that property.

Item 6. Exhibits

Exhibit Number	Description of Exhibit	Method of Filing
31.1	Certification of Gordon R. Kanofsky, Chief Executive Officer and Vice Chairman, pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed electronically herewith.
31.2	Certification of Thomas M. Steinbauer, Senior Vice President of Finance, Chief Financial Officer and Treasurer, pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed electronically herewith.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed electronically herewith.

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SIGNATURE

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.

AMERISTAR CASINOS, INC.
Registrant

Date: November 10, 2008

By: /s/ Thomas M. Steinbauer
Thomas M. Steinbauer
Senior Vice President of Finance, Chief Financial Officer and Treasurer

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$
3,333,191

Intersegment
2,453

13,832

(16,285
)

—

Total
$
2,873,484

$
475,992

$
(16,285
)

$
3,333,191

Segment profitability	$ 804,290	$ 197,568	$ (479,392)	$ 522,466

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MYLAN INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued

(In thousands)	Generics Segment	Specialty Segment	Corporate / Other[1]	Consolidated
Three Months Ended June 30, 2012				
Total revenues				
Third party	$1,481,120	$206,695	$—	$1,687,815
Intersegment	388	9,093	(9,481)	—
Total	$1,481,508	$215,788	$(9,481)	$1,687,815
Segment profitability	$407,865	$68,682	$(215,076)	$261,471
Six Months Ended June 30, 2012				
Total revenues				
Third party	$2,893,596	$377,874	$—	$3,271,470
Intersegment	743	23,672	(24,415)	—
Total	$2,894,339	$401,546	$(24,415)	$3,271,470
Segment profitability	$819,529	$129,140	$(436,660)	$512,009

(1) Includes certain corporate general and administrative and research and development expenses; net charges for litigation settlements; certain intercompany transactions, including eliminations; amortization of intangible assets and certain purchase accounting items; impairment charges; and other expenses not directly attributable to segments.

14. Contingencies

Legal Proceedings

The Company is involved in various disputes, governmental and/or regulatory inquiries and proceedings and litigation matters that arise from time to time, some of which are described below. The Company is also party to certain litigation matters for which Merck KGaA has agreed to indemnify the Company, pursuant to the agreement by which Mylan acquired the former Merck Generics business.

While the Company believes that it has meritorious defenses with respect to the claims asserted against it and intends to vigorously defend its position, the process of resolving matters through litigation or other means is inherently uncertain, and it is not possible to predict the ultimate resolution of any such proceeding. It is possible that an unfavorable resolution of any of the matters described below, or the inability or denial of Merck KGaA, another indemnitor or insurer to pay an indemnified claim, could have a material effect on the Company's financial position, results of operations and cash flows. Unless otherwise disclosed below, the Company is unable to predict the outcome of the respective litigation or to provide an estimate of the range of reasonably possible losses. Legal costs are recorded as incurred and are classified in selling, general and administrative expenses in the Company's Condensed Consolidated Statements of Operations.

Lorazepam and Clorazepate

On June 1, 2005, a jury verdict was rendered against Mylan, MPI, and co-defendants Cambrex Corporation and Gyma Laboratories in the U.S. District Court for the District of Columbia in the amount of approximately $12.0 million, which has been accrued for by the Company. The jury found that Mylan and its co-defendants willfully violated Massachusetts, Minnesota and Illinois state antitrust laws in connection with API supply agreements entered into between the Company and its API supplier (Cambrex) and broker (Gyma) 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 antitrust claims relating to Mylan's 1998 price increases for Lorazepam and Clorazepate. On December 20, 2006, the Company's motion for judgment as a matter of law and motion for a new trial were denied and the remaining motions were denied on January 24, 2008. In post-trial filings, the plaintiffs requested that the verdict be trebled and that request was granted on January 24, 2008. On February 6, 2008, a judgment was issued against Mylan

and its co-defendants in the total amount of approximately $69.0 million, which, in the case of three of the plaintiffs, reflects trebling of the compensatory damages in the original verdict (approximately $11.0 million in total) and, in the case of the fourth plaintiff, reflects their amount of the compensatory damages in the original jury verdict plus doubling this compensatory damage award as punitive damages assessed against each of the defendants (approximately $58.0 million in total), some or all of which may be subject to indemnification obligations by Mylan. Plaintiffs are also seeking an award of attorneys' fees and litigation costs in unspecified amounts and prejudgment interest of approximately $8.0 million. The Company and its co-defendants appealed to the U.S. Court of Appeals for the D.C. Circuit and have challenged the verdict as legally erroneous on multiple grounds. The appeals were held in abeyance pending a ruling on the motion for prejudgment interest, which has been granted. Mylan has contested this ruling along with the liability finding and other damages awards as part of its appeal, which was filed in the Court of Appeals for the D.C. Circuit. On January 18, 2011, the Court of Appeals issued a judgment remanding the case to the District Court for further proceedings based on lack of diversity with respect to certain plaintiffs. On June 13, 2011, Mylan filed a certiorari petition with the U.S. Supreme Court requesting review of the judgment of the D.C. Circuit. On October 3, 2011, the certiorari petition was denied. The case is now proceeding before the District Court. On January 14, 2013, following limited court-ordered jurisdictional discovery, the plaintiffs filed a fourth amended complaint containing additional factual averments with respect to the diversity of citizenship of the parties, along with a motion to voluntarily dismiss 755 (of 1,387) self-funded customers whose presence would destroy the District Court's diversity jurisdiction. Plaintiffs also moved for a remittitur (reduction) of approximately $8.1 million from the full damages award. Mylan's brief in response to the new factual averments in the complaint was filed on February 13, 2013. In addition to disputing the sufficiency of many of the plaintiffs' jurisdictional averments, Mylan argued that the case should be dismissed in its entirety, or that alternatively all of the self-funded customer claims should be dismissed. Mylan also argued for additional discovery and a new trial on damages. Briefing on these issues is complete, and a decision is pending.

In connection with the Company's appeal of the judgment, the Company submitted a surety bond underwritten by a third-party insurance company in the amount of $74.5 million in February 2008. On May 30, 2012, the District Court ordered the amount of the surety bond reduced to $66.6 million.

Pricing and Medicaid Litigation

Beginning in September 2003, Mylan, MPI and/or Mylan Institutional Inc. (formerly known as UDL Laboratories, Inc. and hereafter "MII"), a wholly owned subsidiary of the Company, together with many other pharmaceutical companies, have been named in civil lawsuits filed by state attorneys general ("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" and/or "Wholesale Acquisition Costs" that exceeded the actual selling price of the defendants' prescription drugs, causing state programs to overpay pharmacies and other providers. To date, Mylan, MPI and/or MII have been named as defendants in substantially similar civil lawsuits filed by the AGs of Alabama, Alaska, California, Florida, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Massachusetts, Mississippi, Missouri, Oklahoma, South Carolina, Texas, Utah 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. Other cases will likely be litigated in the state courts in which they were filed. Each of the cases seeks money damages, civil penalties and/or double, treble or punitive damages, counsel fees and costs, equitable relief and/or injunctive relief. Mylan and its subsidiaries have denied liability and are defending the remaining actions vigorously.

In May 2008, an amended complaint was filed in the U.S. District Court for the District of Massachusetts by a private plaintiff on behalf of the United States of America against Mylan, MPI, MII and several other generic manufacturers.

The original complaint was filed under seal in April 2000, and Mylan, MPI and MII were added as parties in February 2001. The claims against Mylan, MPI, MII and the other generic manufacturers were severed from the April 2000 complaint (which remains under seal) as a result of the federal government's decision not to intervene in the action as to those defendants. The complaint alleged violations of the False Claims Act and set forth allegations substantially similar to those alleged in the state AG cases mentioned in the preceding paragraph and purported to seek nationwide recovery of any and all alleged overpayment of the "federal share" under the Medicaid program, as well as treble damages and civil penalties. In December 2010, the Company completed a settlement of this case (except for the claims related to the California federal share) and the Texas state action mentioned above. This settlement resolved a significant portion of the damages claims asserted against Mylan, MPI and MII in the various pending pricing litigations. In addition, Mylan has reached settlements of the Alabama, Alaska, California (including the "federal share"), Florida, Hawaii, Idaho, Iowa, Kansas, Kentucky, Louisiana, Massachusetts, Mississippi, New York state and county, Oklahoma, South Carolina, and Utah state actions. The Company has also reached an agreement in principle to settle the Missouri action, which is contingent upon the execution of definitive settlement documents. With regard to the remaining state actions, the Company continues to believe that it has meritorious defenses and is vigorously defending

itself in those actions. The Company had accrued approximately $50.0 million at December 31, 2012. As there were no settlement payments and no additional accruals during the six months ended June 30, 2013, the Company has a remaining accrual of approximately $50.0 million at June 30, 2013. The Company reviews the status of these actions on an ongoing basis, and from time to time, the Company may settle or otherwise resolve these matters on terms and conditions that management believes are in the best interests of the Company. There are no assurances that settlements reached and/or adverse judgments received, if any, will not exceed amounts that may be provided for. However, the range of reasonably possible loss above the amount provided for cannot be estimated.

Dey L.P. (now known as Mylan Specialty L.P. and hereafter “Mylan Specialty”), a wholly owned subsidiary of the Company, was named as a defendant in several class actions brought by consumers and third-party payors. Mylan Specialty has reached a settlement of these class actions, which has been approved by the court and all claims have been dismissed. Additionally, a complaint was filed under seal by a plaintiff on behalf of the United States of America against Mylan Specialty in August 1997. In August 2006, the Government filed its complaint-in-intervention and the case was unsealed in September 2006. The Government asserted that Mylan Specialty was jointly liable with a codefendant and sought recovery of alleged overpayments, together with treble damages, civil penalties and equitable relief. Mylan Specialty completed a settlement of this action in December 2010. These cases all have generally alleged that Mylan Specialty falsely reported certain price information concerning certain drugs marketed by Mylan Specialty, that Mylan Specialty caused false claims to be made to Medicaid and to Medicare, and that Mylan Specialty caused Medicaid and Medicare to make overpayments on those claims.

Under the terms of the purchase agreement with Merck KGaA, Mylan is fully indemnified for the claims in the preceding paragraph and Merck KGaA is entitled to any income tax benefit the Company realizes for any deductions of amounts paid for such pricing litigation. Under the indemnity, Merck KGaA is responsible for all settlement and legal costs, and, as such, these settlements had no impact on the Company’s Consolidated Statements of Operations. At June 30, 2013, the Company has accrued approximately $66.4 million in other current liabilities, which represents its estimate of the remaining amount of anticipated income tax benefits due to Merck KGaA. Substantially all of Mylan Specialty’s known claims with respect to this pricing litigation have been settled.

Modafinil Antitrust Litigation and FTC Inquiry
Beginning in April 2006, Mylan and four other drug manufacturers have been named as defendants in civil lawsuits filed in or transferred to the U.S. District Court for the Eastern District of Pennsylvania by a variety of plaintiffs purportedly representing direct and indirect purchasers of the drug Modafinil and in a lawsuit filed by Apotex, Inc., a manufacturer of generic drugs, seeking approval to market a generic Modafinil product. These actions allege violations of federal antitrust and state laws in connection with the defendants’ settlement of patent litigation relating to Modafinil. On March 29, 2010, the Court in the Eastern District of Pennsylvania denied the defendants’ motions to dismiss. Fact discovery closed on February 11, 2011. No date has been set for briefing on dispositive motions. Mylan is defending each of these actions vigorously. The case had been suspended in light of petitions for writ of certiorari that were filed before the U.S. Supreme Court in In RE: K-Dur Antitrust Litigation and FTC v. Watson Pharms Inc., et al. (Androgel Litigation). On June 17, 2013, the Supreme Court issued its decision in the Androgel Litigation. The case will now proceed in the district court.

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, 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, requesting additional information from the Company relating to the investigation. Mylan has

cooperated fully with the government's investigation and completed all requests for information. On February 13, 2008, the FTC filed a lawsuit against Cephalon in the U.S. District Court for the District of Columbia and the case has subsequently been transferred to the U.S. District Court for the Eastern District of Pennsylvania. On July 1, 2010, the FTC issued a third party subpoena to Mylan, requesting documents in connection with its lawsuit against Cephalon. Mylan has responded to the subpoena. Mylan is not named as a defendant in the FTC's lawsuit, although the complaint includes certain allegations pertaining to the Mylan/Cephalon settlement.

Minocycline

On May 1, 2012, the FTC issued a civil investigative demand to Mylan pertaining to an investigation being conducted to determine whether Medicis Pharmaceutical Corporation, Mylan, and/or other generic companies engaged in unfair methods of competition with regard to Medicis' branded Solodyn products and generic Solodyn products, as well as the 2010 settlement

of Medicis' patent infringement claims against Mylan and Matrix Laboratories Ltd. (now known as Mylan Laboratories Ltd.). Mylan is cooperating with the FTC and has responded to requests for information.

In July 2013, Mylan and Mylan Laboratories Ltd., along with eight other parties, were named as defendants in separate complaints filed by United Food and Commercial Workers Local 1776 & Participating Employers Health and Welfare Fund and Rochester Drug Co Operative, Inc. in the U.S. District Court for the Eastern District of Pennsylvania. The plaintiffs purport to represent direct and indirect purchasers of the drug Solodyn, and assert violations of federal and state laws, including allegations in connection with separate settlements by Medicis with each of the other defendants of patent litigation relating to generic Solodyn.

EPIPEN® Auto-Injector Advertising Inquiries
During 2012, the Massachusetts Attorney General's office and the Oregon Department of Justice issued civil investigation demands to Mylan Specialty, regarding the marketing and sale of EPIPEN® and EPIPEN Jr Auto-Injectors in both states, seeking information about an EPIPEN® Auto-Injector television commercial. Mylan is cooperating with both requests and has responded to the requests for information.

EU Commission Proceedings
On or around July 8, 2009, the European Commission (the "EU Commission" or the "Commission") stated that it had initiated antitrust proceedings pursuant to Article 11(6) of Regulation No. 1/2003 and Article 2(1) of Regulation No. 773/2004 to explore possible infringement of Articles 81 and 82 EC and Articles 53 and 54 of the EEA Agreement by Les Laboratoires Servier ("Servier") as well as possible infringement of Article 81 EC by the Company's Indian subsidiary, Mylan Laboratories Ltd. (formerly known as Matrix Laboratories Ltd.), and four other companies, each of which entered into agreements with Servier relating to the product Perindopril. On July 30, 2012, the European Commission issued a Statement of Objections to Servier SAS, Servier Laboratories Limited, Servier, Adir, Biogaran, Krka, d.d. Novo mesto, Lupin Limited, Mylan Laboratories Ltd., Mylan Inc., Niche Generics Limited, Teva UK Limited, Teva Pharmaceutical Industries Ltd., Teva Pharmaceuticals Europe B.V., and Unichem Laboratories Limited. Mylan Inc. and Mylan Laboratories Ltd. have filed responses to the Statement of Objections and are vigorously defending themselves against allegations contained therein.

On October 6, 2009, the Company received notice that the EU Commission was initiating an investigation pursuant to Article 20(4) of Regulation No. 1/2003 to explore possible infringement of Articles 81 and 82 EC by the Company and its affiliates. Mylan S.A.S., acting on behalf of its Mylan affiliates, has produced documents and other information in connection with the inquiry and continues to respond to other requests for additional information. The Company is cooperating with the Commission in connection with the investigation, and no statement of objections has been filed against the Company in connection with the investigation.

On March 19, 2010, Mylan and Generics [U.K.] Limited, a wholly owned subsidiary of the Company, received notice that the EU Commission had opened proceedings against Lundbeck with respect to alleged unilateral practices and/or agreements related to Citalopram in the European Economic Area. A Statement of Objections was issued to Lundbeck, Merck KGaA, Generics [U.K.] Limited, Arrow, Resolution Chemicals, Xelia Pharmaceuticals, Alpharma, A.L. Industrier and Ranbaxy on July 25, 2012. Generics [U.K.] Limited filed a response to the Statement of Objections, defending itself against the allegations contained therein. On June 19, 2013, the European Commission issued a decision finding that Generics [U.K.] Limited, as well as the companies noted above, had violated EU competition rules and requiring Generics [U.K.] Limited to pay approximately EUR 7.8 million, jointly and severally with Merck KGaA. Generics [U.K.] Limited intends to appeal the European Commission's decision. Generics [U.K.] Limited has also sought indemnification from Merck KGaA with respect to the EUR 7.8 million issued against Merck

KGaA and Generics [U.K.] Limited jointly and severally. During the three months ended June 30, 2013, the Company accrued approximately $10.3 million related to this matter. There are no assurances that settlements reached and/or adverse judgments received, if any, will not exceed amounts that may be provided for. However, the range of reasonably possible loss above the amount provided for cannot be estimated.

U.K. Office of Fair Trading
On August 12, 2011, Generics [U.K.] Limited received notice that the Office of Fair Trading was opening an investigation to explore the possible infringement of the Competition Act 1998 and Article 101 and 102 on the Functioning of the European Union, with respect to alleged agreements related to Paroxetine. Generics [U.K.] Limited has produced documents and information in connection with this inquiry and is continuing to cooperate with the investigation. On April 19,

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MYLAN INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued

2013, a Statement of Objections was issued to GlaxoSmithKline, Generics [U.K.] Limited, Alpharma and Ivax LLC. Generics [U.K.] Limited is preparing its response and intends to defend itself against the allegations contained therein.

South African Competition Commission
Mylan's South African affiliate received a summons and a request for appearance and information, dated February 22, 2013, regarding a supply agreement between Aspen Pharmacare Holdings (Pty) Ltd. and Mylan Laboratories Ltd. pertaining to a fixed dose combination antiretroviral product. The summons was issued in respect of two complaints in connection with this Agreement. An amended complaint and Initiation Statement were received on June 21, 2013. Mylan is cooperating in this investigation. The complaint has not been referred to the Competition Tribunal.

Product Liability
The Company is involved in a number of product liability lawsuits and claims related to alleged personal injuries arising out of certain products manufactured and/or distributed by the Company, including but not limited to its fentanyl transdermal system, phenytoin, propoxyphene, alendronate and Amnesteem®. The Company believes that it has meritorious defenses to these lawsuits and claims and is vigorously defending itself with respect to those matters. From time to time, the Company has agreed to settle or otherwise resolve certain lawsuits and claims on terms and conditions that are in the best interests of the Company. The Company had accrued approximately $21.6 million at December 31, 2012. During the six months ended June 30, 2013, the Company accrued approximately $3.8 million and paid approximately $0.9 million, resulting in an accrual of approximately $24.4 million at June 30, 2013. There are no assurances that settlements reached and/or adverse judgments received, if any, will not exceed amounts that may be provided for. However, the range of reasonably possible loss above the amount provided for cannot be estimated.

Intellectual Property
On April 16, 2012, the Federal Circuit reversed and vacated a judgment of invalidity by the United States District Court for the District of Delaware in a patent infringement lawsuit by Eurand, Inc. (now known as Aptalis Pharmatech, Inc.), Cephalon, Inc., and Anesta AG against Mylan Inc. and MPI in relation to MPI’s abbreviated new drug application for extended-release cyclobenzaprine hydrochloride. On May 12, 2011, the District Court found, after trial, the patents-in-suit invalid as obvious. On May 13, 2011, MPI launched its cyclobenzaprine hydrochloride extended-release capsules. Plaintiffs appealed the District Court’s finding of obviousness to the Federal Circuit, and on May 24, 2011, the District Court issued an injunction order enjoining Mylan from selling any additional cyclobenzaprine products pending the Federal Circuit’s decision. Plaintiffs were required to post a $10 million bond. Mylan appealed the District Court’s injunction and filed a motion to stay the injunction pending resolution of the appeal. On May 25, 2011, the Federal Circuit temporarily stayed the injunction pending full briefing on Mylan’s motion to stay. On July 7, 2011, the Federal Circuit reinstated the injunction preventing further sales pending a decision on the appeal. On April 16, 2012, the Federal Circuit reversed and vacated the District Court’s invalidity judgment and dismissed without prejudice Mylan’s appeal of the injunction. The Company filed a petition for rehearing en banc and on July 25, 2012, the petition was denied. The Company filed a petition for certiorari to the United States Supreme Court on October 23, 2012 and on January 14, 2013, the petition was denied. The case was remanded to the District Court for consideration of the issue of damages. On April 4, 2013, the District Court ordered that the effective date of approval of Mylan’s Abbreviated New Drug Application shall not be earlier than the later to expire of the patents-in-suit, unless otherwise ordered by the Court, and enjoined Mylan from manufacturing, using, offering to sell, selling, or importing it products until after the later of the expiration dates of the patents-in-suit, unless otherwise ordered by the Court. The trial on the issue of damages is scheduled to commence on September 2, 2014.

In these and other situations, the Company has used its business judgment to decide to market and sell products, notwithstanding the fact that allegations of patent infringement(s) or other potential third party rights have not been finally resolved by the courts (i.e., an “at-risk launch” situation). The risk involved in doing so can be substantial because the remedies available to the owner of a patent for infringement may include, among other things, damages measured by the profits lost by the patent owner and not necessarily by the profits earned by the infringer. In the case of willful infringement, the definition of which is subjective, such damages may be increased up to three times. Moreover, because of the discount pricing typically involved with bioequivalent products, patented branded products generally realize a substantially higher profit margin than bioequivalent products. An adverse decision in cases involving an “at-risk launch” could have a material adverse effect on our financial position, including our results of operations and cash flows.

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MYLAN INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued

Other Litigation
The Company is involved in various other legal proceedings that are considered normal to its business, including but not limited to certain proceedings assumed as a result of the acquisition of the former Merck Generics business. While it is not possible to predict the ultimate outcome of such other proceedings, the ultimate outcome of any such proceeding is not currently expected to be material to the Company’s financial position, results of operations or cash flows.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis addresses material changes in the financial condition and results of operations of Mylan Inc. and subsidiaries (the "Company", "Mylan", "our" or "we") for the periods presented. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements, the related Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, as updated by the Company's Current Report on Form 8-K filed on May 28, 2013, the unaudited interim Condensed Consolidated Financial Statements and related Notes included in Part I — ITEM 1 of this Quarterly Report on Form 10-Q ("Form 10-Q") and our other Securities and Exchange Commission ("SEC") filings and public disclosures. The interim results of operations for the three and six months ended June 30, 2013 and the interim cash flows for the six months ended June 30, 2013 are not necessarily indicative of the results to be expected for the full fiscal year or any other future period.

This Form 10-Q may contain "forward-looking statements." These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may include, without limitation, statements about our market opportunities, strategies, competition and expected activities and expenditures, and at times may be identified by the use of words such as "may," "could," "should," "would," "project," "believ "anticipate," "expect," "plan," "estimate," "forecast," "potential," "intend," "continue" and variations of these words or compa words. Forward-looking statements inherently involve risks and uncertainties. Accordingly, actual results may differ materially from those expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, the risks described in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, as well as below under "Risk Factors" in Part II, ITEM 1A. The Company undertakes no obligation to update any forward-looking statements for revisions or changes after the filing date of this Form 10-Q.

Executive Overview

Mylan ranks among the leading generic and specialty pharmaceutical companies in the world, offering one of the industry's broadest and highest quality product portfolios, a robust pipeline and a global commercial footprint that spans approximately 140 countries and territories. With a workforce of more than 20,000 employees and external contractors, Mylan has attained leading positions in key international markets through its wide array of dosage forms and delivery systems, significant manufacturing capacity, global scale and commitment to customer service. Through its Indian subsidiary, Mylan Laboratories Ltd. (formerly known as Matrix Laboratories Ltd.), Mylan operates one of the world's largest active pharmaceutical ingredient ("API") manufacturers with respect to the number of drug master files filed with regulatory agencies. This capability makes Mylan one of only two global generics companies with a comprehensive, vertically integrated supply chain.

Mylan has two segments, "Generics" and "Specialty." Generics primarily develops, manufactures, sells and distributes generic or branded generic pharmaceutical products in tablet, capsule, injectable or transdermal patch form, as well as API. Specialty engages mainly in the manufacture and sale of branded specialty nebulized and injectable products. Our specialty pharmaceutical business is conducted through our wholly owned subsidiary, Mylan Specialty L.P. We also report in Corporate/Other certain research and development expenses, general and administrative expenses, litigation settlements, amortization of intangible assets and certain purchase accounting items, impairment charges, if any, and other items not directly attributable to the segments.

Recent Developments

Senior Credit Agreement Refinancing and Senior Notes Issuance

In June 2013, the Company entered into a new credit agreement (the "Senior Credit Agreement") with a syndication of banks which contains a $1.50 billion revolving credit facility (the "Revolving Facility"). Also in June 2013, we issued Senior Notes due 2016 and due 2018 with an aggregate principal amount of $1.15 billion. The proceeds from the senior notes issuance and borrowings under the Revolving Facility were used to repay the outstanding U.S. Term Loan under the 2011 Amended and Restated Credit Agreement, to redeem the outstanding 2017 Senior Notes and to pay the related fees and expenses of the foregoing transactions.

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SMS Pharmaceuticals Ltd.

On February 14, 2013, the Company completed the acquisition of a manufacturing facility located in India from SMS Pharmaceuticals Ltd. (“SMS”) for approximately $32 million in cash. The impact on our results of operations since the acquisition date was not material.

Agila Specialties

On February 27, 2013, the Company announced that it had signed a definitive agreement to acquire the Agila Specialties business, a developer, manufacturer and marketer of high-quality generic injectable products, from Strides Arcolab Limited for approximately $1.6 billion in cash plus contingent payments of up to $250 million subject to certain conditions. The transaction will be funded through $1 billion in committed financing and the use of cash on hand and borrowings from the Company’s revolving credit facility. Upon completion of the acquisition, the Company will significantly expand and strengthen its injectable product portfolio and gain entry into new geographic markets, such as Brazil. The transaction is expected to close in the fourth quarter of 2013 and is subject to certain closing conditions and regulatory approvals.

Share Repurchase Programs

On February 27, 2013, the Board of Directors of the Company approved the repurchase of up to $500 million of the Company’s common stock in the open market and through privately-negotiated transactions. The repurchase program was completed during the first quarter of 2013 with approximately 16.3 million shares of common stock repurchased.

Financial Summary

For the three months ended June 30, 2013, Mylan reported total revenues of $1.70 billion, compared to $1.69 billion for the three months ended June 30, 2012. This represents an increase in revenues of $13.9 million, or 0.8%. Consolidated gross profit for the current quarter was $742.4 million, compared to $702.6 million in the comparable prior year period, an increase of $39.7 million, or 5.7%. For the current quarter, earnings from operations were $308.6 million, compared to $261.5 million for the three months ended June 30, 2012, an increase of $47.1 million, or 18.0%. The net earnings attributable to Mylan Inc. common shareholders increased $39.1 million, or 28.2%, to $177.7 million for the three months ended June 30, 2013, compared to $138.6 million for the prior year comparable period. Diluted earnings per common share attributable to Mylan Inc. common shareholders increased from $0.33 to $0.46 for the three months ended June 30, 2013 compared to the prior year comparable period.

For the six months ended June 30, 2013, the Company reported total revenues of $3.33 billion, compared to $3.27 billion for the six months ended June 30, 2012. This represents an increase in revenues of $61.7 million, or 1.9%. Consolidated gross profit for the six months ended June 30, 2013 was $1.44 billion, compared to $1.37 billion in the comparable prior year period, an increase of $63.0 million, or 4.6%. For the six months ended June 30, 2013, earnings from operations were $522.5 million, compared to $512.0 million for the six months ended June 30, 2012, an increase of $10.5 million, or 2.0%.

The net earnings attributable to Mylan Inc. common shareholders increased $16.9 million, or 6.3%, to $284.6 million for the six months ended June 30, 2013, compared to $267.6 million for the prior year comparable period. Diluted earnings per common share attributable to Mylan Inc. common shareholders increased from $0.62 to $0.72 for the six months ended June 30, 2013 compared to the prior year comparable period. A more detailed discussion of the Company’s financial results can be found below in the section titled “Results of Operations.”

Results of Operations

Three Months Ended June 30, 2013, Compared to Three Months Ended June 30, 2012

Total Revenues and Gross Profit

For the current quarter, Mylan reported total revenues of $1.70 billion, compared to $1.69 billion in the comparable prior year period. Total revenues include both net revenues and other revenues from third parties. Third party net revenues for the current quarter were $1.69 billion, compared to $1.68 billion for the comparable prior year period, representing an increase of $9.4 million, or 0.6%. Other third party revenues for the current quarter were $14.4 million, compared to $9.8 million in the comparable prior year period, an increase of $4.5 million.

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Mylan's current quarter revenues were impacted by the effect of foreign currency translation, primarily reflecting changes in the U.S. Dollar as compared to the currencies of Mylan's subsidiaries in India and Japan. The unfavorable impact of foreign currency translation on current quarter total revenues was approximately $20 million, or 1%. Translating total revenues for the current quarter at prior year comparative period exchange rates would have resulted in year-over-year growth of approximately $34 million, or 2%. New product launches totaled approximately $131 million. On a constant currency basis, revenues from existing products decreased approximately $101 million as a result of a decline in pricing. The declines in volume within Generics were almost fully offset by increases within Specialty; however, pricing declines within Generics were only partially mitigated by increases within Specialty.

Cost of sales for the three months ended June 30, 2013 was $959.3 million, compared to $985.2 million in the comparable prior year period. Cost of sales for the current quarter is impacted by the amortization of acquired intangible assets and restructuring and other special items as described further in the section titled "Adjusted Earnings." These items totaled approximately $91.8 million in the current quarter. Prior year cost of sales included similar purchase accounting and restructuring and other special items in the amount of $116.7 million. The decrease in current year purchase accounting and restructuring and other special items is principally the result of the costs incurred in the prior year as a result of the ratification of a new collective bargaining agreement with the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union and its Local Union 8-957 AFL-CIO (the "Union"), which agreement governs certain employees at our Morgantown, WV manufacturing site. Excluding these amounts, cost of sales in the current quarter decreased slightly to $867.5 million from $868.5 million.

Gross profit for the three months ended June 30, 2013 was $742.4 million, and gross margins were 43.6%. For the three months ended June 30, 2012, gross profit was $702.6 million, and gross margins were 41.6%. Excluding the purchase accounting and restructuring and other special items discussed in the preceding paragraph, gross margins would have been approximately 49% in both the three months ended June 30, 2013 and 2012. Gross margins were positively impacted in the current quarter as a result of the increase in sales of the EPIPEN® Auto-Injector by approximately 70 basis points and were positively impacted by increased margins on new products by approximately 145 basis points. These increases were partially offset by the impact of unfavorable pricing on existing products in all regions within our Generics segment.

From time to time, a limited number of our products may represent a significant portion of our net revenues, gross profit and net earnings. Generally, this is due to the timing of new product launches and the amount, if any, of additional competition in the market. Our top ten products in terms of sales, in the aggregate, represented approximately 31% of total revenues in the three months ended June 30, 2013.

Generics Segment

For the current quarter, Generics third party net revenues were $1.45 billion, compared to $1.47 billion in the comparable prior year period, a decrease of $20.9 million, or 1.4%. Foreign currency had an unfavorable impact on third party net revenues for the current quarter. When translated at prior year foreign currency exchange rates, Generics third party net revenues for the current quarter were unchanged when compared to the prior year period. Generics sales are derived primarily in or from North America, Europe, the Middle East and Africa (collectively, "EMEA") and India, Australia, Japan and New Zealand (collectively, "Asia Pacific").

Third party net revenues from North America were $717.6 million for the current quarter, compared to $837.3 million for the comparable prior year period, representing a decrease of $119.7 million, or 14.3%. The decrease in current quarter third party net revenues was due to a greater amount of revenue from new product launches in the prior year ($240 million) as compared to the current year ($91 million). This reduction was principally due to the launch of Escitalopram in the first quarter of 2012, our most significant product launch with shared exclusivity in the prior year. Excluding the impact of Escitalopram in both periods, third party net revenues in North America were essentially flat on a year-over-year basis.

Products generally contribute most significantly to revenues and gross margins at the time of their launch, even more so in periods of market exclusivity, or in periods of limited generic competition. As such, the timing of new product introductions can have a significant impact on the Company's financial results. The entrance into the market of additional competition generally has a negative impact on the volume and pricing of the affected products.

Additionally, pricing is often affected by factors outside of the Company's control.

Third party net revenues from EMEA were $375.5 million for the three months ended June 30, 2013, compared to $326.6 million for the comparable prior year period, an increase of $48.8 million, or 14.9%. Translating current quarter third party net revenues from EMEA at comparable prior year period exchange rates would have resulted in a year-over-year increase in third party net revenues of approximately $44 million, or 13%. This increase was primarily the result of a double-

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digit increase in revenues in France as a result of new product revenue and favorable volume. Partially offsetting these increases was unfavorable pricing in a number of European markets in which Mylan operates, as a result of government-imposed pricing reductions and competitive market conditions.

Local currency revenues from Mylan's business in France increased as compared to the prior year as a result of the impact of favorable volumes on new and existing products, partially offset by lower pricing due to government-imposed pricing reductions and an increasingly competitive market. Our market share in France remained relatively stable in the second quarter of 2013, and we remain the market leader.

In the United Kingdom, local currency third party net revenues increased as compared to the prior year as a result of the impact of favorable pricing on existing products and new product introductions. Local currency third party net revenues in Italy also increased as compared to the prior year due to favorable volume on existing products.

In addition to France and Italy, certain other markets in which we do business, including Portugal, have undergone government-imposed price reductions, and further government-imposed price reductions are expected in the future. Such measures, along with the tender systems discussed below, are likely to have a negative impact on sales and gross profit in these markets. However, government initiatives in certain markets, which appear to favor generic products, could help to offset some of this unfavorable effect by potentially increasing rates of generic substitution and penetration.

A number of markets in which we operate have implemented or may implement tender systems for generic pharmaceuticals in an effort to lower prices. Generally speaking, tender systems can have an unfavorable impact on revenue and profitability. Under such tender systems, manufacturers submit bids which establish prices for generic pharmaceutical products. Upon winning the tender, the winning company will receive a preferential reimbursement for a period of time. The tender system often results in companies underbidding one another by proposing low pricing in order to win the tender. Additionally, the loss of a tender by a third party to whom we supply API can also have a negative impact on our sales and profitability. Sales, primarily in Germany, continue to be negatively affected by the impact of tender systems.

In Asia Pacific, third party net revenues were $357.4 million for the three months ended June 30, 2013, compared to $307.5 million for the comparable prior year period, an increase of $49.9 million, or 16.2%. Excluding the unfavorable effect of foreign currency translation, calculated as described above, net third party revenues would have increased by approximately $75 million, or 24%. This increase is primarily driven by higher third party sales by our operations in India, in particular, strong growth in the anti-retroviral ("ARV") franchise.

The increase in third party net revenues by our operations in India is due to significant growth, excluding the effect of foreign currency, in sales of ARV products used in the treatment of HIV/AIDS, both finished dosage form ("FDF") generic products and API. In addition to third party sales, the Asia Pacific region also supplies both FDF generic products and API to Mylan subsidiaries in conjunction with Mylan's vertical integration strategy. Intercompany revenues recognized by the Asia Pacific region were approximately $68 million in both the three months ended June 30, 2013 and 2012. These intercompany sales eliminate within, and therefore are not included in, Generics or consolidated net revenues.

In Japan, third party net revenues, excluding the effect of foreign currency, increased due to increased volumes and new product introductions. In Australia, local currency third party net revenues were slightly lower than the prior year as a result of significant government-imposed pricing reform, partially offset by new product sales. As in EMEA, Australia has undergone government-imposed price reductions which have had, and could continue to have, a negative impact on sales and gross profit in these markets.

Specialty Segment

For the current quarter, Specialty reported third party net revenues of $236.9 million, an increase of $30.3 million, or 14.7%, from $206.6 million for the comparable prior year period. The increase was the result of higher sales of the EPIPEN® Auto-Injector, which is used in the treatment of severe allergic reactions (anaphylaxis), as a result of favorable pricing and increased volume. The EPIPEN® Auto-Injector is the number one prescribed epinephrine auto-injector.

Operating Expenses

Research & Development Expense

Research and development expense ("R&D") for the three months ended June 30, 2013 was $111.4 million, compared to $94.4 million in the comparable prior year period, an increase of $17.1 million. R&D increased due primarily to the

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expenses related to the development of our respiratory and biologics programs, as well as the timing of internal and external product development projects.

Selling, General & Administrative Expense

Selling, general and administrative expense ("SG&A") for the current quarter was $315.4 million, compared to $359.0 million for the comparable prior year period, a decrease of $43.6 million. Factors contributing to the decrease in SG&A include a fair value adjustment to reduce the contingent consideration liability by approximately $10.0 million. In the comparable prior year period, the Company recorded a fair value adjustment to increase the contingent consideration liability by approximately $8.3 million, resulting in a net year over year decrease of $18.3 million to SG&A. The Company also incurred lower sales and marketing costs in Japan of approximately $11.0 million as compared to the prior year as a result of the collaboration with Pfizer Japan. Under the collaboration, Pfizer Japan is responsible for commercialization of the combined generics portfolio and managing the marketing and sales effort.

Litigation Settlements, net

During the three months ended June 30, 2013, the Company recorded a $6.9 million charge, net, for litigation settlements principally related to a $10.3 million charge related to a European Commission matter, partially offset by litigation recoveries related to a patent infringement matter.

Interest Expense

Interest expense for the three months ended June 30, 2013 totaled $81.8 million, compared to $75.7 million for the three months ended June 30, 2012. The increase is primarily due to higher average borrowings as compared to the prior year period. Included in interest expense is the amortization of the discounts on our convertible debt instruments and senior notes, net of amortization of the premium on our 2020 Senior Notes, which totals $6.3 million for the current quarter and $5.8 million for the comparable prior year period. Also included in interest expense is accretion of our contingent consideration liability related to certain acquisitions. The amount of accretion included in the current quarter is $8.0 million compared to $7.5 million in the comparable prior year period.

Other (Expense) Income, Net

Other (expense) income, net, was expense of $7.2 million in the current quarter, compared to income of $4.2 million in the comparable prior year period. Other (expense) income, net, for the current quarter includes charges of approximately $8.7 million related to the Senior Credit Agreement refinancing transaction, primarily the write-off of deferred financing costs and interest rate swap termination fees. Other (expense) income, net, also includes losses from equity affiliates, foreign exchange gains and losses and interest and dividend income.

Six Months Ended June 30, 2013, Compared to Six Months Ended June 30, 2012

Total Revenues and Gross Profit

For the six months ended June 30, 2013, Mylan reported total revenues of $3.33 billion, compared to $3.27 billion in the comparable prior year period. Total revenues include both net revenues and other revenues from third parties. Third party net revenues for the six months ended June 30, 2013 were $3.31 billion, compared to $3.25 billion for the comparable prior year period, representing an increase of $55.7 million, or 1.7%. Other third party revenues for the six months ended June 30, 2013 were $26.4 million, compared to $20.4 million in the comparable prior year period, an increase of $6.0 million.

Mylan's revenues were impacted by the effect of foreign currency translation, primarily reflecting changes in the U.S. Dollar as compared to the currencies of Mylan's subsidiaries in India and Japan. The unfavorable impact of foreign currency translation on total revenues was approximately $45 million, or 1%. Translating total revenues at prior year comparative period exchange rates would have resulted in year-over-year growth of approximately $106 million, or 3%. New product launches totaled approximately $231.0 million. On a constant currency basis, revenues from existing products decreased approximately $131 million, which included a decline in pricing of approximately $117 million and a decline in volume of approximately $14 million. The declines in price and volume within Generics were partially offset by increases within Specialty.

Cost of sales for the six months ended June 30, 2013 and 2012 was $1.90 billion. Cost of sales for the current period is impacted by the amortization of acquired intangible assets and restructuring and other special items as described further in the

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section titled “Adjusted Earnings.” These items totaled approximately $195.2 million, which includes an in-process research and development (“IPR&D”) asset impairment charge of $5.1 million. Prior year cost of sales included similar purchase accounting and restructuring and other special items in the amount of $206.4 million. The decrease in current year purchase accounting and restructuring and other special items is principally the result of costs incurred in the prior year due to the ratification of a new Union collective bargaining agreement. Excluding these amounts, cost of sales slightly increased to $1.70 billion from $1.69 billion, corresponding to the increase in sales.

Gross profit for the six months ended June 30, 2013 was $1.44 billion, and gross margins were 43.1%. For the six months ended June 30, 2012, gross profit was $1.37 billion, and gross margins were 42.0%. Excluding the purchase accounting and restructuring and other special items discussed in the preceding paragraph, gross margins would have been approximately 49% in the six months ended June 30, 2013 and 48% in the six months ended June 30, 2012. This increase in gross margin was the result of new product introductions, which increased gross margins by approximately 130 basis points, and favorable pricing on the EPIPEN® Auto-Injector in our Specialty segment, the impact of which was approximately 65 basis points. These increases were partially offset by lower gross margins on existing products, principally as a result of unfavorable pricing in Generics.

From time to time, a limited number of our products may represent a significant portion of our net revenues, gross profit and net earnings. Generally, this is due to the timing of new product launches and the amount, if any, of additional competition in the market. Our top ten products in terms of sales, in the aggregate, represented approximately 29% of total revenues in the six months ended June 30, 2013.

Generics Segment

For the six months ended June 30, 2013, Generics third party net revenues were $2.86 billion, compared to $2.87 billion in the comparable prior year period, a decrease of $15.2 million, or 0.5%. Translating Generics third party net revenues for the current period at prior year foreign currency exchange rates would have resulted in year-over-year growth of approximately $29 million, or 1%.

Third party net revenues from North America were $1.45 billion for the six months ended June 30, 2013, compared to $1.61 billion for the comparable prior year period, representing a decrease of $154.6 million, or 9.6%. The decrease in current period third party net revenues was due to a greater amount of revenue from new product launches in the prior year ($430 million) as compared to the current year ($177 million). This reduction was principally due to the launch of Escitalopram in the first quarter of 2012, our most significant product launch with shared exclusivity in the prior year. Excluding the impact of Escitalopram in both periods, third party net revenues in North America would have experienced high single-digit growth.

Products generally contribute most significantly to revenues and gross margins at the time of their launch, even more so in periods of market exclusivity, or in periods of limited generic competition. As such, the timing of new product introductions can have a significant impact on the Company’s financial results. The entrance into the market of additional competition generally has a negative impact on the volume and pricing of the affected products. Additionally, pricing is often affected by factors outside of the Company’s control.

Third party net revenues from EMEA were $745.3 million for the six months ended June 30, 2013, compared to $662.3 million for the comparable prior year period, an increase of $83.1 million, or 12.5%. Translating current period third party net revenues from EMEA at comparable prior year period exchange rates would have resulted in a year-over-year increase in third party net revenues of approximately $78 million, or 12%. This increase was primarily the result of a double-digit increase in revenues in France as a result of new product revenue and favorable volume. Partially offsetting these increases was unfavorable pricing in a number of European markets in which Mylan operates, as a result of government imposed pricing reductions and competitive market conditions.

Local currency revenues from Mylan’s business in France increased as compared to the prior year as a result of the impact of favorable volumes on new and existing products, partially offset by lower pricing due to government-imposed pricing reductions and an increasingly competitive market. Our market share in France remained relatively stable in the first quarter of 2013, and we remain the market leader.

In the United Kingdom, local currency third party net revenues increased as compared to the prior year as a result of the impact of favorable pricing on existing products and new product introductions. Local currency third party net revenues in Italy also increased as compared to the prior year due to favorable volume on existing products.

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In addition to France and Italy, certain other markets in which we do business, including Portugal, have undergone government-imposed price reductions, and further government-imposed price reductions are expected in the future. Such measures, along with the tender systems discussed below, are likely to have a negative impact on sales and gross profit in these markets. However, government initiatives in certain markets, which appear to favor generic products, could help to offset some of this unfavorable effect by potentially increasing rates of generic substitution and penetration.

A number of markets in which we operate have implemented or may implement tender systems for generic pharmaceuticals in an effort to lower prices. Generally speaking, tender systems can have an unfavorable impact on revenue and profitability. Under such tender systems, manufacturers submit bids which establish prices for generic pharmaceutical products. Upon winning the tender, the winning company will receive a preferential reimbursement for a period of time. The tender system often results in companies underbidding one another by proposing low pricing in order to win the tender. Additionally, the loss of a tender by a third party to whom we supply API can also have a negative impact on our sales and profitability. Sales, primarily in Germany, continue to be negatively affected by the impact of tender systems.

In Asia Pacific, third party net revenues were $662.5 million for the six months ended June 30, 2013, compared to $606.1 million for the comparable prior year period, an increase of $56.3 million, or 9.3%. Excluding the unfavorable effect of foreign currency translation, calculated as described above, net third party revenues would have increased by approximately $105 million, or 17%. This increase is primarily driven by higher third party sales by our operations in India, in particular, strong growth in the ARV franchise.

The increase in third party net revenues by our operations in India is due to significant growth, excluding the effect of foreign currency, in sales of ARV products used in the treatment of HIV/AIDS, both FDF generic products and API. In addition to third party sales, the Asia Pacific region also supplies both FDF generic products and API to Mylan subsidiaries in conjunction with Mylan’s vertical integration strategy. Intercompany revenues recognized by the Asia Pacific region were $149.0 million for the six months ended June 30, 2013, compared to $133.0 million in the prior year. These intercompany sales eliminate within, and therefore are not included in, Generics or consolidated net revenues.

In Japan, third party net revenues, excluding the effect of foreign currency, increased due to higher volumes and new product introductions. In Australia, local currency third party net revenues were slightly lower than the prior year as a result of significant government-imposed pricing reform, partially offset by new product sales. As in EMEA, both Australia and Japan have undergone government-imposed price reductions, which have had, and could continue to have, a negative impact on sales and gross profit in these markets.

Specialty Segment

For the six months ended June 30, 2013, Specialty reported third party net revenues of $448.5 million, an increase of $70.8 million, or 18.8%, from the comparable prior year period of $377.6 million. The increase was the result of higher sales of the EPIPEN® Auto-Injector as a result of favorable pricing and increased volume. In addition, Perforomist® Inhalation Solution sales increased by double digits from the comparable prior year period as a result of favorable pricing.

Operating Expenses

Research & Development Expense

R&D for the six months ended June 30, 2013 was $237.9 million, compared to $175.3 million in the comparable prior year period, an increase of $62.6 million. R&D increased due primarily to the expenses related to the development of our respiratory and biologics programs, as well as the timing of internal and external product development projects. In addition, during the six months ended June 30, 2013, licensing payments of approximately $23.0 million are included as a component of R&D.

Selling, General & Administrative Expense

SG&A for the six months ended June 30, 2013 was $666.8 million, compared to $695.6 million for the comparable prior year period, a decrease of $28.8 million. Factors contributing to the decrease in SG&A include a fair value adjustment to reduce the contingent consideration liability by approximately $11.9 million. In the comparable prior year period, the Company recorded a fair value adjustment to increase the contingent consideration liability by

approximately $8.3 million, resulting in a net year over year decrease of $20.2 million to SG&A. The Company also incurred lower sales and marketing costs in Japan of approximately $22.0 million as compared to the prior year as a result of the collaboration with Pfizer Japan. Under the collaboration, Pfizer Japan is responsible for commercialization of the combined generics portfolio and managing the

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marketing and sales effort. Offsetting these decreases in SG&A were acquisition related costs of approximately $24.6 million during the six months ended June 30, 2013.

Litigation Settlements, net

During the six months ended June 30, 2013, the Company recorded a $8.7 million charge, net, for litigation settlements principally related to a $10.3 million charge related to a European Commission matter, partially offset by litigation recoveries related to a patent infringement matter.

Interest Expense

Interest expense for the six months ended June 30, 2013 totaled $159.8 million, compared to $158.1 million for the six months ended June 30, 2012. The increase is primarily due to higher average borrowings as compared to the prior year period. Included in interest expense is the amortization of the discounts on our convertible debt instruments and senior notes, net of amortization of the premium on our 2020 Senior Notes, which totals $12.5 million for the six months ended June 30, 2013 and $17.5 million for the comparable prior year period. Also included in interest expense is accretion of our contingent consideration liability related to certain acquisitions. The amount of accretion included in both the six months ended June 30, 2013 and June 30, 2012 was $15.7 million.

Other (Expense) Income, Net

Other (expense) income, net, was expense of $3.8 million in the six months ended June 30, 2013, compared to expense of $5.6 million in the comparable prior year period. Other (expense) income, net for the current year to date period includes charges of approximately $8.7 million related to the Senior Credit Agreement refinancing transaction, primarily the write-off of deferred financing costs and interest rate swap termination fees. Other (expense) income, net, also includes losses from equity affiliates, foreign exchange gains and losses and interest and dividend income.

Adjusted Earnings

Adjusted earnings are an alternative view of performance used by management. Management believes that, primarily due to acquisitions, an evaluation of the Company's ongoing operations (and comparisons of its current operations with historical and future operations) would be difficult if the disclosure of its financial results were limited to financial measures prepared only in accordance with accounting principles generally accepted in the U.S. ("GAAP"), and management also believes that investors' understanding of our performance is enhanced by these adjusted measures. Adjusted Earnings and Adjusted Earnings per Diluted Share ("Adjusted EPS") are two of the most important internal financial metrics related to the ongoing operating performance of the Company. Actual internal and forecasted operating results and annual budgets include Adjusted Earnings and Adjusted EPS, and the financial performance of the Company is measured by senior management on this basis along with other performance metrics. Management's annual incentive compensation is derived in part based on the Adjusted EPS metric.

Whenever the Company uses such non-GAAP measures, it will provide a reconciliation of non-GAAP financial measures to the most closely applicable GAAP financial measure. Investors and other readers are encouraged to review the related GAAP financial measures and the reconciliation of non-GAAP measures to their most closely applicable GAAP measure set forth below and should consider non-GAAP measures only as a supplement to, not as a substitute for or as a superior measure to, measures of financial performance prepared in accordance with GAAP. Additionally, since Adjusted Earnings and Adjusted EPS are not measures determined in accordance with GAAP, they have no standardized meaning prescribed by GAAP and, therefore, may not be comparable to the calculation of similar measures of other companies.

The significant items excluded from Adjusted Earnings and Adjusted EPS include:

Acquisition-Related Items

The ongoing impact of certain amounts recorded in connection with acquisitions is excluded. These amounts include the amortization of intangible assets and inventory step-up, intangible asset impairment charges (including IPR&D), accretion and the fair value adjustments related to contingent consideration and certain acquisition financing related costs. These costs are excluded because management believes that excluding them is helpful to understanding the underlying, ongoing operational performance of the business.

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Restructuring and Other Special Items

Costs related to restructuring and other actions are excluded as applicable. These amounts include items such as:

- Exit costs associated with facilities to be closed or divested, including employee separation costs, impairment charges, accelerated depreciation, incremental manufacturing variances, equipment relocation costs and other exit costs;

- Certain acquisition related integration and planning costs, as well as other costs associated with acquisitions and other optimization initiatives, which are not part of a formal restructuring program, including employee separation and post-employment costs;

- Certain transition and other costs associated with the ratification of a new collective bargaining agreement in 2012 governing certain employees at our Morgantown, WV manufacturing facility;

- The pre-tax loss of the Company's investment in a clean energy partnership, whose activities qualify for income tax credits under Section 45 of the U.S. Internal Revenue Code; only included in Adjusted Earnings and Adjusted EPS is the net tax effect of the entity's activities;

- Certain costs to further develop and optimize our global enterprise resource planning systems, operations and supply chain; and

- Certain costs related to new operations and significant alliances/business partnerships.

The Company has undertaken restructurings and other optimization initiatives of differing types, scope and amount during the covered periods and, therefore, these charges should not be considered non-recurring; however, management excludes these amounts from Adjusted Earnings and Adjusted EPS because it believes it is helpful to understanding the underlying, ongoing operational performance of the business.

Litigation Settlements, net

Charges and gains related to legal matters, such as those discussed in the Notes to Condensed Consolidated Financial Statements — Note 14, "Contingencies" are excluded. Normal, ongoing defense costs of the Company made in the normal course of our business are not excluded.

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A reconciliation between net earnings attributable to Mylan Inc. common shareholders and diluted earnings per share attributable to Mylan Inc. common shareholders, as reported under U.S. GAAP, and Adjusted Earnings and Adjusted EPS for the periods shown follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
(In millions, except per share amounts)	2013		2012		2013		2012	
GAAP net earnings attributable to Mylan Inc. and diluted GAAP EPS	$177.7	$0.46	$138.6	$0.33	$284.6	$0.72	$267.6	$0.62
Purchase accounting related amortization (included in cost of sales) (a)	85.5		86.8		177.6		174.3	
Litigation settlements, net	6.9		(12.2)		8.7		(10.0)	
Interest expense, primarily amortization of convertible debt discount	8.9		7.1		16.6		20.5	
Non-cash accretion and fair value adjustments of contingent consideration liability	(2.0)		15.8		3.8		24.0	
Clean energy investment pre-tax loss (b)	3.5		3.5		7.9		7.7	
Financing related costs (included in other (expense) income, net)	8.7		—		8.7		—	
Acquisition related costs (primarily included in selling, general and administrative expense)	5.2		—		24.6		—	
Restructuring and other special items included in:								
Cost of sales	6.3		29.9		17.6		32.1	
Research and development expense	0.9		1.4		24.2		2.8	
Selling, general and administrative expense	11.7		22.6		35.3		47.0	
Other income, net	(2.9)		(1.0)		3.9		1.3	
Tax effect of the above items and other income tax related items	(48.8)		(38.5)		(106.0)		(88.8)	
Adjusted net earnings attributable to Mylan Inc. and adjusted diluted EPS	$261.6	$0.68	$254.0	$0.60	$507.5	$1.29	$478.5	$1.12
Weighted average diluted common shares outstanding	387.1		424.4		393.0		428.4	

(a) Purchase accounting related amortization expense for the six months ended June 30, 2013 includes in-process research and development asset impairment charges of $5.1 million.

(b) Adjustment represents exclusion of the pre-tax loss related to Mylan’s investments in clean energy partnerships, the activities of which qualify for income tax credits under section 45 of the Internal Revenue Code. Amount is included in other (expense) income, net.

Liquidity and Capital Resources

Our primary source of liquidity is cash provided by operations. We believe that cash provided by operating activities and available liquidity will continue to allow us to meet our needs for working capital, capital expenditures, interest and principal payments on debt obligations and other cash needs over the next several years. Nevertheless, our ability to satisfy our working capital requirements and debt service obligations, or fund planned capital expenditures, will substantially depend upon our future operating performance (which will be affected by prevailing economic conditions), and financial, business and other factors, some of which are beyond our control.

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Net cash provided by operating activities increased by $78.4 million to $274.0 million for the six months ended June 30, 2013, as compared to net cash provided by operating activities of $195.6 million for the six months ended June 30, 2012. The net increase in cash provided by operating activities was principally due to the following:

- an increase in net earnings of $17.6 million;
- a net decrease in the amount of cash used through changes in deferred income taxes of $40.4 million;
- a net decrease in the amount of cash used through changes in other operating assets and liabilities of $62.6 million, as a result of a decline in legal settlement payments. During the six months ended June 30, 2012, the Company made litigation settlement payments of approximately $95.2 million, principally related to the pricing litigation matters; and
- a net increase in the amount of cash provided through changes in trade accounts payable of $90.3 million as a result of the timing of cash payments.

These items were offset by the following:

- a net increase in the amount of cash used for accounts receivable, including estimated sales allowances, of $26.0 million, reflecting the timing of sales and cash collections;
- a net increase in the amount of cash used through changes in income taxes of $9.7 million due to the timing of estimated tax payments;
- a net increase of $59.6 million in the amount of cash used through changes in inventory balances; and
- a net decrease in the amount of cash provided by non-cash expenses of $71.5 million as a result of decreased expenses for post-employment programs, including severance, restructuring and the net of accretion and fair value adjustments related to the contingent consideration liability.

Cash used in investing activities was $231.2 million for the six months ended June 30, 2013, as compared to $165.9 million for the six months ended June 30, 2012, an increase of $65.3 million. Capital expenditures, primarily for equipment and facilities, were approximately $125.7 million in the current period, as compared to $98.9 million in the comparable prior year period. The increase as compared to 2012 is the result of the timing of expenditures. While there can be no assurance that current expectations will be realized, capital expenditures for the 2013 calendar year are expected to be approximately $300 million to $400 million. In addition, during the six months ended June 30, 2013, cash paid for acquisitions totaled $37.1 million and restricted cash increased $50.6 million.

During the six months ended June 30, 2012, the Company paid approximately $70 million to acquire product rights and licenses, the majority of which relates to two dermatological products acquired from Valeant Pharmaceuticals. This cash outflow is included in other investing activities on the Condensed Consolidated Statements of Cash Flows.

Cash used in financing activities was $107.7 million for the six months ended June 30, 2013, as compared to $82.4 million for the six months ended June 30, 2012. During the six months ended June 30, 2013, the Company issued $500 million aggregate principal amount of 1.80% Senior Notes due 2016 and $650 million aggregate principal amount of 2.60% Senior Notes due 2018, the proceeds of which were principally utilized to repay the remaining balance on the U.S. Term Loans under the Prior Credit Agreement of $1.13 billion. In addition, during the six months ended June 30, 2013, net borrowings under our Revolving Facility totaled $250 million, and we borrowed an additional $55 million under our Receivables Facility. The proceeds of these borrowings were principally utilized to fund a share repurchase program of approximately $500 million, which was completed by the Company through the repurchase of approximately 16.3 million shares of common stock.

In June 2013, the Company announced its intention to redeem all of its outstanding 7.625% Senior Notes due 2017 (“2017 Senior Notes”) pursuant to their terms on July 18, 2013. On July 18, 2013, the Company redeemed the 2017 Senior Notes for a total of $608.8 million including a $58.8 million redemption premium. The Company will record a pre-tax charge of approximately $64 million during the third quarter of 2013 related to the redemption of the 2017 Senior Notes comprised of the redemption premium and the write-off of deferred financing fees.

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Other than the redemption of the 2017 Senior Notes, the Company has no other significant long-term debt due for the remainder of 2013 or 2014. The Company's next significant debt maturity is in 2015, and our current intention is to repay such amounts at maturity using available liquidity. In addition, our cash and cash equivalents at our foreign subsidiaries totaled $193 million at June 30, 2013. The majority of these funds represented earnings considered to be permanently reinvested to support the growth strategies of our foreign subsidiaries.

As of June 30, 2013, because the closing price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day in the June 30, 2013 period, was more than 130% of the applicable conversion reference price of $13.32 at June 30, 2013, the $574 million of Cash Convertible Notes was currently convertible. Although de minimis conversions have been requested, the Company's experience is that convertible debentures are not normally converted by investors until close to their maturity date. Upon an investor's election to convert, the Company is required to pay the full conversion value in cash. Should holders elect to convert, the Company intends to draw on its revolving credit facility to fund any principal payments. The amount payable per $1,000 notional bond would be calculated as the product of (1) the conversion reference rate (currently 75.0751) and (2) the average Daily Volume Weighted Average Price per share of common stock for a specified period following the conversion date. Any payment above the principal amount is matched by a convertible note hedge.

The Company is involved in various disputes, governmental and/or regulatory inquiries and proceedings and litigation matters that arise from time to time. The Company is also party to certain litigation matters for which Merck KGaA has agreed to indemnify the Company, pursuant to the agreement by which Mylan acquired the former Merck Generics business. While the Company believes that it has meritorious defenses with respect to the claims asserted against it and intends to vigorously defend its position, the process of resolving matters through litigation or other means is inherently uncertain, and it is not possible to predict the ultimate resolution of any such proceedings. It is possible that an unfavorable resolution of any matter, or the inability or denial of Merck KGaA, another indemnitor or insurer to pay an indemnified claim, could have a material effect on the Company's financial position, results of operations and cash flows. We have approximately $100 million accrued for such legal contingencies. The Company is involved in various other legal proceedings that are considered normal to its business. While it is not possible to predict the ultimate outcome of such other proceedings, the ultimate outcome of any such proceedings is not currently expected to be material to the Company's financial position, results of operations or cash flows.

We are actively pursuing, and are currently involved in, joint projects related to the development, distribution and marketing of both generic and branded products. Many of these arrangements provide for payments by us upon the attainment of specified milestones. While these arrangements help to reduce the financial risk for unsuccessful projects, fulfillment of specified milestones or the occurrence of other obligations may result in fluctuations in cash flows.

We are continuously evaluating the potential acquisition of products, as well as companies, as a strategic part of our future growth. Consequently, we may utilize current cash reserves or incur additional indebtedness to finance any such acquisitions, which could impact future liquidity. In addition, on an ongoing basis, we review our operations including the evaluation of potential divestitures of products and businesses as part of our future strategy. Any divestitures could impact future liquidity.

At June 30, 2013 and December 31, 2012, we had $60.3 million and $58.0 million outstanding under existing letters of credit. Additionally, as of June 30, 2013, we had $137.6 million available under the $150 million subfacility on our Senior Credit Agreement for the issuance of letters of credit.

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Mandatory minimum repayments remaining on the outstanding borrowings under the Revolving Facility and notes at notional amounts at June 30, 2013 are as follows for each of the periods ending December 31:

(In thousands)	Cash Convertible Notes	2016 Senior Notes	2017 Senior Notes [1]	2018 - 6.0% Senior Notes	2018 - 2.6% Senior Notes	2020 Senior Notes	2023 Senior Notes	Revolving Facility	Total
2013	$14	$—	$550,000	$—	$—	$—	$—	$—	$550,014
2014	—	—	—	—	—	—	—	—	—
2015	573,970	—	—	—	—	—	—	—	573,970
2016	—	500,000	—	—	—	—	—	—	500,000
2017	—	—	—	—	—	—	—	—	—
Thereafter	—	—	—	800,000	650,000	1,000,000	750,000	250,000	3,450,000
Total	$573,984	$500,000	$550,000	$800,000	$650,000	$1,000,000	$750,000	$250,000	$5,073,984

[1] The redemption of the 2017 Senior Notes on July 18, 2013 was funded through borrowings under the Revolving Facility and, as such, the amount outstanding at June 30, 2013 is classified as non-current in the Condensed Consolidated Balance Sheets.

The Senior Credit Agreement contains customary affirmative covenants for facilities of this type, including among others, covenants pertaining to the delivery of financial statements, notices of default and certain material events, maintenance of business existence and insurance, and compliance with laws, as well as customary negative covenants for facilities of this type, including limitations on the incurrence of subsidiary indebtedness and limitations on liens, mergers and certain other fundamental changes, investments and loans, transactions with affiliates, payments of dividends and other restricted payments, and changes in our lines of business. The Senior Credit Agreement contains a maximum consolidated leverage ratio financial covenant. We have been compliant with the financial covenants during 2013, and we expect to remain in compliance for the next twelve months.

The Company has a $400 million accounts receivable securitization facility (the “Receivables Facility”). Any amounts outstanding under the facility are recorded as a secured loan and included in short-term borrowings, and the receivables underlying any borrowings are included in accounts receivable, net, in the Condensed Consolidated Balance Sheets. At June 30, 2013, there were $235 million of short-term borrowings outstanding under the Receivables Facility. The size of the accounts receivable securitization facility may be increased from time to time, upon request by Mylan Securitization and with the consent of the purchaser agents and the Agent, up to a maximum of $500 million.

We are contractually obligated to make potential future development, regulatory and commercial milestone, royalty and/or profit sharing payments in conjunction with collaborative agreements or acquisitions we have entered into with third parties. The most significant of these relates to the potential future consideration related to the respiratory delivery platform. These payments are contingent upon the occurrence of certain future events and the ultimate success of the respective projects. Given the inherent uncertainty of these events, it is unclear when, if ever, we may be required to pay such amounts or pay amounts in excess of those accrued. The amount of contingent consideration accrued was $383.0 million and $379.2 million at June 30, 2013 and December 31, 2012, respectively. In addition, the Company expects to incur approximately $32 million to $34 million of annual accretion expense related to the increase in the net present value of the contingent consideration liability.

The fair value measurement of contingent consideration is determined using Level 3 inputs. The measurement is calculated using unobservable inputs based on the Company’s own assumptions. Significant unobservable inputs in the valuation include the probability and timing of future development and commercial milestones and future profit sharing payments. A discounted cash flow method was used to value contingent consideration at June 30, 2013 and December 31, 2012, which was calculated as the present value of the estimated future net cash flows using a market rate of return at June 30, 2013. Discount rates ranging from 2.2% to 10.6% were utilized in the valuation. Significant

changes in unobservable inputs could result in material changes to the contingent consideration liability.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of the Company's market risk, see "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" in the Company's Annual Report filed on Form 10-K.

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ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of the Company's management, including the Principal Executive Officer and the Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2013. Based upon that evaluation, the Principal Executive Officer and the Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Management has not identified any changes in the Company's internal control over financial reporting that occurred during the quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information regarding legal proceedings, refer to Note 14, “Contingencies,” in the accompanying Notes to Condensed Consolidated Financial Statements in this Quarterly Report.

ITEM 1A. RISK FACTORS

There were no material changes in the Company’s risk factors from those disclosed in the Company’s Form 10-K for the year ended December 31, 2012.

ITEM 5. OTHER INFORMATION

On July 31, 2013, the Company entered into an Executive Employment Agreement with John Sheehan (the “Sheehan Employment Agreement”), to be effective as of July 31, 2013 (the “Effective Date”), to reflect his continued employment as Executive Vice President and Chief Financial Officer. During the term of the Sheehan Employment Agreement, Mr. Sheehan will devote his full working time and attention to the business and affairs of the Company.

The Sheehan Employment Agreement expires on the second anniversary of the Effective Date; thereafter, it automatically renews for one year periods, unless Mylan gives notice of an intent not to renew or the agreement is otherwise terminated in accordance with its terms. Pursuant to the Sheehan Agreement, Mr. Sheehan will receive an annual base salary of $650,000 and will be eligible for an annual discretionary bonus award with a target bonus opportunity of 100% of base salary.

The Sheehan Employment Agreement requires that Mr. Sheehan refrain from competing with the Company world-wide, and that he refrain from soliciting Company customers and employees, in each case, for one year following any termination of employment. The Sheehan Agreement also requires Mr. Sheehan not to disclose any confidential information to those outside the Company.

In the event that Mr. Sheehan’s employment is terminated without cause or he resigns for good reason (either a reduction in annual base salary, unless other Company executive officers are required to accept a similar reduction, or the assignment of duties that are inconsistent with those of an executive officer), he would also be entitled to a severance payment equal to his base salary, a pro-rata bonus based on actual performance, and one year of continued health benefits. In the event of termination of employment by reason of death or disability, Mr. Sheehan or his estate would receive payments and benefits as if his employment had been terminated without cause, as described above, provided that such payments and benefits will be reduced by any death or disability benefits payable to him under Company plans or arrangements. If Mr. Sheehan voluntarily resigns without good reason (as described above) or is terminated with cause, the Company will pay Mr. Sheehan’s wages and benefits through the effective date of resignation or termination, as well as any vested benefits under any Company plans. Mr. Sheehan will continue to be bound by all provisions of the Sheehan Agreement that survive termination of employment.

If the Company elects not to renew the Sheehan Employment Agreement, Mr. Sheehan’s employment will terminate as of the second anniversary of the Effective Date or the end of any renewal term (as applicable), and he will be entitled to a severance payment equal to his base salary and one year of continued health benefits.

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ITEM 6. EXHIBITS

3.1	Amended and Restated Articles of Incorporation of the registrant, as amended to date, filed as Exhibit 3.1 to the Report on Form 10-Q for the quarter ended June 30, 2009, and incorporated herein by reference.
3.2	Bylaws of the registrant, as amended to date, filed as Exhibit 3.2 to the Report on Form 10-Q for the quarter ended June 30, 2009, and incorporated herein by reference.
4.1(a)	Rights Agreement dated as of August 22, 1996, between the registrant and American Stock Transfer & Trust Company, filed as Exhibit 4.1 to the Report on Form 8-K filed with the SEC on September 3, 1996, and incorporated herein by reference.
4.1(b)	Amendment to Rights Agreement dated as of November 8, 1999, between the registrant and American Stock Transfer & Trust Company, filed as Exhibit 1 to Form 8-A/A filed with the SEC on March 31, 2000, and incorporated herein by reference.
4.1(c)	Amendment No. 2 to Rights Agreement dated as of August 13, 2004, between the registrant and American Stock Transfer & Trust Company, filed as Exhibit 4.1 to the Report on Form 8-K filed with the SEC on August 16, 2004, and incorporated herein by reference.
4.1(d)	Amendment No. 3 to Rights Agreement dated as of September 8, 2004, between the registrant and American Stock Transfer & Trust Company, filed as Exhibit 4.1 to the Report on Form 8-K filed with the SEC on September 9, 2004, and incorporated herein by reference.
4.1(e)	Amendment No. 4 to Rights Agreement dated as of December 2, 2004, between the registrant and American Stock Transfer & Trust Company, filed as Exhibit 4.1 to the Report on Form 8-K filed with the SEC on December 3, 2004, and incorporated herein by reference.
4.1(f)	Amendment No. 5 to Rights Agreement dated as of December 19, 2005, between the registrant and American Stock Transfer & Trust Company, filed as Exhibit 4.1 to the Report on Form 8-K filed with the SEC on December 19, 2005, and incorporated herein by reference.
4.2(a)	Indenture, dated as of July 21, 2005, between the registrant and The Bank of New York, as trustee, filed as Exhibit 4.1 to the Report on Form 8-K filed with the SEC on July 27, 2005, and incorporated herein by reference.
4.2(b)	Second Supplemental Indenture, dated as of October 1, 2007, among the registrant, the Subsidiaries of the registrant listed on the signature page thereto and The Bank of New York, as trustee, filed as Exhibit 4.1 to the Report on Form 8-K filed with the SEC on October 5, 2007, and incorporated herein by reference.
4.3	Registration Rights Agreement, dated as of July 21, 2005, among the registrant, the Guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated, BNY Capital Markets, Inc., KeyBanc Capital Markets (a Division of McDonald Investments Inc.), PNC Capital Markets, Inc. and SunTrust Capital Markets, Inc., filed as Exhibit 4.2 to the Report on Form 8-K filed with the SEC on July 27, 2005, and incorporated herein by reference.
4.4(a)	Indenture, dated as of September 15, 2008, among the registrant, the guarantors named therein and Bank of New York Mellon as trustee, filed as Exhibit 4.1 to the Report on Form 8-K filed with the SEC

	on September 15, 2008, and incorporated herein by reference.
4.4(b)	First Supplemental Indenture, dated November 29, 2011, by and among the registrant, Somerset Pharmaceuticals, Inc. and The Bank of New York Mellon, as trustee, to the Indenture, dated as of September 15, 2008, among the registrant, the guarantors named therein and The Bank of New York Mellon, as trustee, filed as Exhibit 4.3 to Form 8-K filed with the SEC on November 30, 2011, and incorporated herein by reference.
4.5(a)	Indenture, dated as of May 19, 2010, among the registrant, the guarantors named therein and The Bank of New York Mellon as trustee, filed as Exhibit 4.1 to the Report on Form 8-K filed with the SEC on May 19, 2010, and incorporated herein by reference.

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4.5(b)	First Supplemental Indenture, dated November 29, 2011, by and among the registrant, Somerset Pharmaceuticals, Inc. and The Bank of New York Mellon, as trustee, to the Indenture, dated as of May 19, 2010, among the registrant, the guarantors named therein and The Bank of New York Mellon, as trustee, filed as Exhibit 4.2 to Form 8-K filed with the SEC on November 30, 2011, and incorporated herein by reference.
4.6(a)	Indenture, dated as of November 24, 2010, among the registrant, the guarantors named therein and The Bank of New York Mellon as trustee, filed as Exhibit 4.1 to the Report on Form 8-K filed with the SEC on November 24, 2010, and incorporated herein by reference.
4.6(b)	First Supplemental Indenture, dated November 29, 2011, by and among the registrant, Somerset Pharmaceuticals, Inc. and The Bank of New York Mellon, as trustee, to the Indenture, dated as of November 24, 2010, among the registrant, the guarantors named therein and The Bank of New York Mellon, as trustee, filed as Exhibit 4.1 to Form 8-K filed with the SEC on November 30, 2011, and incorporated herein by reference.
4.7(a)	Indenture, dated as of March 7, 2007, among the registrant, the guarantors thereto and The Bank of New York Mellon, as trustee, filed as Exhibit 4.1 to the Report on Form 8-K filed with the SEC on March 7, 2007, and incorporated herein by reference.
4.7(b)	First Supplemental Indenture, dated November 29, 2011, by and among the registrant, Somerset Pharmaceuticals, Inc., Dey, Inc., Dey Pharma, L.P., Dey Limited Partner, Inc., EMD, Inc., Mylan Delaware Inc., Mylan LHC Inc. and The Bank of New York Mellon, as trustee, to the Indenture, dated March 7, 2007, among the registrant, the guarantors thereto and The Bank of New York Mellon, as trustee, filed as Exhibit 4.4 to Form 8-K filed with the SEC on November 30, 2011, and incorporated herein by reference.
4.8	Indenture, dated as of June 25, 2013, among the registrant, the guarantors thereto and The Bank of New York Mellon, as trustee, filed as Exhibit 4.1 to the Report on Form 8-K filed with the SEC on June 27, 2013, and incorporated herein by reference.
4.9	Registration Rights Agreement, dated as of June 25, 2013, among the registrant, the guarantors thereto, and the representatives of the initial purchasers of the registrant's $500 million aggregate principal amount of the registrant's 1.800% Senior Notes due 2016 and $650 million aggregate principal amount of the registrant's 2.600% senior notes due 2018, filed as Exhibit 10.1 to the Report on the Form 8-K filed with the SEC on June 27, 2013, and incorporated herein by reference.
10.1	Credit Agreement, dated June 27, 2013, by and among the registrant, the lenders party thereto, and Bank of America, N.A., as administrative agent, filed as Exhibit 10.2 to the Report on the Form 8-K filed with the SEC on June 27, 2013, and incorporated herein by reference.
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document

101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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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.

		Mylan Inc. (Registrant)
	By:	/s/ Heather Bresch Heather Bresch Chief Executive Officer (Principal Executive Officer)
August 1, 2013		
		/s/ John D. Sheehan John D. Sheehan Executive Vice President and Chief Financial Officer (Principal Financial Officer)
August 1, 2013		
		/s/ Daniel C. Rizzo, Jr. Daniel C. Rizzo, Jr. Senior Vice President, Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)
August 1, 2013		

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EXHIBIT INDEX

4.8	Indenture, dated as of June 25, 2013, among the registrant, the guarantors thereto and The Bank of New York Mellon, as trustee, filed as Exhibit 4.1 to the Report on Form 8-K filed with the SEC on June 27, 2013, and incorporated herein by reference.
4.9	Registration Rights Agreement, dated as of June 25, 2013, among the registrant, the guarantors thereto, and the representatives of the initial purchasers of the registrant's $500 million aggregate principal amount of the registrant's 1.800% Senior Notes due 2016 and $650 million aggregate principal amount of the registrant's 2.600% senior notes due 2018, filed as Exhibit 10.1 to the Report on the Form 8-K filed with the SEC on June 27, 2013, and incorporated herein by reference.
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