

MYLAN LABORATORIES INC

Form 10-Q

February 09, 2006

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

**☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2005

OR

**○ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

**Commission file number 1-9114
MYLAN LABORATORIES INC.**

(Exact name of registrant as specified in its charter)

Pennsylvania
(State of incorporation)

25-1211621
(I.R.S. Employer Identification No.)

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

(724) 514-1800

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

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

LARGE ACCELERATED FILER ACCELERATED FILER NON-ACCELERATED FILER

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

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

**Class of
Common Stock**
\$0.50 par value

**Outstanding at
February 3, 2006**
210,489,458

Table of Contents

**MYLAN LABORATORIES INC. AND SUBSIDIARIES
FORM 10-Q
For the Quarterly Period Ended
December 31, 2005
INDEX**

	Page Number
PART I. FINANCIAL INFORMATION	
Item 1: Financial Statements	
<u>Condensed Consolidated Statements of Earnings Three and Nine Months Ended December 31, 2005 and 2004</u>	3
<u>Condensed Consolidated Balance Sheets December 31, 2005 and March 31, 2005</u>	4
<u>Condensed Consolidated Statements of Cash Flows Nine Months Ended December 31, 2005 and 2004</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2: Management's Discussion and Analysis of Results of Operations and Financial Condition</u>	14
<u>Item 3: Quantitative and Qualitative Disclosures About Market Risk</u>	30
<u>Item 4: Controls and Procedures</u>	31
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1: Legal Proceedings</u>	31
<u>Item 2: Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
<u>Item 4: Submission of Matters to a Vote of Security Holders</u>	34
<u>Item 6: Exhibits</u>	35
<u>SIGNATURES</u>	36
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32</u>	

Table of Contents

MYLAN LABORATORIES INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Earnings
(unaudited; in thousands, except per share amounts)

Period Ended December 31,	Three Months		Nine Months	
	2005	2004	2005	2004
Revenues:				
Net revenues	\$ 306,605	\$ 289,406	\$ 925,005	\$ 932,835
Other revenues	4,641	1,566	7,613	4,104
Total revenues	311,246	290,972	932,618	936,939
Cost of sales	155,449	155,625	465,757	466,586
Gross profit	155,797	135,347	466,861	470,353
Operating expenses:				
Research & development	29,282	23,167	82,527	66,704
Selling, general & administrative	48,132	63,198	176,340	180,632
Litigation settlements, net	345		12,407	(25,985)
Total operating expenses	77,759	86,365	271,274	221,351
Earnings from operations	78,038	48,982	195,587	249,002
Interest expense	10,621		19,563	
Other income, net	4,517	3,699	14,420	6,295
Earnings before income taxes	71,934	52,681	190,444	255,297
Provision for income taxes	23,727	17,911	63,552	89,840
Net earnings	\$ 48,207	\$ 34,770	\$ 126,892	\$ 165,457
Earnings per common share:				
Basic	\$ 0.23	\$ 0.13	\$ 0.54	\$ 0.62
Diluted	\$ 0.22	\$ 0.13	\$ 0.53	\$ 0.60
Weighted average common shares:				
Basic	213,351	269,165	235,946	268,888
Diluted	218,705	273,139	240,409	273,826

See Notes to Condensed Consolidated Financial Statements

Table of Contents

MYLAN LABORATORIES INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(unaudited; in thousands)

	December 31, 2005	March 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 170,331	\$ 137,733
Marketable securities	386,807	670,348
Accounts receivable, net	212,240	297,334
Inventories	253,724	286,267
Deferred income tax benefit	129,861	119,327
Other current assets	16,437	17,443
Total current assets	1,169,400	1,528,452
Property, plant and equipment, net	390,969	336,719
Intangible assets, net	109,248	120,493
Goodwill	102,579	102,579
Other assets	62,912	47,430
Total assets	\$ 1,835,108	\$ 2,135,673
Liabilities and shareholders' equity		
Liabilities		
Current liabilities:		
Trade accounts payable	\$ 55,745	\$ 78,114
Income taxes payable	10,252	44,123
Current portion of long-term obligations & long-term debt	4,336	1,586
Cash dividends payable	12,605	8,078
Other current liabilities	179,665	113,606
Total current liabilities	262,603	245,507
Long-term debt	770,875	
Other long-term obligations	20,645	19,325
Deferred income tax liability	21,507	24,905
Total liabilities	1,075,630	289,737
Shareholders' equity		
Common stock	153,678	152,217
Additional paid-in capital	397,702	354,172
Retained earnings	1,894,000	1,808,802
Accumulated other comprehensive earnings	2,606	870

	2,447,986	2,316,061
Less:		
Treasury stock at cost	1,688,508	470,125
Total shareholders' equity	759,478	1,845,936
Total liabilities and shareholders' equity	\$ 1,835,108	\$ 2,135,673

See Notes to Condensed Consolidated Financial Statements

4

Table of Contents

MYLAN LABORATORIES INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(unaudited; in thousands)

Nine Months Ended December 31,	2005	2004
Cash flows from operating activities:		
Net earnings	\$ 126,892	\$ 165,457
Adjustments to reconcile net earnings to net cash provided from operating activities:		
Depreciation and amortization	35,134	33,426
Deferred income tax benefit	(14,871)	(1,883)
Net loss from equity method investees	1,496	2,146
Changes in estimated sales allowances	15,727	2,934
Restructuring provision	19,727	
Other non-cash items	3,529	6,558
Loss (gain) from litigation, net	12,407	(25,985)
Receipts from litigation settlements, net	1,691	42,985
Changes in operating assets and liabilities:		
Accounts receivable	76,528	(12,806)
Inventories	31,296	28,412
Trade accounts payable	7,024	20,218
Income taxes	(26,650)	(22,009)
Deferred revenue (including amounts received of \$23,000 for the nine months ended December 31, 2005)	17,424	
Other operating assets and liabilities, net	10,396	(17,230)
Net cash provided from operating activities	317,750	222,223
 Cash flows from investing activities:		
Capital expenditures	(76,865)	(63,205)
Purchase of marketable securities	(595,278)	(607,144)
Proceeds from sale of marketable securities	881,275	539,345
Other items, net	(3,438)	5,204
Net cash provided by (used in) investing activities	205,694	(125,800)
 Cash flows from financing activities:		
Cash dividends paid	(37,167)	(24,184)
Payment of financing fees	(14,646)	
Proceeds from long-term debt	775,000	
Payments on long-term debt	(1,375)	
Purchase of common stock	(1,218,383)	
Proceeds from exercise of stock options	35,118	9,361
Decrease in outstanding checks in excess of cash in disbursement accounts	(29,393)	
Net cash used in financing activities	(490,846)	(14,823)

Edgar Filing: MYLAN LABORATORIES INC - Form 10-Q

Net increase in cash and cash equivalents	32,598	81,600
Cash and cash equivalents beginning of period	137,733	101,713
Cash and cash equivalents end of period	\$ 170,331	\$ 183,313
Additional disclosures:		
Cash paid for income taxes	\$ 105,068	\$ 115,192
Interest paid	\$ 4,661	\$

See Notes to Condensed Consolidated Financial Statements

5

Table of Contents

MYLAN LABORATORIES INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(unaudited; dollars in thousands, except Notes 12 and 13 and per share amounts)

1. General

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

These interim financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2005.

The interim results of operations for the three and nine months ended December 31, 2005, and the interim cash flows for the nine months ended December 31, 2005, are not necessarily indicative of the results to be expected for the full fiscal year or any other future period.

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

During the first quarter of fiscal 2006, Mylan announced that it was closing Mylan Bertek Pharmaceuticals Inc. (Mylan Bertek), its branded subsidiary (see Note 4). Mylan had previously reported its financial results in two reportable segments, Generic and Brand. With the closure of Mylan Bertek, management now evaluates the business as one segment, pharmaceuticals, and has reported as such effective with the first quarter of fiscal 2006. In accordance with Statement of Financial Accounting Standards (SFAS) No. 131, information for earlier periods has been restated and reported as one segment.

2. Revenue Recognition and Accounts Receivable

Revenue is recognized for product sales upon shipment when title and risk of loss transfer to the Company's customers and when provisions for estimates, including discounts, rebates, price adjustments, returns, chargebacks and other promotional programs are reasonably determinable. No revisions were made to the methodology used in determining these provisions during the three and nine month periods ended December 31, 2005. Accounts receivable are presented net of allowances relating to these provisions. Such allowances were \$355,186 and \$349,355 as of December 31, 2005, and March 31, 2005. Other current liabilities include \$61,668 and \$51,772 at December 31, 2005, and March 31, 2005, for certain rebates and other adjustments that are payable to indirect customers.

3. Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), *Share-Based Payment* (SFAS 123(R)). SFAS 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. Under SFAS 123(R), companies will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB No. 25, *Accounting for Stock Issued to Employees*. Instead, companies will be required to account for such transactions using a fair-value method and to recognize compensation expense over the period during which an employee is required to provide services in exchange for the award. In April 2005, the SEC delayed the effective date of SFAS 123(R) to fiscal years beginning after June 15, 2005. Management is currently assessing the impact that adoption of this Statement will have on the Company's Consolidated Financial Statements.

Table of Contents**4. Restructuring**

On June 14, 2005, the Company announced that it was closing its branded subsidiary, Mylan Bertek, and transferring the responsibility for marketing Mylan Bertek's products to other Mylan subsidiaries. In conjunction with this restructuring, the Company incurred restructuring charges of \$19,727, pre-tax, during the nine months ended December 31, 2005. Of this, \$1,000 is included in research and development expense, with the remainder in selling, general and administrative expense. As of December 31, 2005, the Company's restructuring was substantially complete. The major components of the restructuring charge and the remaining accrual balance at December 31, 2005, were as follows:

		Non-cash Asset Write-downs	Employee Termination & Severance Costs	Other Exit Costs	Total
Accrued restructuring costs	March 31, 2005	\$	\$	\$	\$
Restructuring charge	Fiscal 2006	1,636	15,106	2,985	19,727
Amounts utilized	Fiscal 2006	(1,636)	(14,213)	(2,424)	(18,273)
Accrued restructuring costs	December 31, 2005	\$	\$ 893	\$ 561	\$ 1,454

Employee termination and severance costs were primarily related to involuntary terminations, most of which were with respect to the Mylan Bertek sales force, and represent cash termination payments paid to the affected employees as a direct result of the restructuring. Exit costs consist primarily of lease termination costs incurred as a result of the restructuring.

5. Balance Sheet Components

Selected balance sheet components consist of the following:

	December 31, 2005	March 31, 2005
Inventories:		
Raw materials	\$ 94,959	\$ 119,654
Work in process	34,901	39,589
Finished goods	123,864	127,024
	\$ 253,724	\$ 286,267
Property, plant and equipment:		
Land and improvements	\$ 10,639	\$ 9,704
Buildings and improvements	170,654	161,050
Machinery and equipment	278,151	269,208
Construction in progress	136,099	85,324
	595,543	525,286
Less accumulated depreciation	204,574	188,567
	\$ 390,969	\$ 336,719

Other current liabilities:		
Accrued rebates	\$ 61,668	\$ 51,772
Payroll and employee benefit plan accruals	35,894	21,251
Royalties and product license fees	5,044	11,446
Legal and professional	25,175	18,148
Deferred revenue	17,424	
Accrued interest	16,380	
Other	18,080	10,989
	\$ 179,665	\$ 113,606

Table of Contents**6. Earnings per Common Share**

Basic earnings per common share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period adjusted for the dilutive effect of stock options and restricted stock outstanding. The effect of dilutive stock options and restricted stock on the weighted average number of common shares outstanding was 5,354,000 and 3,974,000 for the three months ended December 31, 2005 and 2004, and 4,463,000 and 4,938,000 for the nine months ended December 31, 2005 and 2004.

Options to purchase 455,000 and 6,804,000 shares of common stock were outstanding as of December 31, 2005 and 2004, but were not included in the computation of diluted earnings per share for the three months then ended because to do so would have been antidilutive.

7. Intangible Assets

Intangible assets consist of the following components:

	Weighted Average Life (years)	Original Cost	Accumulated Amortization	Net Book Value
December 31, 2005				
Amortized intangible assets:				
Patents and technologies	19	\$ 118,935	\$ 53,246	\$ 65,689
Product rights and licenses	12	111,133	75,558	35,575
Other	20	14,267	7,066	7,201
		\$ 244,335	\$ 135,870	108,465
Intangible assets no longer subject to amortization:				
Trademarks				783
				\$ 109,248
March 31, 2005				
Amortized intangible assets:				
Patents and technologies	19	\$ 118,935	\$ 48,478	\$ 70,457
Product rights and licenses	12	111,433	69,923	41,510
Other	20	14,267	6,524	7,743
		\$ 244,635	\$ 124,925	119,710
Intangible assets no longer subject to amortization:				
Trademarks				783
				\$ 120,493

Edgar Filing: MYLAN LABORATORIES INC - Form 10-Q

Amortization expense for the nine months ended December 31, 2005, and 2004, was \$11,049 and \$13,427 and is expected to be \$14,761, \$14,265, \$13,782, \$13,452 and \$12,419 for fiscal years 2006 through 2010, respectively.

8

Table of Contents**8. Long-Term Debt**

A summary of long-term debt is as follows:

	December 31, 2005	March 31, 2005
Senior Notes (A)	\$ 500,000	\$
Senior Credit Facility (B)	273,625	
	773,625	
Less: current portion	2,750	
Total long term debt	\$ 770,875	\$

(A) On July 21, 2005, the Company issued \$500,000 in Senior Notes, which consisted of \$150,000 of Senior Notes due August 15, 2010, and bearing interest at 5 3/4 % per annum (the 2010 Restricted Notes) and \$350,000 of Senior Notes due August 15, 2015, and bearing interest at 6 3/8% per annum (the 2015 Restricted Notes , and collectively the Restricted Notes). The proceeds from the Restricted Notes were used to finance a portion of the Dutch Auction self-tender described in Note 10.

In connection with the completion of the issuance of the Restricted Notes, the Company entered into a registration rights agreement with the initial purchasers of the Restricted Notes (the Registration Rights Agreement), dated July 21, 2005. On January 19, 2006, pursuant to its obligations under the Registration Rights Agreement, the Company consummated an exchange offer of the Restricted Notes for \$150,000 of Senior Notes due August 15, 2010, and bearing interest at 5 3/4 % per annum (2010 Notes) and \$350,000 of Senior Notes due August 15, 2015, and bearing interest at 6 3/8% per annum (2015 Notes , and collectively, the Notes), the issuance of each of which has been registered under the Securities Act of 1933, as amended. The form and terms of the 2010 Notes and the 2015 Notes are identical in all material respects to the 2010 Restricted Notes and the 2015 Restricted Notes, respectively, except the transfer restrictions, registration rights and additional interest provisions relating to the Restricted Notes do not apply to the Notes. Interest is payable semi-annually on February 15 and August 15, commencing February 15, 2006.