

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.

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

The Notes are senior unsecured obligations of the Company and rank junior to all of the Company's secured obligations. The Notes are guaranteed jointly and severally on a full and unconditional senior unsecured basis by all of the Company's wholly owned domestic subsidiaries except a captive insurance company, which is considered to be a minor subsidiary. Also, the assets and operations of Mylan Laboratories Inc. (Mylan Labs), the parent company, are not material, and as such condensed consolidating financial information for the parent and subsidiaries is not provided.

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

(B) On July 21, 2005, the Company entered into a \$500,000 senior secured credit facility (the Credit Facility). The Credit Facility consists of a \$225,000 five-year revolving credit facility (the Revolving Credit Facility), which the Company intends to use for working capital and general corporate purposes, and a \$275,000 five-year term loan (the Term Loan), the proceeds of which were used to fund a portion of the Dutch Auction self-tender described in Note 10. Loans under the Revolving Credit Facility bear interest at a rate equal to either

Table of Contents

LIBOR plus 1.25% per annum or prime plus 0.25% per annum, at the Company's option, and the Term Loan bears interest at a rate equal to LIBOR plus 1.50% per annum or prime plus 0.50% per annum also at the Company's option.

The Term Loan interest rate in effect at December 31, 2005 was 5.40%. The Company is required to pay a fee on the unused portion of the Revolving Credit Facility of 0.50% per annum. At December 31, 2005, no borrowings were outstanding under the Revolving Credit Facility. The Term Loan will amortize at a rate of 1% per year for the first four years, with the balance paid in four equal quarterly installments thereafter. Subject to exceptions, the Credit Facility has mandatory prepayments with respect to certain proceeds of asset sales, debt issuances, equity issuances and with respect to the Company's excess cash flows. Also, the Term Loan may be prepaid without penalty at any time in whole or in part at the Company's option. Because the amount of mandatory prepayment varies from quarter to quarter and cannot be reasonably estimated, only the 1% per year amortization is included on the balance sheet as a current liability.

The Company's obligations under the Credit Facility are guaranteed jointly and severally on a full and unconditional senior secured basis by all of the Company's wholly owned domestic subsidiaries except a captive insurance company, which is considered to be a minor subsidiary. The obligations under the Credit Facility are also collateralized by a first priority lien on, and pledge of, 100% of the equity interests of certain of the Company's wholly owned domestic subsidiaries and 65% of the equity interests of each of the Company's foreign subsidiaries.

The Credit Facility includes covenants that (a) require the Company to maintain a minimum interest coverage ratio and a maximum total leverage ratio, (b) place limitations on the Company's ability to incur debt, grant liens, carry out mergers, acquisitions and asset sales and make investments and (c) place limitations on the Company's ability to pay dividends or make other restricted payments.

All debt issuance costs associated with the Notes and the Credit Facility are being amortized over the life of the related debt. The total unamortized amounts of \$13,453 are included in other assets in the consolidated balance sheet at December 31, 2005.

At December 31, 2005, the carrying value of the Company's long-term debt approximated fair value.

Principal maturities of the Notes and Credit Facility for the next five years and thereafter, as of December 31, 2005, are as follows:

Year 1	\$ 2,750
Year 2	2,750
Year 3	2,750
Year 4	2,750
Year 5	198,000
Thereafter	564,625
	\$ 773,625

Table of Contents**9. Comprehensive Earnings**

Comprehensive earnings consist of the following:

Period Ended December 31,	Three Months		Nine Months	
	2005	2004	2005	2004
Net earnings	\$ 48,207	\$ 34,770	\$ 126,892	\$ 165,457
Other comprehensive earnings net of tax:				
Net unrealized (loss) gain on marketable securities	(807)	(490)	1,588	(893)
Reclassification for losses (gains) included in net earnings	40	(29)	148	85
	(767)	(519)	1,736	(808)
Comprehensive earnings	\$ 47,440	\$ 34,251	\$ 128,628	\$ 164,649

Accumulated other comprehensive earnings, as reflected on the balance sheet, is comprised solely of the net unrealized gain on marketable securities, net of deferred income taxes.

10. Common Stock

As of December 31, 2005, and March 31, 2005, there were 600,000,000 shares of common stock authorized with 307,356,840 and 304,434,724 shares issued. Treasury shares held as of December 31, 2005 were 97,201,293, and 35,129,643 at March 31, 2005.

On June 14, 2005, the Company announced a \$1,250,000 share buyback, comprised of a modified Dutch Auction self-tender for up to \$1,000,000 (which commenced on June 16, 2005) and a \$250,000 follow-on share repurchase program in the open market or otherwise. In the tender offer, shareholders were given the opportunity to tender some or all of their shares at a price not less than \$18.00 per share or more than \$20.50 per share. Based on the number of shares tendered and the prices specified by the tendering shareholders, the Company determined the lowest per share price within the range that would enable it to buy up to 48,780,487 shares, or such lesser number of shares as were properly tendered. Additionally, in the event the final purchase price was less than the maximum price of \$20.50 per share and more than 48,780,487 shares were tendered, the Company generally would have the right to purchase up to an additional 2% of its outstanding common stock without extending the tender offer, so that the Company could repurchase up to \$1,000,000 of its common stock.

The tender offer expired on July 15, 2005, and closed on July 21, 2005, at which time the Company announced that it accepted for payment an aggregate of 51,282,051 shares of its common stock at a purchase price of \$19.50 per share. The 51,282,051 shares are comprised of the 48,780,487 shares the Company offered to purchase and 2,501,564 shares purchased pursuant to the Company's right to purchase up to an additional 2%.

Additionally, during the three and nine months ended December 31, 2005, the Company purchased 6,456,900 and 10,789,600 shares for approximately \$132,389 and \$210,767, on the open market under the follow-on repurchase program.

11. Stock Option Plans

On July 25, 2003, Mylan shareholders approved the Mylan Laboratories Inc. 2003 Long-Term Incentive Plan (the 2003 Plan). Under the 2003 Plan, 22,500,000 shares of common stock are reserved for issuance to key employees, consultants, independent contractors and non-employee directors of Mylan through a variety of incentive awards including: stock options, stock appreciation rights, restricted shares and units, performance awards, other stock based awards and short-term cash awards.

In accordance with the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123) and SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123*, the Company accounts for stock option plans under the intrinsic-value-based method as defined in APB 25. The following table illustrates the effect on net earnings and earnings per share if the Company had applied

the fair value recognition provisions of SFAS 123 to stock-based employee compensation:

11

Table of Contents

Period ended December 31,	Three Months		Nine Months	
	2005	2004	2005	2004
Net income, as reported	\$ 48,207	\$ 34,770	\$ 126,892	\$ 165,457
Add: Stock-based compensation expense included in reported net income, net of related tax effects	986	986	2,946	2,937
Deduct: Total compensation expense determined under the fair value based method for all stock awards, net of related tax effects	(4,999)	(3,789)	(8,145)	(12,578)
Pro forma net income	\$ 44,194	\$ 31,967	\$ 121,693	\$ 155,816
Earnings per share:				
Basic as reported	\$ 0.23	\$ 0.13	\$ 0.54	\$ 0.62
Basic pro forma	\$ 0.21	\$ 0.12	\$ 0.51	\$ 0.58
Diluted as reported	\$ 0.22	\$ 0.13	\$ 0.53	\$ 0.60
Diluted pro forma	\$ 0.20	\$ 0.12	\$ 0.51	\$ 0.57

12. Contingencies

Legal Proceedings

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

Omeprazole

In fiscal 2001, Mylan Pharmaceuticals Inc. (MPI), a wholly-owned subsidiary of Mylan Labs, filed an Abbreviated New Drug Application (ANDA) seeking approval from the Food and Drug Administration (FDA) to manufacture, market and sell omeprazole delayed-release capsules, and made Paragraph IV certifications to several patents owned by AstraZeneca PLC (AstraZeneca) that were listed in the FDA's Orange Book. On September 8, 2000, AstraZeneca filed suit against MPI and Mylan Labs in the U.S. District Court for the Southern District of New York alleging infringement of several of AstraZeneca's patents. MPI filed multiple motions for summary judgment as to all claims of infringement, and the summary judgment motions remain pending. On May 29, 2003, the FDA approved MPI's ANDA for the 10 mg and 20 mg strengths of omeprazole delayed-release capsules and, on August 4, 2003, Mylan Labs announced that MPI had commenced the sale of omeprazole 10 mg and 20 mg delayed-release capsules. AstraZeneca then amended the pending lawsuit to assert claims against Mylan Labs and MPI, and filed a separate lawsuit against MPI's supplier, Esteve Quimica S.A., for unspecified money damages and a finding of willful infringement which could result in treble damages, injunctive relief, attorneys' fees, costs of litigation and such further relief as the court deems just and proper. MPI has certain indemnity obligations to Esteve in connection with this litigation. MPI, Esteve and the other generic manufacturers who are co-defendants in the case have filed motions for summary judgment of non-infringement and patent invalidity. On January 12, 2006, those motions were denied, and a non-jury trial is scheduled to commence March 6, 2006.

Table of Contents

Lorazepam and Clorazepate

On June 1, 2005, a jury verdict was rendered against Mylan Labs and MPI in the U.S. District Court for the District of Columbia (D.C.) in the amount of approximately \$12.0 million, which has been accrued for on the Company's balance sheet. The jury found Mylan willfully violated Massachusetts, Minnesota and Illinois state antitrust laws, meaning the amount of the verdict could be trebled, and an award of attorneys' fees and litigation costs could be made to the plaintiffs. The case was brought by four health insurers who opted out of earlier class action settlements agreed to by the Company in 2001, and represents the last remaining claims relating to Mylan's 1998 price increases for lorazepam and clorazepate. The Company has filed a motion for judgment as a matter of law, a motion for a new trial, and a motion to reduce verdict, all of which remain pending before the court. If the Company's post-verdict motions are denied, the Company intends to appeal to the U.S. Court of Appeals for the D.C. Circuit.

Pricing and Medicaid Litigation

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

Beginning in September 2003, Mylan Labs, MPI and/or UDL, together with many other pharmaceutical companies, have been named in a series of civil lawsuits filed by State AGs and municipal bodies within the State of New York alleging generally that the defendants defrauded the State Medicaid systems by allegedly reporting Average Wholesale Prices (AWP) and/or Wholesale Acquisition Costs that exceeded the actual selling price of the defendants' prescription drugs. To date, Mylan Labs, MPI and UDL have been named as defendants in substantially similar civil lawsuits filed by the AGs of Alabama, California, Florida, Illinois, Kentucky, Massachusetts, Mississippi and Wisconsin, and also by the City of New York and approximately 40 counties across New York State. Several of these cases have been transferred to the AWP multi-district litigation proceedings pending in the U.S. District Court for the District of Massachusetts for pretrial proceedings. Others of these cases will likely be litigated in the state courts in which they were filed. Each of the cases seeks an unspecified amount in money damages, civil penalties and/or treble damages, counsel fees and costs and injunctive relief. In each of these matters, with the exception of the Massachusetts AG action discussed below, Mylan Labs and its subsidiaries either have not yet been required to respond to the complaints or have motions to dismiss pending. The Company previously reported that the U.S. District Court for the District of Massachusetts had dismissed the complaint filed by the Massachusetts AG without prejudice and with leave to amend. The Massachusetts AG has since filed an amended complaint which has survived motions to dismiss, and Mylan Labs has answered on November 14, 2005, denying liability. Mylan Labs and its subsidiaries intend to defend each of these actions vigorously.

In addition by letter dated January 12, 2005, MPI was notified by the U.S. Department of Justice of an investigation concerning MPI's calculations of Medicaid drug rebates. To the best of MPI's information, the investigation is in its early stages. MPI is collecting information requested by the government and is cooperating fully with the government's investigation.

Shareholder Litigation

On November 22, 2004, an individual purporting to be a Mylan Labs shareholder filed a civil action in the Court of Common Pleas of Allegheny County, Pennsylvania, against Mylan Labs and all members of its Board of Directors alleging that the Board members had breached their fiduciary duties by approving the planned acquisition of King Pharmaceuticals, Inc. (King) and by declining to dismantle the Company's anti-takeover defenses to permit an auction of the Company to Carl Icahn or other potential buyers of the Company, and also alleging that

Table of Contents

certain transactions between the Company and its directors (or their relatives or companies with which they were formerly affiliated) may have been wasteful. On November 23, 2004, a substantially identical complaint was filed in the same court by another purported Mylan Labs shareholder. The actions were styled as shareholder derivative suits on behalf of Mylan Labs and class actions on behalf of all Mylan Labs shareholders, and were consolidated by the court under the caption *In re Mylan Laboratories Inc. Shareholder Litigation*. Mylan Labs and its directors filed preliminary objections seeking dismissal of the complaints. On January 19, 2005, the plaintiffs amended their complaints to add Bear Stearns & Co., Inc., Goldman Sachs & Co., Richard C. Perry, Perry Corp., American Stock Transfer & Trust Company, and John Does 1-100 as additional defendants, and to add claims regarding trading activity by the additional defendants and the implications on Mylan Labs shareholder rights agreement. On October 26, 2005, the court approved the voluntary dismissal of these cases by the plaintiffs, with prejudice.

Other Litigation

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

13. Product Agreements

On November 24, 2005, the Company announced the sale of the U.S. and Canadian rights for Apokyn^(R) to Vernalis plc. Under the terms of the agreement, Mylan received a cash payment of \$23.0 million. In addition, Mylan will perform certain transitional services for one year, including supply chain management and customer service assistance. During the three months ended December 31, 2005, \$3.6 million of revenue associated with the sale was recognized and included in other revenues. The remainder, net of certain related assets, has been recorded as deferred revenue and is being recognized over the one year period.

On January 11, 2006, the Company announced an agreement with Forest Laboratories Holdings, Ltd. (*Forest*), a wholly-owned subsidiary of Forest Laboratories, Inc., for the commercialization, development and distribution of Mylan's beta blocker, nebivolol, in the United States and Canada. Under the terms of the agreement, Mylan received an upfront payment of \$75.0 million which will be deferred until the commercial launch of the product. Mylan also has the potential to earn future milestone payments as well as royalties on nebivolol sales. Upon commercial launch, the upfront payment, along with any other milestones payments received, will be amortized into revenue over the remaining term of the license agreement. Forest will assume all expenses for future nebivolol development programs and will be responsible for all sales and marketing expenses. Mylan has retained an option to co-promote the product in the future.

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

The following discussion and analysis addresses material changes in the results of operations and financial condition of Mylan Laboratories Inc. and Subsidiaries (*the Company* , *Mylan* 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 Results of Operations and Financial Condition included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2005, the unaudited interim Condensed Consolidated Financial Statements and related Notes included in Item 1 of this Report on Form 10-Q (*Form 10-Q*) and the Company's other SEC filings and public disclosures.

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 the Company's 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* , *believe* , *anticipate* , *expect* , *plan* , *estimate* , *forecast* , *potential* , *intend* , *continue* and *variate* comparable 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 below under *Risk Factors* in this Item 2. The Company undertakes no obligation to update any forward-looking statements for revisions or changes

after the date of this Form 10-Q.

Table of Contents**Overview**

Mylan's financial results for the three months ended December 31, 2005, included revenues of \$311.2 million, net earnings of \$48.2 million and earnings per diluted share of \$0.22. Comparatively, the three months ended December 31, 2004, included revenues of \$291.0 million, net earnings of \$34.8 million and earnings per diluted share of \$0.13. This represents an increase of 7% in revenues, 39% in net earnings and 73% in earnings per diluted share when compared to the same prior year period. Earnings per share for the three and nine months ended December 31, 2005, were impacted by share buybacks which took place during the current fiscal year. On July 21, 2005, Mylan closed on its modified Dutch Auction self-tender and accepted for payment, an aggregate of 51,282,051 shares of its common stock at a purchase price of \$19.50 per share.

Subsequent to the completion of the Dutch Auction self-tender, Mylan repurchased 10.8 million shares of its common stock on the open market for an aggregate purchase price of \$210.8 million under a previously announced open market follow-on repurchase.

For the nine months ended December 31, 2005, Mylan reported revenues of \$932.6 million, net earnings of \$126.9 million and earnings per diluted share of \$0.53. For the first nine months of fiscal 2005, revenues were \$936.9 million, net earnings were \$165.5 million and earnings per diluted share were \$0.60. This represents less than a 1% decrease in revenues, 23% in net earnings and 13% in earnings per diluted share when compared to the prior fiscal year. Included in the current year results are \$0.03 per diluted share, net of tax, with respect to a contingent legal liability related to previously-disclosed litigation in connection with the Company's lorazepam and clorazepate products, and \$0.05 per diluted share, net of tax, of restructuring costs. Included in the financial results for the first nine months of fiscal 2005 was \$0.06 per diluted share, net of tax, of income from the favorable settlement of other litigation. A more detailed discussion of the Company's financial results of the three and nine month periods ended December 31, 2005, can be found under the section titled Results of Operations.

Significant developments which have occurred since the second quarter include:

Sale of Apokyn^(R) On November 24, 2005, the Company announced the sale of the U.S. and Canadian rights for Apokyn to Vernalis plc. Under the terms of the agreement, Mylan received a cash payment of \$23.0 million. In addition, Mylan will perform certain transitional services for one year, including supply chain management and customer service assistance. During the three months ended December 31, 2005, \$3.6 million of revenue associated with the sale was recognized and included in other revenues. The remainder, net of certain related assets, has been recorded as deferred revenue and is being recognized over the one year period.

Oxybutynin Agreements On December 20, 2005, Mylan announced that its subsidiary, Mylan Pharmaceuticals Inc., entered into two agreements with Ortho-McNeil Pharmaceutical, Inc. and Alza Corporation relating to oxybutynin chloride extended release tablets, the generic equivalent of Ditropan XL. Under these agreements, an exclusive supply agreement on all strengths of oxybutynin will be triggered upon a final appellate court decision in the current patent litigation between the parties. Ortho-McNeil has also agreed to supply Mylan with a generic version of Ditropan XL sooner than a final appellate court decision if another generic version enters the market. Additionally, Mylan will be granted a non-exclusive, royalty bearing license to make and sell its Abbreviated New Drug Application (ANDA) products. The terms of these agreements differ depending upon the final outcome of the pending patent litigation. The terms of the agreements are confidential and subject to a number of conditions, including review by the Federal Trade Commission. Mylan has received tentative approval and is currently awaiting final approval from the United States Food and Drug Administration (FDA) for its 5 mg and 10 mg strengths of oxybutynin. Prior to a final appellate court decision, Mylan retains all of the options that had been available to it with respect to oxybutynin prior to the signing of these agreements.

Nebivolol Licensing Agreement On January 11, 2006, the Company announced an agreement with Forest Laboratories Holdings, Ltd. (Forest), a wholly-owned subsidiary of Forest Laboratories, Inc., for the commercialization, development and distribution of Mylan's beta blocker, nebivolol, in the United States and Canada. Under the terms of the agreement, Mylan received an upfront payment of \$75.0 million which will be

deferred until the commercial launch of the product. Mylan also has the potential to earn future milestone payments as well as royalties based on nebivolol sales. Upon commercial launch, the upfront payment, along with any other milestones payments received, will be amortized into revenue over the remaining term of the license agreement. Forest will assume all expenses for future nebivolol development programs and will be responsible for all sales and marketing expenses. Mylan has retained an option to co-promote the product in the future.

Table of Contents**Results of Operations****Quarter Ended December 31, 2005, Compared to Quarter Ended December 31, 2004***Total Revenues and Gross Profit*

Total revenues for the current quarter increased 7% or \$20.3 million to \$311.2 million from \$291.0 million in the same prior year period. This increase was the result of new products, offset by overall unfavorable pricing and volume on our existing portfolio. New products contributed net revenues of \$47.9 million during the third quarter, substantially all of which was due to the Company's launch of its fentanyl transdermal system in January 2005. Additionally, the third quarter included \$3.6 million of revenue recognized on the sale of Apokyn, which is included in other revenues.

Continued competition, primarily on omeprazole, was mainly responsible for the decrease in revenues from existing products. As is the case in the generic industry, the entrance into the market of additional competition generally has a negative impact on the volume and pricing of the affected products. In the near term, it is likely that unfavorable pricing will continue to impact certain products in the Company's portfolio. Despite the overall unfavorable impact of volume on revenues, doses shipped for the third quarter increased approximately 1% to 3.1 billion.

Consolidated gross profit increased 15% or \$20.5 million to \$155.8 million and gross margins increased to 50.1% from 46.5%. The increase in gross margins was primarily attributable to the contribution from new products. Additionally, increased margins on certain key products helped to offset some of the unfavorable impact that competition had on the margins of certain other products, primarily omeprazole, carbidopa/levodopa and Amnesteem.

Operating Expenses

Research and development (R&D) expenses for the current quarter increased 26% or \$6.1 million to \$29.3 million from \$23.2 million in the same prior year period. This increase was due primarily to an increase in the number of ongoing R&D studies, including those with respect to neбиволол.

Selling, general and administrative (SG&A) expenses decreased for the current quarter 24% or \$15.1 million to \$48.1 million from \$63.2 million. This decrease is primarily the result of savings, mostly payroll and payroll related, as a result of the closure of Mylan Bertek Pharmaceuticals Inc. (Mylan Bertek), the Company's branded subsidiary, during the first quarter of fiscal 2006. Lower legal expenses, primarily a function of the timing of certain litigation, also contributed to the decrease.

Interest Expense

During the second quarter of fiscal 2006, Mylan completed the financing of \$500.0 million in Senior Notes and a \$500.0 million senior credit facility (See Contractual Obligations). Interest expense related to this financing was \$10.6 million in the third quarter. Included in interest expense is a commitment fee on the unused portion of the Revolving Credit Facility and the amortization of financing fees.

Other Income, net

Other income, net of non-operating expenses, was \$4.5 million in the third quarter of fiscal 2006 compared to \$3.7 million in the same prior year period. The increase is primarily the result of higher interest and dividend income on our investments in marketable securities, offset by a \$0.5 million greater loss recorded on our investment in Somerset Pharmaceuticals, Inc. (Somerset).

Nine Months Ended December 31, 2005, Compared to Nine Months Ended December 31, 2004*Total Revenues and Gross Profit*

Total revenues for the nine months ended December 31, 2005, decreased less than 1% or \$4.3 million to \$932.6 million from \$936.9 million in the same prior year period. This decrease was the result of overall unfavorable pricing and volume, partially offset by revenue from new products. As was the case with the quarter, competition continues to impact the Company's product portfolio, with omeprazole, carbidopa/levodopa and Amnesteem the products most significantly affected.

Table of Contents

New products launched during fiscal 2006 contributed net revenues of \$134.8 million in the current fiscal year, substantially all of which was due to fentanyl.

Doses shipped during fiscal 2006 decreased to 9.3 billion from 9.4 billion.

Consolidated gross profit decreased 1% or \$3.5 million to \$466.9 million while gross margins remained constant at approximately 50%. The contribution of new products helped to offset the unfavorable impact of competition on the margins of existing products, and resulted in stable gross margins overall.

Operating Expenses

R&D expenses for the nine months ended December 31, 2005 increased 24% or \$15.8 million to \$82.5 million from \$66.7 million in the same prior year period. This increase was due primarily to an increase in the number of ongoing R&D studies, including those with respect to nebivolol. Also included in R&D in the current year was \$1.0 million of restructuring costs associated with the closing of Mylan Bertek. As of December 31, 2005, the restructuring was substantially complete.

SG&A expenses decreased 2% or \$4.3 million to \$176.3 million from \$180.6 million. This decrease is primarily the result of net savings, mostly payroll and payroll related, as a result of the closure of Mylan Bertek, net of the related restructuring charges. Included in SG&A in fiscal 2006 were restructuring charges of \$18.7 million consisting primarily of employee termination and severance costs, mostly associated with the Mylan Bertek sales force, as well as asset write-downs and lease termination costs.

Litigation, net

Litigation settlements during the nine months ended December 31, 2005, consisted primarily of a charge of \$12.0 million for a contingent liability with respect to the Company's previously disclosed lorazepam and clorazepate product litigation. In the same prior year period, net gains of \$26.0 million were recorded with respect to settlement of other litigation.

Interest Expense

During the second quarter of fiscal 2006, Mylan completed the financing of \$500.0 million in Senior Notes and a \$500.0 million senior credit facility (See Contractual Obligations). Interest expense related to this financing was \$19.6 million for the nine months ended December 31, 2005. Included in interest expense is a commitment fee on the unused portion of the Revolving Credit Facility and the amortization of financing fees.

Other Income, net

Other income, net of non-operating expenses, was \$14.4 million in the first half of fiscal 2006 compared to \$6.3 million in the same prior year period. The increase is primarily the result of higher interest and dividend income on our investments in marketable securities, as well as, less of a loss recorded on our investment in Somerset. The recorded loss in Somerset for the first nine months of fiscal 2006 was \$1.5 million compared to \$2.8 million in the same prior year period.

Liquidity and Capital Resources

The Company's primary source of liquidity continues to be cash flows from operating activities, which were \$317.8 million for the nine months ended December 31, 2005. Changes in operating assets and liabilities yielded \$122.2 million in operating cash, primarily due to a decrease in accounts receivable, net, lower inventories, and an increase in deferred revenue, partially offset by a decrease in income taxes payable.

The decrease in accounts receivable is primarily due to the timing of cash collections since the end of fiscal 2005, primarily with respect to the fourth quarter sales of fentanyl. Inventory decreased as the result of normal consumption and lower overall inventory levels. The decrease in income taxes payable was the result of the timing of tax payments.

Table of Contents

During the third quarter, the Company received \$23.0 million related to the sale of the U.S. and Canadian rights for Apokyn. During the three months ended December 31, 2005, \$3.6 million of revenue associated with the sale was recognized and included in other revenues. The remainder, net of certain related assets, has been recorded as deferred revenue. Subsequent to the third quarter, Mylan received \$75.0 million related to its licensing agreement for nebivolol and has the potential to earn future milestone payments as well as royalties on nebivolol sales.

Cash provided by investing activities for the nine months ended December 31, 2005, was \$205.7 million. Of the Company's \$1.8 billion of total assets at December 31, 2005, \$557.1 million was held in cash, cash equivalents and marketable securities. Investments in marketable securities consist of a variety of high credit quality debt securities, including U.S. government, state and local government and corporate obligations. These investments are highly liquid and available for working capital needs. As these instruments mature, the funds are generally reinvested in instruments with similar characteristics. During the second quarter, the Company utilized a portion of its existing cash, along with the proceeds from the issuance of debt, to finance certain transactions described below.

Capital expenditures during the nine months ended December 31, 2005, were \$76.9 million. These expenditures were incurred primarily with respect to the Company's previously announced planned expansions. The Company expects capital expenditures for fiscal 2006 to approximate \$100.0 million.

Cash used in financing activities was \$490.8 million for the nine months ended December 31, 2005. A total of \$1.2 billion was used during the period to repurchase Mylan common stock. Of this, \$1.0 billion was used to repurchase shares as part of the Company's modified Dutch Auction self-tender, with the remainder used to pay for expenses related to the self-tender and to repurchase shares under a previously announced open market follow-on repurchase program. For the nine months ended December 31, 2005, approximately 10.8 million shares were repurchased under the repurchase program for approximately \$210.8 million. The Company anticipates that it will repurchase the remaining amount of shares allowable under the follow-on repurchase program, throughout the remainder of fiscal 2006.

Cash proceeds of \$775.0 million from the issuance of debt were received in the current year, and used to partially finance the stock buybacks described above. Financing fees of \$14.6 million were paid during the nine months ended December 31, 2005, in order to obtain this financing.

In order to provide additional operating leverage, if necessary, the Company maintains a revolving credit facility under its Senior Credit Facility providing for borrowing of up to \$225.0 million. As of December 31, 2005, no funds were advanced under this facility.

Also included in cash flows from financing activities are proceeds of \$35.1 million from the exercise of stock options and cash dividends paid of \$37.2 million. In the first quarter of fiscal 2006, the Board voted to double the amount of the quarterly dividend to 6.0 cents per share from 3.0 cents per share, effective with the dividend paid for the first quarter of fiscal 2006.

Additionally, included in financing activities in fiscal 2006 was a \$29.4 million change in the amount of outstanding checks in excess of cash in our primary disbursement accounts. The Company utilizes a cash management system under which uncleared checks in excess of the cash balance in the bank account at the end of the reporting period are shown as a book cash overdraft. The Company transfers cash on an as-needed basis to fund clearing checks. The Company does not incur any financing charges with respect to this arrangement.

The Company is involved in various legal proceedings that are considered normal to its business (see Note 12 to Condensed Consolidated Financial Statements). While it is not feasible to predict the outcome of such proceedings, an adverse outcome in any of these proceedings could materially affect the Company's financial position and results of operations.

The Company is actively pursuing, and is currently involved in, joint projects related to the development, distribution and marketing of both generic and brand products. Many of these arrangements provide for cash payments upon the attainment of specified milestones. While these arrangements help to reduce the financial risk for unsuccessful projects, fulfillment of specified milestones resulting in either cash inflows or outflows or the occurrence of other obligations may result in fluctuations in cash flows.

Table of Contents

The Company is continuously evaluating the potential acquisition of products, as well as companies, as a strategic part of its future growth. Consequently, the Company may utilize current cash reserves or incur additional indebtedness to finance any such acquisitions, which could impact future liquidity.

Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2005 and the effect that such obligations are expected to have on our liquidity and cash flows in future periods:

As of December 31, 2005 (in thousands)	Total	Less than One Year	One Three Years	Three - Five Years	Thereafter
Operating leases	\$ 11,085	\$ 3,629	\$ 6,636	\$ 604	\$ 216
Long-term debt	773,625	2,750	8,250	262,625	500,000
Other long-term obligations	20,645	1,821	5,463	3,642	9,719
Revolving credit facility					
Letters of credit	975	975			
	\$ 806,330	\$ 9,175	\$ 20,349	\$ 266,871	\$ 509,935

We lease certain real property under various operating lease arrangements that expire generally over the next four years. These leases generally provide us with the option to renew the lease at the end of the lease term. We have also entered into agreements to lease vehicles which are typically 24 to 36 months in length.

Long-term debt consists of \$500.0 million in Senior Notes and a \$275.0 million borrowing under a \$500.0 million senior credit facility. The Senior Notes consist of \$150.0 million of Senior Notes due 2010, and bearing interest at 5 3/4% per annum, and \$350.0 million of Senior Notes due 2015, and bearing interest at 6 3/8% per annum. The Senior Notes were originally issued on July 21, 2005, but were exchanged on January 14, 2006 in accordance with a registration rights agreement, in a transaction consummated on January 19, 2006. The form and terms of the Senior Notes are identical in all material respects to the original notes, except the transfer restrictions, registration rights and additional interest provisions relating to the original notes do not apply to the Notes. The senior credit facility, which was also entered into on July 21, 2005, consists of a \$225.0 million five-year revolving credit facility, which the Company expects to use for working capital and general corporate purposes, and a \$275.0 million five-year term loan. The term loan bears interest at LIBOR plus 150 basis points or prime plus 50 basis points at the Company's option. The interest rate in effect on the term loan at December 31, 2005 was 5.40%. No borrowings were outstanding under the revolving credit facility at December 31, 2005.

Other long-term obligations, primarily deferred compensation, consist of the discounted future payments under individually negotiated agreements with certain key employees and directors.

In addition to the above, the Company has entered into various product licensing and development agreements. In some of these arrangements, we provide funding for the development of the product or to obtain rights to the use of the patent, through milestone payments, in exchange for marketing and distribution rights to the product. Because milestones represent the completion of specific contractual events and it is uncertain if and when these milestones will be achieved, such contingencies have not been recorded on the Company's consolidated balance sheet. In the event that all projects are successful, milestone and development payments of approximately \$13.7 million would be paid.

The Company periodically enters into licensing agreements with other pharmaceutical companies for the manufacture, marketing and/or sale of pharmaceutical products. These agreements generally call for the Company to pay a percentage of amounts earned from the sale of the product as a royalty.

Other than discussed above the Company does not have material financial guarantees or other contractual commitments that are reasonably likely to adversely affect liquidity. The Company does not have any special purpose entities or off-balance sheet financing arrangements.

We have entered into employment and other agreements with certain executives that provide for compensation and certain other benefits. These agreements provide for severance payments under certain circumstances.

Table of Contents

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards 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.

Risk Factors

The following risk factors could have a material adverse effect on our business, financial position or results of operations and could cause the market value of our common stock to decline. These risk factors may not include all of the important factors that could affect our business or our industry or that could cause our future financial results to differ materially from historic or expected results or cause the market price of our common stock to fluctuate or decline.

OUR FUTURE REVENUE GROWTH AND PROFITABILITY ARE DEPENDENT UPON OUR ABILITY TO DEVELOP AND/OR LICENSE, OR OTHERWISE ACQUIRE, AND INTRODUCE NEW PRODUCTS ON A TIMELY BASIS IN RELATION TO OUR COMPETITORS' PRODUCT INTRODUCTIONS. OUR FAILURE TO DO SO SUCCESSFULLY COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

Our future revenues and profitability will depend, to a significant extent, upon our ability to successfully develop and/or license, or otherwise acquire, and commercialize new generic and patent or statutorily protected (usually brand) pharmaceutical products in a timely manner. Product development is inherently risky, especially for new drugs for which safety and efficacy have not been established, and the market is not yet proven. Likewise, product licensing involves inherent risks including uncertainties due to matters that may affect the achievement of milestones, as well as the possibility of contractual disagreements with regard to terms such as license scope or termination rights. The development and commercialization process, particularly with regard to new drugs, also requires substantial time, effort and financial resources. We may not be successful in commercializing any of the products that we are developing or licensing (including, without limitation, neбиволол) on a timely basis, if at all, which could adversely affect our product introduction plans, financial position and results of operations and could cause the market value of our common stock to decline.

FDA approval is required before any prescription drug product, including generic drug products, can be marketed. The process of obtaining FDA approval to manufacture and market new and generic pharmaceutical products is rigorous, time-consuming, costly and largely unpredictable. We may be unable to obtain requisite FDA approvals on a timely basis for new generic or brand products that we may develop, license or otherwise acquire. Also, for products pending approval, we may obtain raw materials or produce batches of inventory to be used in efficacy and bioequivalency testing, as well as in anticipation of the product's launch. In the event that FDA approval is denied or delayed we could be exposed to the risk of this inventory becoming obsolete. The timing and cost of obtaining FDA approvals could adversely affect our product introduction plans, financial position and results of operations and could cause the market value of our common stock to decline.

The ANDA approval process often results in the FDA granting final approval to a number of ANDAs for a given product at the time a patent claim for a corresponding brand product or other market exclusivity expires. This often forces us to face immediate competition when we introduce a generic product into the market. Additionally, ANDA approvals often continue to be granted for a given product subsequent to the initial launch of the generic product. These circumstances generally result in significantly lower prices, as well as reduced margins, for generic products compared to brand products. New generic market entrants generally cause continued price and margin erosion over the generic product life cycle.

Table of Contents

The Waxman-Hatch Act provides for a period of 180 days of generic marketing exclusivity for each ANDA applicant that is first to file an ANDA containing a certification of invalidity, non-infringement or unenforceability related to a patent listed with respect to a reference drug product, commonly referred to as a Paragraph IV certification. During this exclusivity period, which under certain circumstances may be required to be shared with other applicable ANDA sponsors with Paragraph IV certifications, the FDA cannot grant final approval to other ANDA sponsors holding applications for the same generic equivalent. If an ANDA containing a Paragraph IV certification is successful and the applicant is awarded exclusivity, it generally results in higher market share, net revenues and gross margin for that applicant. Even if we obtain FDA approval for our generic drug products, if we are not the first ANDA applicant to challenge a listed patent for such a product, we may lose significant advantages to a competitor that filed its ANDA containing such a challenge. The same would be true in situations where we are required to share our exclusivity period with other ANDA sponsors with Paragraph IV certifications. Such situations could have a material adverse effect on our ability to market that product profitably and on our financial position and results of operations, and the market value of our common stock could decline.

OUR APPROVED PRODUCTS MAY NOT ACHIEVE EXPECTED LEVELS OF MARKET ACCEPTANCE, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR PROFITABILITY, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

Even if we are able to obtain regulatory approvals for our new pharmaceutical products, generic or brand, the success of those products is dependent upon market acceptance. Levels of market acceptance for our new products could be impacted by several factors, including:

the availability of alternative products from our competitors;

the price of our products relative to that of our competitors;

the timing of our market entry;

the ability to market our products effectively to the retail level; and

the acceptance of our products by government and private formularies.

Some of these factors are not within our control. Our new products may not achieve expected levels of market acceptance. Additionally, continuing studies of the proper utilization, safety and efficacy of pharmaceutical products are being conducted by the industry, government agencies and others. Such studies, which increasingly employ sophisticated methods and techniques, can call into question the utilization, safety and efficacy of previously marketed products. For example, on July 15, 2005, the FDA issued a Public Health Advisory regarding the safe use of transdermal fentanyl patches, a product we currently market, the loss of revenues of which could have a significant impact on our business. In some cases, studies have resulted, and may in the future result, in the discontinuance of product marketing. These situations, should they occur, could have a material adverse effect on our profitability, financial position and results of operations, and the market value of our common stock could decline.

A RELATIVELY SMALL GROUP OF PRODUCTS MAY REPRESENT A SIGNIFICANT PORTION OF OUR NET REVENUES OR NET EARNINGS FROM TIME TO TIME. IF THE VOLUME OR PRICING OF ANY OF THESE PRODUCTS DECLINES, IT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

Sales of a limited number of our products often represent a significant portion of our net revenues and net earnings. If the volume or pricing of our largest selling products declines in the future, our business, financial position and results of operations could be materially adversely affected, and the market value of our common stock could decline.

Table of Contents

WE FACE VIGOROUS COMPETITION FROM OTHER PHARMACEUTICAL MANUFACTURERS THAT THREATENS THE COMMERCIAL ACCEPTANCE AND PRICING OF OUR PRODUCTS, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

Our competitors may be able to develop products and processes competitive with or superior to our own for many reasons, including that they may have:

proprietary processes or delivery systems;

larger research and development and marketing staffs;

larger production capabilities in a particular therapeutic area;

more experience in preclinical testing and human clinical trials;

more products; or

more experience in developing new drugs and financial resources, particularly with regard to brand manufacturers.

Any of these factors and others could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

BECAUSE THE PHARMACEUTICAL INDUSTRY IS HEAVILY REGULATED, WE FACE SIGNIFICANT COSTS AND UNCERTAINTIES ASSOCIATED WITH OUR EFFORTS TO COMPLY WITH APPLICABLE REGULATIONS. SHOULD WE FAIL TO COMPLY WE COULD EXPERIENCE MATERIAL ADVERSE EFFECTS ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS, AND THE MARKET VALUE OF OUR COMMON STOCK COULD DECLINE.

The pharmaceutical industry is subject to regulation by various federal and state governmental authorities. For instance, we must comply with FDA requirements with respect to the manufacture, labeling, sale, distribution, marketing, advertising, promotion and development of pharmaceutical products. Failure to comply with FDA and other governmental regulations can result in fines, disgorgement, unanticipated compliance expenditures, recall or seizure of products, total or partial suspension of production and/or distribution, suspension of the FDA's review of NDAs or ANDAs, enforcement actions, injunctions and criminal prosecution. Under certain circumstances, the FDA also has the authority to revoke previously granted drug approvals. Although we have internal regulatory compliance programs and policies and have had a favorable compliance history, there is no guarantee that these programs, as currently designed, will meet regulatory agency standards in the future. Additionally, despite our efforts at compliance, there is no guarantee that we may not be deemed to be deficient in some manner in the future. If we were deemed to be deficient in any significant way, our business, financial position and results of operations could be materially affected and the market value of our common stock could decline.

In addition to the new drug approval process, the FDA also regulates the facilities and operational procedures that we use to manufacture our products. We must register our facilities with the FDA. All products manufactured in those facilities must be made in a manner consistent with current good manufacturing practices (cGMP). Compliance with cGMP regulations requires substantial expenditures of time, money and effort in such areas as production and quality control to ensure full technical compliance. The FDA periodically inspects our manufacturing facilities for compliance. FDA approval to manufacture a drug is site-specific. Failure to comply with cGMP regulations at one of our manufacturing facilities could result in an enforcement action brought by the FDA which could include withholding the approval of NDAs, ANDAs or other product applications of that facility. If the FDA were to require one of our manufacturing facilities to cease or limit production, our business could be adversely affected. Delay and cost in obtaining FDA approval to manufacture at a different facility also could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to

decline.

Table of Contents

We are subject, as are generally all manufacturers, to various federal, state and local laws regulating working conditions, as well as environmental protection laws and regulations, including those governing the discharge of materials into the environment. Although we have not incurred significant costs associated with complying with environmental provisions in the past, if changes to such environmental laws and regulations are made in the future that require significant changes in our operations or if we engage in the development and manufacturing of new products requiring new or different environmental controls, we may be required to expend significant funds. Such changes could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

OUR REPORTING AND PAYMENT OBLIGATIONS UNDER THE MEDICAID REBATE PROGRAM AND OTHER GOVERNMENTAL PURCHASING AND REBATE PROGRAMS ARE COMPLEX AND MAY INVOLVE SUBJECTIVE DECISIONS. ANY DETERMINATION OF FAILURE TO COMPLY WITH THOSE OBLIGATIONS COULD SUBJECT US TO PENALTIES AND SANCTIONS WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS, AND THE MARKET VALUE OF OUR COMMON STOCK COULD DECLINE.

The regulations regarding reporting and payment obligations with respect to Medicaid reimbursement and rebates and other governmental programs are complex, and as discussed elsewhere in this Form 10-Q, we and other pharmaceutical companies are defendants in a number of suits filed by state attorneys general and have been notified of an investigation by the U.S. Department of Justice with respect to Medicaid reimbursement and rebates. Our calculations and methodologies are currently being reviewed internally and likewise are subject to review and challenge by the applicable governmental agencies, and it is possible that such reviews could result in material changes. In addition, because our processes for these calculations and the judgments involved in making these calculations involve, and will continue to involve, subjective decisions and complex methodologies, these calculations are subject to the risk of errors.

In addition, as also disclosed in this Form 10-Q, a number of state and federal government agencies are conducting investigations of manufacturers' reporting practices with respect to AWP, in which they have suggested that reporting of inflated AWP has led to excessive payments for prescription drugs. We and numerous other pharmaceutical companies have been named as defendants in various actions relating to pharmaceutical pricing issues and whether allegedly improper actions by pharmaceutical manufacturers led to excessive payments by Medicare and/or Medicaid.

Any governmental agencies that have commenced, or may commence, an investigation of the Company could impose, based on a claim of violation of fraud and false claims laws or otherwise, civil and/or criminal sanctions, including fines, penalties and possible exclusion from federal health care programs (including Medicaid and Medicare). Some of the applicable laws may impose liability even in the absence of specific intent to defraud. Furthermore, should there be ambiguity with regard to how to properly calculate and report payments-and even in the absence of any such ambiguity-a governmental authority may take a position contrary to a position we have taken, and may impose civil and/or criminal sanctions. Any such penalties or sanctions could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

WE EXPEND A SIGNIFICANT AMOUNT OF RESOURCES ON RESEARCH AND DEVELOPMENT EFFORTS THAT MAY NOT LEAD TO SUCCESSFUL PRODUCT INTRODUCTIONS. FAILURE TO SUCCESSFULLY INTRODUCE PRODUCTS INTO THE MARKET COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS, AND THE MARKET VALUE OF OUR COMMON STOCK COULD DECLINE.

Much of our development effort is focused on technically difficult-to-formulate products and/or products that require advanced manufacturing technology. We conduct research and development primarily to enable us to manufacture and market FDA-approved pharmaceuticals in accordance with FDA regulations. Typically, research expenses related to the development of innovative compounds and the filing of NDAs are significantly greater than those expenses associated with ANDAs. As we continue to develop new products, our research expenses will likely increase. Because of the inherent risk associated with research and development efforts in our industry, particularly with respect to new drugs (including, without limitation, nebivolol), our research and development expenditures may

Table of Contents

not result in the successful introduction of FDA approved new pharmaceutical products. Also, after we submit an NDA or ANDA, the FDA may request that we conduct additional studies and as a result, we may be unable to reasonably determine the total research and development costs to develop a particular product. Finally, we cannot be certain that any investment made in developing products will be recovered, even if we are successful in commercialization. To the extent that we expend significant resources on research and development efforts and are not able, ultimately, to introduce successful new products as a result of those efforts, our business, financial position and results of operations may be materially adversely affected, and the market value of our common stock could decline. **A SIGNIFICANT PORTION OF OUR NET REVENUES ARE DERIVED FROM SALES TO A LIMITED NUMBER OF CUSTOMERS. ANY SIGNIFICANT REDUCTION OF BUSINESS WITH ANY OF THESE CUSTOMERS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS, AND THE MARKET VALUE OF OUR COMMON STOCK COULD DECLINE.**

A significant portion of our net revenues are derived from sales to a limited number of customers. As such, a reduction in or loss of business with one customer, or if one customer were to experience difficulty in paying us on a timely basis, our business, financial position and results of operations could be materially adversely affected, and the market value of our common stock could decline.

THE USE OF LEGAL, REGULATORY AND LEGISLATIVE STRATEGIES BY COMPETITORS, BOTH BRAND AND GENERIC, INCLUDING AUTHORIZED GENERICS AND CITIZEN S PETITIONS, AS WELL AS THE POTENTIAL IMPACT OF PROPOSED LEGISLATION, MAY INCREASE OUR COSTS ASSOCIATED WITH THE INTRODUCTION OR MARKETING OF OUR GENERIC PRODUCTS, COULD DELAY OR PREVENT SUCH INTRODUCTION AND/OR SIGNIFICANTLY REDUCE OUR PROFIT POTENTIAL. THESE FACTORS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

Our competitors, both brand and generic, often pursue strategies to prevent or delay competition from generic alternatives to brand products. These strategies include, but are not limited to:

entering into agreements whereby other generic companies will begin to market an authorized generic, a generic equivalent of a branded product, at the same time generic competition initially enters the market;

filing citizen s petitions with the FDA, including timing the filings so as to thwart generic competition by causing delays of our product approvals;

seeking to establish regulatory and legal obstacles that would make it more difficult to demonstrate bioequivalence;

initiating legislative efforts in various states to limit the substitution of generic versions of brand pharmaceuticals;

filing suits for patent infringement that automatically delay FDA approval of many generic products;

introducing next-generation products prior to the expiration of market exclusivity for the reference product, which often materially reduces the demand for the first generic product for which we seek FDA approval;

obtaining extensions of market exclusivity by conducting clinical trials of brand drugs in pediatric populations or by other potential methods as discussed below;

persuading the FDA to withdraw the approval of brand name drugs for which the patents are about to expire, thus allowing the brand name company to obtain new patented products serving as substitutes for the products withdrawn; and

seeking to obtain new patents on drugs for which patent protection is about to expire.

24

Table of Contents

The Food and Drug Modernization Act of 1997 includes a pediatric exclusivity provision that may provide an additional six months of market exclusivity for indications of new or currently marketed drugs if certain agreed upon pediatric studies are completed by the applicant. Brand companies are utilizing this provision to extend periods of market exclusivity.

Some companies have lobbied Congress for amendments to the Waxman-Hatch legislation that would give them additional advantages over generic competitors. For example, although the term of a company's drug patent can be extended to reflect a portion of the time an NDA is under regulatory review, some companies have proposed extending the patent term by a full year for each year spent in clinical trials, rather than the one-half year that is currently permitted.

If proposals like these were to become effective, our entry into the market and our ability to generate revenues associated with new products may be delayed, reduced or eliminated, which could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

THE INDENTURE FOR OUR SENIOR NOTES AND OUR SENIOR CREDIT FACILITY IMPOSE SIGNIFICANT OPERATING AND FINANCIAL RESTRICTIONS, WHICH MAY PREVENT US FROM CAPITALIZING ON BUSINESS OPPORTUNITIES AND TAKING SOME ACTIONS. THESE FACTORS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

The indenture for our Senior Notes and senior credit facility impose significant operating and financial restrictions on us. These restrictions will limit the ability of us and our subsidiaries to, among other things, incur additional indebtedness, make investments, sell assets, incur certain liens, enter into agreements restricting our subsidiaries ability to pay dividends, or merge or consolidate. In addition, our senior credit facility requires us to maintain specified financial ratios. We cannot assure you that these covenants will not adversely affect our ability to finance our future operations or capital needs or to pursue available business opportunities. A breach of any of these covenants or our inability to maintain the required financial ratios could result in a default under the related indebtedness. If a default occurs, the relevant lenders could elect to declare the indebtedness, together with accrued interest and other fees, to be immediately due and payable and proceed against any collateral securing that indebtedness. These factors could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

OUR ABILITY TO SERVICE OUR DEBT AND MEET OUR CASH REQUIREMENTS DEPENDS ON MANY FACTORS, SOME OF WHICH ARE BEYOND OUR CONTROL. THESE FACTORS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

Our ability to satisfy our obligations, including our Senior Notes and our senior credit facility, will depend on our future operating performance and financial results, which will be subject, in part, to factors beyond our control, including interest rates and general economic, financial and business conditions. If we are unable to generate sufficient cash flow, we may be required to: refinance all or a portion of our debt, including the notes and our senior credit facility; obtain additional financing in the future for acquisitions, working capital, capital expenditures and general corporate or other purposes; redirect a substantial portion of our cash flow to debt service, which as a result, might not be available for our operations or other purposes; sell some of our assets or operations; reduce or delay capital expenditures; or revise or delay our operations or strategic plans. If we are required to take any of these actions, it could have a material adverse effect on our business, financial condition or results of operations. In addition, we cannot assure you that we would be able to take any of these actions, that these actions would enable us to continue to satisfy our capital requirements or that these actions would be permitted under the terms of our senior credit facility and the indenture governing the notes. The increased leverage resulting from the financing of our Dutch Auction self-tender offer through our notes offering and our senior credit facility could have certain material adverse effects on us, including limiting our ability to obtain additional financing and reducing cash available for

Table of Contents

our operations and acquisitions. As a result, our ability to withstand competitive pressures may be decreased and, we may be more vulnerable to economic downturns, which in turn could reduce our flexibility in responding to changing business, regulatory and economic conditions. These factors could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

WE DEPEND ON THIRD-PARTY SUPPLIERS AND DISTRIBUTORS FOR THE RAW MATERIALS, PARTICULARLY THE CHEMICAL COMPOUND(S) COMPRISING THE ACTIVE PHARMACEUTICAL INGREDIENT, THAT WE USE TO MANUFACTURE OUR PRODUCTS, AS WELL AS CERTAIN FINISHED GOODS. A PROLONGED INTERRUPTION IN THE SUPPLY OF SUCH PRODUCTS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS, AND THE MARKET VALUE OF OUR COMMON STOCK COULD DECLINE.

We typically purchase the active pharmaceutical ingredient (i.e. the chemical compounds that produce the desired therapeutic effect in our products), and other materials and supplies that we use in our manufacturing operations, as well as certain finished products, from many different foreign and domestic suppliers.

Additionally, we maintain safety stocks in our raw materials inventory, and in certain cases where we have listed only one supplier in our applications with the FDA, have received FDA approval to use alternative suppliers should the need arise. However, there is no guarantee that we will always have timely and sufficient access to a critical raw material or finished product. A prolonged interruption in the supply of a single-sourced raw material, including the active ingredient, or finished product could cause our financial position and results of operations to be materially adversely affected, and the market value of our common stock could decline. In addition, our manufacturing capabilities could be impacted by quality deficiencies in the products which our suppliers provide, which could have a material adverse effect on our business, financial position and results of operations, and the market value of our common stock could decline.

WE USE SEVERAL MANUFACTURING FACILITIES TO MANUFACTURE OUR PRODUCTS. HOWEVER, A SIGNIFICANT NUMBER OF OUR PRODUCTS ARE PRODUCED AT ONE LOCATION. PRODUCTION AT THIS FACILITY COULD BE INTERRUPTED, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

Although we have other facilities, we produce a significant number of our products at our largest manufacturing facility. A significant disruption at that facility, even on a short-term basis, could impair our ability to produce and ship products to the market on a timely basis, which could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

WE MAY EXPERIENCE DECLINES IN THE SALES VOLUME AND PRICES OF OUR PRODUCTS AS THE RESULT OF THE CONTINUING TREND TOWARD CONSOLIDATION OF CERTAIN CUSTOMER GROUPS, SUCH AS THE WHOLESALE DRUG DISTRIBUTION AND RETAIL PHARMACY INDUSTRIES, AS WELL AS THE EMERGENCE OF LARGE BUYING GROUPS. THE RESULT OF SUCH DEVELOPMENTS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

We make a significant amount of our sales to a relatively small number of drug wholesalers and retail drug chains. These customers represent an essential part of the distribution chain of generic pharmaceutical products. Drug wholesalers and retail drug chains have undergone, and are continuing to undergo, significant consolidation. This consolidation may result in these groups gaining additional purchasing leverage and consequently increasing the product pricing pressures facing our business. Additionally, the emergence of large buying groups representing independent retail pharmacies and the prevalence and influence of managed care organizations and similar institutions potentially enable those groups to attempt to extract price discounts on our products. The result of these developments may have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

Table of Contents

WE MAY BE UNABLE TO PROTECT OUR INTELLECTUAL AND OTHER PROPRIETARY PROPERTY IN AN EFFECTIVE MANNER, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

Although our brand products may have patent protection, this may not prevent other companies from developing functionally equivalent products or from challenging the validity or enforceability of our patents. If any patents we use in our business are found or even alleged to be non-infringed, invalid or not enforceable, we could experience an adverse effect on our ability to commercially promote our patented products. We could be required to enforce our patent or other intellectual property rights through litigation, which can be protracted and involve significant expense and an inherently uncertain outcome. Any negative outcome could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

OUR COMPETITORS INCLUDING BRAND COMPANIES OR OTHER THIRD PARTIES MAY ALLEGE THAT WE ARE INFRINGING THEIR INTELLECTUAL PROPERTY, FORCING US TO EXPEND SUBSTANTIAL RESOURCES IN RESULTING LITIGATION, THE OUTCOME OF WHICH IS UNCERTAIN. ANY UNFAVORABLE OUTCOME OF SUCH LITIGATION COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

Companies that produce brand pharmaceutical products routinely bring litigation against ANDA applicants that seek FDA approval to manufacture and market generic forms of their branded products. These companies allege patent infringement or other violations of intellectual property rights as the basis for filing suit against an ANDA applicant. Likewise, patent holders may bring patent infringement suits against companies that are currently marketing and selling their approved generic products. Litigation often involves significant expense and can delay or prevent introduction or sale of our generic products.

There may also be situations where the Company uses its business judgment and decides to market and sell products, notwithstanding the fact that allegations of patent infringement(s) have not been finally resolved by the courts. The risk involved in doing so can be substantial because the remedies available to the owner of a patent for infringement include, among other things, damages measured by the profits lost by the patent owner and not by the profits earned by the infringer. In the case of a willful infringement, the definition of which is subjective, such damages may be trebled. Moreover, because of the discount pricing typically involved with bioequivalent products, patented brand products generally realize a substantially higher profit margin than bioequivalent products. An adverse decision in a case such as this or in other similar litigation could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

WE MAY EXPERIENCE REDUCTIONS IN THE LEVELS OF REIMBURSEMENT FOR PHARMACEUTICAL PRODUCTS BY GOVERNMENTAL AUTHORITIES, HMOS OR OTHER THIRD-PARTY PAYERS. ANY SUCH REDUCTIONS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

Various governmental authorities and private health insurers and other organizations, such as HMOs, provide reimbursement to consumers for the cost of certain pharmaceutical products. Demand for our products depends in part on the extent to which such reimbursement is available. Third-party payers increasingly challenge the pricing of pharmaceutical products. This trend and other trends toward the growth of HMOs, managed health care and legislative health care reform create significant uncertainties regarding the future levels of reimbursement for pharmaceutical products. Further, any reimbursement may be reduced in the future, perhaps to the point that market demand for our products declines. Such a decline could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

Table of Contents

LEGISLATIVE OR REGULATORY PROGRAMS THAT MAY INFLUENCE PRICES OF PRESCRIPTION DRUGS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

Current or future federal or state laws and regulations may influence the prices of drugs and, therefore, could adversely affect the prices that we receive for our products. Programs in existence in certain states seek to set prices of all drugs sold within those states through the regulation and administration of the sale of prescription drugs. Expansion of these programs, in particular, state Medicaid programs, or changes required in the way in which Medicaid rebates are calculated under such programs, could adversely affect the price we receive for our products and could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

WE ARE INVOLVED IN VARIOUS LEGAL PROCEEDINGS AND CERTAIN GOVERNMENT INQUIRIES AND MAY EXPERIENCE UNFAVORABLE OUTCOMES OF SUCH PROCEEDINGS OR INQUIRIES, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

We are involved in various legal proceedings and certain government inquiries, including, but not limited to, patent infringement, product liability, breach of contract and claims involving Medicaid and Medicare reimbursements, some of which are described in our periodic reports and involve claims for, or the possibility of fines and penalties involving, substantial amounts of money or for other relief. If any of these legal proceedings or inquiries were to result in an adverse outcome, the impact could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

With respect to product liability, the Company maintains commercial insurance to protect against and manage a portion of the risks involved in conducting its business. Although we carry insurance, we believe that no reasonable amount of insurance can fully protect against all such risks because of the potential liability inherent in the business of producing pharmaceuticals for human consumption. To the extent that a loss occurs, depending on the nature of the loss and the level of insurance coverage maintained, it could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

WE ENTER INTO VARIOUS AGREEMENTS IN THE NORMAL COURSE OF BUSINESS WHICH PERIODICALLY INCORPORATE PROVISIONS WHEREBY WE INDEMNIFY THE OTHER PARTY TO THE AGREEMENT. IN THE EVENT THAT WE WOULD HAVE TO PERFORM UNDER THESE INDEMNIFICATION PROVISIONS, IT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

In the normal course of business, we periodically enter into employment, legal settlement, and other agreements which incorporate indemnification provisions. We maintain insurance coverage which we believe will effectively mitigate our obligations under these indemnification provisions. However, should our obligation under an indemnification provision exceed our coverage or should coverage be denied, our business, financial position and results of operations could be materially affected and the market value of our common stock could decline.

OUR ACQUISITION STRATEGIES IN GENERAL INVOLVE A NUMBER OF INHERENT RISKS. THESE RISKS COULD CAUSE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE A DECLINE IN THE MARKET VALUE OF OUR COMMON STOCK.

We continually seek to expand our product line through complementary or strategic acquisitions of other companies, products and assets, and through joint ventures, licensing agreements or other arrangements. Acquisitions, joint ventures and other business combinations involve various inherent risks, such as assessing accurately the values, strengths, weaknesses, contingent and other liabilities, regulatory compliance and potential profitability of acquisition or other transaction candidates. Other inherent risks include the potential loss of key personnel of an acquired business, our inability to achieve identified financial and operating synergies anticipated to result from an acquisition

or other transaction and unanticipated changes in business and economic conditions affecting an acquisition or other transaction. International acquisitions, and other transactions, could also be affected

Table of Contents

by export controls, exchange rate fluctuations, domestic and foreign political conditions and the deterioration in domestic and foreign economic conditions.

We may be unable to realize synergies or other benefits expected to result from acquisitions, joint ventures and other transactions or investments we may undertake, or be unable to generate additional revenue to offset any unanticipated inability to realize these expected synergies or benefits. Realization of the anticipated benefits of acquisitions or other transactions could take longer than expected, and implementation difficulties, market factors and the deterioration in domestic and global economic conditions could alter the anticipated benefits of any such transactions. These factors could cause a material adverse effect on our business, financial position and results of operations and could cause a decline in the market value of our common stock.

OUR FUTURE SUCCESS IS HIGHLY DEPENDENT ON OUR CONTINUED ABILITY TO ATTRACT AND RETAIN KEY PERSONNEL. ANY FAILURE TO ATTRACT AND RETAIN KEY PERSONNEL COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

Because our success is largely dependent on the scientific nature of our business, it is imperative that we attract and retain qualified personnel in order to develop new products and compete effectively. If we fail to attract and retain key scientific, technical or management personnel, our business could be affected adversely. Additionally, while we have employment agreements with certain key employees in place, their employment for the duration of the agreement is not guaranteed. If we are unsuccessful in retaining all of our key employees, it could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

RECENT DECISIONS BY THE FDA, CURRENT BRAND TACTICS AND OTHER FACTORS BEYOND OUR CONTROL HAVE PLACED OUR BUSINESS UNDER INCREASING PRESSURE, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

We believe that certain recent FDA rulings are contrary to multiple sections of the Federal Food, Drug, and Cosmetic Act and the Administrative Procedures Act, the FDA's published regulations and the legal precedent on point. These decisions call into question the rules of engagement in our industry and have added a level of unpredictability that may materially adversely affect our business and the generic industry as a whole. While we continue to challenge these recent decisions as well as current brand tactics that undermine congressional intent, we cannot guarantee that we will prevail or predict when or if these matters will be rectified. If they are not, our business, financial position and results of operations could suffer and the market value of our common stock could decline.

WE HAVE BEGUN THE IMPLEMENTATION OF AN ENTERPRISE RESOURCE PLANNING SYSTEM. AS WITH ANY IMPLEMENTATION OF A SIGNIFICANT NEW SYSTEM, DIFFICULTIES ENCOUNTERED COULD RESULT IN BUSINESS INTERRUPTIONS, AND COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

We have begun the implementation of an enterprise resource planning (ERP) system to enhance operating efficiencies and provide more effective management of our business operations. Implementations of ERP systems and related software carry risks such as cost overruns, project delays and business interruptions and delays. If we experience a material business interruption as a result of our ERP implementation, it could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

WE MUST MAINTAIN ADEQUATE INTERNAL CONTROLS AND BE ABLE, ON AN ANNUAL BASIS, TO PROVIDE AN ASSERTION AS TO THE EFFECTIVENESS OF SUCH CONTROLS. FAILURE TO MAINTAIN ADEQUATE INTERNAL CONTROLS OR TO IMPLEMENT NEW OR IMPROVED CONTROLS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL

Table of Contents**POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.**

Effective internal controls are necessary for the Company to provide reasonable assurance with respect to its financial reports. We are spending a substantial amount of management time and resources to comply with changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new Securities and Exchange Commission (SEC) regulations and the New York Stock Exchange rules. In particular, Section 404 of the Sarbanes-Oxley Act of 2002 requires management s annual review and evaluation of our internal control systems, and attestations as to the effectiveness of these systems by our independent public accounting firm. If we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting. Additionally, internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. In addition, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that the control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. If the Company fails to maintain the adequacy of its internal controls, including any failure to implement required new or improved controls, this could have a material adverse effect on our business, financial position and results of operations, and the market value of our common stock could decline.

THERE ARE INHERENT UNCERTAINTIES INVOLVED IN ESTIMATES, JUDGMENTS AND ASSUMPTIONS USED IN THE PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP. ANY FUTURE CHANGES IN ESTIMATES, JUDGMENTS AND ASSUMPTIONS USED OR NECESSARY REVISIONS TO PRIOR ESTIMATES, JUDGMENTS OR ASSUMPTIONS COULD LEAD TO A RESTATEMENT WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.

The consolidated and condensed consolidated financial statements included in the periodic reports we file with the SEC are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in accordance with GAAP involves making estimates, judgments and assumptions that affect reported amounts of assets (including intangible assets), liabilities, revenues, expenses and income. Estimates, judgments and assumptions are inherently subject to change in the future and any necessary revisions to prior estimates, judgments or assumptions could lead to a restatement. Any such changes could result in corresponding changes to the amounts of assets (including goodwill and other intangible assets), liabilities, revenues, expenses and income. Any such changes could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risk from changes in the market values of investments in its marketable debt securities and interest rate risk from changes in interest rates associated with its long term debt.

In addition to marketable debt and equity securities, investments are made in overnight deposits, money market funds and marketable securities with maturities of less than three months. These instruments are classified as cash equivalents for financial reporting purposes and have minimal or no interest rate risk due to their short-term nature.

The following table summarizes the investments in marketable debt and equity securities which subject the Company to market risk at December 31, 2005 and March 31, 2005:

	December 31, 2005	March 31, 2005
<i>(in thousands)</i>		
Debt securities	\$ 381,206	\$ 667,170
Equity securities	5,601	3,178

\$ 386,807 \$ 670,348

Table of Contents

The primary objectives for the marketable debt securities investment portfolio are liquidity and safety of principal. Investments are made to achieve the highest rate of return while retaining principal. Our investment policy limits investments to certain types of instruments issued by institutions and government agencies with investment-grade credit ratings. At December 31, 2005, the Company had invested \$381.2 million in marketable debt securities, of which \$94.9 million will mature within one year and \$286.3 million will mature after one year. The short duration to maturity creates minimal exposure to fluctuations in market values for investments that will mature within one year. However, a significant change in current interest rates could affect the market value of the remaining \$286.3 million of marketable debt securities that mature after one year. A 5% change in the market value of the marketable debt securities that mature after one year would result in a \$14.3 million change in marketable debt securities.

On July 21, 2005, the Company issued \$500.0 million in Senior Notes with fixed interest rates (which were exchanged for registered notes, as described above) and borrowed \$275.0 million under a term loan as part of a senior credit facility with a variable interest rate based on the prime rate or LIBOR. Also on July 21, 2005, the Company entered into a \$225.0 million revolving credit facility, any borrowings under which will bear interest at a variable rate based on the prime rate or LIBOR. At December 31, 2005, no amounts have been drawn under the Revolving Credit Facility.

Generally, the fair market value of fixed interest rate debt will decrease as interest rates rise and increase as interest rates fall. As of December 31, 2005, the carrying value of our long term debt approximated fair value. A 10% change in interest rates on the term loan would result in a change in interest expense of approximately \$1.5 million per year.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2005. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective. In addition, during the period covered by this report, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls, and no corrective actions taken with regard to significant deficiencies or material weaknesses in such controls. No change in the Company's internal control over financial reporting occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

For a description of the material pending legal proceedings to which the Company is a party, please see our Annual Report on Form 10-K for the year ended March 31, 2005. During the quarter ended December 31, 2005, there were no new material legal proceedings or material developments with respect to pending proceedings other than as described below. While it is not possible to determine with any degree of certainty the ultimate outcome of the following matters, the Company believes that it has meritorious defenses with respect to the claims asserted against it and intends to vigorously defend its position. An adverse outcome in any of these proceedings could have a material adverse effect on the Company's financial position and results of operations.

Omeprazole

Mylan Pharmaceuticals Inc. (MPI), a wholly-owned subsidiary of Mylan Labs, Esteve Quimica S.A and the other generic manufacturers who are co-defendants in the previously-disclosed omeprazole patent infringement suit filed by AstraZeneca in the U.S. District Court for the Southern District of New York on September 8, 2000, had previously filed motions for summary judgment of non-infringement and patent invalidity. On January 12, 2006, those motions were denied, and a non-jury trial is scheduled to commence March 6, 2006.

Table of Contents*Lorazepam and Clorazepate*

On June 1, 2005, a jury verdict was rendered against Mylan Labs and MPI in the U.S. District Court for the District of Columbia in the amount of approximately \$12.0 million, which has been accrued for on the Company's balance sheet. The jury found Mylan willfully violated Massachusetts, Minnesota and Illinois state antitrust laws, meaning the amount of the verdict could be trebled, and an award of attorneys' fees and litigation costs could be made to the plaintiffs. The case was brought by four health insurers who opted out of earlier class action settlements agreed to by the Company in 2001, and represents the last remaining claims relating to Mylan's 1998 price increases for lorazepam and clorazepate. The Company has filed a motion for judgment as a matter of law, a motion for a new trial, and a motion to reduce verdict, all of which remain pending before the court. If the Company's post-verdict motions are denied, the Company intends to appeal to the U.S. Court of Appeals for the D.C. Circuit.

Pricing and Medicaid Litigation

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

Beginning in September 2003, Mylan Labs, MPI and/or UDL, together with many other pharmaceutical companies, have been named in a series of civil lawsuits filed by State AGs and municipal bodies within the State of New York alleging generally that the defendants defrauded the State Medicaid systems by allegedly reporting Average Wholesale Prices (AWP) and/or Wholesale Acquisition Costs that exceeded the actual selling price of the defendants' prescription drugs. To date, Mylan Labs, MPI and UDL have been named as defendants in substantially similar civil lawsuits filed by the AGs of Alabama, California, Florida, Illinois, Kentucky, Massachusetts, Mississippi and Wisconsin, and also by the City of New York and approximately 40 counties across New York State. Several of these cases have been transferred to the AWP multi-district litigation proceedings pending in the U.S. District Court for the District of Massachusetts for pretrial proceedings. Others of these cases will likely be litigated in the state courts in which they were filed. Each of the cases seeks an unspecified amount in money damages, civil penalties and/or treble damages, counsel fees and costs and injunctive relief. In each of these matters, with the exception of the Massachusetts AG action discussed below, Mylan Labs and its subsidiaries either have not yet been required to respond to the complaints or have motions to dismiss pending. The Company previously reported that the U.S. District Court for the District of Massachusetts had dismissed the complaint filed by the Massachusetts AG without prejudice and with leave to amend. The Massachusetts AG has since filed an Amended Complaint which has survived motions to dismiss, which Mylan Labs answered on November 14, 2005, denying liability. Mylan Labs and its subsidiaries intend to defend each of these actions vigorously.

In addition by letter dated January 12, 2005, MPI was notified by the U.S. Department of Justice of an investigation concerning MPI's calculations of Medicaid drug rebates. To the best of MPI's information, the investigation is in its early stages. MPI is collecting information requested by the government and is cooperating fully with the government's investigation.

Shareholder Litigation

On November 22, 2004, an individual purporting to be a Mylan Labs shareholder, filed a civil action in the Court of Common Pleas of Allegheny County, Pennsylvania, against Mylan Labs and all members of its Board of Directors alleging that the Board members had breached their fiduciary duties by approving the planned acquisition of King Pharmaceuticals, Inc. (King) and by declining to dismantle the Company's anti-takeover defenses to permit an auction of the Company to Carl Icahn or other potential buyers of the Company, and also alleging that certain transactions

between the Company and its directors (or their relatives or companies with which they were formerly affiliated) may have been wasteful. On November 23, 2004, a substantially identical complaint was filed in the same court by another purported Mylan Labs shareholder. The actions were styled as shareholder derivative suits

Table of Contents

on behalf of Mylan Labs and class actions on behalf of all Mylan Labs shareholders, and were consolidated by the court under the caption *In re Mylan Laboratories Inc. Shareholder Litigation*. Mylan Labs and its directors filed preliminary objections seeking dismissal of the complaints. On January 19, 2005, the plaintiffs amended their complaints to add Bear Stearns & Co., Inc., Goldman Sachs & Co., Richard C. Perry, Perry Corp., American Stock Transfer & Trust Company, and John Does 1-100 as additional defendants, and to add claims regarding trading activity by the additional defendants and the implications on Mylan Labs shareholder rights agreement. On October 26, 2005, the court approved the voluntary dismissal of these cases by the plaintiffs, with prejudice.

Other Litigation

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not applicable.

(b) Not applicable.

(c) Issuer Purchases of Equity Securities:

During the quarter ended December 31, 2005, the Company repurchased 6,456,900 shares of common stock as follows:

Period		Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the program
October 1, 2005	October 31, 2005	360,000	\$19.41	360,000 ⁽¹⁾	\$ 164,712,638
November 1, 2005	November 30, 2005	3,534,600	\$20.36	3,534,600 ⁽¹⁾	\$ 92,669,140
December 1, 2005	December 31, 2005	2,562,300	\$20.80	2,562,300 ⁽¹⁾	\$ 39,319,606

(1) On June 14, 2005, in connection with the announcement of a modified Dutch Auction self-tender for up to \$1.0 billion, which commenced on June 16, 2005 and closed on July 21, 2005,

Mylan also announced a \$250 million follow-on share repurchase program in the open market or otherwise.

Table of Contents**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The following provides a summary of votes cast for the proposals on which our shareholders voted at our Annual Meeting of Shareholders held on October 28, 2005.

Proposal No. 1 Election of Nine Directors.

Nominee	For	Withheld
Milan Puskar	188,156,920	6,179,588
Robert J. Coury	185,858,332	8,478,176
Wendy Cameron	188,179,041	6,157,467
Neil Dimick	190,767,125	3,569,383
Douglas J. Leech, C.P.A.	183,221,214	11,115,294
Joseph C. Maroon, M.D.	189,091,248	5,245,260
Rodney L. Piatt, C.P.A.	183,107,482	11,229,026
C.B. Todd	189,085,852	5,250,656
Randall L. Vanderveen, Ph.D.	189,106,588	5,229,920

Proposal No. 2 Ratification of the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending March 31, 2006.

For	Against	Abstain
190,461,942	2,038,830	1,835,736
	34	

Table of Contents

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 Form 10-Q for the quarterly period ended June 30, 2003, and incorporated herein by reference.
- 3.2 Bylaws of the registrant, as amended to date, filed as Exhibit 3.1 to the Report of Form 8-K filed on February 22, 2005, 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 Indenture, dated as of July 21, 2005, between the registrant and The Bank of New York, as trustee, as 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.
- 4.3 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., as 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.
- 31.1 Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of CEO and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report on Form 10-Q for the quarterly period ended December 31, 2005, to be signed on its behalf by the undersigned thereunto duly authorized.

Mylan Laboratories Inc.
(Registrant)

February 7, 2006

By: /s/ Robert J. Coury

Robert J. Coury
Vice Chairman and Chief Executive Officer

February 7, 2006

/s/ Edward J. Borkowski

Edward J. Borkowski
Chief Financial Officer
(Principal financial officer)

February 7, 2006

/s/ Gary E. Sphar

Gary E. Sphar
Vice President, Corporate Controller
(Principal accounting officer)

Table of Contents

EXHIBIT INDEX

- 31.1 Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of CEO and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

37