MYLAN INC.
Form 10-Q
October 25, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-Q

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

For the quarterly period ended September 30, 2012

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

Pennsylvania	25-1211621
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1500 Corporate Drive, Canonsburg, Pennsylvania 15317
(Address of principal executive offices)
(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 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

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

Class of Common Stock	Outstanding at October 19, 2012
$0.50 par value	407,527,845

Table of Contents

MYLAN INC. AND SUBSIDIARIES
INDEX TO FORM 10-Q
For the Quarterly Period Ended
September 30, 2012

		Page
	PART I — FINANCIAL INFORMATION	
ITEM 1.	Condensed Consolidated Financial Statements (unaudited)	
	Condensed Consolidated Statements of Operations — Three and Nine Months Ended September 30, 2012 and 2011	3
	Condensed Consolidated Statements of Comprehensive Earnings (Loss) — Three and Nine Months Ended September 30, 2012 and 2011	4
	Condensed Consolidated Balance Sheets — September 30, 2012 and December 31, 2011	5
	Condensed Consolidated Statements of Cash Flows — Nine Months Ended September 30, 2012 and 2011	6
	Notes to Condensed Consolidated Financial Statements	7
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	31
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	42
ITEM 4.	Controls and Procedures	42
	PART II — OTHER INFORMATION	
ITEM 1.	Legal Proceedings	43
ITEM 1A.	Risk Factors	43
ITEM 6.	Exhibits	60
SIGNATURES		63

Table of Contents

PART I — FINANCIAL INFORMATION

MYLAN INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited; in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Net revenues	$1,789,836	$1,572,341	$5,040,896	$4,579,215
Other revenues	19,936	3,415	52,821	19,375
Total revenues	1,809,772	1,575,756	5,093,717	4,598,590
Cost of sales	1,021,247	917,365	2,939,740	2,679,825
Gross profit	788,525	658,391	2,153,977	1,918,765
Operating expenses:				
Research and development	108,250	70,847	283,570	218,651
Selling, general and administrative	342,412	319,389	1,038,397	913,604
Litigation settlements, net	7,950	2,247	(2,083)	28,457
Total operating expenses	458,612	392,483	1,319,884	1,160,712
Earnings from operations	329,913	265,908	834,093	758,053
Interest expense	76,051	85,772	234,126	254,836
Other income, net	10,939	12,073	13,084	22,543
Earnings before income taxes and noncontrolling interest	264,801	192,209	613,051	525,760
Income tax provision	52,762	34,831	132,449	116,851
Net earnings	212,039	157,378	480,602	408,909
Net earnings attributable to the noncontrolling interest	(782)	(680)	(1,716)	(1,590)
Net earnings attributable to Mylan Inc. common shareholders	$211,257	$156,698	$478,886	$407,319
Earnings per common share attributable to Mylan Inc. common shareholders:				
Basic	$0.52	$0.37	$1.15	$0.94
Diluted	$0.51	$0.36	$1.13	$0.92
Weighted average common shares outstanding:				
Basic	406,469	426,412	418,000	432,265
Diluted	411,562	431,587	422,775	441,817

See Notes to Condensed Consolidated Financial Statements

3

Table of Contents

MYLAN INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Earnings (Loss)
(Unaudited; in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net earnings	$212,039	$157,378	$480,602	$408,909
Other comprehensive earnings (loss), before tax:				
Foreign currency translation adjustment	141,742	(383,108)	24,958	(103,178)
Change in unrecognized (loss) gain and prior service cost related to post-retirement plans	(10)	246	(29)	768
Net unrecognized gain (loss) on derivatives	51,749	(40,430)	39,589	(36,961)
Net unrealized gain (loss) on marketable securities	147	88	67	(44)
Other comprehensive earnings (loss), before tax	193,628	(423,204)	64,585	(139,415)
Income tax related to items of other comprehensive earnings (loss)	16,567	(12,824)	12,559	(11,418)
Other comprehensive earnings (loss), net of tax	177,061	(410,380)	52,026	(127,997)
Comprehensive earnings (loss)	389,100	(253,002)	532,628	280,912
Comprehensive earnings attributable to the noncontrolling interest	(782)	(680)	(1,716)	(1,590)
Comprehensive earnings (loss) attributable to Mylan Inc. common shareholders	$388,318	$(253,682)	$530,912	$279,322

See Notes to Condensed Consolidated Financial Statements

MYLAN INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Unaudited; in thousands, except share and per share amounts)

	September 30, 2012	December 31, 2011
ASSETS		
Assets		
Current assets:		
Cash and cash equivalents	$332,316	$375,056
Restricted cash	1,442	9,274
Marketable securities	33,680	30,686
Accounts receivable, net	1,499,633	1,426,438
Inventories	1,495,924	1,396,742
Deferred income tax benefit	210,186	202,899
Prepaid expenses and other current assets	177,553	127,749
Total current assets	3,750,734	3,568,844
Property, plant and equipment, net	1,335,837	1,298,034
Intangible assets, net	2,392,092	2,630,747
Goodwill	3,531,134	3,517,935
Deferred income tax benefit	91,647	39,376
Other assets	604,974	543,207
Total assets	$11,706,418	$11,598,143
LIABILITIES AND EQUITY		
Liabilities		
Current liabilities:		
Trade accounts payable	$677,364	$703,235
Short-term borrowings	416,671	128,054
Income taxes payable	64,760	42,880
Current portion of long-term debt and other long-term obligations	98,457	691,614
Deferred income tax liability	1,274	1,215
Other current liabilities	911,047	996,158
Total current liabilities	2,169,573	2,563,156
Long-term debt	4,846,595	4,479,080
Contingent consideration	401,363	376,110
Other long-term obligations	362,882	366,100
Deferred income tax liability	301,769	308,915
Total liabilities	8,082,182	8,093,361
Equity		
Mylan Inc. shareholders’ equity		
Common stock — par value $0.50 per share		
Shares authorized: 1,500,000,000		
Shares issued: 533,797,490 and 530,315,453 as of September 30, 2012 and December 31, 2011	266,899	265,158
Additional paid-in capital	3,869,793	3,795,373
Retained earnings	1,899,405	1,420,520
Accumulated other comprehensive loss	(35,813)	(87,839)
	6,000,284	5,393,212
Noncontrolling interest	14,745	13,007
Less: treasury stock — at cost		

Shares: 126,451,604 and 103,637,016 as of September 30, 2012 and December 31, 2011	2,390,793	1,901,437
Total equity	3,624,236	3,504,782
Total liabilities and equity	$11,706,418	$11,598,143

See Notes to Condensed Consolidated Financial Statements

Table of Contents

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

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cash flows from operating activities:		
Net earnings	$480,602	$408,909
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	424,118	386,451
Stock-based compensation expense	32,099	32,803
Change in estimated sales allowances	204,700	(43,176)
Deferred income tax (benefit) expense	(73,949)	1,443
Other non-cash items	143,938	73,642
Litigation settlements, net	(2,083)	28,457
Changes in operating assets and liabilities:		
Accounts receivable	(243,082)	(82,286)
Inventories	(121,450)	(181,548)
Trade accounts payable	(24,634)	(51,902)
Income taxes	5,376	45,823
Deferred revenue	(18,890)	(999)
Other operating assets and liabilities, net	(154,408)	(191,279)
Net cash provided by operating activities	652,337	426,338
Cash flows from investing activities:		
Capital expenditures	(159,917)	(168,474)
Change in restricted cash	7,748	15,007
Proceeds from sale of property, plant and equipment	16,338	2,400
Purchase of marketable securities	(10,019)	(3,363)
Proceeds from sale of marketable securities	5,954	1,855
Other items, net	(72,308)	(477)
Net cash used in investing activities	(212,204)	(153,052)
Cash flows from financing activities:		
Cash paid for warrant amendment and exchange	—	(149,947)
Purchase of common stock	(499,953)	(349,998)
Change in short-term borrowings, net	288,175	22,722
Proceeds from issuance of long-term debt	860,000	—
Payment of long-term debt	(1,191,377)	(6,152)
Proceeds from exercise of stock options	52,482	65,035
Other items, net	5,415	6,047
Net cash used in financing activities	(485,258)	(412,293)
Effect on cash of changes in exchange rates	2,385	(10,208)
Net decrease in cash and cash equivalents	(42,740)	(149,215)
Cash and cash equivalents — beginning of period	375,056	662,052
Cash and cash equivalents — end of period	$332,316	$512,837

See Notes to Condensed Consolidated Financial Statements

6

Table of Contents

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

1. General

The accompanying unaudited Condensed Consolidated Financial Statements ("interim financial statements") of Mylan Inc. and subsidiaries ("Mylan" or the "Company") were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the rules and regulations of the Securities and Exchange Commission ("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, comprehensive earnings, 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 year ended December 31, 2011. The December 31, 2011 Condensed Consolidated Balance Sheet was derived from audited financial statements.

The interim results of operations and comprehensive earnings for the three and nine months ended and the interim cash flows for the nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for the full fiscal year or any other future period. The Company computed its provision for income taxes using an estimated effective tax rate for the full year with consideration of certain discrete tax items which occurred within the interim period. The estimated annual effective tax rate for 2012 includes an estimate of the full-year effect of foreign tax credits that the Company anticipates it will claim against its 2012 U.S. tax liabilities.

2. Revenue Recognition and Accounts Receivable

Mylan recognizes net revenue for product sales when title and risk of loss pass to its customers and when provisions for estimates, including discounts, sales allowances, price adjustments, returns, chargebacks and other promotional programs are reasonably determinable. Accounts receivable are presented net of allowances relating to these provisions. No revisions were made to the methodology used in determining these provisions during the nine months ended September 30, 2012. Such allowances were $934.9 million and $763.0 million at September 30, 2012 and December 31, 2011. Other current liabilities include $182.9 million and $147.9 million at September 30, 2012 and December 31, 2011, for certain sales allowances and other adjustments that are paid to indirect customers.

In February 2012, Mylan Pharmaceuticals Inc. ("MPI"), a wholly-owned subsidiary of the Company, entered into a receivable securitization facility (the "Receivables Facility") of up to $300 million, which was expanded to $400 million in July 2012. Pursuant to the terms of the Receivables Facility, MPI transfers certain of its domestic receivables, on an ongoing basis, to Mylan Securitization LLC ("Mylan Securitization"), a wholly-owned bankruptcy remote subsidiary. In turn, from time to time, Mylan Securitization sells its interests in such receivables, related assets and collections to certain conduit purchasers, committed purchasers and letter of credit issuers in exchange for cash or letters of credit. Mylan Securitization maintains a subordinated interest, in the form of over collateralization, in a portion of the receivables sold. At September 30, 2012, there were $300 million of short-term borrowings outstanding under the Receivables Facility, which are recorded as a secured loan and included in short-term borrowings in the Condensed Consolidated Balance Sheets. The receivables underlying any borrowings are included in accounts receivable, net, in the Condensed Consolidated Balance Sheets. There were $562.9 million of securitized accounts receivable at September 30, 2012.

The Company utilizes proceeds from the sale of its accounts receivable as an alternative to other forms of debt, effectively reducing its overall borrowing costs. MPI has agreed to continue servicing the sold receivables for the financial institution at market rates.

3. Acquisitions and Collaborative Agreements

The Respiratory Delivery Platform

On December 23, 2011, Mylan completed its acquisition of the exclusive worldwide rights to develop, manufacture and commercialize a generic equivalent to GlaxoSmithKline's Advair® Diskus and Seretide® Diskus incorporating Pfizer Inc.'s ("Pfizer") proprietary dry powder inhaler delivery platform (the "Respiratory Delivery Platform"). As part of the agreement, Mylan will fund the remaining development and capital requirements to bring the products to market.

In accordance with GAAP guidance regarding business combinations, the Company accounted for this transaction as a purchase of a business and utilized the purchase method of accounting. Under the purchase method of accounting, the assets acquired and liabilities assumed in the transaction were recorded at the date of acquisition at the estimate of their respective fair values.

The total purchase consideration was $348 million. This amount consisted of an initial cash payment of $22 million, approximately $4 million in assumed liabilities, and $322 million of contingent consideration. Pfizer is eligible to receive milestone payments, which are contingent upon future product development achievements including regulatory approvals, market launches, sales targets and profitability. The $322 million of contingent consideration at the acquisition date represents the net present value of expected milestone and profit sharing payments. The purchase price allocation, including the valuation of the contingent payment elements of the purchase price, resulted in in-process research and development (“IPR&D”) of $338 million, fixed assets of $8 million and goodwill of $2 million. The impact on our results of operations since the acquisition date was not material.

The amount allocated to acquired IPR&D represents an estimate of the fair value of purchased in-process technology that, as of the closing date of the acquisition, had not reached technological feasibility and had no alternative future use. The fair value of IPR&D was based on the excess earnings method, which utilizes forecasts of expected net cash inflows (including estimates for ongoing costs) and other contributory charges. A discount rate of 12.5% was utilized to discount net cash inflows to present values.

The project is in the early stages of development, and the expected costs to complete are estimated to be significant. The project is not expected to begin generating a material benefit to the Company until after 2016. There can be no certainty that these assets ultimately will yield a successful product. Failure to successfully complete this project would have a material impact on the IPR&D assets related to it. Additionally, no assurances can be given that the underlying assumptions used to prepare the discounted cash flow analysis will not change in future periods.

Pfizer Japan

On August 22, 2012, the Company and Pfizer Japan Inc. (“Pfizer Japan”) announced a definitive agreement to establish an exclusive long-term strategic collaboration to develop, manufacture, distribute and market generic drugs in Japan. Under the agreement, the Company and Pfizer Japan will continue to operate separate legal entities in Japan, but will collaborate on current and future generic products, sharing the costs and profits resulting from the collaboration. The Company’s responsibilities primarily consist of managing operations, including research and development and manufacturing. Pfizer Japan’s responsibilities under the agreement primarily consist of the commercialization of the combined generics portfolio and managing a combined marketing and sales effort. The transaction remains subject to the satisfaction of certain closing conditions.

4. Stock-Based Incentive Plan

Mylan’s shareholders have approved the 2003 Long-Term Incentive Plan (as amended, the “2003 Plan”). Under the 2003 Plan, 55,300,000 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. Stock option awards are granted at the fair value of the shares underlying the options at the date of the grant, generally become exercisable over periods ranging from three years to four years, and generally expire in ten years. In the 2003 Plan, no more than 8,000,000 shares may be issued as restricted shares, restricted units, performance shares and other stock-based awards.

Upon approval of the 2003 Plan, no further grants of stock options have been made under any other plan. However, there are stock options outstanding from frozen or expired plans and other plans assumed through acquisitions.

The following table summarizes stock option activity:

	Number of Shares Under Option	Weighted Average Exercise Price per Share
Outstanding at December 31, 2011	23,599,256	$ 17.42
Options granted	2,749,843	22.97
Options exercised	(3,482,848)	15.07
Options forfeited	(635,313)	20.24
Outstanding at September 30, 2012	22,230,938	$ 18.39
Vested and expected to vest at September 30, 2012	21,237,047	$ 18.25
Options exercisable at September 30, 2012	15,107,043	$ 16.80

As of September 30, 2012, options outstanding, options vested and expected to vest, and options exercisable had average remaining contractual terms of 5.97 years, 5.85 years and 4.71 years, respectively. Also at September 30, 2012, options outstanding, options vested and expected to vest and options exercisable had aggregate intrinsic values of $133.1 million, $130.1 million and $114.4 million, respectively.

A summary of the status of the Company’s nonvested restricted stock and restricted stock unit awards, including performance based restricted stock, as of September 30, 2012 and the changes during the nine months ended September 30, 2012 is presented below:

	Number of Restricted Stock Awards	Weighted Average Grant-Date Fair Value per Share
Nonvested at December 31, 2011	2,520,487	$ 20.16
Granted	926,512	23.28
Released	(794,248)	16.15
Forfeited	(141,159)	22.29
Nonvested at September 30, 2012	2,511,592	$ 22.47

As of September 30, 2012, the Company had $53.0 million of total unrecognized compensation expense, net of estimated forfeitures, related to all of its stock-based awards, which will be recognized over the remaining weighted average period of 1.65 years. The total intrinsic value of stock-based awards exercised and restricted stock units converted during the nine months ended September 30, 2012 and September 30, 2011 was $45.8 million and $61.2 million.

5. Balance Sheet Components

Selected balance sheet components consist of the following:

(In thousands)	September 30, 2012	December 31, 2011
Inventories:		
Raw materials	$ 462,171	$ 370,423
Work in process	272,667	253,492
Finished goods	761,086	772,827
	$ 1,495,924	$ 1,396,742

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

(In thousands)	September 30, 2012	December 31, 2011
Property, plant and equipment:		
Land and improvements	$ 72,462	$ 72,945
Buildings and improvements	678,361	676,028
Machinery and equipment	1,376,552	1,358,163
Construction in progress	274,371	263,948
	2,401,746	2,371,084
Less accumulated depreciation	1,065,909	1,073,050
	$ 1,335,837	$ 1,298,034
Other current liabilities:		
Legal and professional accruals, including litigation reserves	$135,700	$232,670
Payroll and employee benefit plan accruals	233,158	221,458
Accrued sales allowances	182,923	147,938
Accrued interest	49,838	74,754
Fair value of financial instruments	12,527	69,493
Other	296,901	249,845
	$911,047	$996,158

6. Earnings per Common Share Attributable to Mylan Inc.

Basic earnings per common share is computed by dividing net earnings attributable to Mylan Inc. common shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per common share is computed by dividing net earnings attributable to Mylan Inc. common shareholders by the weighted average number of shares outstanding during the period increased by the number of additional shares that would have been outstanding related to potentially dilutive securities or instruments, if the impact is dilutive.

On September 15, 2008, concurrent with the sale of $575 million aggregate principal amount of Cash Convertible Notes due 2015 (the “Cash Convertible Notes”), Mylan entered into a convertible note hedge and warrant transaction with certain counterparties. Pursuant to the warrant transactions, the Company sold to the counterparties warrants to purchase in the aggregate up to approximately 43.2 million shares of Mylan common stock, subject to anti-dilution adjustments substantially similar to the anti-dilution adjustments for the Cash Convertible Notes, which under most circumstances represents the maximum number of shares that underlie the conversion reference rate for the Cash Convertible Notes. The sold warrants had an exercise price of $20.00 and will be net share settled, meaning that Mylan will issue a number of shares per warrant corresponding to the difference between its share price at each warrant expiration date and the exercise price. The warrants meet the definition of derivatives under the guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Codification (“ASC”) 815 Derivatives and Hedging (“ASC 815”); however, because these instruments have been determined to be indexed to the Company’s own stock and meet the criteria for equity classification under ASC 815-40 Contracts in Entity’s Own Equity, the warrants have been recorded in shareholders’ equity in the Condensed Consolidated Balance Sheets.

In September 2011, the Company entered into amendments with the counterparties to exchange the original warrants with an exercise price of $20.00 (the “Old Warrants”) with new warrants with an exercise price of $30.00 (the “New Warrants”). Approximately 41.0 million of the Old Warrants were exchanged in the transaction. All other terms and settlement provisions of the Old Warrants remain unchanged in the New Warrants. The New Warrants meet the definition of derivatives under the guidance in ASC 815; however, because these instruments have been determined to be indexed to the Company’s own stock and meet the criteria for equity classification under ASC 815-40, the New Warrants have also been recorded in shareholders’ equity in the Condensed Consolidated Balance Sheets.

The average market value of the Company’s shares did not exceed the exercise price of the New Warrants during the three and nine months ended September 30, 2012. For the three and nine months ended September 30, 2012, the average market value of the Company’s shares exceeded the exercise price of the Old Warrants, and as a result, the Company has included 0.3 million and 0.2 million shares, respectively, in the calculation of diluted earnings per share. For the three and nine months ended September 30, 2011, the average market value of the Company’s shares exceeded the exercise price of the Old

Warrants, and as a result, the Company has included 1.2 million and 4.3 million shares, respectively, in the calculation of diluted earnings per share.

On May 10, 2012, the Company announced that its Board of Directors had approved the repurchase of up to $500 million of the Company's common stock in the open market. During the second quarter of 2012, the repurchase program was completed with approximately 23.4 million shares of common stock being repurchased for approximately $500 million.

Basic and diluted earnings per common share attributable to Mylan Inc. are calculated as follows: