

MYLAN INC.
Form 10-Q
July 29, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 June 30, 2010**
- 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

*(State or other jurisdiction
of incorporation or organization)*

25-1211621

*(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 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 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
Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer
Smaller reporting company

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

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

Class of Common Stock	Outstanding at July 26, 2010
\$0.50 par value	309,360,933

MYLAN INC. AND SUBSIDIARIES

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For the Quarterly Period Ended
June 30, 2010**

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Table of Contents**MYLAN INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Operations**

	Period Ended June 30,			
	Three Months		Six Months	
	2010	2009	2010	2009
	(Unaudited; in thousands, except per share amounts)			
Revenues:				
Net revenues	\$ 1,356,543	\$ 1,255,798	\$ 2,634,648	\$ 2,424,160
Other revenues	11,993	11,179	26,261	52,733
Total revenues	1,368,536	1,266,977	2,660,909	2,476,893
Cost of sales	826,686	739,210	1,602,762	1,423,393
Gross profit	541,850	527,767	1,058,147	1,053,500
Operating expenses:				
Research and development	66,787	74,016	128,084	132,853
Selling, general and administrative	268,373	279,672	524,134	521,344
Litigation settlements, net	12,104	(634)	12,838	(2,751)
Total operating expenses	347,264	353,054	665,056	651,446
Earnings from operations	194,586	174,713	393,091	402,054
Interest expense	78,402	78,172	152,449	163,175
Other (expense) income, net	(15,239)	25,308	(14,167)	29,498
Earnings before income taxes and noncontrolling interest	100,945	121,849	226,475	268,377
Income tax provision	14,012	26,178	45,272	63,632
Net earnings	86,933	95,671	181,203	204,745
Net (earnings) loss attributable to the noncontrolling interest	(705)	(2,801)	881	(5,816)
Net earnings attributable to Mylan Inc. before preferred dividends	86,228	92,870	182,084	198,929
Preferred dividends	34,759	34,759	69,518	69,518
Net earnings attributable to Mylan Inc. common shareholders	\$ 51,469	\$ 58,111	\$ 112,566	\$ 129,411
Earnings per common share attributable to Mylan Inc. common shareholders:				
Basic	\$ 0.17	\$ 0.19	\$ 0.37	\$ 0.42

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Diluted	\$	0.16	\$	0.19	\$	0.36	\$	0.42
Weighted average common shares outstanding:								
Basic		308,968		304,991		307,982		304,784
Diluted		314,407		306,256		313,177		305,759

See Notes to Condensed Consolidated Financial Statements

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

	June 30, 2010	December 31,
	2009	
	(Unaudited; in thousands,	
	except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 809,421	\$ 380,516
Restricted cash	48,063	47,965
Marketable securities	23,791	27,559
Accounts receivable, net	1,249,017	1,234,634
Inventories	1,096,365	1,114,219
Deferred income tax benefit	260,742	248,917
Prepaid expenses and other current assets	141,929	231,576
Total current assets	3,629,328	3,285,386
Property, plant and equipment, net	1,091,674	1,122,648
Intangible assets, net	2,132,266	2,384,848
Goodwill	3,131,135	3,331,247
Deferred income tax benefit	42,947	36,610
Other assets	570,468	640,995
Total assets	\$ 10,597,818	\$ 10,801,734
LIABILITIES AND EQUITY		
Liabilities		
Current liabilities:		
Trade accounts payable	\$ 527,844	\$ 518,252
Short-term borrowings	161,593	184,352
Income taxes payable	100,419	69,122
Current portion of long-term debt and other long-term obligations	10,061	9,522
Deferred income tax liability	1,285	1,986
Other current liabilities	828,333	934,913
Total current liabilities	1,629,535	1,718,147
Long-term debt	5,047,384	4,984,987
Other long-term obligations	465,745	485,905
Deferred income tax liability	476,198	467,497
Total liabilities	7,618,862	7,656,536
Equity		
Mylan Inc. shareholders' equity		

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Preferred stock par value \$0.50 per share		
Shares authorized: 5,000,000		
Shares issued: 2,139,000	1,070	1,070
Common stock par value \$0.50 per share		
Shares authorized: 1,500,000,000		
Shares issued: 399,252,737 and 396,683,892 as of June 30, 2010 and December 31, 2009	199,626	198,342
Additional paid-in capital	3,880,285	3,834,674
Retained earnings	772,699	660,130
Accumulated other comprehensive (loss) earnings	(317,358)	11,807
	4,536,322	4,706,023
Noncontrolling interest	12,272	14,052
Less: treasury stock at cost		
Shares: 89,899,071 and 90,199,152 as of June 30, 2010 and December 31, 2009	1,569,638	1,574,877
Total equity	2,978,956	3,145,198
Total liabilities and equity	\$ 10,597,818	\$ 10,801,734

See Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30,	
	2010	2009
	(Unaudited; in thousands)	
Cash flows from operating activities:		
Net earnings	\$ 181,203	\$ 204,745
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	204,933	193,361
Stock-based compensation expense	15,617	14,652
Change in estimated sales allowances	26,062	36,911
Deferred income tax benefit	(56,522)	(76,619)
Other non-cash items	92,660	25,965
Litigation settlements, net	12,838	(2,751)
Changes in operating assets and liabilities:		
Accounts receivable	(106,844)	48,643
Inventories	(44,027)	22,221
Trade accounts payable	54,869	(63,172)
Income taxes	120,796	27,487
Other operating assets and liabilities, net	(142,450)	(95,227)
Net cash provided by operating activities	359,135	336,216
Cash flows from investing activities:		
Capital expenditures	(53,300)	(53,007)
Change in restricted cash		(16,029)
Cash paid for acquisitions	(4,999)	(173,359)
Proceeds from sale of equity-method investee		23,333
Purchase of marketable securities	(1,676)	(1,086)
Proceeds from sale of marketable securities	6,303	13,205
Other items, net	(720)	620
Net cash used in investing activities	(54,392)	(206,323)
Cash flows from financing activities:		
Cash dividends paid	(69,518)	(69,518)
Payment of financing fees	(20,394)	
Change in short-term borrowings, net	(22,374)	(18,736)
Proceeds from issuance of long-term debt	1,250,000	
Payment of long-term debt	(1,001,507)	(172,164)
Proceeds from exercise of stock options	36,007	1,417
Other items, net		(23)
Net cash provided by (used in) financing activities	172,214	(259,024)

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Effect on cash of changes in exchange rates	(48,052)	1,461
Net increase (decrease) in cash and cash equivalents	428,905	(127,670)
Cash and cash equivalents beginning of period	380,516	557,147
Cash and cash equivalents end of period	\$ 809,421	\$ 429,477

See Notes to Condensed Consolidated Financial Statements

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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, 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, 2009.

The interim results of operations for the three and six months ended June 30, 2010 and the interim cash flows for the six months ended June 30, 2010 are not necessarily indicative of the results to be expected for the full fiscal year or any other future period. The Company computes its provision for income taxes in the first three quarters of the year using an estimated effective tax rate for the full year. The estimated annual effective tax rate for 2010 includes an estimate of the full-year effect of foreign tax credits that the Company anticipates it will claim against its 2010 U.S. tax liabilities. The Company did not claim foreign tax credits against its 2009 U.S. tax liabilities. Certain reclassifications of prior year amounts have been made to conform to the current year presentation.

2. Revenue Recognition and Accounts Receivable

Mylan recognizes revenue for product sales when title and risk of loss pass to its customers and when provisions for estimates, including discounts, rebates, 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 six months ended June 30, 2010. Such allowances were \$637.2 million and \$607.9 million at June 30, 2010 and December 31, 2009. Other current liabilities include \$235.0 million and \$238.2 million at June 30, 2010 and December 31, 2009, for certain rebates and other adjustments that are paid to indirect customers.

3. Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued revised accounting guidance for multiple-deliverable revenue arrangements. The amended guidance requires that consideration received be allocated at the inception of the arrangement to all deliverables using the relative selling price method and provides for expanded disclosures related to such arrangements. It is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact of adoption on its consolidated financial statements.

4. Acquisition of the Remaining Interest in Matrix Laboratories Limited

On March 26, 2009, the Company announced plans to buy the remaining public interest in Matrix Laboratories Limited (Matrix) from its minority shareholders pursuant to a voluntary delisting offer. At the time, the Company owned approximately 71.2% of Matrix through a wholly-owned subsidiary and controlled more than 76% of its voting

rights. During the calendar year ended December 31, 2009, the Company completed the purchase of an additional portion of the remaining interest from minority shareholders of Matrix, bringing both the Company's total ownership and control to over 96%. During the six months ended June 30, 2010, Mylan completed the purchase of an additional portion of the remaining interest from minority shareholders of Matrix, for cash of approximately \$5.0 million, bringing both the Company's total ownership and control to approximately 97%.

Table of Contents**MYLAN INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****5. Stock-Based Incentive Plan**

Mylan's shareholders have approved the *2003 Long-Term Incentive Plan* (as amended, the *2003 Plan*). Under the 2003 Plan, 37,500,000 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. 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 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, 2009	26,268,678	\$ 15.22
Options granted	2,071,039	20.98
Options exercised	(2,575,185)	14.04
Options forfeited	(672,247)	14.65
Outstanding at June 30, 2010	25,092,285	\$ 15.83
Vested and expected to vest at June 30, 2010	23,890,685	\$ 15.86
Options exercisable at June 30, 2010	16,419,989	\$ 15.92

As of June 30, 2010, options outstanding, options vested and expected to vest, and options exercisable had average remaining contractual terms of 5.88 years, 5.75 years and 4.42 years, respectively. Also at June 30, 2010, options outstanding, options vested and expected to vest and options exercisable had aggregate intrinsic values of \$53.5 million, \$50.5 million and \$33.1 million, respectively.

A summary of the status of the Company's nonvested restricted stock and restricted stock unit awards as of June 30, 2010 and the changes during the six-month period ended June 30, 2010, are presented below:

Number of Restricted	Weighted Average Grant-Date
---------------------------------	--

	Stock Awards		Fair Value per Share
Nonvested at December 31, 2009	2,464,600	\$	12.78
Granted	816,359		21.20
Released	(395,942)		12.07
Forfeited	(110,338)		12.53
Nonvested at June 30, 2010	2,774,679	\$	15.38

As of June 30, 2010, the Company had \$47.4 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 1.77 years. The total intrinsic value of stock-based awards exercised and restricted stock units converted during the six months ended June 30, 2010 and June 30, 2009 was \$27.2 million and \$7.4 million.

Table of Contents**MYLAN INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****6. Balance Sheet Components**

Selected balance sheet components consist of the following:

	June 30, 2010	December 31, 2009 (In thousands)
Inventories:		
Raw materials	\$ 301,052	\$ 287,128
Work in process	204,614	198,280
Finished goods	590,699	628,811
	\$ 1,096,365	\$ 1,114,219
Property, plant and equipment:		
Land and improvements	\$ 68,052	\$ 69,614
Buildings and improvements	622,933	625,303
Machinery and equipment	1,167,528	1,145,464
Construction in progress	108,854	118,410
	1,967,367	1,958,791
Less accumulated depreciation	875,693	836,143
	\$ 1,091,674	\$ 1,122,648
Other current liabilities:		
Payroll and employee benefit plan accruals	\$ 139,534	\$ 188,743
Accrued rebates	235,023	238,161
Fair value of financial instruments	43,646	66,420
Legal and professional accruals, including litigation reserves	240,108	218,813
Other	170,022	222,776
	\$ 828,333	\$ 934,913

7. 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 dilutable securities or instruments, if the impact is dilutive.

With respect to the Company's convertible preferred stock, the Company considered the effect on diluted earnings per share of the preferred stock conversion feature using the if-converted method. The preferred stock is convertible into between 125,234,172 shares and 152,785,775 shares of the Company's common stock, subject to anti-dilution adjustments, depending on the average stock price of the Company's common stock over the 20 trading-day period ending on the third trading day prior to conversion. For the three and six months ended June 30, 2010 and June 30, 2009, the if-converted method is anti-dilutive; therefore, the preferred stock conversion is excluded from the computation of diluted earnings per share.

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	(In thousands, except per share amounts)			
Basic earnings attributable to Mylan Inc. common shareholders (numerator):				
Net earnings attributable to Mylan Inc. before preferred dividends	\$ 86,228	\$ 92,870	\$ 182,084	\$ 198,929
Less: Preferred dividends	34,759	34,759	69,518	69,518
Net earnings attributable to Mylan Inc. common shareholders	\$ 51,469	\$ 58,111	\$ 112,566	\$ 129,411
Shares (denominator):				
Weighted average shares outstanding	308,968	304,991	307,982	304,784
Basic earnings per common share attributable to Mylan Inc.	\$ 0.17	\$ 0.19	\$ 0.37	\$ 0.42
Diluted earnings attributable to Mylan Inc. common shareholders (numerator):				
Net earnings attributable to Mylan Inc. common shareholders	\$ 51,469	\$ 58,111	\$ 112,566	\$ 129,411
Add: Preferred dividends				
Earnings attributable to Mylan Inc. common shareholders and assumed conversions	\$ 51,469	\$ 58,111	\$ 112,566	\$ 129,411
Shares (denominator):				
Weighted average shares outstanding	308,968	304,991	307,982	304,784
Stock-based awards and warrants	5,439	1,265	5,195	975
Preferred stock conversion				
Total dilutive shares outstanding	314,407	306,256	313,177	305,759
Diluted earnings per common share attributable to Mylan Inc.	\$ 0.16	\$ 0.19	\$ 0.36	\$ 0.42

Additional stock options or restricted stock awards representing 3.9 million and 18.7 million shares were outstanding at June 30, 2010 and 2009, but were not included in the computation of diluted earnings per share because the effect

would be anti-dilutive.

During the six months ended June 30, 2010, the Company paid dividends of \$69.5 million on the preferred stock. On July 19, 2010, the Company announced that a quarterly dividend of \$16.25 per share was declared (based on the annual dividend rate of 6.5% and a liquidation preference of \$1,000 per share) payable on August 16, 2010, to the holders of preferred stock of record as of August 1, 2010. The preferred stock will automatically convert into common stock on November 15, 2010, and the last dividend payment is expected on that date.

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A rollforward of goodwill from December 31, 2009 to June 30, 2010 is as follows:

	Generics Segment	Specialty Segment (In thousands)	Total
Goodwill	\$ 3,009,740	\$ 706,507	\$ 3,716,247
Accumulated impairment losses ⁽¹⁾		(385,000)	(385,000)
Balance at December 31, 2009	\$ 3,009,740	\$ 321,507	\$ 3,331,247
Foreign currency translation	(200,112)		(200,112)
Balance at June 30, 2010	\$ 2,809,628	\$ 321,507	\$ 3,131,135

⁽¹⁾ Represents the only impairment charge recognized by the Company under the currently effective accounting guidance.

Intangible assets consist of the following components:

	Weighted Average Life (Years)	Original Cost	Accumulated Amortization (Dollars in thousands)	Net Book Value
June 30, 2010				
Amortized intangible assets:				
Patents and technologies	20	\$ 122,926	\$ 80,737	\$ 42,189
Product rights and licenses	10	2,784,154	770,760	2,013,394
Other ⁽¹⁾	8	175,563	98,880	76,683
		\$ 3,082,643	\$ 950,377	\$ 2,132,266
December 31, 2009				
Amortized intangible assets:				
Patents and technologies	20	\$ 122,926	\$ 77,717	\$ 45,209
Product rights and licenses	10	2,902,045	657,050	2,244,995
Other ⁽¹⁾	8	170,426	75,782	94,644

\$ 3,195,397 \$ 810,549 \$ 2,384,848

(1) Other intangibles consist principally of customer lists and contracts.

Amortization expense, which is classified within cost of sales on the Company's Condensed Consolidated Statements of Operations, for the six months ended June 30, 2010 and 2009 was \$140.6 million and \$133.4 million, and is expected to be \$132.3 million for the remainder of 2010, and \$259.2 million, \$252.6 million, \$246.9 million and \$239.3 million for the years ended December 31, 2011 through 2014, respectively.

9. Financial Instruments and Risk Management

Financial Risks

The Company is exposed to certain financial risks relating to its ongoing business operations. The primary financial risks that are managed by using derivative instruments are foreign currency risk, interest rate risk and equity risk.

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MYLAN INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

In order to manage foreign currency risk, Mylan enters into foreign exchange forward contracts to mitigate risk associated with changes in spot exchange rates of mainly non-functional currency denominated assets or liabilities. The foreign exchange forward contracts are measured at fair value and reported as current assets or current liabilities on the Condensed Consolidated Balance Sheets. Any gains or losses on the foreign exchange forward contracts are recognized in earnings in the period incurred in the Condensed Consolidated Statements of Operations.

During the six months ended June 30, 2010, the Company executed a series of forward contracts to hedge foreign currency denominated sales from certain international subsidiaries. These contracts are designated as cash flow hedges to manage foreign currency risk and are measured at fair value and reported as current assets or current liabilities on the Condensed Consolidated Balance Sheets. Any changes in fair value are included in earnings or deferred through accumulated other comprehensive earnings (loss) (AOCE), depending on the nature and effectiveness of the offset.

As of June 30, 2010 and December 31, 2009, the Company had 679.2 million of borrowings under its senior credit agreement (the Senior Credit Agreement) that are designated as a hedge of its net investment in certain Euro-functional currency subsidiaries to manage foreign currency risk. The U.S. Dollar equivalent of such amount was \$833.0 million at June 30, 2010 and \$978.1 million at December 31, 2009. Borrowings designated as hedges of net investments are marked to market using the current spot exchange rate as of the end of the period, with gains and losses included in the foreign currency translation adjustment component of AOCE on the Condensed Consolidated Balance Sheet until the sale or substantial liquidation of the underlying net investments.

The Company enters into interest rate swaps in order to manage interest rate risk associated with the Company's floating-rate debt. These interest rate swaps are designated as cash flow hedges. The Company's interest rate swaps fix the interest rate on a portion of the Company's variable-rate U.S. Tranche B Term Loans and Euro Tranche B Term Loans under the terms of its Senior Credit Agreement. Derivative contracts designated as hedges to manage interest rate risk are measured at fair value and reported as current assets or current liabilities on the Condensed Consolidated Balance Sheets. Any changes in fair value are included in earnings or deferred through AOCE, depending on the nature and effectiveness of the offset.

In conjunction with the notes offering during the current quarter and the associated prepayment of term debt (see Note 10), the Company terminated certain interest rate swaps that had previously fixed the interest rate on a portion of the Company's variable-rate U.S. Tranche B Term Loans. As a result, during the current quarter, approximately \$7.4 million that had previously been classified in AOCE was recognized into other (expense) income, net. As of June 30, 2010 and December 31, 2009, the total notional amount of the Company's floating-rate debt interest rate swaps was \$1.2 billion and \$2.3 billion.

Certain derivative contracts entered into by the Company are governed by Master Agreements, which contain credit-risk-related contingent features which would allow the counterparties to terminate the contracts early and request immediate payment should the Company trigger an event of default on other specified borrowings. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position at June 30, 2010 is \$37.9 million. The Company is not subject to any obligations to post collateral under derivative contracts.

The Company's most significant credit exposure arises from the convertible note hedge on its Cash Convertible Notes. At June 30, 2010, the convertible note hedge had a total fair value of \$347.9 million, which reflects the maximum loss that would be incurred should the parties fail to perform according to the terms of the contract. The counterparties are

highly rated diversified financial institutions with both commercial and investment banking operations. The counterparties are required to post collateral against this obligation should they be downgraded below thresholds specified in the contract. Eligible collateral is comprised of a wide range of financial securities with a valuation discount percentage reflecting the associated risk.

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The Company regularly reviews the creditworthiness of its financial counterparties and does not expect to incur a significant loss from failure of any counterparties to perform under any agreements.

**Derivatives Designated as Hedging Instruments
Fair Values of Derivative Instruments**

	Liability Derivatives			
	June 30, 2010		December 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(In thousands)				
Interest rate swaps	Other current liabilities	\$ 37,862	Other current liabilities	\$ 62,607
Foreign currency forward contracts	Other current liabilities	2,575	Other current liabilities	
Foreign currency borrowings	Long-term debt	832,980	Long-term debt	978,059
Total		\$ 873,417		\$ 1,040,666

**Derivatives Not Designated as Hedging Instruments
Fair Values of Derivative Instruments**

	Asset Derivatives			
	June 30, 2010		December 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
(In thousands)				
Foreign currency forward contracts	Prepaid expenses and other current assets	\$ 2,823	Prepaid expenses and other current assets	\$ 8,793
Purchased cash convertible note hedge	Other assets	347,900	Other assets	410,600
Total		\$ 350,723		\$ 419,393

	Liability Derivatives			
	June 30, 2010		December 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value

(In thousands)

Foreign currency forward contracts	Other current liabilities	\$ 3,209	Other current liabilities	\$ 5,694
Cash conversion feature of Cash				
Convertible Notes	Long-term debt	347,900	Long-term debt	410,600
Total		\$ 351,109		\$ 416,294

Table of Contents**MYLAN INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****The Effect of Derivative Instruments on the Condensed Consolidated Statements of Operations
Derivatives in Cash Flow Hedging Relationships**

	Amount of Gain or (Loss) Recognized in AOCE (Net of Tax) on Derivative (Effective Portion)			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
(In thousands)				
Foreign currency forward contracts	\$ (7,748)	\$	\$ (2,863)	\$
Interest rate swaps	(971)	6,039	3,041	6,049
Total	\$ (8,719)	\$ 6,039	\$ 178	\$ 6,049

	Location of Gain or (Loss) Reclassified from AOCE into Earnings (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCE into Earnings (Effective Portion)			
		Three Months Ended		Six Months Ended	
		June 30,		June 30,	
		2010	2009	2010	2009
(In thousands)					
Foreign currency forward contracts	Net revenues	\$ 468	\$	\$ 879	\$
Interest rate swaps	Interest expense	(6,271)	(11,190)	(22,358)	(20,370)
Total		\$ (5,803)	\$ (11,190)	\$ (21,479)	\$ (20,370)

During the three and six months ended June 30, 2010, a gain of \$1.2 million was recognized in other (expense) income, net, related to the foreign currency forward contracts for ineffectiveness. There was no gain or loss recognized into earnings on derivatives with cash flow hedging relationships for ineffectiveness during the three or six months ended June 30, 2009.

**The Effect of Derivative Instruments on the Condensed Consolidated Statement of Operations
Derivatives in Net Investment Hedging Relationships**

	Amount of Gain or (Loss) Recognized in AOCE (Net of Tax) on Derivative (Effective Portion)			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
(In thousands)				
Foreign currency borrowings	\$ 53,394	\$ (35,745)	\$ 89,058	\$ (2,450)
Total	\$ 53,394	\$ (35,745)	\$ 89,058	\$ (2,450)

There was no gain or loss recognized into earnings on derivatives with net investment hedging relationships during the three or six months ended June 30, 2010 or 2009.

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MYLAN INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

The Effect of Derivative Instruments on the Condensed Consolidated Statement of Operations
Derivatives Not Designated as Hedging Instruments

	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2010	2009	2010	2009
(In thousands)					
Foreign currency forward contracts	Other (expense) income, net	\$ (8,210)	\$ (10,462)	\$ (23,151)	\$ (2,542)
Cash conversion feature of Cash Convertible Notes	Other (expense) income, net	183,800	55,925	62,700	(22,425)
Purchased cash convertible note hedge	Other (expense) income, net	(183,800)	(55,925)	(62,700)	22,425
Total		\$ (8,210)	\$ (10,462)	\$ (23,151)	\$ (2,542)

Fair Value Measurement

Fair value is based on the price that would be received from the sale of an identical asset or paid to transfer an identical liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy has been established that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable market-based inputs other than quoted prices in active markets for identical assets or liabilities.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers counterparty credit risk in its assessment of fair value.

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

Financial assets and liabilities carried at fair value are classified in the tables below in one of the three categories described above:

	Level 1	June 30, 2010		Total
		Level 2	Level 3	
		(In thousands)		
Financial Assets:				
Trading securities:				
Equity securities – exchange traded funds	\$ 1,577	\$	\$	\$ 1,577
Total trading securities	\$ 1,577	\$	\$	\$ 1,577
Available-for-sale fixed income investments:				
U.S. Treasuries	\$	\$ 12,561	\$	\$ 12,561
Corporate bonds		3,738		3,738
Agency mortgage-backed securities		2,253		2,253
Other		3,039		3,039
Total available-for-sale fixed income investments	\$	\$ 21,591	\$	\$ 21,591
Available-for-sale equity securities:				
Biosciences industry	\$ 623	\$	\$	\$ 623
Total available-for-sale equity securities	\$ 623	\$	\$	\$ 623
Foreign exchange derivative assets	\$	2,823	\$	\$ 2,823
Purchased cash convertible note hedge		347,900		347,900
Total assets at fair value ⁽¹⁾	\$ 2,200	\$ 372,314	\$	\$ 374,514
Financial Liabilities:				
Foreign exchange derivative liabilities	\$	\$ 5,784	\$	\$ 5,784
Interest rate swap derivative liabilities		37,862		37,862
Cash conversion feature of cash convertible notes		347,900		347,900
Total liabilities at fair value ⁽¹⁾	\$	\$ 391,546	\$	\$ 391,546

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

	Level 1	December 31, 2009		Total
		Level 2	Level 3	
		(In thousands)		
Financial Assets:				
Available-for-sale fixed income investments	\$	\$ 26,485	\$	\$ 26,485
Available-for-sale equity securities	1,074			1,074
Foreign exchange derivative assets		8,793		8,793
Purchased cash convertible note hedge		410,600		410,600
Total assets at fair value⁽¹⁾	\$ 1,074	\$ 445,878	\$	\$ 446,952
Financial Liabilities:				
Foreign exchange derivative liabilities	\$	\$ 5,694	\$	\$ 5,694
Interest rate swap derivative liabilities		62,607		62,607
Cash conversion feature of cash convertible notes		410,600		410,600
Total liabilities at fair value⁽¹⁾	\$	\$ 478,901	\$	\$ 478,901

⁽¹⁾ The Company chose not to elect the fair value option for its financial assets and liabilities that had not been previously carried at fair value. Therefore, material financial assets and liabilities not carried at fair value, such as short-term and long-term debt obligations and trade accounts receivable and payable, are still reported at their carrying values.

For financial assets and liabilities that utilize Level 2 inputs, the Company utilizes both direct and indirect observable price quotes, including the LIBOR yield curve, foreign exchange forward prices, and bank price quotes. Below is a summary of valuation techniques for Level 1 and Level 2 financial assets and liabilities:

Trading securities valued at the quoted market price from broker or dealer quotations or transparent pricing sources at the reporting date.

Available-for-sale fixed income investments valued at the quoted market price from broker or dealer quotations or transparent pricing sources at the reporting date.

Available-for-sale equity securities valued using quoted stock prices from the London Exchange at the reporting date and translated to U.S. Dollars at prevailing spot exchange rates.

Interest rate swap derivative assets and liabilities valued using the LIBOR/EURIBOR yield curves at the reporting date. Counterparties to these contracts are highly rated financial institutions, none of which experienced any significant downgrades during the six months ended June 30, 2010, that would reduce the receivable amount owed, if any, to the Company.

Foreign exchange derivative assets and liabilities valued using quoted forward foreign exchange prices at the reporting date. Counterparties to these contracts are highly rated financial institutions, none of which experienced any significant downgrades during the six months ended June 30, 2010 that would reduce the receivable amount owed, if any, to the Company.

Cash conversion feature of cash convertible notes and purchased convertible note hedge valued using quoted prices for the Company's cash convertible notes, its implied volatility and the quoted yield on the Company's other long-term debt at the reporting date. Counterparties to the purchased convertible note hedge are highly rated financial institutions, none of which experienced any significant downgrades during the six months ended June 30, 2010, that would reduce the receivable amount owed, if any, to the Company.

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MYLAN INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

Although the Company has not elected the fair value option for financial assets and liabilities, any future transacted financial asset or liability will be evaluated for the fair value election.

10. Long-Term Debt

On May 19, 2010, the Company issued \$550.0 million aggregate principal amount of 7.625% Senior Notes due 2017 (the 2017 Notes) and \$700.0 million aggregate principal amount of 7.875% Senior Notes due 2020 (the 2020 Notes) in a private offering exempt from the registration requirements of the Securities Act of 1933 (the Securities Act) to qualified institutional buyers in accordance with Rule 144A and to persons outside of the United States pursuant to Regulation S under the Securities Act. The 2017 Notes and 2020 Notes are the Company's senior unsecured obligations and are guaranteed on a senior unsecured basis by certain of the Company's domestic subsidiaries.

The 2017 Notes bear interest at a rate of 7.625% per year, accruing from May 19, 2010. Interest on the 2017 Notes is payable semiannually in arrears on January 15 and July 15 of each year, beginning on January 15, 2011. The 2017 Notes will mature on July 15, 2017, subject to earlier repurchase or redemption in accordance with the terms of the indenture. The 2020 Notes bear interest at a rate of 7.875% per year, accruing from May 19, 2010. Interest on the 2020 Notes is payable semiannually in arrears on January 15 and July 15 of each year, beginning on January 15, 2011. The 2020 Notes will mature on July 15, 2020, subject to earlier repurchase or redemption in accordance with the terms of the indenture.

The Company may redeem some or all of the 2017 Notes at any time prior to July 15, 2014, and some or all of the 2020 Notes at any time prior to July 15, 2015, in each case at a price equal to 100% of the principal amount redeemed plus accrued and unpaid interest, if any, to the redemption date and an applicable make-whole premium set forth in the indenture. On or after July 15, 2014 in the case of the 2017 Notes, and on or after July 15, 2015 in the case of the 2020 Notes, the Company may redeem some or all of the 2017 Notes and 2020 Notes of such series at redemption prices set forth in the indenture, plus accrued and unpaid interest, if any, to the redemption date. In addition, at any time prior to July 15, 2013, the Company may redeem up to 35% of the aggregate principal amount of either series of the 2017 Notes and 2020 Notes at a specified redemption price set forth in the indenture with the net cash proceeds of certain equity offerings. If the Company experiences certain change of control events, it must offer to repurchase the 2017 Notes and 2020 Notes at 101% of their principal amount, plus accrued and unpaid interest, if any, to the repurchase date.

The Company used \$1.0 billion of the net proceeds of the 2017 Notes and 2020 Notes offering to repay a portion of the U.S. Tranche B Term Loans due under the terms of its Senior Credit Agreement.

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

A summary of long-term debt is as follows:

	June 30,	December 31, 2009
	2010	(In thousands)
U.S. Tranche A Term Loans(A)	\$ 156,250	\$ 156,250
Euro Tranche A Term Loans(A)	214,874	252,299
U.S. Tranche B Term Loans(A)	1,453,760	2,453,760
Euro Tranche B Term Loans(A)	618,106	725,760
Senior Convertible Notes(B)	551,775	538,693
Cash Convertible Notes(C)	793,827	847,136
2017 Notes	550,000	
2020 Notes	700,000	
Other	15,954	17,437
	5,054,546	4,991,335
Less: Current portion	7,162	6,348
Total long-term debt	\$ 5,047,384	\$ 4,984,987

- (A) All 2010 and 2011 mandatory principal payments due under the Senior Credit Agreement were prepaid during 2009. During the quarter ended June 30, 2010, the Company also prepaid \$1.0 billion of the outstanding U.S. Tranche B Term Loans, using a portion of the net proceeds of the 2017 Notes and the 2020 Notes.
- (B) At June 30, 2010, the \$551.8 million of debt is net of a \$48.2 million discount. At December 31, 2009, the \$538.7 million debt is net of a \$61.3 million discount.
- (C) At June 30, 2010, the \$793.8 million consists of \$445.9 million of debt (\$575.0 million face amount, net of \$129.1 million discount) and the bifurcated conversion feature with a fair value of \$347.9 million recorded as a liability within long-term debt in the Condensed Consolidated Balance Sheet at June 30, 2010. Additionally, the Company has purchased call options, which are recorded as assets at their fair value of \$347.9 million within other assets in the Condensed Consolidated Balance Sheet at June 30, 2010. At December 31, 2009, the \$847.1 million consisted of \$436.5 million of debt (\$575.0 million face amount, net of \$138.5 million discount) and the bifurcated conversion feature with a fair value of \$410.6 million recorded as a liability within other long-term obligations in the Condensed Consolidated Balance Sheet. The purchased call options are assets recorded at their fair value of \$410.6 million within other assets in the Condensed Consolidated Balance Sheet at December 31, 2009.

As of June 30, 2010, because the closing price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day in the June 30, 2010 period, was more than 130% of the applicable conversion reference price of \$13.32 at June 30, 2010, the \$575.0 million of Cash Convertible

Notes was currently convertible. Although the Company's experience is that convertible debentures are not normally converted by investors until close to their maturity date, it is possible that debentures could be converted prior to their maturity date if, for example, a holder perceives the market for the debentures to be weaker than the market for the common stock. Upon an investor's election to convert, the Company is required to pay the full conversion value in cash. The amount payable per \$1,000 notional bond would be calculated as the product of (1) the conversion reference rate (currently 75.0751) and (2) the average Daily Volume Weighted Average Price per share of common stock for a specified period following the conversion date. Any payment above the principal amount is matched by a convertible note hedge.

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

Details of the interest rates in effect at June 30, 2010 and December 31, 2009, on the outstanding borrowings under the Term Loans are in the table below:

	Outstanding	June 30, 2010 Basis (In thousands)	Rate
U.S. Tranche A Term Loans	\$ 156,250	LIBOR + 2.75%	3.13%
Euro Tranche A Term Loans	\$ 214,874	EURIBO + 2.75%	3.22%
U.S. Tranche B Term Loans			
Swapped to Fixed Rate December 2010 ⁽¹⁾⁽²⁾	\$ 500,000	Fixed	6.03%
Swapped to Fixed Rate March 2010 ⁽²⁾	500,000	Fixed	5.38%
Floating Rate	453,760	LIBOR + 3.25%	3.63%
Total U.S. Tranche B Term Loans	\$ 1,453,760		
Euro Tranche B Term Loans			