MYLAN INC.
Form 10-Q
August 03, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 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 o

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 o No o

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

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

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

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 29, 2009**
$0.50 par value	305,330,880

* The registrant has not yet been phased into the interactive data requirements.

MYLAN INC. AND SUBSIDIARIES

FORM 10-Q
For the Quarterly Period Ended
June 30, 2009

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MYLAN INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

	Period Ended June 30,			
	Three Months		Six Months	
	2009	2008	2009	2008
	(Unaudited; in thousands, except per share amounts)			
Revenues:				
Net revenues	$ 1,255,798	$ 1,187,258	$ 2,424,160	$ 2,249,670
Other revenues	11,179	15,864	52,733	27,912
Total revenues	1,266,977	1,203,122	2,476,893	2,277,582
Cost of sales	739,210	788,912	1,423,393	1,513,150
Gross profit	527,767	414,210	1,053,500	764,432
Operating expenses:				
Research and development	74,016	80,753	132,853	164,599
Impairment loss on goodwill				385,000
Selling, general and administrative	279,038	259,457	518,593	512,369
Total operating expenses	353,054	340,210	651,446	1,061,968
Earnings (loss) from operations	174,713	74,000	402,054	(297,536)
Interest expense	78,172	92,386	163,175	188,865
Other income, net	25,308	7,855	29,498	14,816
Earnings (loss) before income taxes and noncontrolling interest	121,849	(10,531)	268,377	(471,585)
Income tax provision (benefit)	26,178	(28,905)	63,632	(76,026)
Net earnings (loss)	95,671	18,374	204,745	(395,559)
Net (earnings) loss attributable to the noncontrolling interest	(2,801)	72	(5,816)	2,114
Net earnings (loss) attributable to Mylan Inc. before preferred dividends	92,870	18,446	198,929	(393,445)
Preferred dividends	34,759	34,759	69,518	69,477
Net earnings (loss) attributable to Mylan Inc. common shareholders	$ 58,111	$ (16,313)	$ 129,411	$ (462,922)
Earnings (loss) per common share attributable to Mylan Inc. common shareholders:				
Basic	$ 0.19	$ (0.05)	$ 0.42	$ (1.52)

Diluted	$ 0.19	$ (0.05)	$ 0.42	$ (1.52)
Weighted average common shares outstanding:				
Basic	304,991	304,284	304,784	304,233
Diluted	306,256	304,284	305,759	304,233

See Notes to Condensed Consolidated Financial Statements

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MYLAN INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	June 30, 2009	December 31, 2008
	(Unaudited; in thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 429,477	$ 557,147
Restricted cash	56,050	40,309
Available-for-sale securities	30,117	42,260
Accounts receivable, net	1,140,605	1,164,613
Inventories	1,077,088	1,065,990
Deferred income tax benefit	188,792	199,278
Prepaid expenses and other current assets	100,446	105,076
Total current assets	3,022,575	3,174,673
Property, plant and equipment, net	1,077,726	1,063,996
Intangible assets, net	2,429,344	2,453,161
Goodwill	3,179,083	3,161,580
Deferred income tax benefit	32,968	16,493
Other assets	500,988	539,956
Total assets	$ 10,242,684	$ 10,409,859
LIABILITIES AND EQUITY		
Liabilities		
Current liabilities:		
Trade accounts payable	$ 443,473	$ 498,815
Short-term borrowings	152,274	151,109
Income taxes payable	91,601	92,158
Current portion of long-term debt and other long-term obligations	6,365	5,099
Deferred income tax liability	2,515	1,935
Other current liabilities	725,189	795,534
Total current liabilities	1,421,417	1,544,650
Long-term debt	4,978,289	5,078,937
Other long-term obligations	412,866	422,052
Deferred income tax liability	517,824	577,379
Total liabilities	7,330,396	7,623,018
Equity		
Mylan Inc. shareholders equity		

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 and 600,000,000 as of June 30, 2009 and December 31, 2008				
Shares issued: 395,501,142 and 395,368,062 as of June 30, 2009 and December 31, 2008		197,751		197,684
Additional paid-in capital		3,849,863		3,955,725
Retained earnings		696,006		566,594
Accumulated other comprehensive loss		(270,750)		(380,802)
		4,473,940		4,340,271
Noncontrolling interest		16,235		29,108
Less treasury stock at cost				
Shares: 90,380,527 and 90,635,441 as of June 30, 2009 and December 31, 2008		1,577,887		1,582,538
Total equity		2,912,288		2,786,841
Total liabilities and equity	$	10,242,684	$	10,409,859

See Notes to Condensed Consolidated Financial Statements

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MYLAN INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(Unaudited; in thousands)	
Cash flows from operating activities:		
Net earnings (loss)	$ 204,745	$ (395,559)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation and amortization	193,361	220,186
Stock-based compensation expense	14,652	15,579
Net earnings from equity method investees	(1,286)	(2,632)
Change in estimated sales allowances	36,911	47,716
Deferred income tax benefit	(76,619)	(205,611)
Impairment loss on goodwill		385,000
Other non-cash items	27,251	14,942
Litigation settlements, net	(2,751)	(1,856)
Changes in operating assets and liabilities:		
Accounts receivable	48,643	(166,777)
Inventories	22,221	(60,257)
Trade accounts payable	(63,172)	777
Income taxes	27,487	34,535
Deferred revenue	(26,241)	348,445
Other operating assets and liabilities, net	(68,986)	(72,237)
Net cash provided by operating activities	336,216	162,251
Cash flows from investing activities:		
Capital expenditures	(53,007)	(70,950)
Increase in restricted cash	(16,029)	(40,000)
Cash paid for acquisitions	(173,359)	
Proceeds from sale of equity-method investee	23,333	
Purchase of available-for-sale securities	(1,086)	(17,509)
Proceeds from sale of available-for-sale securities	13,205	55,558
Other items, net	620	(10,180)
Net cash used in investing activities	(206,323)	(83,081)
Cash flows from financing activities:		
Cash dividends paid	(69,518)	(67,977)
Payment of financing fees		(421)
Change in short-term borrowings, net	(18,736)	41,003
Proceeds from long-term debt		7,761

Payment of long-term debt	(172,164)	(76,357)
Proceeds from exercise of stock options	1,417	633
Other items, net	(23)	(5)
Net cash used in financing activities	(259,024)	(95,363)
Effect on cash of changes in exchange rates	1,461	10,499
Net decrease in cash and cash equivalents	(127,670)	(5,694)
Cash and cash equivalents beginning of period	557,147	484,202
Cash and cash equivalents end of period	$ 429,477	$ 478,508

See Notes to Condensed Consolidated Financial Statements

MYLAN INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. General

In the opinion of management, 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, as amended, for the fiscal year ended December 31, 2008.

The interim results of operations for the three and six months ended June 30, 2009 and the interim cash flows for the six months ended June 30, 2009 are not necessarily indicative of the results to be expected for the full fiscal year or any other future period.

2. Revenue Recognition and Accounts Receivable

Revenue is recognized for product sales when title and risk of loss pass 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 six months ended June 30, 2009. Accounts receivable are presented net of allowances relating to these provisions. Such allowances were $513.3 million and $496.5 million as of June 30, 2009 and December 31, 2008. Other current liabilities include $259.0 million and $238.9 million at June 30, 2009 and December 31, 2008, for certain rebates and other adjustments that are payable to indirect customers.

3. Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles A Replacement of FASB Statement No. 162* (SFAS No. 168). SFAS No. 168 establishes the *FASB Accounting Standards Codification*[tm] (Codification) as the single source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. SFAS No. 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. When effective, the Codification will supersede all existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. Following SFAS No. 168, the FASB will not issue new standards in the form of Statements, FASB Staff Positions (FSP), or Emerging Issues Task Force (EITF) Abstracts. Instead, the FASB will issue Accounting Standards Updates, which will serve only to: (*a*) update the Codification; (*b*) provide background information about the guidance; and (*c*) provide the bases for conclusions on the change(s) in the Codification. The adoption of SFAS No. 168 will not have a material impact on the Company s Condensed Consolidated Financial Statements.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets an amendment of SFAS No. 140* (SFAS No. 166). SFAS No. 166 is a revision to FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* and will require more disclosures about transfers of financial assets, including securitization transactions and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a qualifying special-purpose entity,

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MYLAN INC. AND SUBSIDIARIES

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

changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS No. 166 enhances disclosures reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity s continuing involvement in transferred financial assets. SFAS No. 166 is effective for fiscal years beginning after November 15, 2009. Early application is not permitted. The Company is currently evaluating the impact on its consolidated financial statements of adopting SFAS No. 166.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS No. 165). SFAS No. 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for interim or annual periods ending after June 15, 2009 and will be applied prospectively. The Company adopted the requirements of this standard for the quarter ended June 30, 2009. The adoption of SFAS No. 165 did not have a material impact on the Company s Condensed Consolidated Financial Statements (see Note 17).

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP No. FAS 115-2 and FAS 124-2). FSP No. FAS 115-2 and FAS 124-2 amends SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations,* and EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*, to make the other-than-temporary impairments guidance more operational and to improve the presentation of other-than-temporary impairments in the financial statements. This standard replaces the existing requirement that the entity s management assert it has both the intent and ability to hold an impaired debt security until recovery with a requirement that management assert it does not have the intent to sell the security, and it is more likely than not it will not have to sell the security before recovery of its cost basis. The Company adopted the requirements of this standard as of June 30, 2009. The adoption of FSP No. FAS 115-2 and FAS 124-2 did not have a material impact on the Company s Condensed Consolidated Financial Statements.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP No. FAS 107-1 and APB 28-1). FSP No. FAS 107-1 and APB 28-1 requires companies to disclose in interim financial statements the fair value of financial instruments within the scope of FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*. However, companies are not required to provide in interim periods the disclosures about the concentration of credit risk of all financial instruments that are currently required in annual financial statements. The fair-value information disclosed in the footnotes must be presented together with the related carrying amount, making it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amount relates to what is reported in the balance sheet. FSP No. FAS 107-1 and APB 28-1 also requires that companies disclose the method or methods and significant assumptions used to estimate the fair value of financial instruments and a discussion of changes, if any, in the method or methods and significant assumptions during the period. The Company adopted the requirements of this standard as of June 30, 2009. The adoption of FSP No. FAS 107-1 and APB 28-1 did not have a material impact on the Company s Condensed Consolidated Financial Statements.

On January 1, 2009, the Company adopted FSP No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)* (FSP No. APB 14-1). Under the new rules, for convertible debt instruments (including the Company s Senior Convertible Notes) that may be settled entirely or partially in cash upon conversion, entities now separately account for the liability and equity components of the instrument in a manner that reflects the issuer s economic interest cost. The effect of the new rules, as they apply to the Company s Senior Convertible Notes, is that the equity component is included in the additional paid-in capital section of shareholders equity on the Company s consolidated balance sheet and the value of the equity component is treated as an original issue discount for purposes of accounting for the debt

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MYLAN INC. AND SUBSIDIARIES

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

component. Higher interest expense results through the accretion of the discounted carrying value of the Senior Convertible Notes to their face amount over their term. FSP No. APB 14-1 requires retrospective application as disclosed below.

On January 1, 2009, the Company adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard defines a noncontrolling interest, sometimes called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. SFAS No. 160 requires, among other items, that a noncontrolling interest be included in the consolidated balance sheet within equity separate from the parent s equity; consolidated net income to be reported at amounts inclusive of both the parent s and noncontrolling interest s shares and, separately, the amounts of consolidated net income attributable to the parent and noncontrolling interest all on the consolidated statement of operations; and if a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be measured at fair value and a gain or loss be recognized in net income based on such fair value.

The Company s Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2008, as originally reported and as adjusted for the adoption of FSP No. APB 14-1 and SFAS No. 160, are as follows:

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2008 As Adjusted
	(In thousands, except per share amounts)	
Interest expense	$ 86,489	$ 92,386
Loss before income taxes and noncontrolling interest	(4,634)	(10,531)
Income tax benefit	(30,955)	(28,905)
Net earnings	26,321	18,374
Net loss attributable to the noncontrolling interest	72	72
Net loss attributable to Mylan Inc. common shareholders	(8,366)	(16,313)
Loss per common share attributable to Mylan Inc.:		
Basic	$ (0.03)	$ (0.05)
Diluted	$ (0.03)	$ (0.05)
Weighted average common shares outstanding:		
Basic	304,284	304,284
Diluted	304,284	304,284

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MYLAN INC. AND SUBSIDIARIES

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

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2008 As Adjusted
	(In thousands, except per share amounts)	
Interest expense	$ 177,236	$ 188,865
Loss before income taxes and noncontrolling interest	(459,956)	(471,585)
Income tax benefit	(75,060)	(76,026)
Net loss	(384,896)	(395,559)
Net loss attributable to the noncontrolling interest	2,114	2,114
Net loss attributable to Mylan Inc. common shareholders	(452,259)	(462,922)
Loss per common share attributable to Mylan Inc.:		
Basic	$ (1.49)	$ (1.52)
Diluted	$ (1.49)	$ (1.52)
Weighted average common shares outstanding:		
Basic	304,233	304,233
Diluted	304,233	304,233

The Company s Condensed Consolidated Balance Sheet as originally reported and as adjusted for the adoption of FSP No. APB 14-1 and SFAS 160, is as follows:

	December 31, 2008	December 31, 2008 As Adjusted
	(In thousands)	
Liabilities and equity		
Liabilities		
Long-term debt	$ 5,165,419	$ 5,078,937
Deferred income tax liability	545,121	577,379
Total liabilities	7,677,242	7,623,018
Minority interest	29,108	
Equity		
Mylan Inc. shareholders equity		
Additional paid-in capital	3,873,743	3,955,725
Retained earnings	594,352	566,594

Noncontrolling interest		29,108
Total equity	2,703,509	2,786,841

4. Acquisitions and Other Transactions

Acquisition of the Remaining Interest in Matrix Laboratories Limited

On March 26, 2009, the Company announced its 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. On June 1, 2009, Mylan announced that it had successfully completed the delisting offer and accepted the discovered price of 211 Rupees per share, which was established by the reverse book building process prescribed by Indian regulations. As of June 30, 2009, the Company completed the purchase of

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MYLAN INC. AND SUBSIDIARIES

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

approximately 19% of the remaining interest from the minority shareholders of Matrix for cash of approximately $134.5 million, bringing the Company s total ownership to approximately 90% and control to approximately 95% of its voting rights. On July 31, 2009, the Company received notice of approval of the delisting application. Matrix s stock will be suspended from trading on the Bombay and National Stock Exchanges effective August 14, 2009 and will be delisted effective August 21, 2009. Minority shareholders who have not yet tendered their shares may do so during a six-month period following the delisting. The purchase was treated as an equity transaction as required by SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)). Under SFAS No. 141(R), subsequent increases or decreases of ownership that do not result in a change in control are accounted for as equity transactions.

Termination of Joint Ventures

During the quarter ended June 30, 2009, Matrix and Aspen Pharmacare Holdings Limited (Aspen) terminated two joint ventures in which each held a 50% share; Astrix Laboratories Limited (Astrix) and Fine Chemicals Corporation (FCC). Under the agreed upon terms, Matrix sold its 50% interest in FCC to Aspen for $23.3 million. At the same time, a wholly-owned subsidiary of Mylan purchased from Aspen its 50% interest in Astrix for $38.9 million. These transactions resulted in a net gain of approximately $10.4 million, which is included in other income, net, in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2009. As of the date of purchase, June 1, 2009, the results of Astrix were consolidated with those of Mylan.

The Company accounted for the acquisition of the remaining 50% of Astrix using 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 preliminary estimate of their respective fair values. The purchase price allocation is preliminary and is based on the information that was available as of the acquisition date. Management believes that the information provides a reasonable basis for allocating the purchase price, but the Company is awaiting additional information necessary to finalize the purchase price allocation. The fair values reflected in the consolidated financial statements may be adjusted, and such adjustments could be significant. The Company expects the purchase price allocation to be finalized as soon as possible but no later than one year from the acquisition date.

Biologics Agreement

On June 29, 2009, Mylan announced that it has executed a definitive agreement with Biocon Limited (Biocon), a publicly traded company on the Indian stock exchanges, for an exclusive collaboration on the development, manufacturing, supply and commercialization of multiple, high value generic biologic compounds for the global marketplace.

As part of this collaboration, Mylan and Biocon will share development, capital and certain other costs to bring products to market. Mylan will have exclusive commercialization rights in the U.S., Canada, Japan, Australia, New Zealand and in the European Union and European Free Trade Association countries through a profit sharing arrangement with Biocon. Mylan will have co-exclusive commercialization rights with Biocon in all other markets around the world. In conjunction with executing this agreement, Mylan recorded a non-recurring research and development charge related to its up-front, non-refundable obligation pursuant to the agreement.

5. Impairment of Long-lived Assets Including Goodwill

On February 27, 2008, the Company announced that it was reviewing strategic alternatives for its specialty business, Dey, L.P. (Dey), including the potential sale of the business. This decision was based upon several factors, including a strategic review of the business, the expected performance of the Perforomist® product, where anticipated growth was determined to be slower than expected and the timeframe to reach peak sales was determined to be longer than was originally anticipated.

MYLAN INC. AND SUBSIDIARIES

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

As a result of the Company s ongoing review of strategic alternatives, the Company determined that it was more likely than not that the business would be sold or otherwise disposed of significantly before the end of its previously estimated useful life. Accordingly, a recoverability test of Dey s long-lived assets was performed during the three months ended March 31, 2008 in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company included both cash flow projections and estimated proceeds from the eventual disposition of the long-lived assets. The estimated undiscounted future cash flows exceeded the book values of the long-lived assets and, as a result, no impairment charge was recorded.

Upon the closing of the former Merck Generics business transaction, Dey was defined as the Specialty Segment under the provisions of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. Dey is also considered a reporting unit under the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). Upon closing of the transaction, the Company allocated $711.2 million of goodwill to Dey.

The Company tests goodwill for possible impairment on an annual basis and at any other time events occur or circumstances indicate that the carrying amount of goodwill may be impaired. As the Company had determined that it was more likely than not that the business would be sold or otherwise disposed of significantly before the end of its previously estimated useful life, the Company was required, during the three months ended March 31, 2008, to assess whether any portion of its recorded goodwill balance was impaired.

The first step of the SFAS No. 142 impairment analysis consisted of a comparison of the fair value of the reporting unit with its carrying amount, including the goodwill. The Company performed extensive valuation analyses, utilizing both income and market-based approaches, in its goodwill assessment process. The following describes the valuation methodologies used to derive the estimated fair value of the reporting unit.

Income Approach: To determine fair value, the Company discounted the expected future cash flows of the reporting unit, using a discount rate, which reflected the overall level of inherent risk and the rate of return an outside investor would have expected to earn. To estimate cash flows beyond the final year of its model, the Company used a terminal value approach. Under this approach, the Company used estimated operating income before interest, taxes, depreciation and amortization in the final year of its model, adjusted to estimate a normalized cash flow, applied a perpetuity growth assumption, and discounted by a perpetuity discount factor to determine the terminal value. The Company incorporated the present value of the resulting terminal value into its estimate of fair value.

Market-Based Approach: To corroborate the results of the income approach described above, Mylan estimated the fair value of its reporting unit using several market-based approaches, including the guideline company method which focused on comparing its risk profile and growth prospects to a select group of publicly traded companies with reasonably similar guidelines.

Based on the SFAS No. 142 step one analysis that was performed for Dey, the Company determined that the carrying amount of the net assets of the reporting unit was in excess of its estimated fair value. As such, the Company was required to perform the step two analysis for Dey, in order to determine the amount of any goodwill impairment. The step two analysis consisted of comparing the implied fair value of the goodwill with the carrying amount of the goodwill, with an impairment charge resulting from any excess of the carrying value of the goodwill over the implied fair value of the goodwill based on a hypothetical allocation of the estimated fair value to the net assets. Based on the second step analysis, the Company concluded that $385.0 million of the goodwill recorded at Dey was impaired. As a result, the Company recorded a non-cash goodwill impairment charge of $385.0 million during the three months ended March 31, 2008, which represented the Company s best estimate as of March 31, 2008. The allocation discussed above was performed only for purposes of assessing goodwill for impairment; accordingly, Mylan did not adjust the net book value of the assets and liabilities on the Company s Condensed Consolidated Balance Sheet, other than goodwill, as a result of this process.

MYLAN INC. AND SUBSIDIARIES

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

The determination of the fair value of the reporting unit required the Company to make significant estimates and assumptions that affect the reporting unit s expected future cash flows. These estimates and assumptions primarily include, but are not limited to, the discount rate, terminal growth rates, operating income before depreciation and amortization, and capital expenditures forecasts. Due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates. In addition, changes in underlying assumptions would have a significant impact on either the fair value of the reporting unit or the goodwill impairment charge.

The hypothetical allocation of the fair value of the reporting unit to individual assets and liabilities within the reporting unit also required the Company to make significant estimates and assumptions. The hypothetical allocation required several analyses to determine the estimate of the fair value of assets and liabilities of the reporting unit.

In September 2008, following the completion of the comprehensive review of strategic alternatives for Dey, the Company announced its decision to retain the Dey business. This decision included a plan to realign the business. As a result, the Company expects to incur severance and other exit costs (see Note 14). In addition, the comprehensive review resulted in the impairment of intangible assets related to certain non-core, insignificant, third-party products in December 2008.

6. Stock-Based Incentive Plan

Mylan s shareholders approved the *2003 Long-Term Incentive Plan* on July 25, 2003, and approved certain amendments on July 28, 2006, April 25, 2008 and May 7, 2009 (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. 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 amended 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, the *1997 Incentive Stock Option Plan* (the 1997 Plan) was frozen, and no further grants of stock options will be made under that plan. However, there are stock options outstanding from the 1997 Plan, 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, 2008	23,423,041	$ 15.32
Options granted	2,717,394	12.61
Options exercised	(143,319)	10.75

Options forfeited	(1,135,974)		14.35
Outstanding at June 30, 2009	24,861,142	$	15.09
Vested and expected to vest at June 30, 2009	23,624,165	$	15.13
Options exercisable at June 30, 2009	16,064,919	$	15.69

As of June 30, 2009, options outstanding, options vested and expected to vest, and options exercisable had average remaining contractual terms of 5.87 years, 5.74 years and 4.41 years, respectively. Also at June 30, 2009, options outstanding, options vested and expected to vest and options exercisable had aggregate intrinsic values of $14.7 million, $14.0 million and $9.1 million, respectively.

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

A summary of the status of the Company s nonvested restricted stock and restricted stock unit awards as of June 30, 2009 and the changes during the six months ended June 30, 2009, are presented below:

Restricted Stock Awards	Number of Restricted Stock Awards	Weighted Average Grant-Date Fair Value per Share
Nonvested at December 31, 2008	2,543,348	$ 13.46
Granted	863,069	12.73
Released	(515,751)	14.98
Forfeited	(144,300)	11.67
Nonvested at June 30, 2009	2,746,366	$ 13.05

As of June 30, 2009, the Company had $36.6 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 1.73 years. The total intrinsic value of stock-based awards exercised and restricted stock units converted during the six months ended June 30, 2009 and June 30, 2008 was $7.4 million and $1.5 million.

7. Balance Sheet Components

Selected balance sheet components consist of the following:

	June 30, 2009	December 31, 2008
	(In thousands)	
Inventories:		
Raw materials	$ 269,809	$ 273,232
Work in process	160,320	157,473
Finished goods	646,959	635,285
	$ 1,077,088	$ 1,065,990
Property, plant and equipment:		
Land and improvements	$ 63,186	$ 56,945
Buildings and improvements	607,900	577,182
Machinery and equipment	1,074,891	1,012,748
Construction in progress	99,007	110,721

		1,844,984		1,757,596
Less accumulated depreciation		767,258		693,600
	$	1,077,726	$	1,063,996
Other current liabilities:				
Payroll and employee benefit plan accruals	$	160,540	$	181,316
Accrued rebates		259,012		238,886
Fair value of financial instruments		70,014		91,797
Legal and professional accruals		65,726		71,813
Restructuring reserves		62,285		75,100
Other		107,612		136,622
	$	725,189	$	795,534

MYLAN INC. AND SUBSIDIARIES

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

8. Earnings (Loss) per Common Share attributable to Mylan Inc.

Basic earnings (loss) per common share is computed by dividing net earnings (loss) attributable to Mylan Inc. common shareholders by the weighted average number of shares outstanding during the period. Diluted earnings (loss) per common share is computed by dividing net earnings (loss) 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 our common stock, subject to anti-dilution adjustments, depending on the average stock price of our 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, 2009, the if-converted method was anti-dilutive; therefore, the preferred stock conversion was excluded from the computation of diluted earnings per share. Under the provisions of the if-converted method, the preferred stock is assumed to be converted and included in the denominator and the preferred share dividend is added back to the numerator.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands, except per share amounts)			
Basic earnings (loss) attributable to Mylan Inc. common shareholders (numerator):				
Net earnings (loss) attributable to Mylan Inc. before preferred dividends	$ 92,870	$ 18,446	$ 198,929	$ (393,445)
Less: Preferred dividends	34,759	34,759	69,518	69,477
Net earnings (loss) attributable to Mylan Inc. common shareholders	$ 58,111	$ (16,313)	$ 129,411	$ (462,922)
Shares (denominator):				
Weighted average shares outstanding	304,991	304,284	304,784	304,233
Basic earnings (loss) per common share attributable to Mylan Inc.	$ 0.19	$ (0.05)	$ 0.42	$ (1.52)
Diluted earnings (loss) attributable to Mylan Inc. common shareholders (numerator):				
	$ 58,111	$ (16,313)	$ 129,411	$ (462,922)

Net earnings (loss) attributable to Mylan Inc. common shareholders				
Add: Preferred dividends				
Earnings (loss) attributable to Mylan Inc. common shareholders and assumed conversions	$ 58,111	$ (16,313)	$ 129,411	$ (462,922)
Shares (denominator):				
Stock-based awards	1,265			