MYLAN LABORATORIES INC
Form 10-K
May 30, 2007

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, DC 20549**

# FORM 10-K

**þ Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the Fiscal Year Ended March 31, 2007**
**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 No. 1-9114**

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

| **Pennsylvania** | **25-1211621** |
|---|---|
| (State of Incorporation) | (IRS Employer Identification No.) |

**1500 Corporate Drive, Canonsburg, Pennsylvania 15317**
**(724) 514-1800**
(Address, including zip code, and telephone number, including area code, of principal executive offices)

**Securities registered pursuant to Section 12(b) of the Act:**

| **Title of Each Class:** | **Name of Each Exchange on Which Registered:** |
|---|---|
| Common Stock, par value $0.50 per share | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o

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

The aggregate market value of the outstanding common stock, other than shares held by persons who may be deemed affiliates of the registrant, as of September 30, 2006, the last business day of the registrant s most recently completed second fiscal quarter, was approximately $4,151,843,863.

The number of outstanding shares of common stock of the registrant as of May 18, 2007, was 248,658,693.

**DOCUMENTS INCORPORATED BY REFERENCE**

| Document | Parts of Form 10-K into which Document is Incorporated |
|---|---|
| Proxy Statement for the 2007 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant s fiscal year ended March 31, 2007. | III |

**MYLAN LABORATORIES INC.**

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## PART I

### ITEM 1. Business

Mylan Laboratories Inc. and its subsidiaries (the Company , Mylan or we ) develop, license, manufacture, market and distribute generic, brand and branded generic pharmaceutical products and active pharmaceutical ingredients ( API ). The Company was incorporated in Pennsylvania in 1970. References herein to a fiscal year shall mean the 12 months ended March 31.

**Overview of Our Business**

Prescription pharmaceutical products in the United States ( U.S. ) are generally marketed as either brand or generic drugs. Brand products are marketed under brand names through marketing programs that are designed to generate physician and consumer loyalty. Brand products generally are patent protected, which provides a period of market exclusivity during which they are sold with little or no competition. Additionally, brand products may benefit from other periods of non-patent, market exclusivity. Exclusivity generally provides brand products with the ability to maintain their profitability for relatively long periods of time. Brand products generally continue to have a significant role in the market after the end of patent protection or other market exclusivities due to physician and consumer loyalties.

Generic pharmaceutical products are the chemical and therapeutic equivalents of reference brand drugs. A reference brand drug is an approved drug product listed in the U.S. Food and Drug Administration ( FDA ) publication entitled *Approved Drug Products with Therapeutic Equivalence Evaluations*, popularly known as the Orange Book. The Drug Price Competition and Patent Term Restoration Act of 1984 ( Waxman-Hatch Act ) provides that generic drugs may enter the market after the approval of an Abbreviated New Drug Application ( ANDA ) and the expiration, invalidation or circumvention of any patents on the corresponding brand drug, or the end of any other market exclusivity periods related to the brand drug. Generic drugs are bioequivalent to their brand name counterparts. Accordingly, generic products provide a safe, effective and cost-efficient alternative to users of these brand products. Branded generic pharmaceutical products are generic products that are more responsive to the promotion efforts generally used to promote brand products. Growth in the generic pharmaceutical industry has been and will continue to be driven by the increased market acceptance of generic drugs, as well as the number of brand drugs for which patent terms and/or other market exclusivities have expired.

We obtain new generic products primarily through internal product development. Additionally, we license or co-develop products through arrangements with other companies. New generic product approvals are obtained from the FDA through the ANDA process, which requires us to demonstrate bioequivalence to a reference brand product. Generic products are generally introduced to the marketplace at the expiration of patent protection for the brand product or at the end of a period of non-patent market exclusivity. However, if an ANDA applicant files an ANDA containing a certification of invalidity, non-infringement or unenforceability related to a patent listed in the Orange Book with respect to a reference drug product, that generic equivalent may be able to be marketed prior to the expiration of patent protection for the brand product. Such patent certification is commonly referred to as a Paragraph IV certification. An ANDA applicant that is first to file a Paragraph IV certification is eligible for a period of generic marketing exclusivity. This exclusivity, which under certain circumstances may be required to be shared with other applicable ANDA sponsors with Paragraph IV certifications, lasts for 180 days during which the FDA cannot grant final approval to other ANDA sponsors holding applications for the same generic equivalent.

An ever-increasing trend in the pharmaceutical industry involves the practice of authorized generics . This occurs when the patent or New Drug Application ( NDA ) holder sells its brand product as a generic, often through a licensing agreement with a generic company or through a subsidiary, at the same time other generic competition enters the market. This practice has the most significant impact on a generic company that is entitled to the 180-day exclusivity period described above or that would otherwise be the only company on the market with a generic product being sold under an approved ANDA. This practice may effectively eliminate the 180-day exclusivity period if launched at the beginning of the generic company s exclusivity period and, exclusivity aside, could significantly lower the price at which the generic company could otherwise sell its product upon launch. Additionally, this could affect the extent to which Paragraph IV challenges are pursued by generic companies.

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We have attained a position of leadership in the generic industry through our ability to obtain ANDA approvals, our uncompromising quality control and our devotion to customer service. We continue to bolster our traditional solid oral dose products with unit dose, transdermal and extended release products. We have entered into strategic alliances with several pharmaceutical companies through product development, distribution and licensing agreements that provide us with additional opportunities to broaden our product line.

On May 12, 2007, Mylan and Merck KGaA announced the signing of a definitive agreement under which Mylan will acquire Merck s generics business ( Merck Generics ) for Euro 4.9 billion (approximately $6.7 billion) in an all-cash transaction. Management believes that the combination of Mylan and Merck Generics will create a vertically and horizontally integrated generics and specialty pharmaceuticals leader with a diversified revenue base and a global footprint, and also believes the combined company will be among the top tier of global generic companies, with a significant presence in the top five global generics markets. The transaction remains subject to regulatory review in relevant jurisdictions and certain other customary closing conditions and is expected to close in the second half of calendar 2007.

In conjunction with the Merck Generics transaction, the Company entered into a deal-contingent foreign currency option contract in order to mitigate the risk of foreign currency exposure. The contract is contingent upon the closing of this acquisition and the premium of approximately $121.9 million will be paid only upon such closing. The Company will account for this instrument under the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 133, *Accounting for Derivative Instruments and Hedging Activities.* This instrument does not qualify for hedge accounting treatment under SFAS No. 133 and, therefore, will be adjusted to fair value at each reporting date with the change in the fair value of the instrument recorded in earnings.

On August 28, 2006, Mylan announced that it agreed to acquire a controlling interest in Matrix Laboratories Limited ( Matrix ), a publicly traded Indian company, for 306 rupees per Matrix share. On December 21, 2006, in accordance with the terms of the transaction, Mylan completed an open offer in which it acquired approximately 20% of Matrix s shares outstanding for approximately $210.6 million. On January 8, 2007, Mylan purchased approximately 51.5% of Matrix s shares outstanding pursuant to an agreement with certain selling shareholders for approximately $545.6 million. Certain selling shareholders of Matrix used approximately $168.0 million of their proceeds from the sale to purchase approximately 8.1 million shares of Mylan Laboratories Inc. common stock. The results of operations of Matrix have been consolidated since January 8, 2007.

Matrix is primarily engaged in the manufacture of API and solid oral dosage products. Matrix has a wide range of products in multiple therapeutic categories and focuses on developing APIs with non-infringing processes to partner with generic manufacturers in regulated markets at market formation.

With the addition of Matrix, Mylan will now report as two reportable segments, the Mylan Segment and the Matrix Segment . Mylan previously reported as one segment. In accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, information for earlier periods has been recast.

*The Mylan Segment*

The Mylan Segment operates through three principal subsidiaries, Mylan Pharmaceuticals Inc. ( MPI ), UDL Laboratories, Inc. ( UDL ) and Mylan Technologies Inc. ( Mylan Tech ), all of which are wholly owned subsidiaries of Mylan. MPI is our primary pharmaceutical research, development, manufacturing, marketing and distribution subsidiary. MPI s net revenues are derived primarily from the sale of solid oral dosage products. Additionally, MPI s net revenues are augmented by transdermal patch products that are developed and manufactured by Mylan Tech. UDL packages and markets products, either obtained from MPI or purchased from third parties, in unit dose formats, for use

primarily in hospitals and other medical institutions.

The Mylan Segment manufactures over 93% of all doses it sells. Our product portfolio is one of the largest among all U.S. generic pharmaceutical companies, consisting of approximately 170 products, of which approximately 160 are in capsule or tablet form in an aggregate of approximately 400 dosage strengths. Included in these totals are 15 extended release products in a total of 38 dosage strengths. Additionally, our product portfolio includes four transdermal patch products in a total of 18 dosage strengths that are developed and manufactured by Mylan Tech.

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In addition to those products that we manufacture, we also market, principally through UDL, 72 generic products in a total of 118 dosage strengths under supply and distribution agreements with other pharmaceutical companies. We believe that the breadth of our product offerings allows us to successfully meet our customers demands and helps us to better compete in the generic industry over the long term.

Approximately 14%, 17% and 18% of Mylan Segment net revenues in fiscal years 2007, 2006 and 2005, respectively, were contributed by calcium channel blockers, primarily nifedipine. Additionally, approximately 19% of Mylan Segment net revenues in fiscal 2007 and 15% of Mylan Segment net revenues in fiscal year 2006 were contributed by narcotic agonist analgesics, primarily fentanyl.

The future success of our generic products is partially dependent upon continued increasing market acceptance of generic products as substitutes for existing products. Additionally, we expect that our future growth will result from regularly launching new products, including an emphasis on the development or acquisition of new products that may attain FDA first-to-file status, as well as the pursuit of products that are difficult to formulate or for which the API is difficult to obtain. In addition, for generic and branded generic products, we intend to continue to seek complementary strategic acquisitions of products as well as companies such as Merck Generics.

*The Matrix Segment*

Matrix is the world s second largest API manufacturer with respect to the number of Drug Master Files ( DMF ) filed with regulatory agencies and has more than 174 APIs in the market or under development. Matrix is a fast growing API manufacturer, with a focus on regulated markets such as the U.S. and the European Union ( EU ).

In Europe, the Matrix Segment operates through Docpharma, its wholly owned subsidiary and a leading distributor and marketer of branded generic pharmaceutical products in Belgium, the Netherlands and Luxembourg. Matrix also has investments in companies located in China, South Africa and India.

Included in Matrix s product portfolio are anti-retroviral APIs, used in the treatment of HIV. Matrix is currently the world s largest supplier of generic anti-retroviral APIs, supplying more than 50% of the total market.

Matrix has 10 API and intermediate manufacturing facilities and one finished dosage form ( FDF ) facility. Of these, seven are U.S. FDA approved for API manufacturing, making Matrix one of the largest companies in India in terms of FDA-approved API manufacturing capacity. The FDF facility is also U.S. FDA approved.

**Product Development**

Research and development efforts are conducted primarily to enable us to develop, manufacture and market FDA-approved pharmaceuticals in accordance with FDA regulations. With the acquisition of Matrix, we will look to further bolster our product pipeline in terms of both geographic reach and portfolio diversity. On a consolidated basis, research and development expenses, excluding $147.0 million of acquired in process research and development, were $103.7 million, $102.4 million and $88.3 million in fiscal 2007, 2006 and 2005, respectively. Our research and development strategy includes the following areas:

- development of controlled-release technologies and the application of these technologies to reference products;

- development of NDA and ANDA transdermal and polymer film products;

development of drugs technically difficult to formulate or manufacture because of either unusual factors that affect their stability or bioequivalence or unusually stringent regulatory requirements;

development of drugs that target smaller, specialized or underserved markets;

development of generic drugs that represent first-to-file opportunities;

expansion of our existing solid oral dosage product portfolio, including with respect to additional dosage strengths;

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completion of additional preclinical and clinical studies for approved NDA products required by the FDA, known as post-approval (Phase IV) commitments; and

conducting life cycle management studies intended to further define the profile of products subject to pending or approved NDAs.

All applications for FDA approval must contain information relating to product formulation, raw material suppliers, stability, manufacturing processes, packaging, labeling and quality control. Information to support the bioequivalence of generic drug products or the safety and effectiveness of new drug products for their intended use is also required to be submitted. There are generally two types of applications used for obtaining FDA approval of new products:

*New Drug Application ( NDA ).* An NDA is filed when approval is sought to market a drug with active ingredients that have not been previously approved by the FDA. NDAs are filed for newly developed brand products and, in certain instances, for a new dosage form, a new delivery system, or a new indication for previously approved drugs.

*Abbreviated New Drug Application ( ANDA ).* An ANDA is filed when approval is sought to market a generic equivalent of a drug product previously approved under an NDA and listed in the FDA s Orange Book or for a new dosage strength or a new delivery system for a drug previously approved under an ANDA.

One requirement for FDA approval of NDAs and ANDAs is that our manufacturing procedures and operations conform to FDA requirements and guidelines, generally referred to as current Good Manufacturing Practices ( cGMP ). The requirements for FDA approval encompass all aspects of the production process, including validation and recordkeeping, and involve changing and evolving standards.

*Generic Product Development*

FDA approval of an ANDA is required before marketing a generic equivalent of a drug approved under an NDA in the U.S. or for a previously unapproved dosage strength or delivery system for a drug approved under an ANDA. The ANDA development process is generally less time consuming and complex than the NDA development process. It typically does not require new preclinical and clinical studies because it relies on the studies establishing safety and efficacy conducted for the drug previously approved through the NDA process. The ANDA process, however, does require one or more bioequivalence studies to show that the ANDA drug is bioequivalent to the previously approved drug. Bioequivalence compares the bioavailability of one drug product with that of another formulation containing the same active ingredient. When established, bioequivalence confirms that the rate of absorption and levels of concentration in the bloodstream of a formulation of the previously approved drug and the generic drug are equivalent. Bioavailability indicates the rate and extent of absorption and levels of concentration of a drug product in the bloodstream needed to produce the same therapeutic effect.

Supplemental ANDAs are required for approval of various types of changes to an approved application, and these supplements may be under review for six months or more. In addition, certain types of changes may be approved only once new bioequivalence studies are conducted or other requirements are satisfied.

During fiscal 2007, the Mylan Segment received 29 application approvals from the FDA, consisting of 15 final ANDA approvals, nine tentative ANDA approvals, four supplemental ANDA approvals, and one tentative supplemental ANDA approval. In the twelve months ended March 31, 2007, the Matrix Segment made 28 regulatory filings for finished dosage forms, including 12 with the FDA, six with the European regulatory agencies and 10 with the World Health Organization. Also during the twelve months ended March 31, 2007, the Matrix Segment received three ANDA approvals from the FDA and two more approvals have been received for the dossiers filed under the

European regulatory agencies.

We have a robust generic product pipeline. As of March 31, 2007, the Mylan Segment had 65 product applications pending at the FDA, representing approximately $51.6 billion in U.S. sales for the 12 months ended December 31, 2006 for the brand name versions of these products, according to IMS Health data. Thirteen of these applications were first-to-file Paragraph IV ANDA patent challenges, which offer the opportunity for 180 days of generic marketing exclusivity if approved by the FDA and if we are successful in the patent challenge. These

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13 Paragraph IV ANDAs relate to pharmaceuticals representing approximately $10.7 billion in U.S. branded sales for the 12 months ended December 31, 2006. Further, the Mylan Segment has approximately 165 products currently in development and advanced evaluation.

In addition to its regulatory filings for finished dosage forms, the Matrix Segment has also filed 111 DMFs in the U.S. and 726 outside the U.S. DMFs are confidential documents containing information on the manufacturing facility and processes used in the manufacture, packaging and storage of an API and are required for all manufacturers wishing to sell APIs in the U.S. We believe the Mylan Segment s already robust pipeline, coupled with that of the Matrix Segment, provides a strong platform for future growth.

A large number of high-value branded pharmaceutical patent expirations are expected over the next three years. By 2010, approximately $100.0 billion is expected in U.S. brand sales for such products according to IMS Health data. These patent expirations should provide additional generic product opportunities. We intend to concentrate our generic product development activities on brand products with significant sales in specialized or growing markets or in areas that offer significant opportunities and other competitive advantages. In addition, we intend to continue to focus our development efforts on technically difficult-to-formulate products or products that require advanced manufacturing technology.

*Brand Product Development*

The process required by the FDA before a pharmaceutical product, with active ingredients that have not been previously approved, may be marketed in the U.S. generally involves the following:

laboratory and preclinical tests;

submission of an Investigational New Drug ( IND ) application, which must become effective before clinical studies may begin;

adequate and well-controlled human clinical studies to establish the safety and efficacy of the proposed product for its intended use;

submission of an NDA containing the results of the preclinical tests and clinical studies establishing the safety and efficacy of the proposed product for its intended use, as well as extensive data addressing matters such as manufacturing and quality assurance;

scale-up to commercial manufacturing; and

FDA approval of an NDA.

Preclinical tests include laboratory evaluation of the product, its chemistry, formulation and stability, as well as toxicology and pharmacology studies to help define the pharmacological profile of the drug and assess the potential safety and efficacy of the product. The results of these studies are submitted to the FDA as part of the IND. They must demonstrate that the product delivers sufficient quantities of the drug to the bloodstream or intended site of action to produce the desired therapeutic results before human clinical trials may begin. These studies must also provide the appropriate supportive safety information necessary for the FDA to determine whether the clinical studies proposed to be conducted under the IND can safely proceed. The IND automatically becomes effective 30 days after receipt by the FDA unless the FDA, during that 30-day period, raises concerns or questions about the conduct of the proposed trials as outlined in the IND. In such cases, the IND sponsor and the FDA must resolve any outstanding concerns before clinical trials may begin. In addition, an independent institutional review board must review and approve any clinical

study prior to initiation.

Human clinical studies are typically conducted in three sequential phases, which may overlap:

Phase I: The drug is initially introduced into a relatively small number of healthy human subjects or patients and is tested for safety, dosage tolerance, mechanism of action, absorption, metabolism, distribution and excretion.

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Phase II: Studies are performed with a limited patient population to identify possible adverse effects and safety risks, to assess the efficacy of the product for specific targeted diseases or conditions, and to determine dosage tolerance and optimal dosage.

Phase III: When Phase II evaluations demonstrate that a dosage range of the product is effective and has an acceptable safety profile, Phase III trials are undertaken to evaluate further dosage and clinical efficacy and to test further for safety in an expanded patient population at geographically dispersed clinical study sites.

The results of the product development, preclinical studies and clinical studies are then submitted to the FDA as part of the NDA. The NDA drug development and approval process could take from three to more than 10 years.

**Patents, Trademarks and Licenses**

We own or license a number of patents in the U.S. and foreign countries covering certain products and have also developed brand names and trademarks for other products. Generally, the brand pharmaceutical business relies upon patent protection to ensure market exclusivity for the life of the patent. Following patent expiration, brand products often continue to have market viability based upon the goodwill of the product name, which typically benefits from trademark protection. We consider the overall protection of our patents, trademarks and license rights to be of material value and act to prevent these rights from infringement. However, our business is not dependent upon any single patent, trademark or license.

**Customers and Marketing**

The Mylan Segment markets products directly to wholesalers, distributors, retail pharmacy chains, mail order pharmacies and group purchasing organizations within the U.S. We also market our generic products indirectly to independent pharmacies, managed care organizations, hospitals, nursing homes, pharmacy benefit management companies and government entities. These customers, called indirect customers , purchase our products primarily through our wholesale customers.

The Matrix Segment sells API mainly to generic finished dosage form manufacturers throughout the world.

Consistent with industry practice, we have a return policy that allows our customers to return product within a specified period prior to and subsequent to the expiration date. See the Application of Critical Accounting Policies section of our Management s Discussion and Analysis of Results of Operations and Financial Condition for a discussion of our revenue provisions.

Sales of Mylan Segment products to AmerisourceBergen Corporation, Cardinal Health, Inc. and McKesson Corporation represented approximately 14%, 19% and 20%, respectively, of Mylan Segment net revenues in fiscal 2007. Sales of products to AmerisourceBergen Corporation, Cardinal Health, Inc. and McKesson Corporation represented approximately 16%, 14% and 17%, respectively, of Mylan Segment net revenues in fiscal 2006. Sales of products to AmerisourceBergen Corporation, Cardinal Health, Inc. and McKesson Corporation represented approximately 11%, 19% and 16%, respectively, of Mylan Segment net revenues in fiscal 2005.

**Competition**

*Mylan Segment*

The U.S. pharmaceutical industry is very competitive. Our competitors vary depending upon therapeutic and product categories. Primary competitors include the major manufacturers of brand name and generic pharmaceuticals.

The primary means of competition are innovation and development, timely FDA approval, manufacturing capabilities, product quality, marketing, customer service, reputation and price. To compete effectively on the basis of price and remain profitable, a generic drug manufacturer must manufacture its products in a cost-effective manner. Our competitors include other generic manufacturers, as well as brand companies that license their products to generic manufacturers prior to patent expiration or as relevant patents expire. No further regulatory approvals are required for a brand manufacturer to sell its pharmaceutical products directly or through a third party to the generic market, nor do such manufacturers face any other significant barriers to entry into such market.

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The U.S. pharmaceutical market is undergoing, and is expected to continue to undergo, rapid and significant technological changes, and we expect competition to intensify as technological advances are made. We intend to compete in this marketplace by developing or licensing brand pharmaceutical products that are either patented or proprietary and that are primarily for indications having relatively large patient populations or that have limited or inadequate treatments available and by developing therapeutic equivalents to brand products that offer unique marketing opportunities.

*Matrix Segment*

DMF applications from India to the U.S. have been increasing rapidly. We expect that Indian pharmaceutical industry growth will be led by the export of API and generic products to developed markets. Intense competition in the Indian formulations market has, in recent years, led to increased pressure on prices, with the growth in Indian formulation sales being led by volumes and new products. In 2005, India brought about regulatory changes that included the introduction of product patents. This development is expected to lead the growth in Indian formulations sales and exports.

The largest market for Indian exports is the U.S. A number of Indian companies currently supply Intermediates, APIs and Finished Dosage Forms ( FDF ) to generic pharmaceutical companies in the highly regulated markets of the U.S. and Europe. The success of Indian pharmaceutical companies in the generics industry is attributable to established development expertise in chemical synthesis and process engineering, availability of highly skilled labor and the low-cost manufacturing base. India-based companies have built upon these strengths over the past several years, reflected in the fact that a large number of DMFs have been filed in the U.S. as well as being the country with the highest number of FDA-approved manufacturing facilities outside the U.S.

Increasing focus on exports to regulated markets is leading to high dependence on demand from these markets and increased exposure to regulatory policies in such countries. Additionally, with competition intensifying in these markets, developing a profitable product portfolio will continue to be challenging. Thus, investments in product development and competencies in understanding patent-related issues assumes significant importance as much as manufacturing capabilities and requisite quality approvals. As such, a growing number of Indian pharmaceutical companies are expecting to scale up to global standards across manufacturing, product and process development.

In Europe, the Matrix Segment competes with other generic companies (several major multinational generic drug companies and various local generic drug companies) and branded drug companies that continue to sell or license branded pharmaceutical products after patent expirations and other statutory expirations. As in the U.S., the generic market in Europe is very competitive, with the main competitive factors being price, time to market, reputation, customer service and breadth of product line.

**Product Liability**

Product liability litigation represents an inherent risk to firms in the pharmaceutical industry. Our insurance coverage at any given time reflects market conditions, including cost and availability, existing at the time the policy is written, and the decision to obtain insurance coverage or to self-insure varies accordingly.

For the Mylan Segment, we utilize a combination of self-insurance (through our wholly owned captive insurance subsidiary) and traditional third-party insurance policies to cover product liability claims. For the current policy period, which began on September 30, 2006 and ends on September 30, 2007, we are self-insured for the first $10.0 million of costs incurred relating to product liability claims and maintain third-party insurance that provides, subject to specified co-insurance requirements, coverage limits totaling $25.0 million through the next $40.0 million.

The Matrix Segment maintains commercial coverage up to $15.0 million with minimal retentions.

**Raw Materials**

The APIs and other materials and supplies used in the Mylan Segment s pharmaceutical manufacturing operations are generally available and purchased from many different domestic and foreign suppliers, including Matrix. However, in some cases, the raw materials used to manufacture pharmaceutical products are available only

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from a single FDA-approved supplier. Even when more than one supplier exists, we may choose, and in some cases have chosen, only to list one supplier in our applications submitted to the FDA. Any change in a supplier not previously approved must then be submitted through a formal approval process with the FDA.

The Matrix Segment is mainly a manufacturer of APIs. Generally, APIs are produced either by chemical synthesis or by biological processes. The Matrix Segment sells APIs to many different customers throughout the world. We believe that our ability to produce API for internal use may provide us with a strategic competitive advantage with respect to the availability of API supply.

**Government Regulation**

*United States*

All pharmaceutical manufacturers are subject to extensive, complex and evolving regulation by the federal government, principally the FDA and, to a lesser extent, other federal and state government agencies. The Federal Food, Drug, and Cosmetic Act, the Controlled Substances Act, the Waxman-Hatch Act, the Generic Drug Enforcement Act, and other federal government statutes and regulations govern or influence the testing, manufacturing, packaging, labeling, storing, recordkeeping, safety, approval, advertising, promotion, sale and distribution of products.

FDA approval is required before any new drug can be marketed. The FDA requires extensive testing of new pharmaceutical products to demonstrate that such products are both safe and effective in treating the indications for which approval is sought. Testing in humans may not be commenced until after an IND exemption is granted by the FDA. An NDA or supplemental NDA must be submitted to the FDA both for new drugs that have not been previously approved by the FDA and for new combinations of, new indications for or new delivery methods for previously approved drugs.

FDA approval of an ANDA is required before a generic equivalent of an existing or referenced brand drug can be marketed. The ANDA process is abbreviated in that the FDA waives the requirement of conducting complete preclinical and clinical studies and, instead, relies on bioequivalence studies.

A sponsor of an NDA is required to identify in its application any patent that claims the drug or a use of the drug that is the subject of the application. Upon NDA approval, the FDA lists the approved drug product and these patents in the Orange Book . Any applicant that files an ANDA seeking approval of a generic equivalent version of a referenced brand drug before expiration of the referenced patent(s) must certify to the FDA either that the listed patent is not infringed or that it is invalid or unenforceable (a Paragraph IV certification). If the holder of the NDA sues claiming infringement within 45 days of notification by the applicant, the FDA may not approve the ANDA application until the earlier of the rendering of a court decision favorable to the ANDA applicant or the expiration of 30 months.

In addition to patent exclusivity, the holder of the NDA for the listed drug may be entitled to a period of non-patent, market exclusivity, during which the FDA cannot approve an application for a bioequivalent product. If the listed drug is a new chemical entity, the FDA may not accept an ANDA for a bioequivalent product for up to five years following approval of the NDA for the new chemical entity. If it is not a new chemical entity but the holder of the NDA conducted clinical trials essential to approval of the NDA or a supplement thereto, the FDA may not approve an ANDA for a bioequivalent product before expiration of three years. Certain other periods of exclusivity may be available if the listed drug is indicated for treatment of a rare disease or is studied for pediatric indications.

Facilities, procedures, operations and/or testing of products are subject to periodic inspection by the FDA, the Drug Enforcement Administration and other authorities. In addition, the FDA conducts pre-approval and post-approval

reviews and plant inspections to determine whether our systems and processes are in compliance with cGMP and other FDA regulations. Certain suppliers are subject to similar regulations and periodic inspections.

Medicaid, Medicare and other reimbursement legislation or programs govern reimbursement levels and require all pharmaceutical manufacturers to rebate a percentage of their revenues arising from Medicaid-reimbursed drug sales to individual states. The required rebate is currently 11% of the average manufacturer s price for sales of Medicaid-reimbursed products marketed under ANDAs. Sales of Medicaid-reimbursed products marketed

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under NDAs generally require manufacturers to rebate the greater of approximately 15% of the average manufacturer s price or the difference between the average manufacturer s price and the best price during a specific period. We believe that federal or state governments may continue to enact measures aimed at reducing the cost of drugs to the public.

Under Part D of the Medicare Modernization Act, which became effective January 1, 2006, Medicare beneficiaries are eligible to obtain discounted prescription drug coverage from private sector providers. As a result, usage of pharmaceuticals have increased, a trend which we believe will continue to benefit the generic pharmaceutical industry. However, such potential sales increases may be offset by increased pricing pressures due to the enhanced purchasing power of the private sector providers that are negotiating on behalf of Medicare beneficiaries.

The primary regulatory approval required for API manufacturers selling APIs for use in FDFs to be marketed in the U.S. is approval of the manufacturing facility in which the APIs are produced, as well as the manufacturing processes and standards employed in that facility. The FDA requires that the manufacturing operations of both API and FDF manufacturers comply with cGMP.

*Other Markets*

There are several factors affecting the global pharmaceuticals market, including;

Global proliferation of legislation and regulation permitting or requiring pharmacists to substitute generic equivalents for innovator pharmaceuticals;

Pressure from governments, managed care and other third-party payers on health care providers and consumers to minimize costs;and

Increased acceptance of generic pharmaceuticals by physicians, pharmacists and consumers.

Regulations governing marketing approval of pharmaceuticals in Europe are similarly extensive and as robust as regulations in the U.S., with approval of a pharmaceutical product being subject to an assessment of the quality, safety and efficacy of the product.

A directive of the EU requires that medicinal products shall have a marketing authorization before they are placed on the market in the EU. Authorizations are granted after the assessment of quality, safety and efficacy. In order to control expenditures on pharmaceuticals, most member states of the EU regulate the pricing of such products and in some cases limit the range of different forms of a drug available for prescription by national health services. These controls can result in considerable price differences among member states.

Data exclusivity provisions exist in many countries worldwide, including in the EU, although their application is not uniform. Similar provisions may be adopted by additional countries or otherwise strengthened. In general, these exclusivity provisions prevent the approval and/or submission of generic drug applications to the health authorities for a fixed period of time following the first approval of a novel brand-name product in that country. As these exclusivity provisions operate independently of patent exclusivity, they may prevent the approval and/or submission of generic drug applications for some products even after the patent protection has expired.

**Seasonality**

Our business is not materially affected by seasonal factors.

**Environment**

We believe that our operations comply in all material respects with applicable laws and regulations concerning the environment. While it is impossible to predict accurately the future costs associated with environmental compliance and potential remediation activities, compliance with environmental laws is not expected to require significant capital expenditures and has not had, and is not expected to have, a material adverse effect on our earnings or competitive position.

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**Employees**

We employ approximately 6,400 persons, approximately 1,800 of whom serve in clerical, sales and management capacities. The remaining employees are engaged in production and maintenance activities.

The production and maintenance employees at our manufacturing facility in Morgantown, West Virginia, are represented by the United Steelworkers of America (USW) (AFL-CIO) and its Local Union 957 AFL-CIO under a contract that expires on April 15, 2012.

**Backlog**

Open orders for the Mylan Segment were approximately $33.4 million and for the Matrix Segment were approximately $18.5 million. Because of the relatively short lead time required in filling orders for our products, we do not believe these backlog amounts bear a significant relationship to sales or income for any full 12-month period.

**Securities Exchange Act Reports**

The Company maintains an Internet website at the following address: www.mylan.com. We make available on or through our Internet website certain reports and amendments to those reports that we file with the Securities and Exchange Commission (the SEC ) in accordance with the Securities Exchange Act of 1934. These include our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K. We make this information available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC. The contents of our website are not incorporated by reference in this Annual Report on Form 10-K and shall not be deemed filed under the Securities Exchange Act of 1934.

**ITEM 1A. Risk Factors**

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

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

Our future revenues and profitability will depend, to a significant extent, upon our ability to successfully develop and/or license, or otherwise acquire and commercialize new generic and patent or statutorily protected (usually brand) pharmaceutical products in a timely manner. Product development is inherently risky, especially for new drugs for which safety and efficacy have not been established, and the market is not yet proven. Likewise, product licensing involves inherent risks including uncertainties due to matters that may affect the achievement of milestones, as well as the possibility of contractual disagreements with regard to terms such as license scope or termination rights. The development and commercialization process, particularly with regard to new drugs, also requires substantial time,

effort and financial resources. We, or a partner, may not be successful in commercializing any of the products that we are developing or licensing (including, without limitation, nebivolol) on a timely basis, if at all, which could adversely affect our product introduction plans, financial position and results of operations and could cause the market value of our common stock to decline.

FDA approval is required before any prescription drug product, including generic drug products, can be marketed. The process of obtaining FDA approval to manufacture and market new and generic pharmaceutical products is rigorous, time consuming, costly and largely unpredictable. We, or a partner, may be unable to obtain requisite FDA approvals on a timely basis for new generic or brand products that we may develop, license or otherwise acquire. Also, for products pending approval, we may obtain raw materials or produce batches of

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inventory to be used in efficacy and bioequivalence testing, as well as in anticipation of the product s launch. In the event that FDA approval is denied or delayed, we could be exposed to the risk of this inventory becoming obsolete. The timing and cost of obtaining FDA approvals could adversely affect our product introduction plans, financial position and results of operations and could cause the market value of our common stock to decline.

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

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

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

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

- the availability of alternative products from our competitors;
- the price of our products relative to that of our competitors;
- the timing of our market entry;
- the ability to market our products effectively to the retail level; and
- the acceptance of our products by government and private formularies.

Some of these factors are not within our control. Our new products may not achieve expected levels of market acceptance. Additionally, continuing studies of the proper utilization, safety and efficacy of pharmaceutical products are being conducted by the industry, government agencies and others. Such studies, which increasingly employ

sophisticated methods and techniques, can call into question the utilization, safety and efficacy of previously marketed products. For example, on July 15, 2005, the FDA issued a Public Health Advisory regarding the safe use of transdermal fentanyl patches, a product we currently market, the loss of revenues of which could have a significant impact on our business. In some cases, studies have resulted, and may in the future result, in the discontinuance of product marketing or other risk management programs such as the need for a patient registry. These situations, should they occur, could have a material adverse effect on our profitability, financial position and results of operations, and the market value of our common stock could decline.

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

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

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

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

- proprietary processes or delivery systems;
- larger research and development and marketing staffs;
- larger production capabilities in a particular therapeutic area;
- more experience in preclinical testing and human clinical trials;
- more products; or
- more experience in developing new drugs and financial resources, particularly with regard to brand manufacturers.

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

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

The pharmaceutical industry is subject to regulation by various governmental authorities. For instance, we must comply with FDA requirements with respect to the manufacture, labeling, sale, distribution, marketing, advertising, promotion and development of pharmaceutical products. Failure to comply with FDA and other governmental regulations can result in fines, disgorgement, unanticipated compliance expenditures, recall or seizure of products, total or partial suspension of production and/or distribution, suspension of the FDA s review of NDAs or ANDAs, enforcement actions, injunctions and criminal prosecution. Under certain circumstances, the FDA also has the

authority to revoke previously granted drug approvals. Although we have internal regulatory compliance programs and policies and have had a favorable compliance history, there is no guarantee that these programs, as currently designed, will meet regulatory agency standards in the future. Additionally, despite our efforts at compliance, there is no guarantee that we may not be deemed to be deficient in some manner in the future. If we were deemed to be deficient in any significant way, our business, financial position and results of operations could be materially affected and the market value of our common stock could decline.

In addition to the new drug approval process, the FDA also regulates the facilities and operational procedures that we use to manufacture our products. We must register our facilities with the FDA. All products manufactured in those facilities must be made in a manner consistent with current good manufacturing practices ( cGMP ). Compliance with cGMP regulations requires substantial expenditures of time, money and effort in such areas as

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production and quality control to ensure full technical compliance. The FDA periodically inspects our manufacturing facilities for compliance. FDA approval to manufacture a drug is site-specific. Failure to comply with cGMP regulations at one of our manufacturing facilities could result in an enforcement action brought by the FDA which could include withholding the approval of NDAs, ANDAs or other product applications of that facility. If the FDA were to require one of our manufacturing facilities to cease or limit production, our business could be adversely affected. Delay and cost in obtaining FDA approval to manufacture at a different facility also could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

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

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

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

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

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

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

Much of our development effort is focused on technically difficult-to-formulate products and/or products that require advanced manufacturing technology. We conduct research and development primarily to enable us to manufacture and market FDA-approved pharmaceuticals in accordance with FDA regulations. Typically, research expenses related to the development of innovative compounds and the filing of NDAs are significantly greater than those expenses associated with ANDAs. As we continue to develop new products, our research expenses will likely increase. Because of the inherent risk associated with research and development efforts in our industry, particularly with respect to new drugs (including, without limitation, nebivolol), our, or a partner s, research and development expenditures may not result in the successful introduction of FDA approved new pharmaceutical products. Also, after we submit an NDA or ANDA, the FDA may request that we conduct additional studies and as a result, we may be unable to reasonably determine the total research and development costs to develop a particular product. Finally, we cannot be certain that any investment made in developing products will be recovered, even if we are successful in commercialization. To the extent that we expend significant resources on research and development efforts and are not able, ultimately, to introduce successful new products as a result of those efforts, our business, financial position and results of operations may be materially adversely affected, and the market value of our common stock could decline.

**A SIGNIFICANT PORTION OF OUR NET REVENUES ARE DERIVED FROM SALES TO A LIMITED NUMBER OF CUSTOMERS. ANY SIGNIFICANT REDUCTION OF BUSINESS WITH ANY OF THESE CUSTOMERS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS, AND THE MARKET VALUE OF OUR COMMON STOCK COULD DECLINE.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our ability to satisfy our obligations, including our Senior Notes, our credit facilities and any additional indebtedness we incur in the future will depend on our future operating performance and financial results, which will be subject, in part, to factors beyond our control, including interest rates and general economic, financial and

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business conditions. If we are unable to generate sufficient cash flow, we may be required to: refinance all or a portion of our debt, including the notes and our senior credit facility; obtain additional financing in the future for acquisitions, working capital, capital expenditures and general corporate or other purposes; redirect a substantial portion of our cash flow to debt service, which as a result, might not be available for our operations or other purposes; sell some of our assets or operations; reduce or delay capital expenditures; or revise or delay our operations or strategic plans. If we are required to take any of these actions, it could have a material adverse effect on our business, financial condition or results of operations. In addition, we cannot assure you that we would be able to take any of these actions, that these actions would enable us to continue to satisfy our capital requirements or that these actions would be permitted under the terms of our credit facilities and the indenture governing the notes. The leverage resulting from our notes offering, our credit facility and indebtedness we may incur in the future could have certain material adverse effects on us, including limiting our ability to obtain additional financing and reducing cash available for our operations and acquisitions. As a result, our ability to withstand competitive pressures may be decreased and, we may be more vulnerable to economic downturns, which in turn could reduce our flexibility in responding to changing business, regulatory and economic conditions. These factors could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

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

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

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

The Company utilizes controlled substances in certain of its current products and products in development and therefore must meet the requirements of the Controlled Substances Act of 1970 and the related regulations administered by the Drug Enforcement Administration ( DEA ). These regulations relate to the manufacture, shipment, storage, sale and use of controlled substances. The DEA limits the availability of the active ingredients used in certain of our current products and products in development and, as a result, our procurement quota of these active ingredients may not be sufficient to meet commercial demand or complete clinical trials. We must annually apply to the DEA for procurement quota in order to obtain these substances. Any delay or refusal by the DEA in establishing our procurement quota for controlled substances could delay or stop our clinical trials or product launches, or could cause trade inventory disruptions for those products that have already been launched, which could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are involved in various legal proceedings and certain government inquiries, including, but not limited to, patent infringement, product liability, breach of contract and claims involving Medicaid and Medicare reimbursements, some of which are described in our periodic reports and involve claims for, or the possibility of fines and penalties involving, substantial amounts of money or other relief. If any of these legal proceedings or inquiries were to result in

an adverse outcome, the impact could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

With respect to product liability, the Company maintains commercial insurance to protect against and manage a portion of the risks involved in conducting its business. Although we carry insurance, we believe that no reasonable amount of insurance can fully protect against all such risks because of the potential liability inherent in the business of producing pharmaceuticals for human consumption. To the extent that a loss occurs, depending on

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the nature of the loss and the level of insurance coverage maintained, it could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

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

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

**OUR ACQUISITION OF A CONTROLLING INTEREST IN MATRIX LABORATORIES AND OUR PLANS FOR FURTHER GLOBAL EXPANSION WITH THE ACQUISITION OF MERCK GENERICS EXPOSE THE COMPANY TO ADDITIONAL RISKS WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.**

With our recently completed acquisition of Matrix and our planned acquisition of Merck Generics, Mylan s operations extend or will extend to numerous countries outside the U.S. Operating globally exposes us to certain additional risks including, but not limited to:

compliance with a variety of national and local laws of countries in which we do business, including restrictions on the import and export of certain intermediates, drugs and technologies, and the risk that our competitors may have more experience with operations in such countries or with international operations generally;

difficulties integrating new facilities in different countries into our existing operations, as well as integrating employees that we hire in different countries into our existing corporate culture;

fluctuations in exchange rates for transactions conducted in currencies other than the U.S. dollar;

adverse changes in the economies in which we operate as a result of a slowdown in overall growth, a change in government or economic liberalization policies, or financial instability in other countries who influence the economies in which we operate, particularly emerging markets;

wage increases or rising inflation in other countries in which we operate or will operate;

natural disasters, including drought, floods and earthquakes in other countries in which we operate or will operate; and

communal disturbances, terrorist attacks, riots or regional hostilities in other countries in which we operate or will operate.

Certain of the above factors could have a material adverse effect on our business, financial position and results of operations and could cause a decline in the market value of our common stock.

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**OUR PLANNED ACQUISITION OF MERCK GENERICS SPECIFICALLY AND OUR ACQUISITION STRATEGY GENERALLY, INVOLVE A NUMBER OF INHERENT RISKS. THESE RISKS COULD CAUSE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.**

We continually seek to expand our product line through complementary or strategic acquisitions of other companies, products and assets, and through joint ventures, licensing agreements or other arrangements. On May 12, 2007, we signed a definitive agreement to acquire Merck Generics. This transaction and any acquisitions, joint ventures and other business combinations involve various inherent risks, such as:

- diversion of management s attention from our ongoing business;
- the failure to assess accurately the values, strengths, weaknesses, contingent and other liabilities, regulatory compliance and potential profitability of acquisition or other transaction candidates;
- the potential loss of key personnel or customers of an acquired business;
- failing to successfully manage acquired businesses or increase our cash flow from their operations;
- failing to successfully integrate the operations and personnel of the acquired businesses with our ongoing business, and our resulting inability to achieve identified financial and operating synergies anticipated to result from an acquisition or other transaction;
- unanticipated changes in business and economic conditions affecting an acquisition or other transaction;
- incurring substantial additional indebtedness, assuming liabilities and incurring significant additional capital expenditures, transaction and operating expenses and non-recurring acquisition-related charges;
- potentially experiencing an adverse impact on our earnings from acquired in-process research and development and the write-off or amortization of acquired goodwill and other intangible assets;
- acquiring businesses or entering new markets with which we are not familiar; and
- international acquisitions, and other transactions, could also be affected by export controls, exchange rate fluctuations, domestic and foreign political conditions and the deterioration in domestic and foreign economic conditions.

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

In addition, we may compete for certain acquisition targets with companies having greater financial resources than us or other advantages over us that may prevent us from acquiring a target.

We plan to finance the acquisition of Merck Generics through cash on hand, cash provided by operating activities, borrowings under our credit facilities and other significant indebtedness, which will reduce our cash available for other purposes, including the repayment of indebtedness.

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

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

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

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

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

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

**WE MUST MAINTAIN ADEQUATE INTERNAL CONTROLS AND BE ABLE, ON AN ANNUAL BASIS, TO PROVIDE AN ASSERTION AS TO THE EFFECTIVENESS OF SUCH CONTROLS. FAILURE TO MAINTAIN ADEQUATE INTERNAL CONTROLS OR TO IMPLEMENT NEW OR IMPROVED CONTROLS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.**

Effective internal controls are necessary for the Company to provide reasonable assurance with respect to its financial reports. We are spending a substantial amount of management time and resources to comply with changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and the New York Stock Exchange rules. In particular, Section 404 of the Sarbanes-Oxley Act of 2002 requires management s annual review and evaluation of our internal control over financial reporting and attestations as to the effectiveness of these controls by our independent registered public accounting firm. If we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we

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can conclude on an ongoing basis that we have effective internal control over financial reporting. Additionally, internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. In addition, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that the control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. If the Company fails to maintain the adequacy of its internal controls, including any failure to implement required new or improved controls, this could have a material adverse effect on our business, financial position and results of operations, and the market value of our common stock could decline.

During fiscal year 2007 the Company acquired a controlling stake in Matrix Laboratories Limited. For purposes of Management s evaluation of our internal control over financial reporting as of March 31, 2007 we have elected to exclude Matrix from the scope of management s assessment as permitted by guidance provided by the Securities and Exchange Commission ( SEC ). The two part acquisition resulting in 71.5% ownership of this business was completed by us on January 8, 2007 and represents approximately 13% of our consolidated assets at March 31, 2007 and contributed approximately 5% of total revenues for the year ended March 31, 2007. This acquired business will be included in management s assessment of the effectiveness of the Company s internal controls over financial reporting in fiscal year 2008. If the Company fails to implement and maintain adequate internal controls at Matrix, it could have a material adverse effect on our business, financial position and results of operations, and the market value of our common stock could decline.

**THERE ARE INHERENT UNCERTAINTIES INVOLVED IN ESTIMATES, JUDGMENTS AND ASSUMPTIONS USED IN THE PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP. ANY FUTURE CHANGES IN ESTIMATES, JUDGMENTS AND ASSUMPTIONS USED OR NECESSARY REVISIONS TO PRIOR ESTIMATES, JUDGMENTS OR ASSUMPTIONS COULD LEAD TO A RESTATEMENT WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE. IN ADDITION, BEGINNING IN FISCAL 2008, WE ARE NOT PROVIDING ESTIMATED EPS GUIDANCE AND CAUTION THAT INVESTORS SHOULD NOT RELY ON ESTIMATES MADE BY OTHERS.**

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

On February 1, 2007, we announced that for fiscal 2008 and beyond we will no longer be providing detailed earnings guidance. Any third-party estimates of our expected earnings per share have been and will be made without our participation or endorsement. Because these estimates may be inaccurate, we caution against reliance upon them in making an investment decision.

**WE ARE SUBJECT TO THE U.S. FOREIGN CORRUPT PRACTICES ACT AND SIMILAR WORLDWIDE ANTI-BRIBERY LAWS, WHICH IMPOSE RESTRICTIONS AND MAY CARRY SUBSTANTIAL PENALTIES. ANY VIOLATIONS OF THESE LAWS, OR ALLEGATIONS OF SUCH VIOLATIONS, COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.**

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The U.S. Foreign Corrupt Practices Act and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Our policies mandate compliance with these anti-bribery laws, which often carry substantial penalties. We operate in jurisdictions that have experienced governmental corruption to some degree, and, in certain circumstances, strict compliance with anti-bribery laws may conflict with certain local customs and practices. We cannot assure you that our internal control policies and procedures always will protect us from reckless or other inappropriate acts committed by our affiliates, employees or agents. Violations of these laws, or allegations of such violations, could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our common stock to decline.

**WE HAVE GROWN, AND CONTINUE TO GROW, AT A VERY RAPID PACE. OUR INABILITY TO PROPERLY MANAGE OR SUPPORT THE GROWTH MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL POSITION AND RESULTS OF OPERATIONS AND COULD CAUSE THE MARKET VALUE OF OUR COMMON STOCK TO DECLINE.**

We have grown very rapidly over the past few years and anticipate continuing our rapid expansion including the acquisition of Merck Generics, extending our processes, systems and people. We expect to make significant investments in systems and internal control processes to help manage the growing company. Attracting, retaining and motivating key employees in various departments and locations to support our growth are critical to our business, and competition for these people can be intense. If we are unable to hire and retain qualified employees and if we do not continue to invest in systems and processes to manage and support our rapid growth, there may be a material adverse effect on our business, financial condition and results of operations, and the market value of our common stock to decline.

**ITEM 1B. Unresolved Staff Comments**

None.

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**ITEM 2. Properties**

We maintain various facilities that are used for research and development, manufacturing, warehousing, distribution and administrative functions. These facilities consist of both owned and leased properties.

The following summarizes the properties used to conduct our operations:

| Primary Segment | Location | Status | Primary Use |
|---|---|---|---|
| **Mylan** | North Carolina | Owned | Distribution<br>Warehousing |
| | West Virginia | Owned | Manufacturing<br>Warehousing<br>Research and Development<br>Administrative |
| | | Leased | Warehousing<br>Administrative |
| | Illinois | Owned | Manufacturing<br>Warehousing<br>Administrative |
| | Puerto Rico | Owned | Manufacturing<br>Warehousing<br>Administrative |
| | Texas | Owned | Manufacturing<br>Warehousing |
| | Vermont | Owned | Manufacturing<br>Research and Development<br>Administrative<br>Warehousing |
| **Matrix** | China | Owned | Manufacturing<br>Warehousing<br>Administrative |
| | India | Owned | Manufacturing<br>Warehousing<br>Research and Development<br>Administrative |
| | | Leased | Administrative<br>Research and Development |
| | Belgium | Leased | Distribution<br>Administrative<br>Research and Development |
| | Netherlands | Leased | Administrative<br>Distribution |
| | Luxembourg | Leased | Administrative |
| | France | Leased | Administrative |
| | Switzerland | Leased | Administrative |

| | | | |
|---|---|---|---|
| **Corporate/Other** | Pennsylvania | Owned | Administrative |

We believe that all facilities are in good operating condition, the machinery and equipment are well-maintained, the facilities are suitable for their intended purposes and they have capacities adequate for current operations.

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**ITEM 3. Legal Proceedings**

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

*Omeprazole*

In fiscal 2001, Mylan Pharmaceuticals Inc. ( MPI ), a wholly owned subsidiary of Mylan Labs, filed an Abbreviated New Drug Application ( ANDA ) seeking approval from the FDA to manufacture, market and sell omeprazole delayed-release capsules and made Paragraph IV certifications to several patents owned by AstraZeneca PLC ( AstraZeneca ) that were listed in the U.S. Food and Drug Administration s ( FDA ) Orange Book. On September 8, 2000, AstraZeneca filed suit against MPI and Mylan Labs in the U.S. District Court for the Southern District of New York alleging infringement of several of AstraZeneca s patents. On May 29, 2003, the FDA approved MPI s ANDA for the 10 mg and 20 mg strengths of omeprazole delayed-release capsules, and, on August 4, 2003, Mylan Labs announced that MPI had commenced the sale of omeprazole 10 mg and 20 mg delayed-release capsules. AstraZeneca then amended the pending lawsuit to assert claims against Mylan Labs and MPI and filed a separate lawsuit against MPI s supplier, Esteve Quimica S.A. ( Esteve ), for unspecified money damages and a finding of willful infringement, which could result in treble damages, injunctive relief, attorneys fees, costs of litigation and such further relief as the court deems just and proper. MPI has certain indemnity obligations to Esteve in connection with this litigation. MPI, Esteve and the other generic manufacturers who are co-defendants in the case filed motions for summary judgment of non-infringement and patent invalidity. On January 12, 2006, those motions were denied. A non-jury trial regarding liability only was completed on June 14, 2006.

*Lorazepam and Clorazepate*

On June 1, 2005, a jury verdict was rendered against Mylan Labs and MPI in the U.S. District Court for the District of Columbia ( D.C. ) in the amount of approximately $12.0 million which has been accrued for by the Company. The jury found Mylan willfully violated Massachusetts, Minnesota and Illinois state antitrust laws in connection with Active Pharmaceutical Ingredient ( API ) supply agreements entered into between the Company and its API supplier and broker for two drugs, lorazepam and clorazepate, in 1997, and subsequent price increases on these drugs in 1998. The case was brought by four health insurers that opted out of earlier class action settlements agreed to by the Company in 2001 and represents the last remaining claims relating to Mylan s 1998 price increases for lorazepam and clorazepate. In post-trial filings, the plaintiffs have requested that the verdict be trebled. Plaintiffs are also seeking an award of attorneys fees, litigation costs and interest on the judgment in unspecified amounts. In total, the plaintiffs have moved for judgments that could result in a liability of approximately $69 million for Mylan (not including the request for attorney s fees and costs). The Company filed a motion for judgment as a matter of law, a motion for a new trial, a motion to dismiss two of the insurers and a motion to reduce the verdict. On December 20, 2006, the Company s motion for judgment as a matter of law and motion for a new trial were denied. A hearing on the pending post-trial motions took place on February 28, 2007. The Company intends to appeal to the U.S. Court of Appeals for the D.C. Circuit.

*Pricing and Medicaid Litigation*

On June 26, 2003, MPI and UDL Laboratories Inc. ( UDL ), a subsidiary of Mylan Labs, received requests from the U.S. House of Representatives Energy and Commerce Committee (the Committee ) seeking information about certain

products sold by MPI and UDL in connection with the Committee s investigation into pharmaceutical reimbursement and rebates under Medicaid. MPI and UDL cooperated with this inquiry and provided information in response to the Committee s requests in 2003. Several states attorneys general ( AG ) have also sent letters to MPI, UDL and Mylan Bertek, demanding that those companies retain documents relating to Medicaid reimbursement and rebate calculations pending the outcome of unspecified investigations by those AGs into such matters. In addition, in July 2004, Mylan Labs received subpoenas from the AGs of California and Florida in connection with civil investigations purportedly related to price reporting and marketing practices regarding various drugs. As noted

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below, both California and Florida subsequently filed suits against Mylan, and the Company believes any further requests for information and disclosures will be made as part of that litigation.

Beginning in September 2003, Mylan Labs, MPI and/or UDL, together with many other pharmaceutical companies, have been named in a series of civil lawsuits filed by state AGs and municipal bodies within the state of New York alleging generally that the defendants defrauded the state Medicaid systems by allegedly reporting Average Wholesale Prices ( AWP ) and/or Wholesale Acquisition Costs that exceeded the actual selling price of the defendants prescription drugs. To date, Mylan Labs, MPI and/or UDL have been named as defendants in substantially similar civil lawsuits filed by the AGs of Alabama, Alaska, California, Florida, Hawaii, Illinois, Kentucky, Massachusetts, Mississippi, Missouri, South Carolina and Wisconsin and also by the city of New York and approximately 40 counties across New York State. Several of these cases have been transferred to the AWP multi-district litigation proceedings pending in the U.S. District Court for the District of Massachusetts for pretrial proceedings. Others of these cases will likely be litigated in the state courts in which they were filed. Each of the cases seeks an unspecified amount in money damages, civil penalties and/or treble damages, counsel fees and costs, and injunctive relief. In each of these matters, with the exception of the California, Florida, Alaska and South Carolina AG actions and the actions brought by various counties in New York, excluding the actions brought by Erie, Oswego and Schenectady counties, Mylan Labs, MPI and/or UDL have answered the respective complaints denying liability. Mylan Labs and its subsidiaries intend to defend each of these actions vigorously.

In addition, by letter dated January 12, 2005, MPI was notified by the U.S. Department of Justice of an investigation concerning MPI s calculations of Medicaid drug rebates. MPI is cooperating fully with the government s investigation.

*Modafinil Antitrust Litigation and FTC Inquiry*

Beginning in April 2006, Mylan Labs, along with four other drug manufacturers, has been named in a series of civil lawsuits filed in the Eastern District of Pennsylvania by a variety of plaintiffs purportedly representing direct and indirect purchasers of the drug modafinil and one action brought by Apotex, Inc., a manufacturer of generic drugs seeking approval to market a generic modafinil product. These actions allege violations of federal and state laws in connection with the defendants settlement of patent litigation relating to modafinil. These actions are in their preliminary stages, and motions to dismiss each action are pending. Mylan Labs intends to defend each of these actions vigorously. In addition, by letter dated July 11, 2006, Mylan was notified by the U.S. Federal Trade Commission ( FTC ) of an investigation relating to the settlement of the modafinil patent litigation. In its letter, the FTC requested certain information from Mylan Labs, MPI and Mylan Technologies Inc. pertaining to the patent litigation and the settlement thereof. On March 29, 2007, the FTC issued a subpoena, and on April 26, 2007, the FTC issued a civil investigative demand to Mylan Labs requesting additional information from the Company relating to the investigation. Mylan is cooperating fully with the government s investigation and its outstanding requests for information.

*Other Litigation*

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

**ITEM 4. Submission of Matters to a Vote of Security Holders**

None.

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## PART II

### ITEM 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the New York Stock Exchange under the symbol MYL. The following table sets forth the quarterly high and low sales prices for our common stock for the periods indicated:

| Fiscal 2007 | High | Low |
|---|---|---|
| First quarter | $ 23.73 | $ 19.72 |
| Second quarter | 23.49 | 18.65 |
| Third quarter | 22.10 | 19.72 |
| Fourth quarter | 22.75 | 19.18 |

| Fiscal 2006 | High | Low |
|---|---|---|
| First quarter | $ 20.03 | $ 15.21 |
| Second quarter | 20.00 | 17.19 |
| Third quarter | 21.69 | 18.29 |
| Fourth quarter | 25.00 | 19.05 |

As of May 11, 2007, there were approximately 139,766 holders of record of our common stock, including those held in street or nominee name.

During the first quarter of fiscal 2006, the Company s Board of Directors voted to double the quarterly dividend to 6.0 cents per share, effective with the dividend paid for the first quarter of fiscal 2006. However, as announced on May 12, 2007, in conjunction with the contemplated acquisition of Merck KGaA s generic business, the Company is suspending the dividend on its common stock.

The following table shows information about the securities authorized for issuance under Mylan s equity compensation plans as of March 31, 2007:

| Plan Category | Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance |
|---|---|---|---|
| Equity compensation plans approved by security holders | 17,711,689 | $ 16.17 | 15,186,223 |
| Equity compensation plans not approved by security | | N/A | |

| | | | |
|---|---|---|---|
| holders | | | |
| Total | 17,771,689 | $ 16.17 | 15,186,223 |

In the past three years, we have issued unregistered securities in connection with the following transactions:

In conjunction with Mylan s acquisition of a controlling interest in Matrix, certain selling shareholders agreed to purchase approximately 8.1 million unregistered shares of Mylan Laboratories Inc. common stock for approximately $168.0 million. Each of these selling shareholders represented to Mylan that it was an accredited investor.

On March 1, 2007, Mylan entered into a purchase agreement with Merrill Lynch & Co. and J.P. Morgan Securities Inc., as representatives of the underwriters named therein, relating to the sale by the Company of $600.0 million aggregate principal amount of the Company s 1.25% Senior Convertible Notes due 2012 (the Notes ).

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On March 1, 2007, the Company entered into a purchase agreement with Merrill Lynch & Co. and J.P. Morgan Securities Inc., as representatives of the underwriters named therein, relating to the sale of 26,162,500 shares of common stock. Both the Notes and the common stock were sold pursuant to an effective registration statement on Form S-3 (No. 333-140778) under the Securities Act of 1933, as amended.

Proceeds from the issuance of common stock were approximately $489.1 million, net of underwriter s discount and offering expenses of $21.1 million and the proceeds from the Notes were approximately $586.8 million, net of underwriter s discounts and offering expenses of approximately $13.2 million. Approximately $80.6 million of the proceeds was used to cover the cost of the convertible note hedge described below and approximately $995.3 million will be used for general corporate purposes, including research and development, and expansion of our global operations.

The Notes are governed by the terms of an indenture dated as of March 7, 2007, among the Company, the guarantors named therein and The Bank of New York, as trustee. The Notes bear interest at a rate of 1.25% per year, accruing from March 7, 2007. Interest is payable semiannually in arrears on March 15 and September 15 of each year, beginning September 15, 2007. The Notes will mature on March 15, 2012, subject to earlier repurchase or conversion. The Notes have an initial conversion rate of 44.5931 shares of common stock per $1,000 principal amount (equivalent to an initial conversion price of approximately $22.43 per share), subject to adjustment.

On March 1, 2007, concurrently with the sale of the Notes, Mylan entered into a convertible note hedge transaction, comprised of a purchased call option, and two warrant transactions with each of Merrill Lynch International, an affiliate of Merrill Lynch, and JPMorgan Chase Bank, National Association, London Branch, an affiliate of JPMorgan, each of which we refer to as a counterparty. The net cost to us of the transactions was approximately $80.6 million.

The purchased call options cover approximately 26,755,853 shares of our common stock, subject to anti-dilution adjustments substantially similar to the anti-dilution adjustments for the Notes, which under most circumstances represents the maximum number of shares that underlie the Notes. Concurrently with entering into the purchased call options, we entered into warrant transactions with the counterparties. Pursuant to the warrant transactions, we sold to the counterparties warrants to purchase in the aggregate approximately 26,755,853 shares of our common stock, subject to customary anti-dilution adjustments. The warrants may not be exercised prior to the maturity of the Notes, subject to certain limited exceptions.

The purchased call options are expected to reduce the potential dilution upon conversion of the Notes in the event that the market value per share of our common stock at the time of exercise is greater than approximately $22.43, which corresponds to the initial conversion price of the notes. The sold warrants have an exercise price that is 60.0% higher than the price per share of $19.50 at which we offered our common stock in the concurrent equity offering.

If the market price per share of our common stock at the time of conversion of any Notes is above the strike price of the purchased call options, the purchased call options will, in most cases, entitle us to receive from the counterparties in the aggregate the same number of shares of our common stock as we would be required to issue to the holder of the converted notes. Additionally, if the market price of our common stock at the time of exercise of the sold warrants exceeds the strike price of the sold warrants, we will owe the counterparties an aggregate of approximately 26,755,853 shares of our common stock. The purchased call options and sold warrants may be settled for cash at our election.

The purchased call options and sold warrants are separate transactions entered into by the Company with the counterparties, are not part of the terms of the Notes and will not affect the holders rights under the Notes. Holders of

the Notes will not have any rights with respect to the purchased call options or the sold warrants.

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**ITEM 6. Selected Financial Data**

The selected consolidated financial data set forth below should be read in conjunction with Management s Discussion and Analysis of Results of Operations and Financial Condition and the Consolidated Financial Statements and related Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

| **Fiscal Year Ended March 31,** *(in thousands, except per share data)* | **2007[1]** | **2006** | **2005** | **2004** | **2003** |
|---|---|---|---|---|---|
| Statements of Earnings: | | | | | |
| Total revenues | $ 1,611,819 | $ 1,257,164 | $ 1,253,374 | $ 1,374,617 | $ 1,269,192 |
| Cost of sales | 768,151 | 629,548 | 629,834 | 612,149 | 597,756 |
| Gross profit | 843,668 | 627,616 | 623,540 | 762,468 | 671,436 |
| Operating expenses: | | | | | |
| Research and development | 103,692 | 102,431 | 88,254 | 100,813 | 86,748 |
| Acquired in process research and development | 147,000 | | | | |
| Selling, general and administrative | 215,538 | 225,380 | 259,105 | 201,612 | 173,070 |
| Litigation settlements, net | (50,116) | 12,417 | (25,990) | (34,758) | (2,370) |
| Earnings from operations | 427,554 | 287,388 | 302,171 | 494,801 | 413,988 |
| Interest expense | 52,276 | 31,285 | | | |
| Other income, net | 50,234 | 18,502 | 10,076 | 17,807 | 12,525 |
| Earnings before income taxes and minority interest | 425,512 | 274,605 | 312,247 | 512,608 | 426,513 |
| Provision for income taxes | 208,017 | 90,063 | 108,655 | 177,999 | 154,160 |
| Minority interest | 211 | | | | |
| Net earnings | $ 217,284 | $ 184,542 | $ 203,592 | $ 334,609 | $ 272,353 |

| **March 31,** | **2007** | **2006** | **2005** | **2004** | **2003** |
|---|---|---|---|---|---|
| Selected balance sheet data: | | | | | |
| Total assets | $ 4,253,867 | $ 1,870,526 | $ 2,135,673 | $ 1,885,061 | $ 1,745,223 |
| Working capital | 1,711,509 | 926,650 | 1,282,945 | 1,144,073 | 962,440 |
| Deferred revenue | 90,673 | 89,417 | | | |
| Long-term obligations | 29,760 | 22,435 | 19,325 | 19,130 | 19,943 |
| Long-term debt | 1,654,932 | 685,188 | | | |
| Total shareholders equity | 1,648,860 | 787,651 | 1,845,936 | 1,659,788 | 1,446,332 |
| Per common share data: | | | | | |
| Net earnings | | | | | |
| Basic | $ 1.01 | $ 0.80 | $ 0.76 | $ 1.24 | $ 0.98 |

| | | | | | |
|---|---|---|---|---|---|
| Diluted | $ 0.99 | $ 0.79 | $ 0.74 | $ 1.21 | $ 0.96 |
| Shareholders equity diluted | $ 7.52 | $ 3.36 | $ 6.75 | $ 6.01 | $ 5.12 |
| Cash dividends declared and paid | $ 0.24 | $ 0.24 | $ 0.12 | $ 0.10 | $ 0.08 |
| Weighted average common shares outstanding: | | | | | |
| Basic | 215,096 | 229,389 | 268,985 | 268,931 | 278,789 |
| Diluted | 219,120 | 234,209 | 273,621 | 276,318 | 282,330 |

(1) Fiscal 2007 includes the results of the Matrix acquisition from January 8, 2007. In addition to the write-off of acquired in-process research and development ($147.0 million), cost of sales includes approximately $17.6 million related to the amortization of intangibles and the inventory step-up associated with the

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acquisition. Fiscal 2007 also includes $22.2 million of stock-based compensation expense from the adoption of SFAS 123(R) on April 1, 2006.

**ITEM 7. Management s Discussion and Analysis of Results of Operations and Financial Condition**

The following discussion and analysis, as well as other sections in this Annual Report, should be read in conjunction with the Consolidated Financial Statements and related Notes to Consolidated Financial Statements included elsewhere in this report. All references to fiscal years shall mean the 12-month period ended March 31.

This discussion and analysis may contain forward-looking statements . These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may include, without limitation, statements about the Company s market opportunities, strategies, competition, and expected activities and expenditures and at times may be identified by the use of words such as may, could, should, would, project, believe, anticipate, expect, plan, estimate, forecast, potential, intend, continue words or comparable words. Forward-looking statements inherently involve risks and uncertainties. Accordingly, actual results may differ materially from those expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, the risks described under Risk Factors in ITEM 1A. The Company undertakes no obligation to update any forward-looking statements for revisions or changes after the date of this Form 10-K.

**Overview**

Mylan Laboratories Inc. and its subsidiaries (the Company, Mylan or we ) develop, license, manufacture, market and distribute generic, brand and branded generic pharmaceutical products and active pharmaceutical ingredients ( APIs ).

On May 12, 2007, Mylan and Merck KGaA announced the signing of a definitive agreement under which Mylan will acquire Merck s generic business ( Merck Generics ) for Euro 4.9 billion (approximately $6.7 billion) in an all-cash transaction. Management believes that the combination of Mylan and Merck Generics will create a vertically and horizontally integrated generic and specialty pharmaceuticals leader with a diversified revenue base and a global footprint, and also believes the combined company will be among the top tier of global generic companies, with a significant presence in the top five global generics markets. The transaction remains subject to regulatory review in relevant jurisdictions and certain other customary closing conditions and is expected to close in the second half of calendar 2007.

In conjunction with the Merck Generics transaction, the Company entered into a deal-contingent foreign currency option contract in order to mitigate the risk of foreign currency exposure. The contract is contingent upon the closing of this acquisition, and the premium of approximately $121.9 million will be paid only upon such closing. The Company will account for this instrument under the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( SFAS 133 ). This instrument does not qualify for hedge accounting treatment under SFAS No. 133 and, therefore, will be adjusted to fair value at each reporting date with the change in the fair value of the instrument recorded in earnings.

During the fourth quarter of fiscal 2007, Mylan completed an acquisition of 71.5% of the outstanding common shares of Matrix Laboratories Limited ( Matrix ), a publicly traded Indian company, for 306 rupees per Matrix share. On December 21, 2006, in accordance with the terms of the transaction, Mylan completed an open offer in which it acquired approximately 20% of Matrix s shares outstanding for approximately $210.6 million. Then, on January 8, 2007, Mylan purchased approximately 51.5% of Matrix s shares outstanding pursuant to an agreement with certain selling shareholders for approximately $545.6 million. The transaction was funded using Mylan s existing revolving credit facility and cash on hand. Approximately $168.0 million of the funds received by three of the selling

shareholders (and their affiliates) were used to purchase approximately 8.1 million shares of Mylan Laboratories Inc. common stock in private transactions with the Company.

Matrix provides Mylan with a significant presence in important emerging pharmaceutical markets, including India, China and Africa, as well as a European footprint and distribution network through Matrix s Docpharma subsidiary. This transaction combines Matrix s API and drug development business with Mylan s expertise in

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finished dosage forms. The transaction also expands Mylan s high-barrier-to-entry product capabilities, particularly in the area of anti-retrovirals.

With the addition of Matrix, Mylan will now report as two reportable segments, the Mylan Segment and the Matrix Segment . Mylan previously reported as one segment. In accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* ( SFAS 131 ), information for earlier periods has been recast.

Total revenues for fiscal 2007 were $1.61 billion. Mylan Segment total revenues were $1.53 billion, and our Matrix Segment had total revenues of $79.4 million.

For fiscal 2006, Mylan had total revenues of $1.26 billion. On a consolidated basis, year over year, this represents an increase of 28% in total revenues. Consolidated gross profit for fiscal 2007 was $843.7 million compared to $627.6 million in the prior year, an increase of 34%, while gross margins increased from 49.9% to 52.3%. Operating income increased by 49% to $427.6 million in fiscal 2007, compared to $287.4 million in fiscal 2006.

Net earnings for fiscal 2007 were $217.3 million compared to $184.5 million in fiscal 2006, an increase of 18%. Earnings per diluted share increased from $0.79 in fiscal 2006 to $0.99 in fiscal 2007. Comparability of results between fiscal 2007 and fiscal 2006 is affected by the following items:

*Fiscal 2007:*

- The write-off of acquired in-process research and development related to the Matrix acquisition in the amount of $147.0 million (pre-tax and after-tax);
- Stock-based compensation expense totaling $22.2 million, pre-tax, as a result of the Company s adoption of SFAS No. 123 (revised 2004), *Share-Based Payment* ( SFAS No. 123R );
- A gain on a foreign exchange forward contract of $16.2 million, pre-tax; and
- A net gain of $50.1 million, pre-tax, related to the favorable settlement of certain litigation.

*Fiscal 2006:*

- A charge of $12.0 million, pre-tax, with respect to a contingent legal liability related to previously, pre-tax, disclosed litigation in connection with the Company s lorazepam and clorazepate products and $20.9 million of restructuring costs.

A more detailed discussion of the Company s financial results can be found under the section titled Results of Operations .

Other factors which impacted fiscal 2007 were:

**Amlodipine Besylate** On March 23, 2007, Mylan launched Amlodipine Besylate Tablets, 2.5 mg (base), 5 mg (base) and 10 mg (base). Amlodipine Besylate Tablets ( amlodipine ) are the generic version of Pfizer s Norvasc® Tablets, which had U.S. sales of approximately $2.7 billion for the 12-month period ended December 31, 2006, according to IMS Health. Mylan was the first generic company to file on all strengths of amlodipine.

The FDA has stated that in the event an appellate court mandate from the March 21, 2007 appellate court decision related to the validity of the amlodipine patent is issued prior to September 25, 2007, the only ANDA eligible for approval during that period will be from Apotex because of the favorable court decision in its case against Pfizer. However, there are several other ANDA applicants seeking immediate approval.

On May 21, 2007, an appellate court mandate was issued and Apotex has launched its amlodipine product. Consistent with past practice and as a result of uncertainties concerning pricing and market conditions for this product, revenue is being deferred until the product is sold by Mylan s customers or until such time that the uncertainties are resolved. For the year ended March 31, 2007, therefore, substantially all revenues on shipments of amlodipine are deferred.

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**Issuance of Senior Convertible Notes and Common Stock** On March 2, 2007, Mylan completed an offering of $600.0 million aggregate principal amount of senior convertible notes due 2012. The notes bear interest at 1.25% and are convertible by holders at an initial conversion rate of 44.5931 shares of common stock per $1,000 principal amount of notes (subject to adjustment in certain circumstances), which represents an intial conversion price of approximately $22.43 per share.

Also on March 2, 2007, Mylan completed the sale of 26.2 million shares of its common stock at a price of $19.50 per share.

**Oxybutynin** On November 10, 2006, Mylan announced that the FDA granted final approval for Mylan Pharmaceuticals Inc. s ANDAs for oxybutynin chloride extended-release tablets ( oxybutynin ), 5 mg and 10 mg, the generic version of Alza Corporation s Ditropan® XL. Mylan was the first generic drug company to file ANDAs with the FDA for 5 mg and 10 mg oxybutynin and, as such, had 180 days of market exclusivity for those strengths. In the third fiscal quarter of 2007, Mylan launched its 5 mg and 10 mg oxybutynin products upon receiving approval and also launched a 15 mg strength under our agreement with Ortho-McNeil Pharmaceuticals. Mylan s exclusivity on this product expired on May 9, 2007.

**Results of Operations**

**Fiscal 2007 Compared to Fiscal 2006**

*Total Revenues and Gross Profit*

Total revenues for fiscal 2007 were $1.61 billion compared to $1.26 billion for fiscal 2006, an increase of $354.7 million or 28%. Mylan Segment total revenues were $1.53 billion, and Matrix Segment total revenues were $79.4 million. In arriving at net revenues, gross revenues are reduced by provisions for estimates, including discounts, customer performance and promotions, price adjustments, returns and chargebacks. See the section titled Application of Critical Accounting Policies in this ITEM 7, for a thorough discussion of our methodology with respect to such provisions. For the fiscal year ended March 31, 2007, the most significant amounts charged against gross revenues were for chargebacks in the amount of $1.19 billion and customer performance and promotions in the amount of $180.7 million. For fiscal 2006, chargebacks of $1.11 billion and customer performance and promotions of $160.8 million were charged against gross revenues. Customer performance and promotions include direct rebates as well as promotional programs.

For the Mylan Segment, net revenues increased by $267.5 million or 22% compared to fiscal 2006 primarily as a result of increased volume and contribution from new products. Pricing was relatively stable compared to the prior year.

New products in fiscal 2007 contributed net revenues of $108.7 million primarily due to oxybutynin, which was launched in the third quarter.

Excluding new products, fentanyl, which continues to be the only ANDA-approved, AB-rated generic alternative to Duragesic® on the market, was a primary driver of both the increased volume and relatively stable pricing. Fentanyl accounted for approximately 18% of Mylan Segment net revenues for fiscal 2007. For the Mylan Segment, doses shipped during fiscal 2007 increased over 12% from the same prior year period to approximately 14.1 billion.

Other revenues for the Mylan Segment in fiscal 2007 increased by $7.7 million from $17.2 million in fiscal 2006 to $24.9 million for the current fiscal year. This increase was primarily related to the recognition of amounts that had

been deferred with respect to Apokyn®, which was sold in the prior year, with the remainder related to other business development activities.

Net revenues for the Matrix Segment were $95.8 million, of which $79.4 million were sold to third parties. Mylan began consolidating the results of Matrix on January 8, 2007. Approximately 50% of the Matrix Segment s third-party revenues come from the sale of API and intermediates and approximately 27% mainly from the distribution of branded generic products in Europe. Intercompany revenue was derived from API sales to the Mylan Segment primarily in conjunction with the launch of amlodipine which is a vertically integrated product, as well as revenue earned through intercompany product development agreements.

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Consolidated gross profit increased 34% or $216.1 million to $843.7 million from $627.6 million, and gross margins increased to 52.3% from 49.9%. For the Mylan Segment, gross profit was $846.6 million compared to $627.6 million in fiscal 2006, while gross margins increased to 55.2% from 49.9%. For the Matrix Segment gross profit was negatively impacted by approximately $17.6 million representing the reduction of the fair value step-up in inventory, intangible assets and property, plant and equipment recorded as part of the acquisition.

For the Mylan Segment, a significant portion of gross profit, as well as the increase in gross margins, was comprised of fentanyl and oxybutynin. Fentanyl contributes margins well in excess of most other products in our portfolio, excluding new products. Absent any changes to market dynamics or significant new competition for fentanyl, the Company expects the product to continue to be a significant contributor to sales and gross profit. Products generally contribute most significantly to gross margin at the time of their launch and, as is the case with oxybutynin, even more so in periods of market exclusivity. As is typical in the generic industry, the entrance into the market of other generic competition generally has a negative impact on the volume and pricing of the affected products.

*Operating Expenses*

Consolidated research and development ( R&D ) expense for fiscal 2007 was $103.7 million compared to $102.4 million in fiscal 2006, which represents an increase of $1.3 million or 1%. Matrix Segment R&D expense was $12.7 million for fiscal 2007. Excluding Matrix, R&D expense decreased by $11.4 million or 11%. The Mylan Segment had R&D expense of $81.8 million in fiscal 2007 compared to $101.1 million in fiscal 2006. The overall decrease is primarily the result of the outlicensing of nebivolol, which occurred late in fiscal 2006.

Additionally, during the fourth quarter, the Company recognized a charge of $147.0 million to write off acquired in-process R&D associated with the Matrix acquisition. This amount represents the fair value of purchased in-process technology for research projects that, as of the closing date of the acquisition, had not reached technological feasibility and had no alternative future use.

Selling, general and administrative ( SG&A ) expense for fiscal 2007 was $215.5 million compared to $225.4 million in fiscal 2006, a decrease of $9.8 million or 4%. Mylan Segment SG&A expense was $65.4 million, a decrease of $10.4 million from fiscal 2006. This decrease is primarily the result of approximately $20.0 million of cost savings realized from the closure of Mylan Bertek, the Company s branded subsidiary, in the prior year. Partially offsetting this decrease was an increase of approximately $4.5 million in stock-based compensation expense. Corporate and Other SG&A expense was $144.4 million in fiscal 2007 compared to $149.6 million in the prior year, a decrease of $5.2 million or 4%. Prior year Corporate and Other SG&A included $19.9 million of restructuring costs associated with the closure of Mylan Bertek, which accounts for the majority of the decrease realized in fiscal 2007. Partally offsetting this were increases in other general and administrative costs, including stock-based compensation expense of approximately $7.7 million. For the Matrix Segment, SG&A expense was $5.8 million in fiscal 2007.

*Litigation, net*

Net favorable settlements of $50.1 million were recorded in fiscal 2007. In the same period of the prior year, litigation, net was a $12.4 million charge of which $12.0 million was for a contingent liability with respect to the Company s previously disclosed lorazepam and clorazepate product litigation.

*Interest Expense*

Interest expense for fiscal 2007 totaled $52.3 million compared to $31.3 million for the same period of the prior year. The Company has had its financing outstanding for all of fiscal 2007, while it was only completed during the second

quarter of fiscal 2006. Also included in fiscal 2007 interest expense is interest related to the debt assumed in the Matrix acquisition as well as additional debt borrowed to fund the Matrix acquisition, the convertible notes issued in March of 2007, a commitment fee on the revolving credit facilities and the amortization of debt issuance costs.

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*Other Income, net*

Other income, net was $50.2 million for fiscal 2007 compared to $18.5 million in the same prior year period. The change is primarily the result of a $16.2 million net gain on a foreign currency forward contract related to the acquisition of Matrix. Additionally, during fiscal 2007, the Company received a cash payment of $5.5 million from Somerset Pharmaceuticals, Inc., in which Mylan owns a 50% equity interest and accounts for this investment using the equity method of accounting. The amount in excess of the carrying value of our investment in Somerset, approximately $5.0 million, was recorded as equity income.

*Income Tax Expense*

The Company s effective tax rate increased for fiscal 2007 to 48.9% from 32.8% in fiscal 2006. This increase is primarily due to the acquisition of Matrix and the related non-deductible $147.0 million charge related to acquired in-process R&D. In addition, higher pre-tax income for fiscal 2007 resulted in higher state taxes while state credits remained relatively fixed. Additionally, the favorable impact of federal tax credits on the effective tax rate was less significant in fiscal 2007 primarily because of the expiration of the Section 936 credits and lower R&D credits when compared to the previous fiscal year.

**Fiscal 2006 Compared to Fiscal 2005**

*Total Revenues and Gross Profit*

During fiscal 2006, in accordance with SFAS No. 131 Mylan reported as one segment, Pharmaceuticals . With the addition of Matrix, Mylan now has two reportable segments, the Mylan Segment (which is the former Pharmaceuticals segment) and the Matrix Segment . The discussion below has been updated to reflect this change in segment reporting. In fiscal 2006 and 2005, the Matrix Segment did not exist.

Net revenues for fiscal 2006 were $1.24 billion compared to $1.25 billion for fiscal 2005, a decrease of $7.8 million or 1%. In arriving at net revenues, gross revenues are reduced by provisions for estimates, including discounts, customer performance and promotions, price adjustments, returns and chargebacks. See the section titled Application of Critical Accounting Policies in this ITEM 7 for a thorough discussion of our methodology with respect to such provisions. For the fiscal year ended March 31, 2006, the most significant amounts charged against gross revenues were for chargebacks in the amount of $1.11 billion and customer performance and promotions in the amount of $160.8 million. For fiscal 2005, chargebacks of $892.6 million and customer performance and promotions of $195.1 million were charged against gross revenues. The increase in the amounts charged against gross revenues for chargebacks in the current year is the result of pricing pressures on certain products in the Company s portfolio, most notably omeprazole and carbidopa/levodopa, a full year of chargebacks related to fentanyl and an increase in sales to customers who are entitled to chargeback credits. Customer performance and promotions include direct rebates as well as promotional programs. A greater amount was charged against gross revenues for customer performance and promotions in fiscal 2005 primarily due to promotions offered to customers in connection with the launch of fentanyl that occurred in the fourth quarter of the prior fiscal year.

New products launched during fiscal 2006 contributed $6.7 million to net revenues in fiscal 2006 compared to $87.3 million in fiscal 2005 primarily due to fentanyl, which was launched in the fourth quarter of fiscal 2005. The Company considers a product to be a new product only in the year it is launched. Net revenues in fiscal 2006, however, did realize a significant benefit from a full year of sales of fentanyl, which accounted for over 10% of net revenues, as well as other products that were launched during fiscal 2005. The favorable impact of these products served to offset lower revenue on other products in the Company s portfolio, most notably omeprazole and

carbidopa/levodopa. Both of these products realized lower net revenues as a result of increased competition. As is the case in the generic industry, the entrance into the market of other generic competition generally has a negative impact on the volume and pricing of the affected products.

As it relates to other products, the trend generally observed throughout the Company s product portfolio in fiscal 2006 was favorable volume, which essentially offset unfavorable pricing. Doses shipped during fiscal 2006 were 12.6 billion, an increase over fiscal 2005 doses shipped of 12.5 billion.

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The fiscal 2006 results include other revenue of $17.2 million compared to $5.6 million in the prior year. The majority of this increase relates to the sale of Apokyn in fiscal 2006, for which $8.9 million of revenue was recognized. The remainder of the increase in fiscal 2006 is related to royalties.

Gross profit for fiscal 2006 was $627.6 million, an increase of $4.1 million or 1% over fiscal 2005, while gross margins were consistent at approximately 50%. A significant portion of gross profit was comprised of fentanyl. Absent any changes to market dynamics or the current competitive landscape for fentanyl, we expect the product to continue to be a significant contributor to sales and gross profit. Additionally, gross margins in the current year were impacted by favorable product mix, partially offset by lower margins on certain products, such as omeprazole and carbidopa/levodopa as a result of competition.

*Operating Expenses*

Research and development ( R&D ) expense for fiscal 2006 was $102.4 million compared to $88.3 million in fiscal 2005, which represents an increase of $14.2 million or 16%. Mylan Segment R&D expense was $101.1 million in fiscal 2006 compared to $87.9 million in fiscal 2005, while Corporate and Other R&D expense was $1.4 million and $0.4 million, respectively. The increase in Mylan Segment R&D expense is primarily due to costs incurred for clinical studies related to nebivolol incurred prior to the outlicensing of the product in the fourth quarter of fiscal 2006, as well as an overall increase in the number of ongoing studies. The Company s continued commitment to, and investment in, R&D activities has resulted in a robust ANDA pipeline, and it is expected that R&D expenses will continue to increase in future periods.

Selling, general and administrative ( SG&A ) expense for fiscal 2006 was $225.4 million compared to $259.1 million in fiscal 2005, a decrease of $33.7 million or 13%. Corporate and Other SG&A expense was $149.6 million in fiscal 2006 compared to $145.4 million in fiscal 2005, an increase of $4.2 million or 3%. This increase was offset by the Mylan Segment which had $75.8 million of SG&A expense in fiscal 2006 compared to $113.7 million in the prior year, a decrease of $37.9 million or 33%. Included in fiscal 2005 SG&A were costs of $22.9 million related to the terminated acquisition of King Pharmaceuticals, Inc. Legal costs also decreased by approximately $9.0 million from fiscal 2005 to fiscal 2006, primarily as a result of the timing of certain litigation. Legal challenges continue to be an integral part of the Company s strategy and its ability to continue to deliver new generic products to the market. The remainder of the change in SG&A during fiscal 2006 is primarily the result of the closure of Mylan Bertek as part of the Company s restructuring. Charges of $19.9 million were incurred primarily in the first and second quarters related to employee termination and severance costs, lease termination costs and asset write-downs. These costs, which were primarily related to the termination of the Mylan Bertek sales force, resulted in significant cost savings realized throughout the remainder of fiscal 2006.

*Litigation Settlements, net*

Litigation settlements, included in Corporate and Other, during fiscal 2006 consisted primarily of a charge of $12.0 million for a contingent liability with respect to the Company s previously disclosed lorazepam and clorazepate product litigation. In the prior year, net gains of $26.0 million were recorded with respect to settlement of other litigation.

*Interest Expense*

During the second quarter of fiscal 2006, Mylan completed a financing of $500.0 million in Senior Notes and a $500.0 million senior secured credit facility (see Contractual Obligations herein). Included in Corporate and Other is interest expense related to this financing of $31.3 million for fiscal 2006. Included in interest expense is a

commitment fee on the unused portion of the revolving credit facility and the amortization of financing fees.

*Other Income, net*

Corporate and Other includes other income, net of non-operating expenses, of $18.5 million in fiscal 2006 compared to $10.1 million in fiscal 2005. The increase is primarily the result of higher interest and dividend income on our investments in marketable securities as well as less of a loss recorded on our investment in Somerset Pharmaceuticals, Inc.

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We own a 50% equity interest in Somerset and account for this investment using the equity method of accounting. The recorded loss in Somerset for fiscal 2006 was $2.5 million compared to a loss of $3.3 million in fiscal 2005.

*Income Taxes*

The effective income tax rate for fiscal 2006 was 32.8%, a decrease from the fiscal 2005 effective tax rate of 34.8%. During fiscal 2006, we recorded a tax benefit of $7.5 million, primarily related to the resolution of certain tax positions with taxing authorities. These previously uncertain tax positions were resolved through the completion of audits or through the acceptance of our amended return filings. This tax benefit was partially offset by liabilities booked primarily for certain state tax filing positions. Despite our belief that our tax return positions are correct, we have established liabilities in both the current and prior fiscal years for these tax positions that may become payable in the event our positions are not upheld. In addition, the fiscal 2006 effective tax rate benefited from the new domestic production deduction and an increase in tax exempt interest as compared to the prior year, offset by higher state taxes.

**Liquidity and Capital Resources**

Cash flows from operating activities were $390.2 million for fiscal 2007, resulting from net income and non-cash add-backs (including acquired in-process R&D of $147.0 million), partially offset by changes in certain working capital items. In total, working capital as of March 31, 2007 was $1.7 billion compared to $926.7 million at March 31, 2006. The most significant working capital items affecting cash were accounts receivable and income taxes payable. The increase in accounts receivable is related to increased overall sales. The increase to income taxes payable is the result of increased net income and the timing of tax payments.

Cash used in investing activities for the fiscal year ended March 31, 2007 was $730.7 million. Of the Company s $4.3 billion of total assets at March 31, 2007, $1.4 billion was held in cash, cash equivalents and marketable securities. Investments in marketable securities consist of a variety of high-credit quality debt securities, including U.S. government, state and local government and corporate obligations. These investments are highly liquid and available for working capital and other needs. As these instruments mature, the funds are generally reinvested in instruments with similar characteristics.

Capital expenditures during fiscal 2007 were $161.9 million. These expenditures were incurred primarily for equipment, including with respect to the Company s previously announced planned expansions and the implementation of an integrated ERP system.

Also included in investing activities was $761.0 million paid to acquire a controlling interest of 71.5% in Matrix, net of cash acquired. Upon the closing of the purchase of the controlling interest, Mylan received a cash payment of $16.2 million as the result of a foreign currency forward contract that had been entered into with respect to the Matrix transaction. As a result, the net cash paid by Mylan for Matrix was approximately $744.8 million. Additionally, certain of Matrix s selling shareholders used $168.0 million of the funds received by them to purchase shares of Mylan Laboratories Inc. common stock from the Company. The receipt of these proceeds is included in financing activities as discussed below.

Cash provided by financing activities was $1.44 billion for fiscal 2007. Mylan generated $657.7 million through the issuance of common stock as a result of the Matrix transaction as described above and through the sale of 26.2 million shares on March 1, 2007 at a price of $19.50 per share. Proceeds from the issuance of common stock are shown net of underwriter s discounts and offering expenses of approximately $21.1 million.

Proceeds from the issuance of long-term debt were $1.56 billion, consisting primarily of $600.0 million of convertible notes issued on March 1, 2007, borrowings of $315.0 million under the revolving credit facility in order to finance the

Matrix acquisition (of which $52.0 million was subsequently repaid) and a term loan of $450.0 million borrowed on March 26, 2007. The term loan was used to pay $450.0 million of debt outstanding under the Company s revolving credit facility. Additionally, Mylan repaid $187.9 million of a 2005 term loan outstanding under a previous credit facility that was refinanced in the second quarter of the current fiscal year. The term loan was part of a credit agreement entered by Mylan for a $750.0 million senior unsecured credit facility which, in addition

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to the term loan, includes a multicurrency revolving credit facility (the Revolving Credit Facility ) in an aggregate amount of up to a U.S. dollar equivalent of $300.0 million, which is expected to be used for working capital and general corporate purposes, including expansion of global operations. At March 31, 2007, the Company had $1.0 billion available under its credit facilities.

At the time of issuance of the convertible notes, Mylan entered into a convertible note hedge transaction, comprised of a purchased call option and two warrant transactions with each of Merrill Lynch International, an affiliate of Merrill Lynch, and JPMorgan Chase Bank, National Association, London Branch, an affiliate of JPMorgan. The sale of the warrants resulted in cash proceeds of $45.4 million which was used, along with the proceeds from the issuance of the notes, to purchase the bond hedge for approximately $126.0 million. Subject to the conversion provisions outlined in the Convertible Notes Purchase Agreement, the notes are convertible by holders at an initial conversion rate of 44.5931 shares of common stock per $1,000 principal amount of notes, with the principal amount payable in cash and the remainder in stock or cash at the option of the Company.

Also included in cash flows from financing activities are proceeds of $49.8 million from the exercise of stock options and cash dividends paid of $50.8 million. In the first quarter of fiscal 2006, the Board voted to double the amount of the quarterly dividend to 6.0 cents per share from 3.0 cents per share, effective with the dividend paid for the first quarter of fiscal 2006. However, as announced on May 12, 2007, in conjunction with the contemplated acquisition of Merck KGaA s generic business, the Company is suspending the dividend on its common stock.

On May 12, 2007, Mylan and Merck KGaA announced the signing of a definitive agreement under which Mylan will acquire Merck s generics business ( Merck Generics ) for Euro 4.9 billion (approximately $6.7 billion) in an all-cash transaction. Management believes that the combination of Mylan and Merck Generics will create a vertically and horizontally integrated generics and specialty pharmaceuticals leader with a diversified revenue base and a global footprint, and also believes the combined company will be among the top tier of global generic companies, with a significant presence in the top five global generics markets. Mylan has obtained fully committed financing from Merrill Lynch, Citigroup and Goldman Sachs.

In conjunction with the Merck Generics transaction, the Company entered into a deal-contingent foreign currency option contract in order to mitigate the risk of foreign currency exposure. The contract is contingent upon the closing of this acquisition, and the premium of approximately $121.9 million will be paid only upon such closing. The Company will account for this instrument under the provisions of SFAS No. 133. This instrument does not qualify for hedge accounting treatment under SFAS No. 133 and, therefore, will be adjusted to fair value at each reporting date with the change in the fair value of the instrument recorded in earnings.

The Company is involved in various legal proceedings that are considered normal to its business (see Note 18 to the Consolidated Financial Statements). While it is not feasible to predict the outcome of such proceedings, an adverse outcome in any of these proceedings could materially affect the Company s financial position and results of operations.

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

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

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**Contractual Obligations**

The following table summarizes our contractual obligations at March 31, 2007 and the effect that such obligations are expected to have on our liquidity and cash flows in future periods:

| As of March 31, 2007 *(in thousands)* | Total | Less than One Year | One-Three Years | Three-Five Years | Thereafter |
|---|---|---|---|---|---|
| Operating leases | $ 20,164 | $ 5,848 | $ 9,621 | $ 2,662 | $ 2,033 |
| Other long-term obligations | 33,112 | 3,440 | 13,225 | 3,612 | 12,835 |
| Total debt | 1,776,362 | 121,430 | 254,932 | 1,050,000 | 350,000 |
| Scheduled interest payments | 362,752 | 71,394 | 202,801 | 66,244 | 22,313 |
| Revolving credit facility | | | | | |
| | $ 2,192,390 | $ 202,112 | $ 480,579 | $ 1,122,518 | $ 387,181 |

We lease certain real property under various operating lease arrangements that expire generally over the next five years. These leases generally provide us with the option to renew the lease at the end of the lease term. We have also entered into agreements to lease vehicles, which are typically 24 to 36 months, for use by our key employees.

Long-term debt consists of $500.0 million in Senior Notes, a Term Loan Facility of $450.0 million and $600.0 million in convertible notes. Additionally, with the acquisition of Matrix, Mylan assumed debt of approximately $226.4 million consisting primarily of two term loans of Euro 82.5 million each.

The Senior Notes consist of $150.0 million of Senior Notes due 2010, and bearing interest at 53/4% per annum (the 2010 Notes ), and $350.0 million of Senior Notes due 2015, and bearing interest at 63/8% per annum (the 2015 Notes , and collectively, the Notes ). The Senior Notes were originally issued on July 21, 2005 but were exchanged on January 14, 2006 in accordance with a registration rights agreement in a transaction consummated on January 19, 2006. The form and terms of the Senior Notes are identical in all material respects to the original notes except the transfer restrictions, registration rights and additional interest provisions relating to the original notes do not apply to the Notes.

On March 26, 2007, Mylan and its wholly owned indirect subsidiary Euro Mylan B.V. ( Euro Mylan ) entered into a credit agreement with a syndicate of bank lenders for a $750.0 million senior unsecured credit facility (the 2007 Credit Facility ), including (i) a multicurrency revolving credit facility (the Revolving Credit Facility ) in an aggregate amount of up to a U.S. dollar equivalent of $300.0 million due July 24, 2011, and (ii) a term loan facility (the Term Loan Facility ) denominated in U.S. dollars in aggregate amount of up to $450.0 million due December 26, 2011. Upon closing, the Company borrowed $450.0 million under the Term Loan Facility and used the proceeds to repay the revolving loans outstanding under the Company s existing 2006 Credit Facility. The Company intends to use the Revolving Credit Facility for working capital and general corporate purposes, including expansion of its global operations. At the Company s option, loans under the 2007 Credit Facility will bear interest either at a rate equal to LIBOR plus an effective applicable margin or at a base rate, which is defined as the higher of the rate announced publicly by the Administrative Agent, from time to time, as its prime rate or 0.5% above the federal funds rate. In the case of the effective applicable margin for outstanding term loans and revolver advances based on LIBOR, after the delivery by the Company to the Administrative Agent of its financial statements for the fiscal quarter ended March 31, 2007, the effective applicable margin may increase or decrease, within a range from 0.50% to 1.25%, based on the

Company s total leverage ratio. The interest rate in effect at March 31, 2007 on the outstanding borrowings under the Term Loan facility was 6.2%.

On March 1, 2007, Mylan entered into a Purchase Agreement (the Convertible Notes Purchase Agreement ) relating to the sale by the Company of $600.0 million aggregate principal amount of the Company s 1.25% Senior Convertible Notes due 2012 (the Convertible Notes ). The Convertible Notes bear interest at a rate of 1.25% per year, accruing from March 7, 2007. Interest is payable semiannually in arrears on March 15 and September 15 of each year, beginning September 15, 2007. The Notes will mature on March 15, 2012, subject to earlier repurchase or conversion. The Notes have an initial conversion rate of 44.5931 shares of common stock per $1,000 principal amount (equivalent to an initial conversion price of approximately $22.43 per share), subject to adjustment.

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Matrix s term loan borrowings consist of two Facilities ( Facility A and Facility B ), both of which are denominated in euros. Matrix s effective interest rate for these loans is Euro Interbank Offered Rate ( Euribor ) plus 110 basis points for Facility A of Euro 82.50 million and Euribor plus 129 basis points for Facility B of Euro 82.50 million for the period ended March 31, 2007. Facility A is repayable in July 2007, and Facility B is payable over three years in semi annual installments beginning in October 2007.

Scheduled interest payments represent the estimated interest payments on the Notes, the Term Loan, the Convertible Notes and Matrix debt. Variable debt interest payments are estimated using current interest rates, as discussed above.

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

On May 12, 2007, Mylan and Merck KGaA announced the signing of a definitive agreement under which Mylan will acquire Merck Generics for Euro 4.9 billion (approximately $6.7 billion) in an all-cash transaction. Mylan has secured fully committed financing through Merrill Lynch, Citigroup and Goldman Sachs.

In addition to the above, the Company has entered into various product licensing and development agreements. In some of these arrangements, we provide funding for the development of the product or obtain the rights to the use of the patent, through milestone payments, in exchange for marketing and distribution rights to the product. Because milestones represent the completion of specific contractual events and it is uncertain if and when these milestones will be achieved, such contingencies have not been recorded on the Company s Consolidated Balance Sheet. In the event that all projects are successful, milestone and development payments of approximately $21.7 million would be paid.

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

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

At March 31, 2007, the Company has $13.1 million in letters of credit outstanding.

**Application of Critical Accounting Policies**

Our significant accounting policies are described in Note 2 to the Consolidated Financial Statements, which were prepared in accordance with accounting principles generally accepted in the United States of America. Included within these policies are certain policies which contain critical accounting estimates and, therefore, have been deemed to be critical accounting policies. Critical accounting estimates are those which require management to make assumptions about matters that were uncertain at the time the estimate was made and for which the use of different estimates, which reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur from period to period could have a material impact on our financial condition or results of operations. The Company has identified the following to be its critical accounting policies: the determination of net revenue provisions, intangible assets and goodwill and the impact of existing legal matters.

*Net Revenue Provisions*

Net revenues are recognized for product sales upon shipment when title and risk of loss have transferred to the customer and when provisions for estimates, including discounts, rebates, promotional adjustments, price adjustments,

returns, chargebacks and other potential adjustments are reasonably determinable. Accruals for these provisions are presented in the Consolidated Financial Statements as reductions to net revenues and accounts receivable and within other current liabilities. Accounts receivable are presented net of allowances relating to these provisions, which were $404.7 million and $381.8 million at March 31, 2007 and 2006, respectively. Other current liabilities include $51.9 million and $60.4 million at March 31, 2007 and 2006, respectively, for certain rebates and other adjustments that are paid to indirect customers.

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The following is a rollforward of the most significant provisions for estimated sales allowances during fiscal year ended March 31, 2007:

| | Balance at 3/31/2006 | Checks/Credits Issued to Third Parties | Current Provision Related to Sales Made in the Current Period | Balance at 3/31/2007 |
|---|---|---|---|---|
| Chargebacks | $ 191,237 | $ (1,168,824) | $ 1,186,549 | $ 208,962 |
| Customer performance and promotions | $ 62,762 | $ (170,217) | $ 180,677 | $ 73,222 |
| Returns | $ 51,768 | $ (29,532) | $ 27,340 | $ 49,576 |

The accrual for chargebacks increased primarily as a result of increased sales, including sales generated from the launch of oxybutynin in the current year. The accrual for customer performance and promotions includes direct rebates as well as promotional programs. The accrual for direct rebates increased primarily as a result of higher sales in the current year, while the increase in the accrual for promotional programs was also driven in part by the launch of oxybutynin in the later part of fiscal 2007.

Provisions for estimated discounts, rebates, promotional and other credits require a lower degree of subjectivity and are less complex in nature yet, combined, represent a significant portion of the overall provisions. These provisions are estimated based on historical payment experience, historical relationship to revenues, estimated customer inventory levels and contract terms. Such provisions are determinable due to the limited number of assumptions and consistency of historical experience. Others, such as price adjustments, returns and chargebacks, require management to make more subjective judgments and evaluate current market conditions. These provisions are discussed in further detail below.

*Price Adjustments* Price adjustments, which include shelf stock adjustments, are credits issued to reflect decreases in the selling prices of our products. Shelf stock adjustments are based upon the amount of product that our customers have remaining in their inventories at the time of the price reduction. Decreases in our selling prices and the issuance of credits are discretionary decisions made by us to reflect market conditions. Amounts recorded for estimated price adjustments are based upon specified terms with direct customers, estimated launch dates of competing products, estimated declines in market price and, in the case of shelf stock adjustments, estimates of inventory held by the customer. In most cases, data with respect to the level of inventory held by the customer is obtained directly from certain of our largest customers. Additionally, internal estimates are prepared based upon historical buying patterns and estimated end-user demand. Such information allows us to assess the impact that a price adjustment will have given the quantity of inventory on hand. We regularly monitor these and other factors and evaluate our reserves and estimates as additional information becomes available.

*Returns* Consistent with industry practice, we maintain a return policy that allows our customers to return product within a specified period prior to and subsequent to the expiration date. Our estimate of the provision for returns is based upon our historical experience with actual returns, which is applied to the level of sales for the period that corresponds to the period during which our customers may return product. This period is known by us based on the shelf lives of our products at the time of shipment. Additionally, we consider factors such as levels of inventory in the distribution channel, product dating, and expiration period, size and maturity of the market prior to a product launch, entrance in the market of additional generic competition, changes in formularies or launch of over-the-counter products, to name a few, and make adjustments to the provision for returns in the event that it appears that actual

product returns may differ from our established reserves. We obtain data with respect to the level of inventory in the channel directly from certain of our largest customers. Although the introduction of additional generic competition does not give our customers the right to return product outside of our established policy, we do recognize that such competition could ultimately lead to increased returns. We analyze this on a case-by-case basis, when significant, and make adjustments to increase our reserve for product returns as necessary.

*Chargebacks* The provision for chargebacks is the most significant and complex estimate used in the recognition of revenue. The Company markets products directly to wholesalers, distributors, retail pharmacy chains, mail order pharmacies and group purchasing organizations. The Company also markets products indirectly to independent pharmacies, managed care organizations, hospitals, nursing homes and pharmacy benefit

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management companies, collectively referred to as indirect customers. Mylan enters into agreements with its indirect customers to establish contract pricing for certain products. The indirect customers then independently select a wholesaler from which to actually purchase the products at these contracted prices. Alternatively, certain wholesalers may enter into agreements with indirect customers that establish contract pricing for certain products which the wholesalers provide. Under either arrangement, Mylan will provide credit to the wholesaler for any difference between the contracted price with the indirect party and the wholesaler s invoice price. Such credit is called a chargeback, while the difference between the contracted price and the wholesaler s invoice price is referred to as the chargeback rate. The provision for chargebacks is based on expected sell-through levels by our wholesaler customers to indirect customers, as well as estimated wholesaler inventory levels. For the latter, in most cases, inventory levels are obtained directly from certain of our largest wholesalers. Additionally, internal estimates are prepared based upon historical buying patterns and estimated end-user demand. Such information allows us to estimate the potential chargeback that we may ultimately owe to our customers given the quantity of inventory on hand. We continually monitor our provision for chargebacks and evaluate our reserve and estimates as additional information becomes available.

*Intangible Assets and Goodwill*

We account for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective estimated fair values. The cost to acquire a business, including transaction costs, is allocated to the underlying net assets of the acquired business based on estimates of their respective fair values. Amounts allocated to acquired in-process research and development are expensed at the date of acquisition. Intangible assets are amortized over the expected life of the asset. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

The purchase price allocation for the acquisition of Matrix is preliminary and is based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed. Management believes that 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 purchase price allocation may be adjusted upon the final valuation, and such adjustments could be significant. The Company expects to finalize the valuation and complete the purchase price allocation as soon as possible but no later than one year from the acquisition date.

The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations. Fair values and useful lives are determined based on, among other factors, the expected future period of benefit of the asset, the various characteristics of the asset and projected cash flows. Because this process involves management making estimates with respect to future sales volumes, pricing, new product launches, anticipated cost environment and overall market conditions and because these estimates form the basis for the determination of whether or not an impairment charge should be recorded, these estimates are considered to be critical accounting estimates. As a result of our acquisition of Matrix, we recorded on our balance sheet goodwill of $505.8 million and $270.4 million of intangible assets.

Goodwill and intangible assets are reviewed for impairment annually or when events or other changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Impairment of goodwill and indefinite-lived intangibles is determined to exist when the fair value is less than the carrying value of the net assets being tested. Impairment of definite-lived intangibles is determined to exist when undiscounted cash flows related to the assets are less than the carrying value of the assets being tested.

As discussed above with respect to determining an asset s fair value and useful life, because this process involves management making certain estimates and because these estimates form the basis for the determination of whether or

not an impairment charge should be recorded, these estimates are considered to be critical accounting estimates. As of March 31, 2007, the Company determined through its estimates that no impairment of goodwill or intangible assets existed. The Company will continue to assess the carrying value of its goodwill and intangible assets in accordance with applicable accounting guidance.

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*Legal Matters*

The Company is involved in various legal proceedings, some of which involve claims for substantial amounts. An estimate is made to accrue for a loss contingency relating to any of these legal proceedings if it is probable that a liability was incurred as of the date of the financial statements and the amount of loss can be reasonably estimated. Because of the subjective nature inherent in assessing the outcome of litigation and because of the potential that an adverse outcome in a legal proceeding could have a material impact on the Company s financial position or results of operations, such estimates are considered to be critical accounting estimates. During fiscal 2006, the Company recorded an accrual of $12.0 million following a jury verdict of approximately that amount in the Company s lorazepam and clorazepate litigation. See ITEM 3, Legal Proceedings, for further discussion. The Company will continue to evaluate all legal matters as additional information becomes available.

**Recent Accounting Pronouncements**

In July 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109* ( FIN 48 ), which clarifies the accounting for uncertain tax positions. This Interpretation provides that the tax effects from an uncertain tax position be recognized in the Company s financial statements, only if the position is more likely than not of being sustained upon audit, based on the technical merits of the position. The provisions of FIN 48 are effective for Mylan as of April 1, 2007. The Company is currently evaluating the impact of adopting FIN 48 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ), which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. The statement is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS No. 157 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS 159 ), providing companies with an option to report selected financial assets and liabilities at fair value. This statement is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 159 on its consolidated financial statements.

**ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk**

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

*Marketable Debt Securities*

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

The following table summarizes the investments in marketable debt and equity securities which subject the Company to market risk at March 31, 2007 and 2006:

| | **2007** | **2006** |
|---|---|---|
| *(in thousands)* | | |

| | | |
|---|---|---|
| Marketable debt securities | $ 171,548 | $ 362,458 |
| Marketable equity securities | 2,659 | 5,545 |
| | $ 174,207 | $ 368,003 |

The primary objectives for the marketable debt securities investment portfolio are liquidity and safety of principal. Investments are made to achieve the highest rate of return while retaining principal. Our investment policy limits investments to certain types of instruments issued by institutions and government agencies with investment grade credit ratings. At March 31, 2007, the Company had invested $171.5 million in marketable debt

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securities, of which $31.4 million will mature within one year and $140.1 million will mature after one year. The short duration to maturity creates minimal exposure to fluctuations in market values for investments that will mature within one year. However, a significant change in current interest rates could affect the market value of the remaining $140.1 million of marketable debt securities that mature after one year. A 5% change in the market value of the marketable debt securities that mature after one year would result in a $7.0 million change in marketable debt securities.

*Long-Term Debt*

On July 21, 2005, the Company issued $500.0 million in Senior Notes with fixed interest rates of 53/4% and 63/8% (which were exchanged for registered notes, as described previously) and, on July 24, 2006, entered into a five-year $700.0 million senior unsecured revolving credit facility (the 2006 Credit Facility ). On March 26, 2007, Mylan and its wholly owned indirect subsidiary Euro Mylan B.V. ( Euro Mylan ) entered into a credit agreement with a syndicate of bank lenders for a $750.0 million senior unsecured credit facility (the 2007 Credit Facility ), including (i) a multicurrency revolving credit facility (the Revolving Credit Facility ) in an aggregate amount of up to a U.S. Dollar equivalent of $300.0 million due July 24, 2011, and (ii) a term loan facility (the Term Loan Facility ) denominated in U.S. Dollars in aggregate amount of up to $450.0 million due December 26, 2011. The Company borrowed $450.0 million under the Term Loan Facility and used the proceeds to repay the revolving loans outstanding under the Company s existing 2006 Credit Facility. The interest rate in effect at March 31, 2007 on the outstanding borrowings under the Term Loan Facility was 6.2%.

On March 1, 2007, Mylan entered into a purchase agreement relating to the sale by the Company of $600.0 million aggregate principal amount of the Company s 1.25% Senior Convertible Notes due 2012 (the Convertible Notes ). The Convertible Notes bear interest at a rate of 1.25% per year, accruing from March 7, 2007. Interest is payable semiannually in arrears on March 15 and September 15 of each year, beginning September 15, 2007. The Notes will mature on March 15, 2012, subject to earlier repurchase or conversion. The Notes have an initial conversion rate of 44.5931 shares of common stock per $1,000 principal amount (equivalent to an initial conversion price of approximately $22.43 per share), subject to adjustment.

Upon the acquisition of Matrix, Mylan assumed Matrix s long-term debt which includes two term loan borrowings both of which are denominated in euros. Matrix s effective interest rate for these loans is Euro Interbank Offered Rate (Euribor) plus 110 basis points for the first ( Facility A ) of Euro 82.50 million and Euribor plus 129 basis points for the second ( Facility B ) of Euro 82.50 million for the period ended March 31, 2007. Facility A is repayable in July 2007.

Generally, the fair market value of fixed interest rate debt will decrease as interest rates rise and increase as interest rates fall. The fair market value of the Convertible Notes will fluctuate as the market value of our common stock fluctuates. As of March 31, 2007, the fair value of our Senior Notes was approximately $495.8 million, and our Convertible Notes were approximately $640.4 million. The carrying value of our Term Loan facility and Matrix s term loan borrowings approximated fair value. A 10% change in interest rates on the variable rate debt would result in a change in interest expense of approximately $3.9 million per year.

*Foreign Exchange Option Contract*

In conjunction with the Merck Generics transaction, the Company entered into a deal-contingent foreign currency option contract in order to mitigate the risk of foreign currency exposure. The contract is contingent upon the closing of this acquisition, and the premium of approximately $121.9 million will be paid only upon such closing. The Company will account for this instrument under the provisions of SFAS No. 133. This instrument does not qualify for hedge accounting treatment under SFAS No. 133 and, therefore, will be adjusted to fair value at each reporting date with the change in the fair value of the instrument recorded in earnings.

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**ITEM 8. Financial Statements and Supplementary Data**

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**Mylan Laboratories Inc.**
**Consolidated Balance Sheets**
(in thousands, except share and per share data)

| March 31, | 2007 | 2006 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,252,365 | $ 150,124 |
| Marketable securities | 174,207 | 368,003 |
| Accounts receivable, net | 350,294 | 242,193 |
| Inventories | 429,111 | 279,008 |
| Deferred income tax benefit | 145,343 | 137,672 |
| Prepaid expenses and other current assets | 60,724 | 14,900 |
| Total current assets | 2,412,044 | 1,191,900 |
| Property, plant and equipment, net | 686,739 | 406,875 |
| Intangible assets, net | 352,780 | 105,595 |
| Goodwill | 612,742 | 102,579 |
| Deferred income tax benefit | 45,779 | |
| Other assets | 143,783 | 63,577 |
| Total assets | $ 4,253,867 | $ 1,870,526 |
| Liabilities and shareholders equity | | |
| Liabilities | | |
| Current liabilities: | | |
| Trade accounts payable | $ 160,286 | $ 76,859 |
| Short-term borrowings | 108,259 | |
| Income taxes payable | 78,387 | 12,963 |
| Current portion of long-term obligations | 124,782 | 4,336 |
| Cash dividends payable | 14,902 | 12,605 |
| Other current liabilities | 213,919 | 158,487 |
| Total current liabilities | 700,535 | 265,250 |
| Deferred revenue | 90,673 | 89,417 |
| Long-term debt | 1,654,932 | 685,188 |
| Other long-term obligations | 29,760 | 22,435 |
| Deferred income tax liability | 85,900 | 20,585 |
| Total liabilities | 2,561,800 | 1,082,875 |
| Minority Interest | 43,207 | |
| Shareholders equity | | |
| Preferred stock par value $0.50 per share | | |
| Shares authorized: 5,000,000 Shares issued: none | | |

| | | |
|---|---|---|
| Common stock par value $0.50 per share | | |
| Shares authorized: 600,000,000 in fiscal 2007 and fiscal 2006 | | |
| Shares issued: 339,361,201 in fiscal 2007 and 309,150,251 in fiscal 2006 | 169,681 | 154,575 |
| Additional paid-in capital | 962,746 | 418,954 |
| Retained earnings | 2,103,282 | 1,939,045 |
| Accumulated other comprehensive earnings | 1,544 | 2,450 |
| | 3,237,253 | 2,515,024 |
| Less treasury stock at cost | | |
| Shares: 90,948,957 in fiscal 2007 and 98,971,431 in fiscal 2006 | 1,588,393 | 1,727,373 |
| Total shareholders equity | 1,648,860 | 787,651 |
| Total liabilities and shareholders equity | $ 4,253,867 | $ 1,870,526 |

*See Notes to Consolidated Financial Statements.*

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**Mylan Laboratories Inc.**
**Consolidated Statements of Earnings**
(in thousands, except per share data)

| Fiscal Year Ended March 31, | 2007 | 2006 | 2005 |
|---|---|---|---|
| Revenues: | | | |
| Net revenues | $ 1,586,947 | $ 1,240,011 | $ 1,247,785 |
| Other revenues | 24,872 | 17,153 | 5,589 |
| Total revenues | 1,611,819 | 1,257,164 | 1,253,374 |
| Cost of sales | 768,151 | 629,548 | 629,834 |
| Gross profit | 843,668 | 627,616 | 623,540 |
| Operating expenses: | | | |
| Research and development | 103,692 | 102,431 | 88,254 |
| Acquired in-process research and development | 147,000 | | |
| Selling, general and administrative | 215,538 | 225,380 | 259,105 |
| Litigation settlements, net | (50,116) | 12,417 | (25,990) |
| Total operating expenses | 416,114 | 340,228 | 321,369 |
| Earnings from operations | 427,554 | 287,388 | 302,171 |
| Interest expense | 52,276 | 31,285 | |
| Other income, net | 50,234 | 18,502 | 10,076 |
| Earnings before income taxes and minority interest | 425,512 | 274,605 | 312,247 |
| Provision for income taxes | 208,017 | 90,063 | 108,655 |
| Earnings before minority interest | 217,495 | 184,542 | 203,592 |
| Minority interest | 211 | | |
| Net earnings | $ 217,284 | $ 184,542 | $ 203,592 |
| Earnings per common share: | | | |
| Basic | $ 1.01 | $ 0.80 | $ 0.76 |
| Diluted | $ 0.99 | $ 0.79 | $ 0.74 |
| Weighted average common shares outstanding: | | | |
| Basic | 215,096 | 229,389 | 268,985 |
| Diluted | 219,120 | 234,209 | 273,621 |

*See Notes to Consolidated Financial Statements.*

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**Mylan Laboratories Inc.**
**Consolidated Statements of Shareholders Equity**
(in thousands, except share and per share data)

| Fiscal Year Ended March 31, | 2007 | 2006 | 2005 |
|---|---|---|---|
| Common stock shares issued: | | | |
| Shares at beginning of year | 309,150,251 | 304,434,724 | 303,553,121 |
| Issuance of common stock , net | 26,162,500 | | |
| Stock options exercised, net of shares tendered for payment | 4,048,450 | 4,715,527 | 881,603 |
| Shares at end of year | 339,361,201 | 309,150,251 | 304,434,724 |
| Treasury stock: | | | |
| Shares at beginning of year | (98,971,431) | (35,129,643) | (35,129,643) |
| Issuance of restricted stock, net of shares withheld | (35,665) | 35,463 | |
| Shares issued for the acquisition of Matrix | 8,058,139 | | |
| Stock purchases | | (63,877,251) | |
| Shares at end of year | (90,948,957) | (98,971,431) | (35,129,643) |
| Common shares outstanding | 248,412,244 | 210,178,820 | 269,305,081 |
| Common stock, $0.50 par: | | | |
| Balance at beginning of year | $ 154,575 | $ 152,217 | $ 151,777 |
| Issuance of common stock , net | 13,081 | | |
| Stock options exercised | 2,025 | 2,358 | 440 |
| Balance at end of year | 169,681 | 154,575 | 152,217 |
| Additional paid-in capital: | | | |
| Balance at beginning of year | 418,954 | 354,172 | 338,143 |
| Issuance of common stock, net | 476,015 | | |
| Sale of warrants | 45,360 | | |
| Shares issued for the acquisition of Matrix | 23,045 | | |
| Purchase of bond hedge, net of tax of $44,100 | (81,900) | | |
| Stock options exercised | 47,242 | 54,531 | 9,628 |
| Issuance of restricted stock | (2,526) | 181 | |
| Unearned compensation | | 3,142 | 3,901 |
| Stock based compensation expense | 22,156 | | |
| Tax benefit of stock option plans | 14,419 | 7,221 | 2,500 |
| Other | (19) | (293) | |
| Balance at end of year | 962,746 | 418,954 | 354,172 |
| Retained earnings: | | | |
| Balance at beginning of year | 1,939,045 | 1,808,802 | 1,637,497 |
| Net earnings | 217,284 | 184,542 | 203,592 |

| | | | |
|---|---|---|---|
| Dividends declared ($0.24 per share for fiscals 2007 and 2006, $0.12 per share for fiscal 2005) | (53,047) | (54,299) | (32,287) |
| Balance at end of year | 2,103,282 | 1,939,045 | 1,808,802 |
| Accumulated other comprehensive earnings: | | | |
| Balance at beginning of year | 2,450 | 870 | 2,496 |
| Adoption of SFAS No. 158, net of tax | (1,272) | | |
| Translation adjustment | 1,266 | | |
| Net unrealized gain (loss) on marketable securities, net of tax | (900) | 1,580 | (1,626) |
| Balance at end of year | 1,544 | 2,450 | 870 |
| Treasury stock, at cost: | | | |
| Balance at beginning of year | (1,727,373) | (470,125) | (470,125) |
| Issuance of restricted stock, net of shares withheld | (1,716) | 619 | |
| Shares issued for the acquisition of Matrix | 140,696 | | |
| Stock purchases | | (1,257,867) | |
| Balance at end of year | (1,588,393) | (1,727,373) | (470,125) |
| Total shareholders equity | $ 1,648,860 | $ 787,651 | $ 1,845,936 |
| Comprehensive earnings: | | | |
| Net earnings | $ 217,284 | $ 184,542 | $ 203,592 |
| Other comprehensive earnings (loss), net of tax: | | | |
| Net unrealized holding gains (losses) gains on securities | (1,569) | 1,397 | (1,711) |
| Reclassification for losses included in net earnings | 669 | 183 | 85 |
| Translation adjustment | 1,266 | | |
| Other comprehensive earnings (loss), net of tax | 366 | 1,580 | (1,626) |
| Comprehensive earnings | $ 217,650 | $ 186,122 | $ 201,966 |

*See Notes to Consolidated Financial Statements.*

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**Mylan Laboratories Inc.**
**Consolidated Statements of Cash Flows**
(in thousands)

| Fiscal Year Ended March 31, | 2007 | 2006 | 2005 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net earnings | $ 217,284 | $ 184,542 | $ 203,592 |
| Adjustments to reconcile net earnings to net cash provided from operating activities: | | | |
| Depreciation and amortization | 61,512 | 46,827 | 45,100 |
| Stock-based compensation expense | 22,156 | | |
| In-process research and development | 147,000 | | |
| Minority interest | 211 | | |
| Net (income) loss from equity method investees | (6,659) | 2,538 | 2,372 |
| Change in estimated sales allowances | 14,386 | 41,047 | 108,778 |
| Restructuring provision | | 20,921 | |
| Deferred income tax benefit | (50,479) | (23,635) | (36,899) |
| Other non-cash items | 7,703 | 15,768 | 7,951 |
| Litigation settlements, net | (50,116) | 12,417 | (25,990) |
| Receipts from litigation settlements, net | 56,580 | 1,691 | 42,990 |
| Cash received from Somerset | 5,870 | | |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (60,773) | 19,081 | (192,799) |
| Inventories | (28,987) | 6,012 | 34,530 |
| Trade accounts payable | (29,312) | 20,534 | 8,082 |
| Income taxes | 73,567 | (23,821) | 22,010 |
| Deferred revenue | (5,504) | 106,642 | |
| Other operating assets and liabilities, net | 15,753 | (14,003) | (16,006) |
| Net cash provided by operating activities | 390,192 | 416,561 | 203,711 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (161,851) | (103,689) | (90,746) |
| Acquisition of Matrix, net of cash acquired of $10,943 | (761,049) | | |
| Purchase of marketable securities | (655,948) | (686,569) | (780,806) |
| Proceeds from sale of marketable securities | 848,520 | 991,060 | 693,289 |
| Other items, net | (407) | (5,710) | 3,372 |
| Net cash (used in) provided by investing activities | (730,735) | 195,092 | (174,891) |
| Cash flows from financing activities: | | | |
| Cash dividends paid | (50,751) | (49,772) | (32,261) |
| Payment of financing fees | (15,329) | (14,662) | |
| Excess tax benefit from stock-based compensation | 4,158 | | |
| Proceeds from issuance of common stock, net | 657,678 | | |
| Purchase of bond hedge | (126,000) | | |
| Proceeds from issuance of warrants | 45,360 | | |

| | | | |
|---|---|---|---|
| Proceeds from long-term debt | 1,556,251 | 775,000 | |
| Payment of long-term debt | (689,938) | (87,062) | |
| Purchase of common stock | | (1,257,867) | |
| Proceeds from exercise of stock options | 49,824 | 56,889 | 10,068 |
| Increase (decrease) in outstanding checks in excess of cash in disbursement accounts | 10,403 | (21,788) | 19,622 |
| Other items, net | 1,160 | | |
| Net cash provided by (used in) financing activities | 1,442,816 | (599,262) | (2,571) |
| Effect on cash of changes in exchange rates | (32) | | |
| Net increase in cash and cash equivalents | 1,102,241 | 12,391 | 26,249 |
| Cash and cash equivalents beginning of year | 150,124 | 137,733 | 111,484 |
| Cash and cash equivalents end of year | $ 1,252,365 | $ 150,124 | $ 137,733 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Income taxes | $ 176,353 | $ 137,519 | $ 123,725 |
| Interest | $ 59,996 | $ 29,110 | $ |

*See Notes to Consolidated Financial Statements.*

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**Mylan Laboratories Inc.**

**Notes to Consolidated Financial Statements**

**Note 1. Nature of Operations**

Mylan Laboratories Inc. and its subsidiaries (the Company , Mylan or we ) are engaged in the development, licensing, manufacture, marketing and distribution of generic, brand and branded generic pharmaceutical products for resale by others and active pharmaceutical ingredients ( API ). The principal markets for the Mylan Segment products are proprietary and ethical pharmaceutical wholesalers and distributors, drug store chains, drug manufacturers, institutions, and public and governmental agencies within the United States. The principal markets for the Matrix Segment are regulated markets such as the U.S. and the European Union. Matrix has a wide range of products in multiple therapeutic categories and focuses on developing API with non-infringing processes to partner with generic manufacturers in regulated markets at market formation. In Europe, Matrix operates through Docpharma, its wholly owned subsidiary and a leading distributor and marketer of branded generic pharmaceutical products in Belgium, the Netherlands and Luxembourg. Matrix also has investments in companies in China, South Africa and India.

**Note 2. Summary of Significant Accounting Policies**

***Principles of Consolidation.*** The Consolidated Financial Statements include the accounts of Mylan Laboratories Inc. and those of its wholly owned and majority-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Non-controlling interests in the Company s subsidiaries are recorded net of tax as minority interest.

On January 8, 2007, Mylan completed its acquisition of approximately 51.5% of Matrix Laboratories Limited ( Matrix ), which, combined with the acquisition of 20% of the outstanding share capital of Matrix on December 21, 2006, brought Mylan s total ownership of Matrix to 71.5%. Accordingly, Mylan began consolidating Matrix s results of operations as of January 8, 2007. See Note 3 for additional information. With the addition of Matrix, Mylan will now report as two reportable segments, the Mylan Segment and the Matrix Segment . Mylan previously reported as one segment. In accordance with Statement of Financial Accounting Standards ( SFAS ) 131, *Disclosures about Segments of an Enterprise and Related Information* ( SFAS No. 131 ), information for earlier periods has been recast.

***Cash Equivalents.*** Cash equivalents are composed of highly liquid investments with an original maturity of three months or less at the date of purchase. The Company utilizes a cash management system under which a book cash overdraft in the amount of $18,008,000 and $7,605,000 at March 31, 2007 and 2006, respectively, exists for the Company s primary disbursement accounts. This overdraft, which is included in accounts payable, represents uncleared checks in excess of the cash balance in the bank account at the end of the reporting period. The Company transfers cash on an as-needed basis to fund clearing checks.

***Marketable Securities.*** Marketable securities are classified as available for sale and are recorded at fair value based on quoted market prices, with net unrealized gains and losses, net of income taxes, reflected in accumulated other comprehensive earnings as a component of shareholders equity. Net gains and losses on sales of securities available for sale are computed on a specific security basis and are included in other income.

***Concentrations of Credit Risk.*** Financial instruments that potentially subject the Company to credit risk consist principally of interest-bearing investments and accounts receivable.

Mylan invests its excess cash in high-quality, liquid money market instruments (principally commercial paper, government, municipal and government agency notes and bills) maintained by financial institutions. The Company

maintains deposit balances at certain of these financial institutions in excess of federally insured amounts.

Mylan performs ongoing credit evaluations of its customers and generally does not require collateral. Approximately 51% and 76% of the accounts receivable balances represent amounts due from three customers at March 31, 2007 and March 31, 2006, respectively. Total allowances for doubtful accounts were $15,149,000 and $10,954,000 at March 31, 2007 and 2006, respectively.

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***Inventories.*** Inventories are stated at the lower of cost or market, with cost determined by the first-in, first-out method. Provisions for potentially obsolete or slow-moving inventory, including pre-launch inventory, are made based on our analysis of inventory levels, historical obsolescence and future sales forecasts.

***Property, Plant and Equipment.*** Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed and recorded on a straight-line basis over the assets estimated service lives (3 to 19 years for machinery and equipment and 15 to 39 years for buildings and improvements). The Company periodically reviews the original estimated useful lives of assets and makes adjustments when appropriate. Depreciation expense was $39,093,000, $32,126,000 and $26,455,000 for fiscal years 2007, 2006 and 2005, respectively.

***Intangible Assets and Goodwill.*** Intangible assets are stated at cost less accumulated amortization. Amortization is generally recorded on a straight-line basis over estimated useful lives ranging from 5 to 20 years. The Company periodically reviews the original estimated useful lives of assets and makes adjustments when events indicate a shorter life is appropriate.

The Company accounts for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The cost to acquire a business, including transaction costs, is allocated to the underlying net assets of the acquired business in proportion to their respective fair values. Amounts allocated to acquired in-process research and development are expensed at the date of acquisition. Intangible assets are amortized over the expected life of the asset. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company s results of operations. Fair values and useful lives are determined based on, among other factors, the expected future period of benefit of the asset, the various characteristics of the asset and projected cash flows.

***Impairment of Long-Lived Assets.*** The carrying values of long-lived assets, which include property, plant and equipment and intangible assets with definite lives, are evaluated periodically in relation to the expected future cash flows of the underlying assets. Adjustments are made in the event that estimated undiscounted net cash flows are less than the carrying value.

Goodwill is tested for impairment at least annually based on management s assessment of the fair value of the Company s identified reporting units as compared to their related carrying value. If the fair value of a reporting unit is less than its carrying value, additional steps, including an allocation of the estimated fair value to the assets and liabilities of the reporting unit, would be necessary to determine the amount, if any, of goodwill impairment.

Indefinite-lived intangibles are tested at least annually for impairment. Impairment is determined to exist when the fair value is less than the carrying value of the assets being tested.

***Other Assets.*** Investments in business entities in which we have the ability to exert significant influence over operating and financial policies (generally 20% to 50% ownership) are accounted for using the equity method. Under the equity method, investments are initially recorded at cost and are adjusted for dividends, distributed and undistributed earnings and losses, and additional investments. Other assets are periodically reviewed for other-than-temporary declines in fair value.

***Short-Term Borrowings.*** Matrix has a financing arrangement for the sale of its accounts receivable with certain commercial banks. The commercial banks purchase the receivables at a discount and Matrix records the proceeds as

short-term borrowings. Upon receipt of payment of the receivable, the short-term borrowings are reversed. As the banks have recourse on the receivables sold, the receivables are included in accounts receivable, net on the Consolidated Balance Sheet. Additionally, Matrix has working capital facilities with several banks which are secured first by Matrix s current assets and second by Matrix s property, plant and equipment. The working capital facilities carry interest rates of 4%-14%.

***Revenue Recognition.*** Mylan recognizes revenue for product sales upon shipment 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. No revisions were made to the methodology used in determining these provisions during the fiscal year ended March 31, 2007. The following briefly describes the nature of each provision and how such provisions are estimated.

As of March 31, 2007, as a result of significant uncertainties surrounding the pricing and market conditions with respect to a product launched by the Company in late March 2007, the Company is not able to reasonably estimate the amount of potential price adjustments. For the year ended March 31, 2007, therefore, substantially all revenues on shipments of this product are being deferred until such uncertainties are resolved. Such uncertainties are resolved upon our customers sale of this product or the resolution of uncertainties concerning pricing and market conditions of this product.

Discounts are reductions to invoiced amounts offered to customers for payment within a specified period and are estimated upon shipment utilizing historical customer payment experience.

Rebates are offered to key customers to promote customer loyalty and encourage greater product sales. These rebate programs provide that upon the attainment of pre-established volumes or the attainment of revenue milestones for a specified period, the customer receives credit against purchases. Other promotional programs are incentive programs periodically offered to our customers. The Company is able to estimate provisions for rebates and other promotional programs based on the specific terms in each agreement at the time of shipment.

Consistent with industry practice, Mylan maintains a return policy that allows customers to return product within a specified period prior to and subsequent to the expiration date. The Company s estimate of the provision for returns is based upon historical experience with actual returns.

Price adjustments, which include shelf stock adjustments, are credits issued to reflect decreases in the selling prices of products. Shelf stock adjustments are based upon the amount of product which the customer has remaining in its inventory at the time of the price reduction. Decreases in selling prices are discretionary decisions made by the Company to reflect market conditions. Amounts recorded for estimated price adjustments are based upon specified terms with direct customers, estimated launch dates of competing products, estimated declines in market price and, in the case of shelf stock adjustments, estimates of inventory held by the customer.

The Company has agreements with certain indirect customers, such as independent pharmacies, managed care organizations, hospitals, nursing homes, governmental agencies and pharmacy benefit management companies, which establish contract prices for certain products. The indirect customers then independently select a wholesaler from which to actually purchase the products at these contracted prices. Mylan will provide credit to the wholesaler for any difference between the contracted price with the indirect party and the wholesaler s invoice price. Such credit is called a chargeback. The provision for chargebacks is based on expected sell-through levels by our wholesaler customers to indirect customers, as well as estimated wholesaler inventory levels.

Accounts receivable are presented net of allowances relating to the above provisions. No revisions were made to the methodology used in determining these provisions during the fiscal years ended March 31, 2007 and 2006. Such allowances were $404,687,000 and $381,800,000 at March 31, 2007 and 2006, respectively. Other current liabilities include $51,873,000 and $60,374,000 at March 31, 2007 and 2006, respectively, for certain rebates and other adjustments that are paid to indirect customers.

The Company periodically enters into various types of revenue arrangements with third parties, including agreements for the sale or license of product rights or technology, research and development agreements, collaboration agreements and others. These agreements may include the receipt of upfront and milestone payments, royalties, and payment for contract manufacturing and other services.

The Company recognizes all non-refundable payments as revenue in accordance with the guidance provided in the Securities and Exchange Commission s ( SEC ) Staff Accounting Bulletin ( SAB ) No. 104, *Revenue Recognition, corrected copy* and Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables.* Non-refundable fees received upon entering into license and other collaborative agreements where the Company has continuing involvement are recorded as deferred revenue and recognized as other revenue over a period of time.

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Royalty revenue from licensees, which are based on third-party sales of licensed products and technology, is earned in accordance with the contract terms when third-party sales can be reliably measured and collection of the funds is reasonably assured. Royalty revenue is included in other revenue on the Consolidated Statement of Earnings.

The Company recognizes contract manufacturing and other service revenue when the service is performed or the product shipped, which is when the Company s partners take ownership and title has passed, collectibility is reasonably assured, the sales price is fixed or determinable and there is persuasive evidence of an arrangement.

Three of the Company s customers accounted for 13%, 18% and 19%, respectively of consolidated net revenues in fiscal 2007. Three customers accounted for 16%, 14% and 17%, respectively, of net revenues in fiscal 2006, and three customers accounted for 11%, 19% and 16%, respectively, of net revenues in fiscal 2005.

***Research and Development.*** Research and development expenses are charged to operations as incurred.

***Advertising Costs.*** Advertising costs are expensed as incurred and amounted to $3,644,000, $5,435,000 and $9,745,000 in fiscal years 2007, 2006 and 2005, respectively.

***Income Taxes.*** Income taxes have been provided for using an asset and liability approach in which deferred income taxes reflect the tax consequences on future years of events that we have already recognized in the financial statements or tax returns. Changes in enacted tax rates or laws will result in adjustments to the recorded tax assets or liabilities in the period that the new tax law is enacted.

***Earnings per Common Share.*** Basic earnings per common share is computed by dividing net earnings by the weighted average common shares outstanding for the period. Diluted earnings per common share is computed by dividing net earnings by the weighted average common shares outstanding adjusted for the dilutive effect of stock options, restricted stock or restricted units granted, excluding antidilutive shares, under our stock option plans (see Note 13). At March 31, 2007, 2006 and 2005, there were 1,562,645, 312,750 and 6,779,000 shares, respectively, that were antidilutive.

A reconciliation of basic and diluted earnings per common share is as follows:

| **Fiscal Year Ended March 31,**<br>*(in thousands, except per share data)* | **2007** | **2006** | **2005** |
|---|---|---|---|
| Net earnings | $ 217,284 | $ 184,542 | $ 203,592 |
| Weighted average common shares outstanding | 215,096 | 229,389 | 268,985 |
| Assumed exercise of dilutive stock options, restricted stock and restricted units | 4,024 | 4,820 | 4,636 |
| Diluted weighted average common shares outstanding | 219,120 | 234,209 | 273,621 |
| Earnings per common share: | | | |
| Basic | $ 1.01 | $ 0.80 | $ 0.76 |
| Diluted | $ 0.99 | $ 0.79 | $ 0.74 |

***Stock Options.*** The Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment* ( SFAS 123R ), effective April 1, 2006. SFAS 123R requires the recognition of the fair value of stock-based compensation in net earnings. Prior

to April 1, 2006, the Company accounted for its stock options using the intrinsic value method of accounting provided under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, ( APB 25 ), and related Interpretations, as permitted by SFAS No. 123, *Accounting for Share Based Compensation*, ( SFAS 123 ).

Mylan adopted the provisions of SFAS 123R, using the modified prospective transition method. Under this method, compensation expense recognized in the 12 month period ended March 31, 2007 includes: (a) compensation cost for all share-based payments granted prior to April 1, 2006, but for which the requisite service period had not been completed as of April 1, 2006 based on the grant date fair value, estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to April 1,

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2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods have not been restated.

The previously disclosed pro forma effects of recognizing the estimated fair value of stock-based employee compensation for the fiscal years ended March 31, 2006 and 2005 were as follows:

| **Fiscal Year Ended March 31,** *(in thousands, except per share data)* | **2006** | **2005** |
|---|---|---|
| Net earnings, as reported | $ 184,542 | $ 203,592 |
| Add: Stock-based compensation expense included in reported net earnings, net of related tax effects | 2,649 | 2,543 |
| Deduct: Total compensation expense determined under fair-value based method for all stock awards, net of related tax effects | (11,845) | (14,852) |
| Pro forma net earnings | $ 175,346 | $ 191,283 |
| Earnings per share: | | |
| Basic as reported | $ 0.80 | $ 0.76 |
| Basic pro forma | $ 0.76 | $ 0.71 |
| Diluted as reported | $ 0.79 | $ 0.74 |
| Diluted pro forma | $ 0.75 | $ 0.70 |

***Foreign Currencies.*** The consolidated financial statements are presented in U.S. dollars ( USD ). The functional currency of the Company is the USD. Statements of earnings and cash flows of all of the Company s subsidiaries that are expressed in currencies other than USD are translated at an average exchange rate for the period, whereas assets and liabilities are translated at the end of the period exchange rates. Translation differences are recorded directly in shareholders equity as cumulative translation adjustments. Gains or losses on transactions denominated in a currency other than the Company s functional currency which arise as a result of changes in foreign exchange rates are recorded in the statement of earnings.

***Use of Estimates in the Preparation of Financial Statements.*** The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Because of the uncertainty inherent in such estimates, actual results could differ from those estimates.

***Reclassification.*** Certain prior year amounts were reclassified to conform to the fiscal 2007 presentation.

***Fiscal Year.*** The Company s fiscal year ends on March 31. All references to fiscal year shall mean the 12 months ended March 31.

***Recent Accounting Pronouncements.*** In July 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109*

( FIN 48 ), which clarifies the accounting for uncertain tax positions. This Interpretation provides that the tax effects from an uncertain tax position be recognized in the Company s financial statements, only if the position is more likely than not of being sustained upon audit, based on the technical merits of the position. The provisions of FIN 48 are effective for Mylan as of April 1, 2007. The Company is currently evaluating the impact of adopting FIN 48 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ), which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. The statement is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 157 on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS 159 ), providing companies with an option to report selected financial assets and liabilities at

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fair value. This statement is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 159 on its consolidated financial statements.

**Note 3. Acquisition of Matrix Laboratories Limited**

On August 28, 2006, Mylan Laboratories Inc. entered into a Share Purchase Agreement (the Share Purchase Agreement ) to acquire, through MP Laboratories (Mauritius) Ltd, its wholly owned indirect subsidiary, a controlling interest in Matrix, a publicly traded company in India. Matrix is engaged in the manufacture of APIs and solid oral dosage forms and is based in Hyderabad, India.

The acquisition of Matrix provides Mylan with a significant presence in important emerging pharmaceutical markets, including India, China and Africa, as well as a European footprint and distribution network through Matrix s Docpharma subsidiary. By combining Matrix s API and drug development business with Mylan s expertise in finished dosage forms, management believes this transaction allows Mylan to capture incremental pieces of the value chain through backward vertical integration.

Pursuant to the Share Purchase Agreement, Mylan agreed to pay a cash purchase price of 306 rupees per share for approximately 51.5% of the outstanding share capital of Matrix held by certain selling shareholders (the Selling Shareholders ).

In accordance with applicable Indian law, MP Laboratories (Mauritius) Ltd, along with the Company, commenced an open offer to acquire up to an additional 20% of the outstanding shares of Matrix (the Public Offer ) from Matrix s shareholders (other than the Selling Shareholders) on November 22, 2006, which Public Offer expired on December 11, 2006. The price in the Public Offer was 306 rupees per share, in accordance with applicable Indian regulations.

On December 21, 2006, the Public Offer was completed and a total of 54,585,189 shares were validly tendered, of which Mylan accepted 30,836,662 shares. Payment in the amount of $210,601,000 for the shares properly tendered and accepted was dispatched to the shareholders. On January 8, 2007, Mylan completed its acquisition of approximately 51.5% of Matrix s outstanding shares from certain selling shareholders for approximately $545,551,000, thereby increasing its ownership to approximately 71.5% of the voting share capital of Matrix. Including the Matrix shareholdings maintained by Prasad Nimmagadda (one of the selling shareholders), which are subject to a voting arrangement with Mylan, Mylan controls in excess of 75% of the voting share capital of Matrix.

Following the closing of this transaction, certain of the selling shareholders used approximately $168,000,000 of their proceeds to acquire Mylan Laboratories Inc. common stock from the Company in a private sale at a price of $20.85 per share. In connection with these transactions a total of 8,058,139 shares were issued to the selling shareholders. For purchase accounting purposes, the Company valued these shares at $20.32 per share, which represents Mylan s average stock price for the period two business days before and two business days after the August 28, 2006 announcement of the acquisition.

As a result of Mylan s total ownership in Matrix, Mylan accounted for this transaction as a purchase under SFAS No. 141, *Business Combinations* ( SFAS 141 ) and has consolidated the results of operations of Matrix since January 8, 2007. The purchase price has been allocated to the fair value of the tangible and intangible assets and liabilities with the excess being recorded as goodwill as of the effective date of the acquisition. As the acquisition was structured as a purchase of equity, the amortization of purchase price assigned to assets in excess of Matrix s historic tax basis will not be deductible for income tax purposes.

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The total purchase price of $776,173,000, including acquisition costs of $24,334,000, less cash acquired of $10,943,000, was $765,230,000. The preliminary allocation of assets acquired and liabilities assumed for Matrix is as follows:

*(in thousands)*

| | |
|---|---|
| Current assets (excluding cash and inventories) | $ 129,621 |
| Inventories | 123,000 |
| Property, plant and equipment, net | 152,580 |
| Identifiable intangible assets | 270,440 |
| Other non-current assets | 65,878 |
| In-process research and development[1] | 147,000 |
| Goodwill | 505,801 |
| Total assets acquired | 1,394,320 |
| Current liabilities | (374,458) |
| Deferred tax liabilities | (106,470) |
| Other non-current liabilities | (104,045) |
| Total liabilities assumed | (584,973) |
| Total minority interest | (44,117) |
| Net assets acquired | $ 765,230 |

(1) The amount allocated to acquired in-process research and development represents an estimate of the fair value of purchased in-process technology for research projects that, as of the closing date of the acquisition, had not reached technological feasibility and had no alternative future use.

The above purchase price allocation is preliminary and is based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed. 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 above may be adjusted upon the final valuation and such adjustments could be significant. The Company expects to finalize the valuation and complete the purchase price allocation as soon as possible but no later than one year from the acquisition date.

The operating results of Matrix have been included in Mylan s consolidated financial statements since January 8, 2007. Pro forma results of operations for the 12 months ended March 31, 2007 and 2006 are included below as if the acquisition occurred on the first day of the respective periods. This summary of the pro forma results of operations is not necessarily indicative of what Mylan s results of operations would have been had Matrix been acquired at the beginning of the periods indicated, nor does it purport to represent results of operations for any future periods.

| **Fiscal Year Ended March 31,** | **2007** | **2006** |
|---|---|---|
| *(in thousands, except per share data)* | | |

| | | |
|---|---|---|
| Total revenues | $ 1,825,754 | $ 1,487,434 |
| Net income | $ 143,423 | $ (28,474) |
| Earnings per common share: | | |
| Basic | $ 0.65 | $ (0.16) |
| Diluted | $ 0.64 | $ (0.16) |
| Weighted average shares | | |
| Basic | 221,171 | 237,489 |
| Diluted | 225,195 | 237,489 |

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The pro forma financial information for both of the above periods includes the following material, non-recurring charges directly attributable to the accounting for the acquisition: amortization of the step-up of inventory of $16,113,000 and an acquired in-process research and development charge of $147,000,000.

In conjunction with the Matrix transaction, the Company entered into a foreign exchange forward contract to purchase Indian rupees with U.S. dollars in order to mitigate the risk of foreign currency exposure related to the transaction. The Company accounted for this instrument under the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( SFAS 133 ). This instrument did not qualify for hedge accounting treatment under SFAS 133 and therefore was required to be adjusted to fair value with the change in the fair value of the instrument recorded in current earnings. The Company recorded a gain of $16,200,000 for the 12 month period ended March 31, 2007 related to this deal contingent forward contract. This amount is included within other income, net in the Consolidated Statements of Earnings.

**Note 4. Restructuring**

On June 14, 2005, the Company announced that it was closing its branded subsidiary, Mylan Bertek, and transferring the responsibility for marketing Mylan Bertek s products to other Mylan subsidiaries. In conjunction with this restructuring, the Company incurred restructuring charges of $20,921,000, pre-tax, during the year ended March 31, 2006. Of this, $1,000,000 is included in research and development expense, with the remainder in selling, general and administrative expense. Of the $20,921,000 charge, $15,117,000 was related to employee termination and severance costs primarily with respect to the involuntary termination of the Mylan Bertek sales force and represented cash termination payments paid to the affected employees as a direct result of the restructuring. The remainder consisted of non-cash asset write-downs of $1,636,000 and exit costs of $4,168,000, primarily lease termination costs. As of March 31, 2006, the Company s restructuring was substantially complete.

**Note 5. Balance Sheet Components**

Selected balance sheet components consisted of the following at March 31:

| *(in thousands)* | **2007** | **2006** |
|---|---|---|
| Inventories: | | |
| Raw materials | $ 148,109 | $ 98,259 |
| Work in process | 95,655 | 36,073 |
| Finished goods | 185,347 | 144,676 |
| | $ 429,111 | $ 279,008 |
| Property, plant and equipment: | | |
| Land and improvements | $ 29,850 | $ 10,639 |
| Buildings and improvements | 297,505 | 175,343 |
| Machinery and equipment | 471,990 | 287,202 |
| Construction in progress | 141,301 | 144,429 |
| | 940,646 | 617,613 |
| Less accumulated depreciation | 253,907 | 210,738 |

| | | |
|---|---|---|
| | $ 686,739 | $ 406,875 |
| Other current liabilities: | | |
| Payroll and employee benefit plan accruals | $ 43,655 | $ 24,323 |
| Accrued rebates | 51,873 | 60,374 |
| Royalties and product license fees | 15,215 | 9,320 |
| Deferred revenue | 10,465 | 17,225 |
| Legal and professional | 40,095 | 30,074 |
| Other | 52,616 | 17,171 |
| | $ 213,919 | $ 158,487 |

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**Note 6. Marketable Securities**

The amortized cost and estimated fair value of marketable securities were as follows:

| *(in thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| March 31, 2007 | | | | |
| Debt securities | $ 171,862 | $ 151 | $ 465 | $ 171,548 |
| Equity securities | | 2,659 | | 2,659 |
| | $ 171,862 | $ 2,810 | $ 465 | $ 174,207 |
| March 31, 2006 | | | | |
| Debt securities | $ 364,266 | $ 79 | $ 1,887 | $ 362,458 |
| Equity securities | | 5,545 | | 5,545 |
| | $ 364,266 | $ 5,624 | $ 1,887 | $ 368,003 |

Net unrealized gains on marketable securities were reported net of tax of $801,000 and $1,287,000 in fiscal 2007 and fiscal 2006, respectively.

Maturities of debt securities at fair value as of March 31, 2007, were as follows:

| *(in thousands)* | |
|---|---|
| Mature within one year | $ 31,395 |
| Mature in one to five years | 10,352 |
| Mature in five years and later | 129,801 |
| | $ 171,548 |

Gross gains of $805,476, $878,000 and $7,000 and gross losses of $1,834,785, $1,160,000 and $67,000 were realized during fiscal years 2007, 2006 and 2005, respectively.

**Note 7. Goodwill and Other Intangible Assets**

| *(in thousands)* | Total |
|---|---|
| Goodwill balance at March 31, 2006 | $ 102,579 |
| Acquisition of Matrix | 505,801 |

| | |
|---|---|
| Other | 4,362 |
| Goodwill balance at March 31, 2007 | $ 612,742 |

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Intangible assets, excluding goodwill, consisted of the following components:

| *(in thousands)* | Weighted Average Life (years) | Original Cost | Accumulated Amortization | Net Book Value |
|---|---|---|---|---|
| **March 31, 2007** | | | | |
| Amortized intangible assets: | | | | |
| Patents and technologies | 20 | $ 118,927 | $ 61,000 | $ 57,927 |
| Product rights and licenses | 8 | 367,805 | 86,349 | 281,456 |
| Other | 14 | 20,821 | 8,207 | 12,614 |
| | | $ 507,553 | $ 155,556 | 351,997 |
| Intangible assets no longer subject to amortization: | | | | |
| Trademarks | | | | 783 |
| | | | | $ 352,780 |
| **March 31, 2006** | | | | |
| Amortized intangible assets: | | | | |
| Patents and technologies | 20 | $ 118,935 | $ 54,836 | $ 64,099 |
| Product rights and licenses | 12 | 111,135 | 77,444 | 33,691 |
| Other | 20 | 14,267 | 7,245 | 7,022 |
| | | $ 244,337 | $ 139,525 | 104,812 |
| Intangible assets no longer subject to amortization: | | | | |
| Trademarks | | | | 783 |
| | | | | $ 105,595 |

Other intangibles consist principally of customer lists and contracts. As a result of the acquisition of a controlling interest in Matrix (see Note 3) the Company recorded intangible assets of $270,440,000, primarily product rights and licenses, which have a weighted average useful life of eight years.

Amortization expense for fiscal years 2007, 2006 and 2005 was $22,419,000, $14,701,000 and $17,708,000, respectively, and is expected to be $47,666,000, $46,466,000, $43,565,000, $43,123,000 and $37,232,000 for fiscal years 2008 through 2012, respectively.

**Note 8. Other Assets**

Other assets consisted of the following components at March 31:

| *(in thousands)* | 2007 | 2006 |
|---|---|---|
| Cash surrender value | $ 43,529 | $ 40,945 |
| Financing fees | 26,801 | 12,813 |
| Investments in affiliates | 52,907 | 462 |
| Other | 20,546 | 9,357 |
| | $ 143,783 | $ 63,577 |

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Cash surrender value is related to insurance policies on certain officers and key employees and the value of split-dollar life insurance agreements with certain former executive officers. See Note 9 for a discussion of financing fees.

Investments in affiliates are comprised of the following investments. In November 1988, the Company acquired 50% of the outstanding common stock of Somerset Pharmaceuticals, Inc. ( Somerset ). Mylan accounts for this investment using the equity method of accounting. During fiscal 2007, the Company received a cash payment of $5,500,000 from Somerset. The amount in excess of the carrying value of our investment in Somerset, approximately $5,000,000, was recorded as equity income. In fiscal 2006 and 2005, the Company recorded losses of $2,538,000 and $3,265,000 with respect to this investment. The investment balance at March 31, 2007, for Somerset is $0. Through the acquisition of a controlling interest in Matrix, the Company acquired an ownership interest in certain equity method investees of Matrix. These investments are accounted for under the equity method whereby the Company recognizes its proportionate shares of the investee s profit or loss.

**Note 9. Long-Term Debt**

A summary of long-term debt at March 31:

| *(in thousands)* | 2007 | 2006 |
|---|---|---|
| Senior Notes(A) | $ 500,000 | $ 500,000 |
| Credit facilities(B) | 450,000 | 187,938 |
| Senior convertible notes(C) | 600,000 | |
| Matrix facility loans(D) | 226,362 | |
| | $ 1,776,362 | $ 687,938 |
| Less: Current portion | 121,430 | 2,750 |
| Total long-term debt | $ 1,654,932 | $ 685,188 |

(A) On July 21, 2005, the Company issued $500,000,000 in Senior Notes, which consisted of $150,000,000 of Senior Notes due August 15, 2010, and bearing interest at 53/4% per annum (the 2010 Restricted Notes ) and $350,000,000 of Senior Notes due August 15, 2015, and bearing interest at 63/8% per annum (the 2015 Restricted Notes , and collectively the Restricted Notes ). The Restricted Notes were exchanged on January 14, 2006, in accordance with a registration rights agreement in a transaction consummated on January 19, 2006. The form and terms of the registered notes (the Notes ) are identical in all material respects to the original notes. Interest is payable semiannually on February 15 and August 15 and commenced on February 15, 2006.

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

The Notes are senior unsecured obligations of the Company and rank junior to all of the Company s secured obligations. The Notes are guaranteed jointly and severally on a full and unconditional senior unsecured basis by all of the Company s wholly owned domestic subsidiaries except a captive insurance company.

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

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(B) On July 21, 2005, the Company entered into a $500,000,000 senior secured credit facility (the Credit Facility ). The Credit Facility consisted of a $225,000,000 five-year revolving credit facility and a $275,000,000 five-year term loan (the Term Loan ).

On July 24, 2006, the Company completed the refinancing of its existing Credit Facility by entering into a credit agreement for a five-year $700,000,000 senior unsecured revolving credit facility (the 2006 Credit Facility ). At the Company s discretion, the 2006 Credit Facility was expandable to $1,000,000,000. Borrowings totaling $187,000,000 were made under the 2006 Credit Facility and, along with existing cash, were used to repay the Term Loan. Additional net borrowings of $263,000,000 were made under the 2006 Credit Facility in order to finance the acquisition of Matrix. The spread over LIBOR for borrowings will subsequently be adjusted based upon the Company s total leverage ratio as discussed below. The Company s obligations under the 2006 Credit Facility are guaranteed on a senior unsecured basis by all of the Company s direct and indirect domestic subsidiaries, except a captive insurance company.

The 2006 Credit Facility includes covenants that (a) require the Company to maintain a minimum interest coverage ratio and a maximum total leverage ratio, (b) place limitations on the Company s subsidiaries ability to incur debt, (c) place limitations on the Company s and the Company s subsidiaries ability to grant liens, carry out mergers, consolidations and sales of all or substantially all of its assets and (d) place limitations on the Company s and the Company s subsidiaries ability to pay dividends or make other restricted payments. The 2006 Credit Facility contains customary events of default, including nonpayment, misrepresentation, breach of covenants and bankruptcy.

On March 26, 2007, Mylan and its wholly owned indirect subsidiary Euro Mylan B.V. ( Euro Mylan ) entered into a credit agreement (the Credit Agreement ), effective March 26, 2007 (the Closing Date ), with a syndicate of bank lenders for a $750,000,000 senior unsecured credit facility including (i) a multicurrency revolving credit facility (the Revolving Credit Facility ) in an aggregate amount of up to a U.S. dollar equivalent of $300,000,000 due July 24, 2011, and (ii) a term loan agreement (the Term Loan Agreement ) denominated in U.S. dollars to the Company in an aggregate amount of up to $450,000,000 due December 26, 2011 (collectively, the 2007 Credit Facility ).

On the Closing Date, the Company borrowed $450,000,000 under the Term Loan Agreement and used the proceeds to repay the revolving loans outstanding under the Company s existing 2006 Credit Facility. The Company intends to use the Revolving Credit Facility for working capital and general corporate purposes, including expansion of its global operations.

The 2007 Credit Facility contains provisions for the issuance of letters of credit up to a sublimit of $25,000,000. The 2007 Credit Facility also provides that the entire principal amount of the Revolving Credit Facility may be borrowed by the Company or Euro Mylan in euros or other foreign currencies that are agreed to by the Company and the Administrative Agent. At the request of the Company, but subject to obtaining commitments from the Lenders or new lenders and the other terms and conditions specified in the Credit Agreement, the Company may elect to increase the commitments under the 2007 Credit Facility up to an aggregate amount not to exceed $850,000,000. At March 31, 2007 and 2006, the Company had outstanding letters of credit of $13,117,000 and $975,000, respectively.

At the Company s option, loans under the 2007 Credit Facility will bear interest either at a rate equal to LIBOR plus an effective applicable margin or at a base rate, which is defined as the higher of the rate announced publicly by the Administrative Agent, from time to time, as its prime rate or 0.5% above the federal funds rate. In the case of the effective applicable margin for outstanding term loans and revolver advances based on LIBOR, after the delivery by the Company to the Administrative Agent of its financial statements for the fiscal quarter ending on March 31, 2007, the effective applicable margin may increase or decrease, within a range from 0.50% to 1.25%, based on the Company s total leverage ratio. The interest rate in effect at March 31, 2007 on the outstanding borrowings under the

Term Loan Agreement was 6.2%. At March 31, 2007, the Company had a total of $1,000,000,000 available under the 2006 and 2007 Credit Facilities.

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The Company s and Euro Mylan s obligations under the 2007 Credit Facility are guaranteed on a senior unsecured basis by all of the Company s direct and indirect domestic subsidiaries, except a captive insurance company. Euro Mylan s obligations are also guaranteed by the Company.

The 2007 Credit Facility includes covenants similar to those of the 2006 Credit Facility. The 2007 Credit Facility contains customary events of default, including nonpayment, misrepresentation, breach of covenants and bankruptcy.

In addition, on March 26, 2007 the Company entered into an amendment (the Amendment ) to the 2006 Credit Agreement to modify the interest rates to conform to the effective interest rates applicable to the Credit Agreement and to make certain other changes conforming the 2006 Credit Facility to the 2007 Credit Facility.

(C) On March 1, 2007, Mylan entered into a purchase agreement relating to the sale by the Company of $600,000,000 aggregate principal amount of the Company s 1.25% Senior Convertible Notes due 2012 (the Convertible Notes ). The Convertible Notes bear interest at a rate of 1.25% per year, accruing from March 7, 2007. Interest is payable semiannually in arrears on March 15 and September 15 of each year, beginning September 15, 2007. The Notes will mature on March 15, 2012, subject to earlier repurchase or conversion. Holders may convert their notes subject to certain conversion provisions determined by, among others, the market price of the Company s common stock and the trading price of the Convertible Notes. The Notes have an initial conversion rate of 44.5931 shares of common stock per $1,000 principal amount (equivalent to an initial conversion price of approximately $22.43 per share), subject to adjustment, with the principal amount payable in cash and the remainder in cash or stock at the option of the Company.

On March 1, 2007, concurrently with the sale of the Convertible Notes, Mylan entered into a convertible note hedge transaction, comprised of a purchased call option, and two warrant transactions with each of Merrill Lynch International, an affiliate of Merrill Lynch, and JPMorgan Chase Bank, National Association, London Branch, an affiliate of JPMorgan, each of which we refer to as a counterparty. The net cost of the transactions was approximately $80,600,000. The purchased call options will cover approximately 26,755,853 shares of our common stock, subject to anti-dilution adjustments substantially similar to the anti-dilution adjustments for the Convertible Notes, which under most circumstances represents the maximum number of shares that underlie the Convertible Notes. Concurrently with entering into the purchased call options, we entered into warrant transactions with the counterparties. Pursuant to the warrant transactions, we will sell to the counterparties warrants to purchase in the aggregate approximately 26,755,853 shares of our common stock, subject to customary anti-dilution adjustments. The warrants may not be exercised prior to the maturity of the Convertible Notes, subject to certain limited exceptions.

The purchased call options are expected to reduce the potential dilution upon conversion of the Convertible Notes in the event that the market value per share of our common stock at the time of exercise is greater than approximately $22.43, which corresponds to the initial conversion price of the Convertible Notes. The sold warrants have an exercise price that is 60.0% higher than the price per share of $19.50 at which we offered our common stock in a concurrent equity offering (see Note 12). If the market price per share of our common stock at the time of conversion of any Convertible Notes is above the strike price of the purchased call options, the purchased call options will, in most cases, entitle us to receive from the counterparties in the aggregate the same number of shares of our common stock as we would be required to issue to the holder of the converted Convertible Notes. Additionally, if the market price of our common stock at the time of exercise of the sold warrants exceeds the strike price of the sold warrants, we will owe the counterparties an aggregate of approximately 26,755,853 shares of our common stock. The purchased call options and sold warrants may be settled for cash at our election.

The purchased call options and sold warrants are separate transactions entered into by the Company with the counterparties, are not part of the terms of the Convertible Notes and will not affect the holders rights under the

Convertible Notes. Holders of the Convertible Notes will not have any rights with respect to the purchased call options or the sold warrants. The purchased call options and sold warrants meet the definition of derivatives under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities (as amended by FAS 138 & FAS 149).* However, because these instruments have been determined to be indexed to the Company s own stock (in accordance with the guidance of Emerging Issues Task Force ( EITF ) Issue

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No. 01-6, *The Meaning of Indexed to a Company s Own Stock*) and have been recorded in stockholders equity in the Company s Consolidated Balance Sheet (as determined under EITF Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock*) the instruments are exempted out of the scope of SFAS 133 and are not subject to the mark to market provisions of that standard.

(D) Matrix s borrowings consist primarily of two Facilities ( Facility A and Facility B ) both of which are denominated in euros. Matrix s effective interest rate for these loans is Euro Interbank Offered Rate (Euribor) plus 110 basis points for Facility A of Euro 82.50 million, or 4.96% at March 31, 2007, and Euribor plus 129 basis points for Facility B of Euro 82.50 million, or 5.15% at March 31, 2007. Facility A is due in July 2007 and Facility B is payable over three years in semi-annual installments beginning in October 2007. These loans are collateralized by the pledge of certain of Matrix subsidiaries shares and by a Matrix corporate guarantee to ABN Amro Bank NV. These loans also require Matrix and certain of its subsidiaries to comply with certain covenants, under which the approval of the lenders is required for certain transactions which include incurring additional indebtedness or guarantees; declaration of payment of dividends; entering into acquisitions or mergers, joint ventures, consolidations or sales of Matrix assets; and entering into new lines of business. The covenants also prescribe certain maximum ratios of debt to earnings or equity ratios and minimum levels of interest and debt service coverage ratios.

All financing fees associated with the Company s borrowings are being amortized over the life of the related debt. The total unamortized amounts of $26,801,000 and $12,813,000 are included in other assets in the Consolidated Balance Sheets at March 31, 2007 and March 31, 2006.

At March 31, 2007 the fair value of the Notes was approximately $496,000,000 and the fair value of the Convertible Notes was approximately $640,400,000. The carrying values of the Term Loan Facility and on Matrix s term loan borrowings approximated fair value. As of March 31, 2006, the carrying value of the Company s long-term debt approximated fair value.

Certain of the Company s debt agreements contain certain cross-default provisions.

Principal maturities of the Company s long-term debt for the next five years and thereafter, as of March 31, 2007, are as follows:

| **Fiscal**<br>*(in thousands)* | | |
|---|---|---|
| 2008 | $ | 121,430 |
| 2009 | | 41,770 |
| 2010 | | 41,000 |
| 2011 | | 172,162 |
| 2012 | | 1,050,000 |
| Thereafter | | 350,000 |
| | $ | 1,776,362 |

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**Note 10. Other Long-Term Obligations**

Other long-term obligations consisted of the following components at March 31:

| *(in thousands)* | 2007 | 2006 |
|---|---|---|
| Deferred compensation | $ 18,171 | $ 17,789 |
| Retirement benefits | 6,362 | 3,905 |
| Other | 8,579 | 2,327 |
| Total long-term obligations | 33,112 | 24,021 |
| Less: Current portion of long-term obligations | 3,352 | 1,586 |
| Long-term obligations, net of current portion | $ 29,760 | $ 22,435 |

Deferred compensation consists of the discounted future payments under individually negotiated agreements with certain key employees, directors and retired executives. The agreements with certain key employees provide for annual payments ranging from $18,000 to $1,000,000 to be paid over periods commencing at retirement and ranging from 10 years to life.

**Note 11. Income Taxes**

Income tax expense (benefit) consisted of the following components:

| **Fiscal Year Ended March 31,** *(in thousands)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Federal: | | | |
| Current | $ 242,434 | $ 104,204 | $ 134,994 |
| Deferred | (46,593) | (22,359) | (34,513) |
| | 195,841 | 81,845 | 100,481 |
| State and Puerto Rico: | | | |
| Current | 16,746 | 9,494 | 10,560 |
| Deferred | (3,740) | (1,276) | (2,386) |
| | 13,006 | 8,218 | 8,174 |
| Foreign: | | | |
| Current | 174 | | |
| Deferred | (1,004) | | |
| | (830) | | |

| | | | |
|---|---|---|---|
| Income taxes | $ 208,017 | $ 90,063 | $ 108,655 |
| Pre-tax earnings (loss) | | | |
| Domestic | $ 586,298 | $ 274,605 | $ 312,247 |
| Foreign | (160,786) | | |
| | $ 425,512 | $ 274,605 | $ 312,247 |
| Effective tax rate | 48.9% | 32.8% | 34.8% |

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Temporary differences and carry forwards that result in the deferred tax assets and liabilities were as follows at March 31:

| *(in thousands)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Deferred tax assets: | | | |
| Employee benefits | $ 16,501 | $ 10,948 | $ 10,301 |
| Legal matters | 5,048 | 4,551 | |
| Deferred revenue | 43,250 | 14,488 | 10,615 |
| Accounts receivable allowances | 126,191 | 121,235 | 113,267 |
| Inventories | 8,859 | 4,851 | 3,587 |
| Investments | 7,256 | 6,028 | 6,003 |
| Tax credits | 3,112 | | |
| Net operating losses | 17,111 | 1,644 | |
| Convertible debt | 44,100 | | |
| Other | 3,801 | 2,783 | 1,117 |
| | 275,229 | 166,528 | 144,890 |
| Less: Valuation Allowance | (18,355) | (1,644) | |
| Total deferred tax assets | 256,874 | 164,884 | 144,890 |
| Deferred tax liabilities: | | | |
| Plant and equipment | 40,698 | 21,168 | 22,848 |
| Intangible assets | 98,285 | 23,977 | 25,946 |
| Investments | 10,779 | 2,547 | 1,569 |
| Other | 1,890 | 105 | 105 |
| Total deferred tax liabilities | 151,652 | 47,797 | 50,468 |
| Deferred tax asset, net | $ 105,222 | $ 117,087 | $ 94,422 |
| Classification in the Consolidated Balance Sheets: | | | |
| Deferred income tax benefit current | $ 145,343 | $ 137,672 | $ 119,327 |
| Deferred income tax benefit noncurrent | 45,779 | $ | $ |
| Deferred income tax liability noncurrent | 85,900 | 20,585 | 24,905 |
| Deferred tax asset, net | $ 105,222 | $ 117,087 | $ 94,422 |

A reconciliation of the statutory tax rate to the effective tax rate is as follows:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Statutory tax rate | 35.0% | 35.0% | 35.0% |
| State and Puerto Rico income taxes | 4.1% | 4.0% | 2.8% |

| | | | |
|---|---|---|---|
| State and Puerto Rico tax credits | (1.3%) | (1.5%) | (1.3%) |
| Federal tax credits | (0.3%) | (1.0%) | (2.1%) |
| Resolution of prior year tax positions | % | (2.7%) | % |
| Acquired in-process R&D | 12.1% | | |
| Other items | (0.7%) | (1.0%) | 0.4% |
| Effective tax rate | 48.9% | 32.8% | 34.8% |

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*Valuation Allowance*

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. A valuation allowance has been applied to certain foreign and state deferred tax assets in the amount of $18,355,000. Approximately $11,180,000 of the valuation allowance will result in a reduction to goodwill if such deferred tax assets are ever realized. The remainder of the increase in the valuation allowance is due to current year state net operating losses.

*Net Operating Losses*

As of March 31, 2007, the Company has net operating loss carryforwards for international and U.S. state income tax purposes of approximately $90,966,000 which will expire in fiscal years 2015 through 2027. Of these loss carryforwards, there is an amount of $50,851,000 related to state losses. A majority of the state net operating losses are attributable to Pennsylvania where a taxpayer s use is limited to $3,000,000 each taxable year. In addition, the Company has foreign net operating loss carryforwards of approximately $40,115,000 of which $33,149,000 can be carried forward indefinitely with the remainder expiring in fiscal years 2011 through 2016. Most of the net operating losses (foreign and state) are fully reserved.

*Acquired In Process Research and Development*

On January 8, 2007, we acquired a controlling interest in Matrix as discussed in Note 3. Of the purchase price, $147,000,000 was allocated to acquired in-process research and development and expensed. This amount is not deductible for tax purposes, and no deferred tax benefit is recorded as required by EITF Issue No. 96-7, *Accounting for Deferred Taxes on In-Process Research and Development Activities Acquired in a Purchase Business Combination.*

*Undistributed Earnings*

At March 31, 2007, we had an aggregate of $17,500,000 of unremitted earnings of foreign subsidiaries that are intended to be permanently reinvested for continued use in foreign operations under the provisions of Accounting Principles Board Opinion No. 23, and that, if distributed, would result in taxes at approximately the U.S. statutory rate.

Operations in Puerto Rico benefit from incentive grants from the government of Puerto Rico, which partially exempt the Company from income, property and municipal taxes. In fiscal 2001, a new tax grant was negotiated with the government of Puerto Rico extending tax incentives until fiscal 2010. This grant exempts all earnings during this grant period from tollgate tax upon repatriation of cash to the United States. In fiscal 2007 and fiscal 2004, $46,500,000 and $100,000,000 of cash from post-fiscal 2000 earnings, respectively, was repatriated to the United States. Pursuant to the terms of our new tax grant, no tollgate tax was due for these repatriations.

*Federal Tax credits, Certain Deductions and Ongoing IRS Examinations*

Federal tax credits result principally from operations in Puerto Rico and from qualified research and development expenditures, including orphan drug research. State tax credits are comprised mainly of awards for expansion and wage credits at our manufacturing facilities and research credits awarded by certain states. State income taxes and state tax credits are shown net of the federal tax effect.

Under Section 936 of the U.S. Internal Revenue Code ( IRC ), Mylan was a grandfathered entity and was entitled to the benefits under such statute through fiscal 2006. Our Section 936 federal tax credits totaled approximately $1,461,000

in fiscal 2006 and $3,874,000 in fiscal 2005. The decrease in the credit in fiscal 2006 was offset by newly-enacted IRC Section 199, Deduction for Domestic Production Activities, which resulted in a tax benefit of approximately $3,000,000 in fiscal 2006. The tax benefit from the Deduction for Domestic Production Activities was approximately $4,093,000 in fiscal 2007.

The Internal Revenue Service ( IRS ) completed its federal tax audit for fiscal years 2002 through 2004 in the first quarter of fiscal 2007. Tax and interest related to the negotiated settlement of certain federal tax positions as a result of those audits was recorded as of March 31, 2006. Beginning with fiscal 2007, Mylan became a voluntary participant in the IRS Compliance Assurance Process ( CAP ) which results in real-time federal issue resolution. In connection with the CAP program, the IRS commenced the audits of Mylan s tax returns for fiscal 2005 and 2006.

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We expect to complete the fiscal 2005 and 2006 audits and file the fiscal 2007 CAP return in the third quarter of fiscal 2008. Tax and interest continue to be accrued related to certain tax positions.

**Note 12. Preferred and Common Stock**

In fiscal 1985, the Board of Directors (the Board ) authorized 5,000,000 shares of $0.50 par value preferred stock. No shares of the preferred stock have been issued.

The Company entered into a Rights Agreement (the Rights Agreement ) with American Stock Transfer & Trust Company, as rights agent, in August 1996, and declared a dividend of one share purchase right on each outstanding share of common stock, to provide the Board with sufficient time to assess and evaluate any takeover bid and explore and develop a reasonable response. Effective November 1999, the Rights Agreement was amended to eliminate certain limitations on the Board s ability to redeem or amend the rights to permit an acquisition and also to eliminate special rights held by incumbent directors unaffiliated with an acquiring shareholder. In August 2004, the Rights Agreement was amended to change the original expiration date of the rights from September 5, 2006 to August 13, 2014. The Rights Agreement was further amended in September 2004, to temporarily change the threshold at which Rights (as defined in the Rights Agreement) will become immediately exercisable from 15% to 10%. By a December 2005 amendment to the Rights Agreement, the term for the lower ownership threshold expired on December 31, 2005, and reverted back to the 15% threshold on January 1, 2006, subject to certain exceptions.

On June 14, 2005, the Company announced a $1,250,000,000 share buyback, comprised of a modified Dutch Auction self-tender for up to $1,000,000,000 and a $250,000,000 follow-on share repurchase program. The Dutch Auction self-tender closed on July 21, 2005, at which time the Company announced that it accepted for payment an aggregate of 51,282,051 shares of its common stock at a purchase price of $19.50 per share. The follow-on repurchase was completed during fiscal 2006 through the purchase of 12,595,200 shares for approximately $250,000,000 on the open market.

On March 1, 2007, the Company entered into a Purchase Agreement (the Common Stock Purchase Agreement ) with Merrill Lynch & Co. and J.P. Morgan Securities Inc., as representatives of the underwriters named therein, relating to the sale of 26,162,500 shares of common stock at a price of $19.50 per share. Upon completion of this transaction in the Company s fourth quarter, the Company received proceeds of approximately $488,800,000, net of underwriter s discounts and offering expenses of approximately $21,100,000.

On March 1, 2007, concurrently with the sale of the Convertible Notes, (see Note 9) Mylan entered into a convertible note hedge transaction, comprised of a purchased call option, and two warrant transactions with each of Merrill Lynch International, an affiliate of Merrill Lynch, and JPMorgan Chase Bank, National Association, London Branch, an affiliate of JPMorgan, each of which we refer to as a counterparty. The net cost of the transactions was approximately $80,600,000. The purchased call options will cover approximately 26,755,853 shares of our common stock, subject to anti-dilution adjustments substantially similar to the anti-dilution adjustments for the Convertible Notes, which under most circumstances represents the maximum number of shares that underlie the Convertible Notes. Concurrently with entering into the purchased call options, we entered into warrant transactions with the counterparties. Pursuant to the warrant transactions, we will sell to the counterparties warrants to purchase in the aggregate approximately 26,755,853 shares of our common stock, subject to customary anti-dilution adjustments. The warrants may not be exercised prior to the maturity of the Convertible Notes, subject to certain limitations.

The purchased call options are expected to reduce the potential dilution upon conversion of the Convertible Notes in the event that the market value per share of our common stock at the time of exercise is greater than approximately $22.43, which corresponds to the initial conversion price of the Convertible Notes. The sold warrants have an exercise price that is 60.0% higher than the price per share of $19.50 at which we offered our common stock in a concurrent

equity offering described above. If the market price per share of our common stock at the time of conversion of any Convertible Notes is above the strike price of the purchased call options, the purchased call options will, in most cases, entitle us to receive from the counterparties in the aggregate the same number of shares of our common stock as we would be required to issue to the holder of the converted Convertible Notes. Additionally, if the market price of our common stock at the time of exercise of the sold warrants exceeds the strike

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price of the sold warrants, we will owe the counterparties an aggregate of approximately 26,755,853 shares of our common stock. The purchased call options and sold warrants may be settled for cash at our election.

The purchased call options and sold warrants are separate transactions entered into by the Company with the counterparties, are not part of the terms of the Convertible Notes and will not affect the holders rights under the Convertible Notes. Holders of the Convertible Notes will not have any rights with respect to the purchased call options or the sold warrants.

The purchased call options and sold warrants are separate transactions entered into by the Company with the counterparties, are not part of the terms of the Convertible Notes and will not affect the holders rights under the Convertible Notes. Holders of the Convertible Notes will not have any rights with respect to the purchased call options or the sold warrants. The purchased call options and sold warrants meet the definition of derivatives under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities (as amended by FAS 138 & FAS 149).* However, because these instruments have been determined to be indexed to the Company s own stock (in accordance with the guidance of Emerging Issues Task Force ( EITF ) Issue No. 01-6, *The Meaning of Indexed to a Company s Own Stock)* and have been recorded in stockholders equity in the Company s Consolidated Balance Sheet (as determined under EITF Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock)* the instruments are exempted out of the scope of SFAS 133 and are not subject to the mark to market provisions of that standard.

Following the closing of the Matrix transaction, (Note 3) certain of the selling shareholders used approximately $168,000,000 of their proceeds to acquire Mylan Laboratories Inc. common stock from the Company in a private sale at a price of $20.85 per share. In connection with these transactions a total of 8,058,139 shares were issued to these selling shareholders.

**Note 13. Stock Option Plan**

On July 25, 2003, Mylan s shareholders approved the *Mylan Laboratories Inc. 2003 Long-Term Incentive Plan,* and approved certain amendments on July 28, 2006 (the 2003 Plan ). Under the 2003 Plan, 22,500,000 shares of common stock are reserved for issuance to key employees, consultants, independent contractors and non-employee directors of Mylan through a variety of incentive awards, including: stock options, stock appreciation rights, restricted shares and units, performance awards, other stock-based awards and short-term cash awards. Awards are generally granted at the market price of the shares underlying the options at the date of the grant and generally become exercisable over periods ranging from three to four years and generally expire in ten years.

Upon approval of the 2003 Plan, *The Mylan Laboratories Inc. 1997 Incentive Stock Option Plan* was frozen, and no further grants of stock options will be made under that plan. However, there are stock options outstanding from expired plans and other plans assumed through acquisitions.

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The following table summarizes stock option activity:

| | Number of Shares Under Option | Weighted Average Exercise Price per Share |
|---|---|---|
| Outstanding at March 31, 2004 | 22,829,908 | $ 13.99 |
| Options granted | 649,900 | 19.05 |
| Options exercised | (891,092) | 11.30 |
| Options forfeited | (286,928) | 19.13 |
| Outstanding at March 31, 2005 | 22,301,788 | 14.17 |
| Options granted | 5,780,123 | 17.61 |
| Options exercised | (4,729,113) | 12.03 |
| Options forfeited | (1,994,128) | 18.65 |
| Outstanding at March 31, 2006 | 21,358,670 | 15.16 |
| Options granted | 1,139,400 | 21.65 |
| Options exercised | (4,053,061) | 12.18 |
| Options forfeited | (797,281) | 17.28 |
| Outstanding at March 31, 2007 | 17,647,728 | $ 16.17 |
| Vested and expected to vest at March 31, 2007 | 17,348,879 | $ 16.13 |
| Options exercisable at March 31, 2007 | 11,651,414 | $ 14.91 |

As of March 31, 2007, options outstanding, options vested and expected to vest, and options exercisable had average remaining contractual terms of 6.18 years, 6.14 years and 5.25 years, respectively. Also at March 31, 2007, options outstanding, options vested and expected to vest and options exercisable had aggregate intrinsic values of $89,146,000, $88,539,000 and $73,180,000, respectively.

A summary of the status of the Company s nonvested restricted stock and restricted stock unit awards is presented below:

| Restricted Stock Awards | Number of Restricted Stock Awards | Weighted Average Grant-Date Fair Value |
|---|---|---|
| Nonvested at March 31, 2006 | 507,962 | $ 24.69 |
| Granted | 209,161 | 23.19 |
| Released | (505,807) | 24.79 |

| | | | |
|---|---|---|---|
| Forfeited | | | |
| Nonvested at March 31, 2007 | 211,316 | $ | 23.10 |

Of the 209,161 awards granted in fiscal 2007, approximately 135,000 are performance based. The remaining awards vest ratably over three years.

As of March 31, 2007, the Company had $20,580,000 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 1.4 years. The total intrinsic value of options exercised during fiscal 2007 was $29,954,000. The total fair value of all options which vested during fiscal 2007, 2006 and 2005 was $51,360,000, $27,949,000 and $60,106,000, respectively.

As a result of the adoption of SFAS 123R, the Company recognized stock-based compensation expense of $21,806,000 for the fiscal year ended March 31, 2007. The after tax impact of recognizing the compensation expense related to SFAS 123R on basic and diluted earnings per share for the fiscal year was $0.06.

With respect to options granted under the Company s stock-based compensation plan, the fair value of each option grant was estimated at the date of grant using the Black-Scholes option pricing model. Black-Scholes utilizes

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assumptions related to volatility, the risk-free interest rate, the dividend yield and employee exercise behavior. Expected volatilities utilized in the model are based mainly on the historical volatility of the Company s stock price and other factors. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The model incorporates exercise and post-vesting forfeiture assumptions based on an analysis of historical data. The expected lives of the grants are derived from historical and other factors. The assumptions used are as follows:

| Period Ended March 31, | 2007 | 2006 | 2005 |
|---|---|---|---|
| Volatility | 34.0% | 38.70% | 41.80% |
| Risk-free interest rate | 4.8% | 4.00% | 3.20% |
| Dividend yield | 1.1% | 1.30% | 0.60% |
| Expected term of options (in years) | 4.5 | 4.5 | 4.2 |
| Forfeiture rate | 3.0% | 0% | 0% |
| Weighted average grant date fair value per option | $ 6.90 | $ 5.92 | $ 6.73 |

Pro forma disclosure of net income and earnings per share had the Company applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation using the above assumptions is presented in Note 2.

In addition, Matrix has a stock option plan under which 3,288,965 options have been granted to its employees as of March 31, 2007. These grants were made prior to the acquisition of Matrix by Mylan. As of March 31, 2007, 696,580 options were exercisable. Stock compensation expense of $350,000 was recognized in Mylan s consolidated statement of earnings for the year ended March 31, 2007, related to Matrix s historical options.

**Note 14. Employee Benefits**

The Company has a plan covering substantially all employees in the United States and Puerto Rico to provide for limited reimbursement of postretirement supplemental medical coverage. In addition, in December 2001, the Supplemental Health Insurance Program for Certain Officers of Mylan Laboratories was adopted to provide full postretirement medical coverage to certain officers and their spouses and dependents. The program was terminated in April 2006, except with respect to certain individuals. These plans generally provide benefits to employees who meet minimum age and service requirements. The Company accounts for these benefits under SFAS No. 106*, Employers Accounting for Postretirement Benefits Other Than Pensions.* The amounts accrued related to these benefits were not material at March 31, 2007 and 2006.

In accordance with Indian law, Matrix provides a defined benefit retirement plan covering all employees located in India. The amounts accrued related to these benefits were not material at March 31, 2007.

The Company has defined contribution plans covering essentially all of its employees in the United States and Puerto Rico. Its defined contribution plans consist primarily of a 401(k) retirement plan with a profit sharing component for non-union employees and a 401(k) retirement plan for union employees. Profit sharing contributions are made at the discretion of the Board. The Company s matching contributions are based upon employee contributions or service hours, depending upon the plan. Total employer contributions to all plans for fiscal years 2007, 2006 and 2005 were $16,469,000, $12,168,000 and $11,144,000, respectively.

Additionally, Matrix has several defined contribution plans covering certain employees, and a Provident Fund which, in accordance with Indian Law, covers all employees located in India. Total contributions to all such plans of $718,000 are included in Mylan s Consolidated Statement of Earnings since the date of acquisition.

The Company provides supplemental life insurance benefits to certain management employees. Such benefits require annual funding and may require accelerated funding in the event that we would experience a change in control.

The production and maintenance employees at the Company s manufacturing facilities in Morgantown, West Virginia, are covered under a collective bargaining agreement that expires in April 2012. These employees represented approximately 29% of the Company s total workforce at March 31, 2007.

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**Note 15. Segment Information**

The Company has two reportable segments, the Mylan Segment and the Matrix Segment . The Mylan Segment primarily develops, manufactures, sells and distributes generic or branded generic pharmaceutical products in tablet, capsule or transdermal patch form, while the Matrix Segment engages mainly in the manufacture and sale of APIs and the distribution of branded generic products. Additionally, certain general and administrative expenses, as well as litigation settlements, and non-operating income and expenses are reported in Corporate/Other.

The Company s chief operating decision maker evaluates the performance of its reportable segments based on net revenues and segment earnings from operations. Items below the earnings from operations line of the consolidated statements of earnings are not presented by segment, since they are excluded from the measure of segment profitability reviewed by the Company s chief operating decision maker. The Company does not report depreciation expense, total assets and capital expenditures by segment as such information is not used by the chief operating decision maker.

The accounting policies of the segments are the same as those described in Note 2. Intersegment revenues are accounted for at current market values.

The table below presents segment information for the fiscal years identified and provides a reconciliation of segment information to total consolidated information. For the Mylan and Matrix Segments, segment earnings from operations ( Segment profitability (loss) ) represents segment gross profit less direct research and development expenses and direct selling, general and administrative expenses.

| **Fiscal Year Ended March 31, 2007** *(in thousands)* | **Mylan Segment** | **Matrix Segment** | **Corporate/Other[(1)]** | **Consolidated** |
|---|---|---|---|---|
| Intersegment revenues | $ | $ 16,389 | $ (16,389) | $ |
| Third-party net revenues | 1,507,535 | 79,412 | | 1,586,947 |
| Segment profitability (loss) | 699,342 | (168,319) | (103,469) | 427,554 |

| **Fiscal Year Ended March 31, 2006** | **Mylan Segment** | **Matrix Segment** | **Corporate/Other[(1)]** | **Consolidated** |
|---|---|---|---|---|
| Intersegment revenues | $ | $ | $ | $ |
| Third-party net revenues | 1,240,011 | | | 1,240,011 |
| Segment profitability (loss) | 450,765 | | (163,377) | 287,388 |

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| Fiscal Year Ended March 31, 2005 | Mylan Segment | Matrix Segment | Corporate/Other[1] | Consolidated |
|---|---|---|---|---|
| Intersegment revenues | $ | $ | $ | $ |
| Third-party net revenues | 1,247,785 | | | 1,247,785 |
| Segment profitability (loss) | 421,951 | | (119,780) | 302,171 |

(1) *Includes corporate overhead, intercompany eliminations and charges not directly attributable to segments.*

The Company s consolidated net revenues are generated via the sale of products in the following therapeutic categories:

| Fiscal Year Ended March 31, *(in thousands)* | 2007 | 2006 | 2005 |
|---|---|---|---|
| Cardiovascular | $ 463,610 | $ 422,727 | $ 484,588 |
| Central nervous system | 579,814 | 475,898 | 366,654 |
| Dermatology | 58,066 | 72,843 | 74,048 |
| Gastrointestinal | 59,655 | 46,701 | 93,713 |
| Endocrine and Metabolic | 133,967 | 84,048 | 68,360 |
| Renal and Genitourinary | 148,494 | 63,967 | 121 |
| Other[1] | 143,341 | 73,827 | 160,301 |
| | $ 1,586,947 | $ 1,240,011 | $ 1,247,785 |

(1) Other consists of numerous therapeutic classes, none of which individually exceeds 5% of consolidated net revenues.

*Geographic Information*

The Company s principal markets are the United States, India and Europe. Net revenues are classified based on the geographic location of the customers and are as follows:

| Fiscal Year Ended March 31, *(in thousands)* | 2007 | 2006 |
|---|---|---|
| Net external revenues | | |
| United States | $ 1,506,419 | $ 1,233,990 |
| India | 14,836 | |
| Europe | 50,958 | 2,694 |
| Rest of world | 14,734 | 3,327 |
| Consolidated | $ 1,586,947 | $ 1,240,011 |

Sales outside of the United States in fiscal 2005 were not significant.

**Note 16. Commitments**

The Company leases certain real property under various operating lease arrangements that expire over the next eight years. These leases generally provide the Company with the option to renew the lease at the end of the lease term. The Company also entered into agreements to lease vehicles for use by certain key employees which are typically 24 to 36 months, For fiscal years 2007, 2006 and 2005, the Company made lease payments of $3,944,000, $3,666,000 and $4,939,000, respectively.

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Future minimum lease payments under these commitments are as follows:

| Fiscal<br>*(in thousands)* | Operating Leases |
|---|---|
| 2008 | $ 5,848 |
| 2009 | 4,033 |
| 2010 | 3,323 |
| 2011 | 2,265 |
| 2012 | 1,371 |
| Thereafter | 3,324 |
| | $ 20,164 |

The Company has entered into various product licensing and development agreements. In some of these arrangements, the Company provides funding for the development of the product or to obtain rights to the use of the patent, through milestone payments, in exchange for marketing and distribution rights to the product. Milestones represent the completion of specific contractual events, and it is uncertain if and when these milestones will be achieved. In the event that all projects are successful, milestone and development payments of approximately $21,671,000 would be paid.

The Company has also entered into employment and other agreements with certain executives that provide for compensation and certain other benefits. These agreements provide for severance payments under certain circumstances. Additionally, the Company has split-dollar life insurance agreements with certain retired executives.

In the normal course of business, Mylan periodically enters into employment, legal settlement and other agreements which incorporate indemnification provisions. While the maximum amount to which Mylan may be exposed under such agreements cannot be reasonably estimated, the Company maintains insurance coverage which management believes will effectively mitigate the Company s obligations under these indemnification provisions. No amounts have been recorded in the consolidated financial statements with respect to the Company s obligations under such agreements.

**Note 17. Product Agreements**

On November 24, 2005, the Company announced the sale of the U.S. and Canadian rights for Apokyn® to Vernalis plc. Under the terms of the agreement, Mylan received a cash payment of $23,000,000. In addition, Mylan performed certain transitional services for one year, which included supply chain management and customer service assistance. There was $12,200,000 and $8,900,000 of revenue associated with the sale which was recognized in fiscal 2007 and 2006, respectively, and included in other revenues.

On January 11, 2006, the Company announced an agreement with Forest Laboratories Holdings, Ltd. ( Forest ), a wholly owned subsidiary of Forest Laboratories, Inc., for the commercialization, development and distribution of Mylan s nebivolol in the United States and Canada. Under the terms of the agreement, Mylan received an up-front payment of $75,000,000, which will be deferred until the commercial launch of the product. Mylan also has the potential to earn future milestone payments as well as royalties on nebivolol sales. Upon commercial launch the

up-front payment will be amortized into revenue over the remaining term of the license agreement. Forest will assume all expenses for future nebivolol development programs and will be responsible for all sales and marketing expenses. Mylan has retained an option to co-promote the product in the future.

**Note 18. Contingencies**

**Legal Proceedings**

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

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*Omeprazole*

In fiscal 2001, Mylan Pharmaceuticals Inc. ( MPI ), a wholly-owned subsidiary of Mylan Laboratories Inc. ( Mylan Labs ), filed an Abbreviated New Drug Application ( ANDA ) seeking approval from the U.S. Food and Drug Administration ( FDA ) to manufacture, market and sell omeprazole delayed-release capsules and made Paragraph IV certifications to several patents owned by AstraZeneca PLC ( AstraZeneca ) that were listed in the FDA s Orange Book. On September 8, 2000, AstraZeneca filed suit against MPI and Mylan Labs in the U.S. District Court for the Southern District of New York alleging infringement of several of AstraZeneca s patents. On May 29, 2003, the FDA approved MPI s ANDA for the 10 mg and 20 mg strengths of omeprazole delayed-release capsules, and, on August 4, 2003, Mylan Labs announced that MPI had commenced the sale of omeprazole 10 mg and 20 mg delayed-release capsules. AstraZeneca then amended the pending lawsuit to assert claims against Mylan Labs and MPI and filed a separate lawsuit against MPI s supplier, Esteve Quimica S.A. ( Esteve ), for unspecified money damages and a finding of willful infringement, which could result in treble damages, injunctive relief, attorneys fees, costs of litigation and such further relief as the court deems just and proper. MPI has certain indemnity obligations to Esteve in connection with this litigation. MPI, Esteve and the other generic manufacturers who are co-defendants in the case filed motions for summary judgment of non-infringement and patent invalidity. On January 12, 2006, those motions were denied. A non-jury trial regarding liability only was completed on June 14, 2006.

*Lorazepam and Clorazepate*

On June 1, 2005, a jury verdict was rendered against Mylan Labs and MPI in the U.S. District Court for the District of Columbia ( D.C. ) in the amount of approximately $12,000,000 which has been accrued for by the Company. The jury found Mylan willfully violated Massachusetts, Minnesota and Illinois state antitrust laws in connection with API supply agreements entered into between the Company and its API supplier and broker for two drugs, lorazepam and clorazepate, in 1997, and subsequent price increases on these drugs in 1998. The case was brought by four health insurers who opted out of earlier class action settlements agreed to by the Company in 2001 and represents the last remaining claims relating to Mylan s 1998 price increases for lorazepam and clorazepate. In post-trial filings, the plaintiffs have requested that the verdict be trebled. Plaintiffs are also seeking an award of attorneys fees, litigation costs and interest on the judgment in unspecified amounts. In total, the plaintiffs have moved for judgments that could result in a liability of approximately $69,000,000 for Mylan (not including the request for attorney s fees and costs). The Company filed a motion for judgment as a matter of law, a motion for a new trial, a motion to dismiss two of the insurers and a motion to reduce the verdict. On December 20, 2006, the Company s motion for judgment as a matter of law and motion for a new trial were denied. A hearing on the pending post-trial motions took place on February 28, 2007. The Company intends to appeal to the U.S. Court of Appeals for the D.C. Circuit.

*Pricing and Medicaid Litigation*

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

Beginning in September 2003, Mylan Labs, MPI and/or UDL, together with many other pharmaceutical companies, have been named in a series of civil lawsuits filed by state AGs and municipal bodies within the state of New York alleging generally that the defendants defrauded the state Medicaid systems by allegedly reporting Average Wholesale Prices ( AWP ) and/or Wholesale Acquisition Costs that exceeded the actual selling price

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of the defendants prescription drugs. To date, Mylan Labs, MPI and/or UDL have been named as defendants in substantially similar civil lawsuits filed by the AGs of Alabama, Alaska, California, Florida, Hawaii, Illinois, Kentucky, Massachusetts, Mississippi, Missouri, South Carolina and Wisconsin and also by the city of New York and approximately 40 counties across New York State. Several of these cases have been transferred to the AWP multi-district litigation proceedings pending in the U.S. District Court for the District of Massachusetts for pretrial proceedings. Others of these cases will likely be litigated in the state courts in which they were filed. Each of the cases seeks an unspecified amount in money damages, civil penalties and/or treble damages, counsel fees and costs, and injunctive relief. In each of these matters, with the exception of the California, Florida, Alaska and South Carolina AG actions and the actions brought by various counties in New York, excluding the actions brought by Erie, Oswego and Schenectady counties, Mylan Labs, MPI and/or UDL have answered the respective complaints denying liability. Mylan Labs and its subsidiaries intend to defend each of these actions vigorously.

In addition by letter dated January 12, 2005, MPI was notified by the U.S. Department of Justice of an investigation concerning MPI s calculations of Medicaid drug rebates. MPI is cooperating fully with the government s investigation.

*Modafinil Antitrust Litigation and FTC Inquiry*

Beginning in April 2006, Mylan Labs, along with four other drug manufacturers, has been named in a series of civil lawsuits filed in the Eastern District of Pennsylvania by a variety of plaintiffs purportedly representing direct and indirect purchasers of the drug modafinil and one action brought by Apotex, Inc., a manufacturer of generic drugs seeking approval to market a generic modafinil product. These actions allege violations of federal and state laws in connection with the defendants settlement of patent litigation relating to modafinil. These actions are in their preliminary stages, and motions to dismiss each action are pending. Mylan Labs intends to defend each of these actions vigorously. In addition, by letter dated July 11, 2006, Mylan was notified by the U.S. Federal Trade Commission ( FTC ) of an investigation relating to the settlement of the modafinil patent litigation. In its letter, the FTC requested certain information from Mylan Labs, MPI and Mylan Technologies Inc. pertaining to the patent litigation and the settlement thereof. On March 29, 2007, the FTC issued a subpoena, and on April 26, 2007, the FTC issued a civil investigative demand to Mylan Labs requesting additional information from the Company relating to the investigation. Mylan is cooperating fully with the government s investigation and its outstanding requests for information.

*Other Litigation*

The Company is involved in various other legal proceedings that are considered normal to its business. While it is not feasible to predict the ultimate outcome of such other proceedings, the Company believes that the ultimate outcome of such other proceedings will not have a material adverse effect on its financial position or results of operations. The Company realized net gains of $50,116,000, net losses of $12,417,000 and net gains of $25,990,000 in fiscal years 2007, 2006 and 2005, respectively, related to the settlements of various legal matters.

*Previously Reported Matters That Have Been Resolved or Dismissed*

*Shareholder Litigation*

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

been wasteful. On November 23, 2004, a substantially identical complaint was filed in the same court by another purported Mylan Labs shareholder. The actions were styled as shareholder derivative suits on behalf of Mylan Labs and class actions on behalf of all Mylan Labs shareholders and were consolidated by the court under the caption In re Mylan Laboratories Inc. Shareholder Litigation. Mylan Labs and its directors filed preliminary objections seeking dismissal of the complaints. On January 19, 2005, the plaintiffs amended their complaints to add Bear Stearns & Co., Inc., Goldman Sachs & Co., Richard C. Perry, Perry Corp., American Stock

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Transfer & Trust Company and John Does 1-100 as additional defendants and to add claims regarding trading activity by the additional defendants and the implications on Mylan Labs shareholder rights agreement. On October 26, 2005, the court approved the voluntary dismissal of these cases by the plaintiffs, with prejudice.

*Paclitaxel*

In June 2001, Tapestry Pharmaceuticals, Inc. (formerly NAPRO Biotherapeutics Inc.) ( Tapestry ) and Abbott Laboratories Inc. ( Abbott ) filed suit against Mylan Labs, MPI and UDL, also a wholly-owned subsidiary of the Company, in the U.S. District Court for the Western District of Pennsylvania alleging that the manufacture, use and sale of MPI s paclitaxel product, which MPI began selling in July 2001, infringes certain patents owned by Tapestry and allegedly licensed to Abbott. During the first quarter of fiscal 2005, all parties agreed to a settlement of this case and the lawsuit has been dismissed, with prejudice. MPI paid $9,000,000 pursuant to the settlement.

**Note 19. Related Party Transactions**

Mylan and Matrix routinely enter into transactions with certain affiliates in the ordinary course of business. Transactions between Mylan and its consolidated subsidiaries are eliminated in consolidation.

The following represent the significant transactions between the Company and Somerset for the years ended March 31, 2007 and 2006:

| | 2007 | 2006 |
|---|---|---|
| *(in thousands)* | | |
| Net revenues | $ 5,295 | $ 419 |
| Royalties received | 1,283 | |

At March 31, 2007 and 2006, receivables from Somerset in the amount of $2,478,000 and $1,198,613 were included in accounts receivable on the consolidated balance sheet. No significant transactions between Mylan and Somerset occurred in fiscal 2005.

The following represent the significant transactions between the Matrix Segment and companies in which the Matrix Segment holds an equity investment for the year ended March 31, 2007:

| | |
|---|---|
| *(in thousands)* | |
| Net revenues | $ 6,695 |
| Other | 655 |

**Note 20. Guarantor Financial Statements**

Each of the Company s wholly owned domestic subsidiaries, except a captive insurance company, has guaranteed, on a full, unconditional and joint and several basis, the Company s performance under the Notes (collectively, the Guarantor Subsidiaries ). Matrix is not a guarantor of the Notes. There are certain restrictions under the Notes indenture on the ability of the Company and the Guarantor Subsidiaries to receive or distribute funds in the form of cash dividends, loans or advances. The following combined financial data provides information regarding the financial position, results of operations and cash flows of the Guarantor Subsidiaries (condensed consolidating

financial data). Separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented because management has determined that such information would not be material to the holders of the debt. During fiscal 2007, the Company merged a guarantor subsidiary into Mylan Labs which substantially increased the total assets of Mylan Labs at March 31, 2007.

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**GUARANTOR SUBSIDIARIES**

**CONDENSED CONSOLIDATING BALANCE SHEETS**

| March 31, 2007 | Mylan Labs | Guarantor Subs | Non-Guarantor Subs | Consolidating and Eliminating Entries | Consolidated |
|---|---|---|---|---|---|
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 1,146,380 | $ 21,689 | $ 84,312 | $ (16) | $ 1,252,365 |
| Marketable securities | 143,220 | | 30,987 | | 174,207 |
| Accounts receivable, net | 10,708 | 262,024 | 79,712 | (2,150) | 350,294 |
| Inventories | | 324,767 | 108,096 | (3,752) | 429,111 |
| Other current assets | 5,400 | 158,488 | 47,129 | (4,950) | 206,067 |
| Total current assets | 1,305,708 | 766,968 | 350,236 | (10,868) | 2,412,044 |
| Intercompany receivables, net | (390,417) | 1,009,683 | (776,231) | 156,965 | |
| Property, plant and equipment, net | 16,741 | 510,853 | 159,145 | | 686,739 |
| Intangible assets, net | | 89,321 | 263,459 | | 352,780 |
| Goodwill | | 102,579 | 510,163 | | 612,742 |
| Other assets | 162,480 | 12,191 | 64,891 | (50,000) | 189,562 |
| Investments in subsidiaries | 2,007,547 | | | (2,007,547) | |
| Total assets | $ 3,102,059 | $ 2,491,595 | $ 571,663 | $ (1,911,450) | $ 4,253,867 |
| Liabilities and shareholders equity | | | | | |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Trade accounts payable | $ 302 | $ 56,617 | $ 105,532 | $ (2,165) | $ 160,286 |
| Income taxes payable | (177,857) | 252,404 | 5,464 | (1,624) | 78,387 |
| Current portion of long-term obligations | 3,352 | | 121,430 | | 124,782 |
| Cash dividends payable | 14,902 | | | | 14,902 |
| Other current liabilities | 61,312 | 114,255 | 148,295 | (1,684) | 322,178 |
| Total current liabilities | (97,989) | 423,276 | 380,721 | (5,473) | 700,535 |
| Deferred revenue | | 90,673 | | | 90,673 |
| Long-term debt | 1,550,000 | | 104,932 | | 1,654,932 |
| Other long-term obligations | 2,700 | 1,309 | 161,651 | (50,000) | 115,660 |
| Minority interest | | | 44,469 | (1,262) | 43,207 |
| Shareholders equity | | | | | |
| Preferred stock | | | | | |
| Common stock | 169,681 | 7,494 | 210 | (7,704) | 169,681 |
| Additional paid-in capital | 962,415 | 593,831 | 10,048 | (603,548) | 962,746 |

| | | | | | |
|---|---|---|---|---|---|
| Retained earnings | 2,103,282 | 1,375,003 | (131,540) | (1,243,463) | 2,103,282 |
| Accumulated other comprehensive earnings | 363 | 9 | 1,172 | | 1,544 |
| Less: | | | | | |
| Treasury stock at cost | (1,588,393) | | | | (1,588,393) |
| Total shareholders equity | 1,647,348 | 1,976,337 | (120,110) | (1,854,715) | 1,648,860 |
| Total liabilities and shareholders equity | $ 3,102,059 | $ 2,491,595 | $ 571,663 | $ (1,911,450) | $ 4,253,867 |

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| March 31, 2006 | Mylan Labs | Guarantor Subs | Non-Guarantor Subs | Consolidating and Eliminating Entries | Consolidated |
|---|---|---|---|---|---|
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 4,911 | $ 128,191 | $ 9,417 | $ 7,605 | $ 150,124 |
| Marketable securities | | 340,390 | 27,613 | | 368,003 |
| Accounts receivable, net | 1,064 | 241,135 | (6) | | 242,193 |
| Inventories | | 280,617 | | (1,609) | 279,008 |
| Other current assets | 2,986 | 150,882 | 451 | (1,747) | 152,572 |
| Total current assets | 8,961 | 1,141,215 | 37,475 | 4,249 | 1,191,900 |
| Intercompany receivables, net | (913,694) | 913,701 | | (7) | |
| Property, plant and equipment, net | 13,478 | 393,397 | | | 406,875 |
| Intangible assets, net and Goodwill | | 208,174 | | | 208,174 |
| Other assets | 54,911 | 9,236 | | (570) | 63,577 |
| Investment in subsidiaries | 2,340,569 | | | (2,340,569) | |
| Total assets | $ 1,504,225 | $ 2,665,723 | $ 37,475 | $ (2,336,897) | $ 1,870,526 |
| Liabilities and shareholders equity | | | | | |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Trade accounts payable | $ 990 | $ 68,272 | $ | $ 7,597 | $ 76,859 |
| Income taxes payable | (6,412) | 18,128 | 1,247 | | 12,963 |
| Current portion of long-term obligations | 4,336 | | | | 4,336 |
| Cash dividends payable | 12,605 | | | | 12,605 |
| Other current liabilities | 12,482 | 143,411 | 4,344 | (1,750) | 158,487 |
| Total current liabilities | 24,001 | 229,811 | 5,591 | 5,847 | 265,250 |
| Deferred revenue | | 89,417 | | | 89,417 |
| Long-term debt | 685,188 | | | | 685,188 |
| Other long-term obligations | 9,823 | 33,767 | | (570) | 43,020 |
| Shareholders equity | | | | | |
| Preferred stock | | | | | |
| Common stock | 154,575 | 7,407 | 210 | (7,617) | 154,575 |
| Additional paid-in-capital | 418,954 | 1,091,196 | 9,718 | (1,100,914) | 418,954 |
| Retained earnings | 1,939,045 | 1,211,370 | 22,273 | (1,233,643) | 1,939,045 |
| Accumulated other comprehensive earnings | 12 | 2,755 | (317) | | 2,450 |
| Less: | | | | | |
| Treasury stock at cost | (1,727,373) | | | | (1,727,373) |

| | | | | | |
|---|---|---|---|---|---|
| Total shareholders equity | 785,213 | 2,312,728 | 31,884 | (2,342,174) | 787,651 |
| Total liabilities and shareholders equity | $ 1,504,225 | $ 2,665,723 | $ 37,475 | $ (2,336,897) | $ 1,870,526 |

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**GUARANTOR SUBSIDIARIES**

**CONDENSED CONSOLIDATING STATEMENTS OF EARNINGS**

| For the Year Ended March 31, 2007 | Mylan Labs | Guarantor Subs | Non-Guarantor Subs | Consolidating and Eliminating Entries | Consolidated |
|---|---|---|---|---|---|
| Net revenues | $ | $ 1,507,535 | $ 95,801 | $ (16,389) | $ 1,586,947 |
| Other revenue | | 24,872 | | | 24,872 |
| Total revenues | | 1,532,407 | 95,801 | (16,389) | 1,611,819 |
| Cost of sales | | 691,022 | 84,498 | (7,369) | 768,151 |
| Gross profit | | 841,385 | 11,303 | (9,020) | 843,668 |
| Operating expenses | | | | | |
| Research and development | 9,233 | 88,497 | 159,662 | (6,700) | 250,692 |
| Selling, general & administrative | 126,300 | 83,252 | 5,986 | | 215,538 |
| Litigation settlements, net | (50,106) | (10) | | | (50,116) |
| Total operating expenses | 85,427 | 171,739 | 165,648 | (6,700) | 416,114 |
| Earnings from operations | (85,427) | 669,646 | (154,345) | (2,320) | 427,554 |
| Interest expense | 46,726 | | 5,550 | | 52,276 |
| Other income, net | 17,696 | 21,779 | 7,165 | (3,433) | 43,207 |
| Earnings before income taxes, minority interest and equity in earnings (loss) of subsidiaries | (114,457) | 691,425 | (152,730) | (5,753) | 418,485 |
| Provision for income taxes | (8,450) | 215,597 | 2,494 | (1,624) | 208,017 |
| Minority interest | | | 211 | | 211 |
| Earnings before equity in earnings (loss) of subsidiaries | (106,007) | 475,828 | (155,435) | (4,129) | 210,257 |
| Equity in earnings (loss) of subsidiaries | 323,291 | (151,562) | 1,621 | (166,323) | 7,027 |
| Net earnings | $ 217,284 | $ 324,266 | $ (153,814) | $ (170,452) | $ 217,284 |

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**GUARANTOR SUBSIDIARIES**

**CONDENSED CONSOLIDATING STATEMENTS OF EARNINGS**

| For the year ended March 31, 2006 | Mylan Labs | Guarantor Subs | Non-Guarantor Subs | Consolidating and Eliminating Entries | Consolidated |
|---|---|---|---|---|---|
| Net revenues | $ | $ 1,240,011 | $ | $ | $ 1,240,011 |
| Other revenue | | 17,153 | | | 17,153 |
| Total revenues | | 1,257,164 | | | 1,257,164 |
| Cost of sales | 38 | 633,101 | | (3,591) | 629,548 |
| Gross profit | (38) | 624,063 | | 3,591 | 627,616 |
| Operating expenses | | | | | |
| Research and development | 990 | 101,441 | | | 102,431 |
| Selling, general & administrative | 17,382 | 206,745 | 1,253 | | 225,380 |
| Litigation settlements, net | | 12,417 | | | 12,417 |
| Total operating expenses | 18,372 | 320,603 | 1,253 | | 340,228 |
| Earnings (loss) from operations | (18,410) | 303,460 | (1,253) | 3,591 | 287,388 |
| Interest expense | 31,285 | | | | 31,285 |
| Other income, net | 1,753 | 15,685 | 4,655 | (3,591) | 18,502 |
| Earnings before income taxes and equity in earnings (loss) of subsidiaries | (47,942) | 319,145 | 3,402 | | 274,605 |
| Provision for income taxes | (12,482) | 101,330 | 1,215 | | 90,063 |
| Earnings before equity in earnings (loss) of subsidiaries | (35,460) | 217,815 | 2,187 | | 184,542 |
| Equity in earnings (loss) of subsidiaries | 220,002 | | | (220,002) | |
| Net earnings | $ 184,542 | $ 217,815 | $ 2,187 | $ (220,002) | $ 184,542 |

| For the year ended March 31, 2005 | Mylan Labs | Guarantor Subs | Non-Guarantor Subs | Consolidating and Eliminating Entries | Consolidated |
|---|---|---|---|---|---|
| Net revenues | $ | $ 1,247,785 | $ | $ | $ 1,247,785 |
| Other revenue | | 5,589 | | | 5,589 |

| | | | | | |
|---|---|---|---|---|---|
| Total revenues | | 1,253,374 | | | 1,253,374 |
| Cost of sales | | 632,219 | | (2,385) | 629,834 |
| Gross profit | | 621,155 | | 2,385 | 623,540 |
| Operating expenses | | | | | |
| Research and development | | 88,254 | | | 88,254 |
| Selling, general & administrative | 1,059 | 257,356 | 810 | (120) | 259,105 |
| Litigation settlements, net | | (25,990) | | | (25,990) |
| Total operating expenses | 1,059 | 319,620 | 810 | (120) | 321,369 |
| Earnings (loss) from operations | (1,059) | 301,535 | (810) | 2,505 | 302,171 |
| Other income, net | 1,066 | 7,598 | 3,917 | (2,505) | 10,076 |
| Earnings before income taxes and equity in earnings (loss) of subsidiaries | 7 | 309,133 | 3,107 | | 312,247 |
| Provision for income taxes | (183) | 107,753 | 1,085 | | 108,655 |
| Earnings before equity in earnings (loss) of subsidiaries | 190 | 201,380 | 2,022 | | 203,592 |
| Equity in earnings (loss) of subsidiaries | 203,402 | | | (203,402) | |
| Net earnings | $ 203,592 | $ 201,380 | $ 2,022 | $ (203,402) | $ 203,592 |

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**GUARANTOR SUBSIDIARIES**

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**

| For the Period Ended March 31, 2007 | Mylan Labs | Guarantor Subs | Non-Guarantor Subs | Eliminating | Consolidated |
|---|---|---|---|---|---|
| Cash flows provided by (used in) operations | $ (77,738) | $ 449,812 | $ 25,739 | $ (7,621) | $ 390,192 |
| Cash flows from investing activities | | | | | |
| Proceeds from (purchase of) capital assets | (5,574) | (151,970) | (4,307) | | (161,851) |
| Acquisition of Matrix, net of cash acquired | | | (761,049) | | (761,049) |
| Sale of assets | | | | | |
| Purchase of marketable securities | (539,189) | | (116,759) | | (655,948) |
| Sale of marketable securities | 697,483 | | 151,037 | | 848,520 |
| Other items, net | (2,811) | | 2,404 | | (407) |
| Net cash (used in ) provided from investing activities | 149,909 | (151,970) | (728,674) | | (730,735) |
| Cash flows from financing activities: | | | | | |
| Cash dividends paid | (50,751) | | | | (50,751) |
| Payment of financing fees | (15,329) | | | | (15,329) |
| Excess tax benefit from stock based compensation | 4,158 | | | | 4,158 |
| Proceeds from issuance of common stock, net | 657,678 | | | | 657,678 |
| Purchase of bond hedge | (126,000) | | | | (126,000) |
| Proceeds from issuance of warrants | 45,360 | | | | 45,360 |
| Proceeds from long-term debt | 1,552,000 | | 4,251 | | 1,556,251 |
| Payments on long-term debt | (689,938) | | | | (689,938) |
| Purchase of common stock | | | | | |
| Proceeds from exercise of stock options | 49,365 | | 459 | | 49,824 |
| Increase in outstanding checks in excess of cash in disbursement accounts | | 10,403 | | | 10,403 |
| Transfer from (to) affiliates | (357,245) | (414,747) | 771,992 | | |
| Other items, net | | | 1,160 | | 1,160 |
| Net cash used in (provided by) financing activities | 1,069,298 | (404,344) | 777,862 | | 1,442,816 |
| Effect on cash of changes in exchange rates | | | (32) | | (32) |
| Net increase in cash and cash equivalents | 1,141,469 | (106,502) | 74,895 | (7,621) | 1,102,241 |
| | 4,911 | 128,191 | 9,417 | 7,605 | 150,124 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cash and cash equivalents year | beginning of | | | | | |
| Cash and cash equivalents | end of year | $ 1,146,380 | $ 21,689 | $ 84,312 | $ (16) | $ 1,252,365 |

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| For the Period Ended March 31, 2006 | Mylan Labs | Guarantor Subs | Non-Guarantor Subs | Eliminating | Consolidated |
|---|---|---|---|---|---|
| Cash flows provided by (used in) operations | $ (14,539) | $ 446,317 | $ (22,822) | $ 7,605 | $ 416,561 |
| Cash flows from investing activities | | | | | |
| Proceeds from (purchase of) capital assets | (4,380) | (99,309) | | | (103,689) |
| Purchase of marketable securities | | (635,076) | (51,493) | | (686,569) |
| Sale of marketable securities | | 916,730 | 74,330 | | 991,060 |
| Other items, net | | (5,710) | | | (5,710) |
| Net cash (used in ) provided from investing activities | (4,380) | 176,635 | 22,837 | | 195,092 |
| Cash flows from financing activities: | | | | | |
| Cash dividends paid | (49,772) | | | | (49,772) |
| Payment of financing fees | (14,662) | | | | (14,662) |
| Proceeds from long-term debt | 775,000 | | | | 775,000 |
| Payments on long-term debt | (87,062) | | | | (87,062) |
| Purchase of common stock | (1,257,867) | | | | (1,257,867) |
| Proceeds from exercise of stock options | 56,889 | | | | 56,889 |
| Transfer from (to) affiliates | 599,624 | (599,624) | | | |
| Increase in outstanding checks in excess of cash in disbursement accounts | | (21,788) | | | (21,788) |
| Net cash used in (provided by) financing activities | 22,150 | (621,412) | | | (599,262) |
| Net increase in cash and cash equivalents | 3,231 | 1,540 | 15 | 7,605 | 12,391 |
| Cash and cash equivalents beginning of year | 1,680 | 126,651 | 9,402 | | 137,733 |
| Cash and cash equivalents end of year | $ 4,911 | $ 128,191 | $ 9,417 | $ 7,605 | $ 150,124 |

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| For the Period Ended March 31, 2005 | Mylan Labs | Guarantor Subs | Non-Guarantor Subs | Eliminating | Consolidated |
|---|---|---|---|---|---|
| Cash flows provided by (used in) operations | $ 17,190 | $ 206,283 | $ (19,762) | $ | $ 203,711 |
| Cash flows from investing activities | | | | | |
| Proceeds from (purchase of) capital assets | (1,289) | (89,457) | | | (90,746) |
| Purchase of marketable securities | | (752,697) | (28,109) | | (780,806) |
| Sale of marketable securities | | 641,292 | 51,997 | | 693,289 |
| Other items, net | | 3,372 | | | 3,372 |
| Net cash (used in ) provided from investing activities | (1,289) | (197,490) | 23,888 | | (174,891) |
| Cash flows from financing activities: | | | | | |
| Cash dividends paid | (32,261) | | | | (32,261) |
| Proceeds from exercise of stock options | 10,068 | | | | 10,068 |
| Transfer from (to) affiliates | 3,911 | (3,911) | | | |
| Increase in outstanding checks in excess of cash in disbursement accounts | | 19,622 | | | 19,622 |
| Net cash used in financing activities | (18,282) | 15,711 | | | (2,571) |
| Net increase in cash and cash equivalents | (2,381) | 24,504 | 4,126 | | 26,249 |
| Cash and cash equivalents beginning of year | 4,061 | 102,147 | 5,276 | | 111,484 |
| Cash and cash equivalents end of year | $ 1,680 | $ 126,651 | $ 9,402 | $ | $ 137,733 |

**21. Subsequent event**

On May 12, 2007, Mylan and Merck KGaA announced the signing of a definitive agreement under which Mylan will acquire Merck s generics business ( Merck Generics ) for Euro 4.9 billion (approximately $6.7 billion) in an all-cash transaction. Management believes that the combination of Mylan and Merck Generics will create a vertically and horizontally integrated generics and specialty pharmaceuticals leader with a diversified revenue base and a global footprint, and also believes the combined company will be among the top tier of global generic companies, with a significant presence in the top five global generics markets. The transaction remains subject to regulatory review in relevant jurisdictions and certain other customary closing conditions and is expected to close in the second half of calendar 2007.

In conjunction with the Merck Generics transaction, the Company entered into a deal-contingent foreign currency option contract in order to mitigate the risk of foreign currency exposure. The contract is contingent upon the closing of this acquisition and the premium of approximately $121.9 million will be paid only upon such closing. The Company will account for this instrument under the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 133, *Accounting for Derivative Instruments and Hedging Activities.* This instrument does not qualify for hedge accounting treatment under SFAS No. 133 and, therefore, will be adjusted to fair value at each reporting date with the change in the fair value of the instrument recorded in earnings.

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**Management s Report on Internal Control over Financial Reporting**

Management of Mylan Laboratories Inc. (the Company ) is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

During fiscal year 2007 the Company acquired a controlling stake in Matrix Laboratories Limited ( Matrix ). For purposes of Management s evaluation of the Company s internal control over financial reporting as of March 31, 2007 we have elected to exclude Matrix from the scope of management s assessment as permitted by guidance provided by the Securities and Exchange Commission ( SEC ). The two part acquisition resulting in 71.5% ownership of this business was completed by us on January 8, 2007. Matrix represents approximately 13% of our consolidated assets at March 31, 2007 and contributed approximately 5% of total revenues for the year ended March 31, 2007. This acquired business will be included in management s assessment of the effectiveness of the Company s internal controls over financial reporting in fiscal year 2008.

In conducting the 2007 assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framework* ( COSO ). As a result of this assessment and based on the criteria in the COSO framework, management has concluded that, as of March 31, 2007, the Company s internal control over financial reporting was effective.

Our independent registered public accounting firm, Deloitte & Touche LLP, has audited management s assessment of our internal control over financial reporting. Deloitte & Touche LLP s opinion on management s assessment and on the effectiveness of our internal control over financial reporting appears on page 87 of this Annual Report on Form 10-K.

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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders of
Mylan Laboratories Inc.:

We have audited the accompanying consolidated balance sheets of Mylan Laboratories Inc. and subsidiaries (the Company ) as of March 31, 2007 and 2006, and the related consolidated statements of earnings, shareholders equity, and cash flows for each of the three years in the period ended March 31, 2007. Our audits also included the financial statement schedule included in Item 15. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Mylan Laboratories Inc. and subsidiaries as of March 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, effective April 1, 2006, the Company adopted FASB Statement No. 123R, *Share-Based Payment.*

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of March 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 29, 2007 expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP
Pittsburgh, Pennsylvania
May 29, 2007

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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders of
Mylan Laboratories Inc.:

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting, that Mylan Laboratories Inc. and subsidiaries (the Company ) maintained effective internal control over financial reporting as of March 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management s Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Matrix Laboratories Limited, which was acquired on January 8, 2007 and whose financial statements constitute 13% percent of consolidated assets and 5% percent of total revenues of the consolidated financial statement amounts as of and for the year ended March 31, 2007. Accordingly, our audit did not include the internal control over financial reporting at Matrix Laboratories Limited. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of March 31, 2007, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial

reporting as of March 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended March 31, 2007 of the Company and our report dated May 29, 2007 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph regarding the Company s adoption of FASB Statement No. 123R, *Share-Based Payment.*

/s/ Deloitte & Touche LLP
Pittsburgh, Pennsylvania
May 29, 2007

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**Mylan Laboratories Inc.**
**Supplementary Financial Information**

**Quarterly Financial Data**
(unaudited, in thousands, except per share data)

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Year |
|---|---|---|---|---|---|
| Fiscal 2007 | | | | | |
| Total revenues | $ 356,140 | $ 366,657 | $ 401,761 | $ 487,261 | $ 1,611,819 |
| Gross profit | 188,200 | 196,090 | 224,531 | 234,847 | 843,668 |
| Net earnings | 75,587 | 77,541 | 135,445 | (71,289)[3] | 217,284 |
| Earnings per share[1]: | | | | | |
| Basic | $ 0.36 | $ 0.37 | $ 0.64 | $ (0.31)[3] | $ 1.01 |
| Diluted | $ 0.35 | $ 0.36 | $ 0.63 | $ (0.31)[3] | $ 0.99 |
| Share prices[2]: | | | | | |
| High | $ 23.55 | $ 23.05 | $ 22.07 | $ 22.61 | $ 23.55 |
| Low | $ 20.00 | $ 19.06 | $ 19.91 | $ 19.42 | $ 19.06 |
| Fiscal 2006 | | | | | |
| Total revenues | $ 323,378 | $ 297,994 | $ 311,246 | $ 324,546 | $ 1,257,164 |
| Gross profit | 167,834 | 143,231 | 155,797 | 160,754 | 627,616 |
| Net earnings | 42,915 | 35,770 | 48,207 | 57,650 | 184,542 |
| Earnings per share[1]: | | | | | |
| Basic | $ 0.16 | $ 0.16 | $ 0.23 | $ 0.27 | $ 0.80 |
| Diluted | $ 0.16 | $ 0.16 | $ 0.22 | $ 0.27 | $ 0.79 |
| Share prices[2]: | | | | | |
| High | $ 19.85 | $ 19.84 | $ 21.61 | $ 24.92 | $ 24.92 |
| Low | $ 15.50 | $ 17.36 | $ 19.00 | $ 19.30 | $ 15.50 |

(1) The sum of earnings per share for the four quarters may not equal earnings per share for the total year due to changes in the average number of common shares outstanding.

(2) Closing prices as reported on the New York Stock Exchange (NYSE).

(3) Fourth quarter results include the results of Matrix since its acquisition on January 8, 2007, and certain purchase accounting adjustments, including $147,000 related to acquired in- process research and development.

**ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**ITEM 9A. Controls and Procedures**

An evaluation was performed under the supervision and with the participation of the Company s management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of March 31, 2007. Based upon that evaluation, the Chief

Executive Officer and the Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective.

Other than the 71.5% acquisition of Matrix Laboratories Limited discussed in Management s Report on Internal Control over Financial Reporting on page 85, Management has not identified any changes in the Company s internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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Subsequent to year end, the Company began utilizing a new ERP business system called System Application Products ( SAP ) at its largest subsidiary, Mylan Pharmaceuticals, Inc., and its corporate offices.

Management s Report on Internal Control over Financial Reporting is on page 85. Management s assessment of the effectiveness of Mylan s internal control over financial reporting as of March 31, 2007, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is on page 87.

**ITEM 9B. Other Information**

None.

**PART III**

**ITEM 10. Directors, Executive Officers and Corporate Governance**

Certain information required by this ITEM will be set forth under the captions ITEM I Election of Directors, Executive Officers and Security Ownership of Certain Beneficial Owners and Management Section 16(a) Beneficial Ownership Reporting Compliance in our 2007 Proxy Statement and is incorporated herein by reference.

*Code of Ethics*

The Company has adopted a Code of Ethics that applies to our Chief Executive Officer, Chief Financial Officer and Corporate Controller. This Code of Ethics is posted on the Company s Internet website at www.mylan.com. The Company intends to post any amendments to or waivers from the Code of Ethics on that website.

**ITEM 11. Executive Compensation**

The information required by this ITEM 11 will be set forth under the caption Executive Compensation in our 2007 Proxy Statement and is incorporated herein by reference.

**ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this ITEM 12 will be set forth under the captions Security Ownership of Certain Beneficial Owners and Management and Executive Compensation Equity Compensation Plan Information in our 2007 Proxy Statement and is incorporated herein by reference.

**ITEM 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this ITEM 13 will be set forth under the caption Certain Relationships and Related Transactions in our 2007 Proxy Statement and is incorporated herein by reference.

**ITEM 14. Principal Accounting Fees and Services**

The information required by this ITEM 14 will be set forth under the captions Independent Registered Public Accounting Firm s Fees and Audit Committee Pre-Approval Policy in our 2007 Proxy Statement and is incorporated herein by reference.

**PART IV**

**ITEM 15. Exhibits, Financial Statement Schedules**

1. *Consolidated Financial Statements*

The Consolidated Financial Statements listed in the Index to Consolidated Financial Statements are filed as part of this Form.

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2. *Financial Statement Schedules*

**MYLAN LABORATORIES INC.**
**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**
**(in thousands)**

| Description | Beginning Balance | Additions/Deductions Charged to Costs and Expenses | Additions Charged to Other Accounts | Deductions | Ending Balance |
|---|---|---|---|---|---|
| Allowance for doubtful accounts: | | | | | |
| Fiscal year ended | | | | | |
| March 31, 2007 | $ 10,954 | $ (500) | $ 4,778* | $ 83 | $ 15,149 |
| March 31, 2006 | $ 7,340 | $ 3,614 | $ | $ | $ 10,954 |
| March 31, 2005 | $ 5,965 | $ 2,007 | $ | $ 632 | $ 7,340 |

* Allowance recorded as part of the Matrix acquisition.

3. *Exhibits*

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|---|---|
| 3.1 | Amended and Restated Articles of Incorporation of the registrant, as amended, filed as Exhibit 3.1 to Form 10-Q for the quarter ended June 30, 2003, and incorporated herein by reference. |
| 3.2 | Amended and Restated By-laws of the registrant, as amended to date, filed as Exhibit 3.1 to the Report on Form 8-K filed with the SEC on February 22, 2005, and incorporated herein by reference. |
| 4.1(a) | Rights Agreement dated as of August 22, 1996, between the registrant and American Stock Transfer & Trust Company, filed as Exhibit 4.1 to Form 8-K filed with the SEC on September 3, 1996, and incorporated herein by reference. |
| 4.1(b) | Amendment to Rights Agreement dated as of November 8, 1999, between the registrant and American Stock Transfer & Trust Company, filed as Exhibit 1 to Form 8-A/A, filed with the SEC on March 31, 2000, and incorporated herein by reference. |
| 4.1(c) | Amendment No. 2 to Rights Agreement dated as of August 13, 2004, between the registrant and American Stock Transfer & Trust Company, filed as Exhibit 4.1 to the Report on Form 8-K filed with the SEC on August 16, 2004, and incorporated herein by reference. |
| 4.1(d) | Amendment No. 3 to Rights Agreement dated as of September 8, 2004, between the registrant and American Stock Transfer & Trust Company, filed as Exhibit 4.1 to the Report on Form 8-K filed with the SEC on September 9, 2004, and incorporated herein by reference. |
| 4.1(e) | Amendment No. 4 to Rights Agreement dated as of December 2, 2004, between the registrant and American Stock Transfer & Trust Company, filed as Exhibit 4.1 to the Report on Form 8-K filed with the SEC on December 3, 2004, and incorporated herein by reference. |
| 4.1(f) | Amendment No. 5 to Rights Agreement dated as of December 19, 2005, between the registrant and American Stock Transfer & Trust Company, filed as Exhibit 4.1 to the Report on Form 8-K filed with the SEC on December 19, 2005, and incorporated herein by reference. |

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|---|---|
| 4.2 | Indenture, dated as of July 21, 2005, between the registrant and The Bank of New York, as trustee, as filed as Exhibit 4.1 to the Report on Form 8-K filed with the SEC on July 27, 2005, and incorporated herein by reference. |
| 4.3 | Registration Rights Agreement, dated as of July 21, 2005, among the registrant, the Guarantors party thereto and Merrill Lynch, Pierce, Fenner and Smith Incorporated, BNY Capital Markets, Inc., KeyBanc Capital Markets (a Division of McDonald Investments Inc.), PNC Capital Markets, Inc. and SunTrust Capital Markets, Inc., filed as Exhibit 4.2 to the Report on Form 8-K filed with the SEC on July 27, 2005, and incorporated herein by reference. |
| 4.4 | Indenture, dated March 7, 2007 among the registrant, the Guarantors named therein and The Bank of New York, as Trustee, filed as Exhibit 4.1 to the Report on Form 8-K, filed with the SEC on March 7, 2007, and incorporated herein by reference. |

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| 4.5 | Confirmation of OTC Convertible Note Hedge Transaction, dated March 2, 2007, between the registrant and Merrill Lynch International, filed as Exhibit 4.2 to the Report on Form 8-K, filed with the SEC on March 7, 2007, and incorporated herein by reference. |
| 4.6 | Confirmation of OTC Convertible Note Hedge Transaction, dated March 2, 2007, between the registrant and JPMorgan Chase Bank, National Association, London Branch. filed as Exhibit 4.3 to the Report on Form 8-K, filed with the SEC on March 7, 2007, and incorporated herein by reference. |
| 4.7 | Confirmation of OTC Warrant Transaction, dated March 1, 2007, between the Company and Merrill Lynch International filed as Exhibit 4.4 to the Report on Form 8-K, filed with the SEC on March 7, 2007, and incorporated herein by reference. |
| 4.8 | Confirmation of OTC Warrant Transaction, dated March 1, 2007, between the Company and JPMorgan Chase Bank, National Association, London Branch. International filed as Exhibit 4.5 to the Report on Form 8-K, filed with the SEC on March 7, 2007, and incorporated herein by reference. |
| 4.9 | Confirmation of Additional OTC Warrant Transaction, dated March 2, 2007, between the Company and Merrill Lynch International. filed as Exhibit 4.6 to the Report on Form 8-K, filed with the SEC on March 7, 2007, and incorporated herein by reference. |
| 4.10 | Confirmation of Additional OTC Warrant Transaction, dated March 2, 2007, between the Company and JPMorgan Chase Bank, National Association, London Branch filed as Exhibit 4.7 to the Report on Form 8-K, filed with the SEC on March 7, 2007, and incorporated herein by reference. |
| 10.1 | Mylan Laboratories Inc. 1986 Incentive Stock Option Plan, as amended to date, filed as Exhibit 10(b) to Form 10-K for the fiscal year ended March 31, 1993, and incorporated herein by reference.* |
| 10.2 | Mylan Laboratories Inc. 1997 Incentive Stock Option Plan, as amended to date, filed as Exhibit 10.3 to Form 10-Q for the quarter ended September 30, 2002, and incorporated herein by reference.* |
| 10.3 | Mylan Laboratories Inc. 1992 Nonemployee Director Stock Option Plan, as amended to date, filed as Exhibit 10(l) to Form 10-K for the fiscal year ended March 31, 1998, and incorporated herein by reference.* |
| 10.4(a) | Mylan Laboratories Inc. 2003 Long-Term Incentive Plan, filed as Appendix A to Definitive Proxy Statement on Schedule 14A, filed with the SEC on June 23, 2003, and incorporated herein by reference.* |
| 10.4(b) | Form of Stock Option Agreement under the Mylan Laboratories Inc. 2003 Long-Term Incentive Plan, filed as Exhibit 10.4(b) to Form 10-K for the fiscal year ended March 31, 2005, and incorporated herein by reference.* |
| 10.4(c) | Form of Restricted Share Award under the Mylan Laboratories Inc. 2003 Long-Term Incentive Plan, filed as Exhibit 10.4(c) to Form 10-K for the fiscal year ended March 31, 2005, and incorporated herein by reference.* |
| 10.4(d) | Amendment No. 1 to Mylan Laboratories Inc. 2003 Long-Term Incentive Plan, filed as Exhibit 10.4(d) to Form 10-K for the fiscal year ended March 31, 2006, and incorporated herein by reference.* |
| 10.4(e) | Amendment No. 2 to Mylan Laboratories Inc. 2003 Long-Term Incentive Plan, filed as Exhibit 10.4(e) to Form 10-K for the fiscal year ended March 31, 2006, and incorporated herein by reference.* |
| 10.5 | Amended and Restated Executive Employment Agreement dated as of April 3, 2006, between the registrant and Robert J. Coury filed as Exhibit 10.5 to Form 10-K for the fiscal year ended March 31, 2006, and incorporated herein by reference.* |
| 10.6(a) | Executive Employment Agreement dated as of July 1, 2004, between the registrant and Edward J. Borkowski, filed as Exhibit 10.27 to Form 10-Q/A for the quarter ended September 30, 2004, and incorporated herein by reference.* |
| 10.6(b) | Amendment No. 1 to Executive Employment Agreement dated as of April 3, 2006, between the registrant and Edward J. Borkowski filed as Exhibit 10.6(b) to Form 10-K for the fiscal year ended March 31, 2006, and incorporated herein by reference.* |
| 10.7(a) | Executive Employment Agreement dated as of July 1, 2004, between the registrant and John P. O Donnell, filed as Exhibit 10.29 to Form 8-K, filed with the SEC on December 3, 2004, and |

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| | incorporated herein by reference.* |
| 10.7(b) | Amendment No. 1 to Executive Employment Agreement dated as of April 3, 2006, between the registrant and John P. O Donnell filed as Exhibit 10.8(b) to Form 10-K for the fiscal year ended March 31, 2006, and incorporated herein by reference.* |

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| 10.8(a) | Executive Employment Agreement dated as of July 1, 2004, between the registrant and Stuart A. Williams, filed as Exhibit 10.30 to Form 10-Q/A for the quarter ended September 30, 2004, and incorporated herein by reference.* |
| 10.8(b) | Amendment No. 1 to Executive Employment Agreement dated as of April 3, 2006, between the registrant and Stuart A. Williams filed as Exhibit 10.9(b) to Form 10-K for the fiscal year ended March 31, 2006, and incorporated herein by reference.* |
| 10.8(c) | Amendment No. 2 to Executive Employment Agreement dated as of March 31, 2007, between the registrant and Stuart A. Williams.* |
| 10.9(a) | Form of Employment Agreement dated as of December 15, 2003, between the registrant and certain executive officers (other than named executive officers), filed as Exhibit 10.18 to Form 10-Q for the quarter ended December 31, 2003, and incorporated herein by reference.* |
| 10.9(b) | Form of Amendment No. 1 to Executive Employment Agreement dated as of April 3, 2006, between the registrant and certain executive officers (other than named executive officers) filed as Exhibit 10.10(b) to Form 10-K for the fiscal year ended March 31, 2006, and incorporated herein by reference.* |
| 10.10(a) | Retirement Benefit Agreement dated as of December 31, 2004, between the registrant and Robert J. Coury filed as Exhibit 10.7 to Form 10-Q for the quarter ended December 31, 2004, and incorporated herein by reference.* |
| 10.10(b) | Amendment No. 1 to Retirement Benefit Agreement dated as of April 3, 2006, between the registrant and Robert J. Coury filed as Exhibit 10.11(b) to Form 10-K for the fiscal year ended March 31, 2006, and incorporated herein by reference.* |
| 10.11(a) | Retirement Benefit Agreement dated as of December 31, 2004, between the registrant and Edward J. Borkowski, filed as Exhibit 10.8 to Form 10-Q for the quarter ended December 31, 2004, and incorporated herein by reference.* |
| 10.11(b) | Amendment No. 1 to Retirement Benefit Agreement dated as of April 3, 2006, between the registrant and Edward J. Borkowski filed as Exhibit 10.12(b) to Form 10-K for the fiscal year ended March 31, 2006, and incorporated herein by reference.* |
| 10.12(a) | Retirement Benefit Agreement dated as of December 31, 2004, between the registrant and Stuart A. Williams, filed as Exhibit 10.9 to Form 10-Q for the quarter ended December 31, 2004, and incorporated herein by reference.* |
| 10.12(b) | Amendment No. 1 to Retirement Benefit Agreement dated as of April 3, 2006, between the registrant and Stuart A. Williams filed as Exhibit 10.13(b) to Form 10-K for the fiscal year ended March 31, 2006, and incorporated herein by reference.* |
| 10.13(a) | Amended and Restated Retirement Benefit Agreement dated as of December 31, 2004, between the registrant and Louis J. DeBone, filed as Exhibit 10.10 to Form 10-Q for the quarter ended December 31, 2004, and incorporated herein by reference.* |
| 10.13(b) | Amendment No. 1 to Amended and Restated Retirement Benefit Agreement dated as of April 3, 2006, between the registrant and Louis J. DeBone filed as Exhibit 10.14(b) to Form 10-K for the fiscal year ended March 31, 2006, and incorporated herein by reference.* |
| 10.14(a) | Amended and Restated Retirement Benefit Agreement dated as of December 31, 2004, between the registrant and John P. O Donnell, filed as Exhibit 10.11 to Form 10-Q for the quarter ended December 31, 2004, and incorporated herein by reference.* |
| 10.14(b) | Amendment No. 1 to Amended and Restated Retirement Benefit Agreement dated as of April 3, 2006, between the registrant and John P. O Donnell filed as Exhibit 10.15(b) to Form 10-K for the fiscal year ended March 31, 2006, and incorporated herein by reference.* |
| 10.15 | Retirement Benefit Agreement dated January 27, 1995, between the registrant and C.B. Todd, filed as Exhibit 10(b) to Form 10-K for the fiscal year ended March 31, 1995, and incorporated herein by reference.* |
| 10.16(a) | |

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| | Retirement Benefit Agreement dated January 27, 1995, between the registrant and Milan Puskar, filed as Exhibit 10(b) to Form 10-K for the fiscal year ended March 31, 1995, and incorporated herein by reference.* |
| 10.16(b) | First Amendment to Retirement Benefit Agreement dated September 27, 2001, between the registrant and Milan Puskar, filed as Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 2001, and incorporated herein by reference.* |

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| 10.17 | Split Dollar Life Insurance Arrangement between the registrant and the Milan Puskar Irrevocable Trust filed as Exhibit 10(h) to Form 10-K for the fiscal year ended March 31, 1996, and incorporated herein by reference.* |
| 10.18(a) | Transition and Succession Agreement dated as of December 15, 2003, between the registrant and Robert J. Coury, filed as Exhibit 10.19 to Form 10-Q for the quarter ended December 31, 2003, and incorporated herein by reference.* |
| 10.18(b) | Amendment No. 1 to Transition and Succession Agreement dated as of December 2, 2004, between the registrant and Robert J. Coury, filed as Exhibit 10.1 to Form 10-Q for the quarter ended December 31, 2004, and incorporated herein by reference.* |
| 10.18(c) | Amendment No. 2 to Transition and Succession Agreement dated as of April 3, 2006, between the registrant and Robert J. Coury filed as Exhibit 10.19(c) to Form 10-K for the fiscal year ended March 31, 2006, and incorporated herein by reference.* |
| 10.19(a) | Transition and Succession Agreement dated as of December 15, 2003, between the registrant and Edward J. Borkowski, filed as Exhibit 10.20 to Form 10-Q for the quarter ended December 31, 2003, and incorporated herein by reference.* |
| 10.19(b) | Amendment No. 1 to Transition and Succession Agreement dated as of December 2, 2004, between the registrant and Edward J. Borkowski, filed as Exhibit 10.2 to Form 10-Q for the quarter ended December 31, 2004, and incorporated herein by reference.* |
| 10.19(c) | Amendment No. 2 to Transition and Succession Agreement dated as of April 3, 2006, between the registrant and Edward J. Borkowski filed as Exhibit 10.20(c) to Form 10-K for the fiscal year ended March 31, 2006, and incorporated herein by reference.* |
| 10.20 | Amended and Restated Transition and Succession Agreement dated as of April 3, 2006, between the registrant and Stuart A. Williams filed as Exhibit 10.23 to Form 10-K for the fiscal year ended March 31, 2006, and incorporated herein by reference.* |
| 10.21(a) | Form of Transition and Succession Agreement dated as of December 15, 2003, with certain executive officers (other than named executive officers), filed as Exhibit 10.24 to Form 10-Q for the quarter ended December 31, 2003, and incorporated herein by reference.* |
| 10.21(b) | Amendment No. 1 to Form of Transition and Succession Agreement dated as of April 3, 2006, with certain executive officers (other than named executive officers) filed as Exhibit 10.24(b) to Form 10-K for the fiscal year ended March 31, 2006, and incorporated herein by reference.* |
| 10.22 | Executives Retirement Savings Plan, filed as Exhibit 10.14 to Form 10-K for the fiscal year ended March 31, 2001, and incorporated herein by reference.* |
| 10.23 | Supplemental Health Insurance Program For Certain Officers of Mylan Laboratories Inc., effective December 15, 2001, filed as Exhibit 10.1 to Form 10-Q for the quarter ended December 31, 2001, and incorporated herein by reference.* |
| 10.24 | Mylan Laboratories Inc. Severance Plan, filed as Exhibit 10.12 to Form 10-Q for the quarter ended December 31, 2004, and incorporated herein by reference.* |
| 10.25 | Form of Indemnification Agreement between the registrant and each Director, filed as Exhibit 10.31 to Form 10-Q/A for the quarter ended September 30, 2004, and incorporated herein by reference.* |
| 10.26 | Description of the registrant s Director Compensation Arrangements in effect as of May 21, 2007. |
| 10.27(a) | Credit Agreement, dated as of July 24, 2006, among the registrant, the lenders party thereto, including Bank of Tokyo-Mitsubishi UFJ Trust Company, Citibank, N.A. and PNC Bank, National Association, as Co-Documentation Agents, Merrill Lynch Capital Corporation, as Syndication Agent, JPMorgan Chase, National Association, as Administrative Agent and J.P. Morgan Securities Inc., as Sole Bookrunner and Sole Lead Arranger, filed as Exhibit 99.1 to the Report on Form 8-K filed with the SEC on July 26, 2006, and incorporated herein by reference. |
| 10.27(b) | Amendment No. 1 to Credit Agreement dated as of March 26, 2007, among the registrant, the lenders party thereto, including Bank of Tokyo-Mitsubishi UFJ Trust Company, Citibank, N.A. and PNC Bank, |

National Association, as Co-Documentation Agents, Merrill Lynch Capital Corporation, as Syndication Agent, JPMorgan Chase, National Association, as Administrative Agent and J.P. Morgan Securities Inc., as Sole Bookrunner and Sole Lead Arranger.

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|---|---|
| 10.28 | Credit Agreement dated as of March 26, 2007 by and among the registrant, Euro Mylan B.V. and a syndicate of bank lenders, including J.P. Morgan Securities Inc., as sole lead arranger and sole bookrunner, Merrill Lynch Pierce, Fenner & Smith Incorporated, as syndication agent, The Bank of Tokyo Mitsubishi UFJ, Ltd., New York Branch, Citibank, N.A., PNC Bank, National Association and ABN AMRO N.V., as co-documentation agents, and JPMorgan Chase Bank, National Association, as administrative agent. |
| 10.29(a) | Executive Employment Agreement dated as of January 8, 2007, by and between the registrant and Prasad Nimmagadda, filed as Exhibit 10.1 to the Report on Form 8-K, filed with the SEC on January 9, 2007, and incorporated herein by reference.* |
| 10.29(b) | Secondment Agreement dated as of January 8, 2007, by and among the registrant, Mylan Singapore Pte. Ltd. and Prasad Nimmagadda.* |
| 10.30 | Transition and Succession Agreement dated as of January 8, 2007, by and between the registrant and Prasad Nimmagadda, filed as Exhibit 10.2 to the Report on Form 8-K, filed with the SEC on January 9, 2007, and incorporated herein by reference.* |
| 10.31 | Executive Employment Agreement dated as of January 31, 2007, by and between the registrant and Rajiv Malik.* |
| 10.32 | Transition and Succession Agreement dated as of January 31, 2007, by and between the registrant and Rajiv Malik.* |
| 10.33 | Executive Employment Agreement dated as of January 31, 2007, by and between the registrant and Heather Bresch.* |
| 10.34 | Purchase Agreement, dated as of March 1, 2007, among the registrant, Merrill Lynch & Co. and J.P. Morgan Securities Inc., as representatives of the underwriters named therein, filed as Exhibit 1.1 to the Report on Form 8-K, filed with the SEC on March 7, 2007, and incorporated herein by reference. |
| 10.35 | Purchase Agreement, dated as of March 1, 2007, among the registrant, Merrill Lynch & Co. and J.P. Morgan Securities Inc., as representatives of the underwriters named therein, filed as Exhibit 1.2 to the Report on Form 8-K, filed with the SEC on March 7, 2007, and incorporated herein by reference. |
| 10.36 | Share Purchase Agreement, dated as of August 28, 2006, by and among the registrant, MP Laboratories (Mauritius) Ltd, Prasad Nimmagadda, Prasad Nimmagadda-HUF, G2 Corporate Services Limited, India Newbridge Investments Limited, India Newbridge Partners FDI Limited, India Newbridge Coinvestment Limited, Maxwell (Mauritius) Pte. Limited and Spandana Foundation filed as Exhibit 10.2 to Form 10-Q for the quarter ended September 30, 2006, and incorporated herein by reference. |
| 10.37 | Shareholders Agreement, dated as of August 28, 2006, by and among the registrant, India Newbridge Investments Limited, India Newbridge Partners FDI Limited, India Newbridge Coinvestment Limited, Maxwell (Mauritius) Pte. Limited and Prasad Nimmagadda filed as Exhibit 10.3 to Form 10-Q for the quarter ended September 30, 2006, and incorporated herein by reference. |
| 12.1 | Statement of computation of ratios of earnings to fixed charges, filed as Exhibit 12.1 to Registration Statement on Form S-3 filed with the SEC on February 20, 2007, and incorporated herein by reference. |
| 21 | Subsidiaries of the registrant. |
| 23 | Consent of Independent Registered Public Accounting Firm. |
| 31.1 | Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certifications of CEO and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Denotes management contract or compensatory plan or arrangement.

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**SIGNATURES**

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form to be signed on its behalf by the undersigned, thereunto duly authorized on May 30, 2007.

Mylan Laboratories Inc.

by /s/ ROBERT J. COURY

Robert J. Coury
Vice Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of May 30, 2007.

| Signature | Title |
|---|---|
| /s/ ROBERT J. COURY<br>Robert J. Coury | Vice Chairman, Chief Executive Officer and Director<br>*(Principal Executive Officer)* |
| /s/ EDWARD J. BORKOWSKI<br>Edward J. Borkowski | Chief Financial Officer<br>*(Principal Financial Officer)* |
| /s/ DANIEL C. RIZZO, Jr.<br>Daniel C. Rizzo, Jr. | Vice President and Corporate Controller<br>*(Principal Accounting Officer)* |
| /s/ MILAN PUSKAR<br>Milan Puskar | Chairman and Director |
| /s/ WENDY CAMERON<br>Wendy Cameron | Director |
| /s/ NEIL DIMICK<br>Neil Dimick | Director |
| /s/ DOUGLAS J. LEECH<br>Douglas J. Leech | Director |
| /s/ JOSEPH C. MAROON, M.D. | Director |

Joseph C. Maroon, M.D.

/s/ PRASAD NIMMAGADDA — Director

Prasad Nimmagadda

/s/ ROD PIATT — Director

Rod Piatt

/s/ C.B. TODD — Director

C.B. Todd

/s/ R.L. VANDERVEEN, PH.D., R.PH. — Director

R.L. Vanderveen, Ph.D., R.Ph.

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## EXHIBIT INDEX

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|---|---|
| 10.8(c) | Amendment No. 2 to Executive Employment Agreement dated as of March 31, 2007, between the registrant and Stuart A. Williams.* |
| 10.26 | Description of the registrant s Director Compensation Arrangements in effect as of May 21, 2007. |
| 10.27(b) | Amendment No. 1 to Credit Agreement dated as of March 26, 2007, among the registrant, the lenders party thereto, including Bank of Tokyo-Mitsubishi UFJ Trust Company, Citibank, N.A. and PNC Bank, National Association, as Co-Documentation Agents, Merrill Lynch Capital Corporation, as Syndication Agent, JPMorgan Chase, National Association, as Administrative Agent and J.P. Morgan Securities Inc., as Sole Bookrunner and Sole Lead Arranger. |
| 10.28 | Credit Agreement dated as of March 26, 2007 by and among the registrant, Euro Mylan B.V. and a syndicate of bank lenders, including J.P. Morgan Securities Inc., as sole lead arranger and sole bookrunner, Merrill Lynch Pierce, Fenner & Smith Incorporated, as syndication agent, The Bank of Tokyo Mitsubishi UFJ, Ltd., New York Branch, Citibank, N.A., PNC Bank, National Association and ABN AMRO N.V., as co-documentation agents, and JPMorgan Chase Bank, National Association, as administrative agent. |
| 10.29(b) | Secondment Agreement dated as of January 8, 2007, by and among the registrant, Mylan Singapore Pte. Ltd. and Prasad Nimmagadda.* |
| 10.31 | Executive Employment Agreement dated as of January 31, 2007, by and between the registrant and Rajiv Malik.* |
| 10.32 | Transition and Succession Agreement dated as of January 31, 2007, by and between the registrant and Rajiv Malik.* |
| 10.33 | Executive Employment Agreement dated as of January 31, 2007, by and between the registrant and Heather Bresch.* |
| 21 | Subsidiaries of the registrant. |
| 23 | Consent of Independent Registered Public Accounting Firm. |
| 31.1 | Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certifications of CEO and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Denotes management contract or compensatory plan or arrangement.