

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
SEC Accession No. **0000069499-96-000042**

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FILER

MYLAN LABORATORIES INC

CIK: **69499** | IRS No.: **251211621** | State of Incorp.: **PA** | Fiscal Year End: **0331**
Type: **10-Q** | Act: **34** | File No.: **001-09114** | Film No.: **96665790**
SIC: **2834** Pharmaceutical preparations

Mailing Address
1030 CENTURY BUILDING
130 SEVENTH STREET
PITTSBURGH PA 15222

Business Address
130 SEVENTH ST
1030 CENTURY BLDG
PITTSBURGH PA 15222
4122320100

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 1996

OR

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

For the transition period from _____ to _____

Commission file number 1-9114

MYLAN LABORATORIES INC.

(Exact Name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

25-1211621
(I.R.S. Employer
Identification No.)

130 Seventh Street
1030 Century Building
Pittsburgh, Pennsylvania
(Address of principal executive offices)

15222
(Zip Code)

412-232-0100
(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed
since last report)

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange
Act of 1934 during the preceding twelve months (or for such shorter
period that the Registrant was required to file such reports), and (2)
has been subject to such filing requirements for the past 90 days:

YES X

NO

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

Class of Common Stock	Outstanding at November 8, 1996
\$.50 par value	121,914,754

MYLAN LABORATORIES INC. AND SUBSIDIARIES

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MYLAN LABORATORIES INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 1996 Unaudited	March 31, 1996 Audited
Current Assets:		
Cash and cash equivalents	\$148,979,000	\$176,980,000
Marketable securities	9,985,000	12,460,000
Accounts receivable - net	87,553,000	71,997,000
Inventories:		
Raw materials	41,143,000	42,983,000
Work in process	22,752,000	19,804,000
Finished goods	36,527,000	37,829,000
	100,422,000	100,616,000

Deferred income tax benefit	8,932,000	11,560,000
Other current assets	5,864,000	5,715,000
	-----	-----
Total Current Assets	361,735,000	379,328,000
Property, Plant and Equipment - at cost	187,668,000	173,445,000
Less accumulated depreciation	57,360,000	51,652,000
	-----	-----
	130,308,000	121,793,000
Marketable Securities, non-current	23,307,000	20,803,000
Investment in and Advances to Somerset	28,992,000	26,337,000
Intangible Assets-net of accumulated amortization	141,237,000	74,601,000
Other Assets	79,309,000	69,147,000
	-----	-----
Total Assets	\$764,888,000	\$692,009,000

See Notes to Consolidated Financial Statements

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LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 1996 Unaudited	March 31, 1996 Audited
	-----	-----
Current Liabilities:		
Trade accounts payable	\$ 12,356,000	\$ 14,039,000
Current portion of long-term obligations	20,379,000	1,400,000
Income taxes payable	7,769,000	10,096,000
Other current liabilities	25,135,000	18,185,000
Cash dividend payable	4,884,000	4,875,000
	-----	-----
Total Current Liabilities	70,523,000	48,595,000
Long-Term Obligations	48,161,000	18,002,000
Deferred Income Tax Liability	8,392,000	8,971,000

Shareholders' Equity:

Preferred stock, par value \$.50 per share, authorized 5,000,000 shares, issued and outstanding - none	-	-
Common stock, par value \$.50 per share, authorized 300,000,000 shares, issued 122,589,379 shares at September 30, 1996 and 122,524,789 shares at March 31, 1996	61,295,000	61,262,000
Additional paid-in capital	86,663,000	85,996,000
Retained earnings	491,744,000	470,136,000
Net unrealized gain on investments	638,000	1,575,000
	-----	-----
	640,340,000	618,969,000
Less Treasury stock - at cost, 694,950 shares at September 30, 1996 and March 31, 1996	2,528,000	2,528,000
	-----	-----
Net Worth	637,812,000	616,441,000
	-----	-----
Total Liabilities and Shareholders' Equity	\$764,888,000	\$692,009,000

See Notes to Consolidated Financial Statements

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MYLAN LABORATORIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
UNAUDITED

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	Three Months Ended September 30,		Six Months Ended September 30,	
	1996	1995	1996	1995
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NET SALES	\$ 108,981,000	\$ 97,715,000	\$ 207,524,000	\$ 206,907,000
COST AND EXPENSES:				
Cost of Sales	63,836,000	44,859,000	119,615,000	95,487,000
Research and Development	10,255,000	9,438,000	20,786,000	17,612,000
Selling and Administrative	19,465,000	13,660,000	40,716,000	27,663,000

	93,556,000	67,957,000	181,117,000	140,762,000
EQUITY IN EARNINGS OF SOMERSET	5,002,000	6,138,000	10,045,000	11,709,000
OTHER INCOME	3,769,000	4,760,000	7,761,000	8,723,000
EARNINGS BEFORE INCOME TAXES	24,196,000	40,656,000	44,213,000	86,577,000
INCOME TAX RATE	28%	28%	29%	28%
INCOME TAXES	6,848,000	11,180,000	12,854,000	23,934,000
NET EARNINGS	\$ 17,348,000	\$ 29,476,000	\$ 31,359,000	\$ 62,643,000
EARNINGS PER SHARE	\$.14	\$.25	\$.26	\$.53
WEIGHTED AVERAGE COMMON SHARES	121,892,000	119,319,000	121,880,000	119,294,000

The Company paid regular quarterly cash dividends of \$.03 per share from October 1994 to July 1995 and \$.04 per share since October 1995.

</TABLE>

See Notes to Consolidated Financial Statements

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MYLAN LABORATORIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 1996 AND 1995

UNAUDITED

	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Earnings	\$ 31,359,000	\$62,643,000
Adjustments to reconcile net earnings to net cash provided from operating activities:		
Depreciation and amortization	8,876,000	5,727,000
Deferred income taxes	2,553,000	2,494,000
Equity in the earnings of Somerset	(10,045,000)	(11,709,000)
Cash received from Somerset	7,390,000	10,207,000
Allowances on accounts receivable	(2,053,000)	(4,198,000)
Other non-cash items	(1,349,000)	687,000
Changes in operating assets and liabilities:		
Accounts receivable	(13,503,000)	(6,523,000)
Inventories	80,000	3,155,000
Trade accounts payable	(1,683,000)	627,000
Income taxes payable	(2,327,000)	(17,704,000)
Other operating assets and liabilities	6,800,000	(2,333,000)

Net cash provided from operating activities	26,098,000	43,073,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(14,223,000)	(17,017,000)
Increase in intangible and other assets	(27,949,000)	(19,360,000)
Proceeds from investment securities	12,848,000	35,848,000
Purchase of investment securities	(14,318,000)	(10,731,000)
Net cash used in investing activities	(43,642,000)	(11,260,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividend paid	(9,742,000)	(7,950,000)
Payments on long-term obligations	(1,415,000)	(15,000)
Proceeds from exercise of stock options	700,000	695,000
Net cash used in financing activities	(10,457,000)	(7,270,000)
Net Increase(Decrease) in Cash and Cash Equivalents	(28,001,000)	24,543,000
Cash and Cash Equivalents - Beginning of Period	176,980,000	127,280,000
Cash and Cash Equivalents - End of Period	\$148,979,000	\$151,823,000
CASH PAID DURING THE PERIOD FOR:		
Interest	\$ 425,000	\$ 12,000
Income Taxes	\$ 12,627,000	\$ 39,226,000

See Notes to Consolidated Financial Statements

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MYLAN LABORATORIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTH PERIOD ENDED
SEPTEMBER 30, 1996

Unaudited

- A. In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of the Company as of September 30, 1996 and March 31, 1996 together with the results of operations and cash flows for the interim periods ended September 30, 1996 and 1995. The consolidated results of operations for the three and six months ended September 30, 1996 and 1995 are not necessarily indicative of the results to be expected for the full year. Certain prior year amounts have been reclassified to conform to the current year presentation.
- B. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's 1996 Annual Report and Report on Form 10-K.

C. On February 28, 1996 the Company acquired UDL Laboratories, Inc. (UDL). UDL is the premier supplier of unit dose generic pharmaceuticals to the institutional and long term care markets. UDL has its corporate headquarters in Rockford, Illinois and maintains manufacturing, research and development and distribution facilities in Rockford, Illinois as well as Largo, Florida.

The transaction, was accounted for under the purchase method of accounting. Payment of approximately \$47,500,000 was made through the issuance of newly registered common stock of the Company.

D. On June 14, 1996, the Company executed a series of agreements with American Home Products Corporation ("AHP"), relating to the products Maxzide(R) and Maxzide-25MG(R). These agreements were subject to regulatory approval which was received on August 2, 1996. Since 1984 these products, which were developed and manufactured by Mylan, were marketed by AHP's Lederle Laboratories Division under a worldwide license arrangement.

Under the terms of the new agreements the Company is now marketing the products in the United States. AHP retained marketing rights in a few select foreign countries and will continue to purchase product from the Company. AHP also retains ownership of certain trademarks and trade dress which have been licensed to the Company for a period of five years. At the end of the five year period ownership of these intangibles will be transferred to the Company. In connection with the new agreements both parties agreed to terminate all legal actions between the companies relating to Maxzide(R) and Maxzide-25mg(R).

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MYLAN LABORATORIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTH PERIOD ENDED
SEPTEMBER 30, 1996

Unaudited

D. (con't) As a result of the transaction the Company has recorded an intangible asset of approximately \$70 million representing the present value of the minimum payments due to AHP and liabilities of approximately \$50 million representing such amount less the payment made by the Company to AHP upon consummation of the transaction. The Company will recognize expense of approximately \$2.8 million annually through the amortization of this intangible asset over the estimated useful life of the asset. Additionally the Company will recognize interest expense on the outstanding obligation to AHP. During the quarter ended September 30, 1996 the Company recognized \$744,000 in amortization and interest expense.

In connection with the transaction, the Company also began selling a generic version of Dyazide(R). The previous license arrangement with AHP prevented the Company from marketing this product. Mylan has agreed to pay to AHP certain amounts predicated upon the gross profits realized by the Company resulting from the sales of this generic product for a period of three years. Such payments, along with any trademark license royalties

in excess of the agreed upon minimums, shall be expensed as incurred by the Company.

- E. Equity in Earnings of Somerset includes the Company's 50% portion of the net earnings of Somerset Pharmaceuticals Inc. ("Somerset"), certain management fees and amortization of intangible assets resulting from the acquisition of Somerset. Such intangible assets are being amortized over a 15 year period using the straight line method.

Condensed unaudited financial information of Somerset for the three and six month periods ended September 30, 1996 and 1995 are as follows: (in thousands)

	Three Months Ended September 30,		Six Months Ended September 30,	
	1996	1995	1996	1995
Net Sales	\$26,224	\$27,181	\$56,367	\$50,178
Costs and Expenses	(11,733)	(11,300)	(28,028)	(20,153)
Income Taxes	(5,337)	(5,191)	(10,144)	(9,628)
Net Earnings	\$ 9,154	\$10,690	\$18,195	\$20,297

The above information represents 100% of Somerset's operations of which the Company has a 50% interest.

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MYLAN LABORATORIES INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 SIX MONTH PERIOD ENDED
 SEPTEMBER 30, 1996

Unaudited

- E. (con't) Somerset's marketing exclusivity for Eldepry(R) under the Orphan Drug Act expired on June 6, 1996. In late May 1996 Somerset received FDA approval to market an easy-to-identify capsule which was launched immediately by Somerset. This launch was responsible for the higher than normal sales in the June 1996 quarter and along with increased research and development expenses caused the increase in Costs and Expenses over the prior year's six month period.

In August 1996, the Food and Drug Administration ("FDA") approved three companies to market a generic tablet form of Eldepry(R). Somerset filed a complaint against the FDA requesting injunctive and declaratory relief and a review of agency action, and simultaneously requested a temporary restraining order in connection with these approvals by the FDA. Somerset maintains that such approval should not have been granted by the FDA because the tablets were not approved in accordance with law. While the Court denied Somerset's request for a temporary restraining order, a date

has yet to be set for a hearing on the preliminary injunction and a motion regarding discovery is pending.

- F. On August 23, 1996, the Company's Board of Directors adopted a Shareholder Rights Plan ("the Plan") and declared a dividend distribution to be made to Shareholders of record on September 5, 1996 of one Preferred Share Purchase Right ("the Right") on each outstanding share of the Company's common stock. The Plan was adopted to provide the Company's Directors with sufficient time to assess and evaluate any takeover bid, and explore and develop a reasonable response. The Company is entitled to redeem the Rights at \$.001 per Right at any time prior to ten days after the time any person acquires 15% or more of the Company's common stock. The Rights will expire on September 5, 2006 unless previously redeemed or exercised.

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PART 1 - FINANCIAL INFORMATION

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

Results of Operations

Net earnings per share were \$.14 for the three months ended September 30, 1996 compared to the record high \$.25 for the same quarter a year ago and \$.12 for the quarter ended June 30, 1996. This ended five quarters of decreasing earnings. Net earnings per share for the six month period were \$.26 compared to \$.53 for the same period a year ago. Net sales for the three and six months ended September 30, 1996 were \$108,981,000 and \$207,524,000 representing increases over the prior year comparable periods of 12% and .3%. The increases are primarily attributable to increased volume, the addition of UDL, the launch of Maxzide(R) late in the quarter and three new generic approvals, including the approval of the Bertek nitroglycerin patch.

Gross margin as a percent of net sales decreased from 54% for the three and six months ended September 30, 1995 to 41% and 42% for the three and six months ended September 30, 1996. The decrease in rates from the prior periods is due to the continued pricing pressures in the generic industry.

Research and development expenditures for the three and six month periods ended September 30, 1996 increased 9% to \$10,255,000 and 17% to \$20,786,000 over the prior year comparable periods. These increases are indicative of the Company's aggressive research programs aimed at both generic products and innovative compounds.

Selling and administrative expenses were \$19,465,000 and \$40,716,000 for the three and six month periods ended September 30, 1996 compared to \$13,660,000 and \$27,663,000 for the three and six month periods ended September 30, 1995. The increases over the prior periods is due to recurring expenses associated with the UDL and Maxzide acquisitions along with non-recurring charges relating to provisions for legal settlements and the bankruptcy of a customer in the current periods.

Somerset's contribution to the Company's earnings per share were \$.04 and \$.08 for the three and six month periods ended September 30, 1996 compared to \$.05 and \$.09 for the three and six month periods ended September 30, 1995. The Company expects that the introduction of generic competition on Eldepryl(R) coupled with higher levels of research and development expenditures by Somerset will adversely affect Somerset's contribution to the Company's net earnings per share (see note E).

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Liquidity and Capital Resources and Financial Condition

Working capital decreased from \$330,733,000 at March 31, 1996 to \$291,212,000 at September 30, 1996. The ratio of current assets to current liabilities was 7.8 to 1 at March 31, 1996 and 5.1 to 1 at September 30, 1996. The change in the current ratio is primarily attributable to the AHP agreements which resulted in an increase in the current portion of long-term debt and a decrease in cash and cash equivalents.

Net cash provided from operating activities was \$26,098,000 for the six months ended September 30, 1996 compared to \$43,073,000 for the same period last year. The change is primarily related to the decrease in gross profit dollars resulting from generic price deterioration and the timing of tax payments.

Additions to property, plant and equipment amounted to \$14,223,000 for the six months ended September 30, 1996. Capital expenditures are principally related to the completion of a research and development facility and construction of a sustained release facility, both in Morgantown, West Virginia.

The increases in intangible assets and long-term obligations are due principally to the AHP transaction as described in Note D.

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PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibit 27 required by Item 601(c) of Regulation S-X filed herewith.

- (b) Reports on Form 8-K - On September 3, 1996 the Company filed a report on Form 8-K dated August 23, 1996 covering Item 5 thereof regarding an announcement by the Board of Directors of a Shareholder Rights Plan.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Mylan Laboratories Inc.
(Registrant)

DATE 11/12/96

/s/ Milan Puskar

Milan Puskar
Chairman of the Board, Chief
Executive Officer and President

DATE 11/12/96

/s/ Frank A. DeGeorge

Frank A. DeGeorge
Director of Corporate Finance

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

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Exhibit 27

Financial Data

The schedule contains summary financial information extracted from the Consolidated Balance Sheets at September 30, 1996 and the Consolidated Statement of Earnings for the six months ended September 30, 1996 and is qualified in its entirety by reference to such financial statements.

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