

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

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

For the quarterly period ended December 31, 1995

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

130 Seventh Street
1030 Century Building
Pittsburgh, Pennsylvania 15222
(Address of principal executive offices) (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 February 12, 1996 |
|--------------------------|-------------------------------------|
| ----- \$.50 par value | ----- 119,444,320 |

MYLAN LABORATORIES INC. AND SUBSIDIARIES

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MYLAN LABORATORIES INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

| | December 31, 1995 Unaudited ----- | March 31, 1995 Audited ----- |
|---|--|---------------------------------------|
| Current Assets | | |
| Cash and cash equivalents | \$192,096,000 | \$127,280,000 |
| Marketable securities | 14,501,000 | 52,575,000 |
| Accounts receivable | 61,277,000 | 58,343,000 |
| Inventories: | | |
| Raw materials | 33,364,000 | 29,795,000 |
| Work in process | 17,755,000 | 17,539,000 |
| Finished goods | 32,307,000 | 30,871,000 |
| | ----- | ----- |
| | 83,426,000 | 78,205,000 |
| Deferred income tax benefit | 9,157,000 | 10,545,000 |
| Other current assets | 5,340,000 | 4,435,000 |
| | ----- | ----- |
| Total Current Assets | 365,797,000 | 331,383,000 |
| Property, Plant and Equipment - at cost | | |
| Less accumulated depreciation | 155,537,000 | 132,599,000 |
| | 44,751,000 | 40,300,000 |
| | ----- | ----- |
| | 110,786,000 | 92,299,000 |
| Deferred Income Tax Benefit, non-current | 1,986,000 | 1,043,000 |
| Marketable Securities, non-current | 18,762,000 | 21,958,000 |
| Investment in and Advances to Somerset | 26,282,000 | 22,055,000 |
| Intangible Assets net of accumulated amortization | 25,789,000 | 28,518,000 |
| Other Assets | 63,260,000 | 48,945,000 |
| | ----- | ----- |
| Total Assets | \$612,662,000 | \$546,201,000 |
| | ===== | ===== |

See Notes to Consolidated Financial Statements

LIABILITIES AND SHAREHOLDERS' EQUITY

| | December 31, 1995 Unaudited ----- | March 31, 1995 Audited ----- |
|--|--|---------------------------------------|
| Current Liabilities | | |
| Trade accounts payable | \$ 12,813,000 | \$ 10,466,000 |
| Income taxes payable | 9,899,000 | 24,019,000 |
| Other current liabilities | 18,867,000 | 17,890,000 |
| Cash dividend payable | 4,779,000 | 3,976,000 |
| | ----- | ----- |
| Total Current Liabilities | 46,358,000 | 56,351,000 |
| Long-Term Obligations | 9,786,000 | 7,122,000 |
| 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 120,127,914 shares at December 31, 1995 and 79,972,248 shares at March 31, 1995 | 60,064,000 | 39,986,000 |
| Additional paid in capital | 40,153,000 | 57,577,000 |
| Retained earnings | 457,251,000 | 386,212,000 |
| Unrealized gain on investment | 1,433,000 | 1,374,000 |
| | ----- | ----- |
| Less Treasury stock - at cost, 696,006 shares at December 31, 1995 and 476,523 shares at March 31, 1995 | 558,901,000 | 485,149,000 |
| Net Worth | 2,383,000 | 2,421,000 |
| | ----- | ----- |
| | 556,518,000 | 482,728,000 |
| | ----- | ----- |
| Total Liabilities and Shareholders' Equity | \$612,662,000 ===== | \$546,201,000 ===== |

See Notes to Consolidated Financial Statements

MYLAN LABORATORIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
UNAUDITED

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|--------------------------------|---------------------------------|---------------|--------------------------------|---------------|
| | 1995 | 1994 | 1995 | 1994 |
| NET SALES | \$91,319,000 | \$104,271,000 | \$298,226,000 | \$285,430,000 |
| COST AND EXPENSES: | | | | |
| Cost of Sales | 47,620,000 | 46,702,000 | 143,107,000 | 119,920,000 |
| Research and Development | 10,948,000 | 7,927,000 | 28,560,000 | 21,134,000 |
| Selling and Administrative | 14,106,000 | 14,982,000 | 41,769,000 | 44,323,000 |
| | 72,674,000 | 69,611,000 | 213,436,000 | 185,377,000 |
| EQUITY IN EARNINGS OF SOMERSET | 7,905,000 | 8,330,000 | 19,614,000 | 19,819,000 |
| OTHER INCOME | 3,970,000 | 2,494,000 | 12,693,000 | 5,013,000 |
| EARNINGS BEFORE INCOME TAXES | 30,520,000 | 45,484,000 | 117,097,000 | 124,885,000 |
| INCOME TAX RATE | 28% | 30% | 28% | 30% |
| INCOME TAXES | 8,596,000 | 13,645,000 | 32,530,000 | 37,258,000 |
| NET EARNINGS | \$ 21,924,000 | \$ 31,839,000 | \$ 84,567,000 | \$ 87,627,000 |
| EARNINGS PER SHARE | \$.18 | \$.27 | \$.71 | \$.74 |
| WEIGHTED AVERAGE COMMON SHARES | 119,388,000 | 119,004,000 | 119,322,000 | 118,912,000 |

The above Financial Statements give retroactive effect to the three-for-two stock split effective August 15, 1995 (See Note C).

The Company paid regular quarterly cash dividends of \$.027 per share from October 1993 to July 1994, \$.03 per share from October 1994 to July 1995 and \$.04 per share on October 13, 1995 and January 15, 1996. In addition, the Company paid a special one-time dividend of \$.067 per share on January 13, 1995.

See Notes to Consolidated Financial Statements

MYLAN LABORATORIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED DECEMBER 31, 1995 AND 1994

UNAUDITED

| | 1995 ----- | 1994 ----- |
|--|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Earnings | \$ 84,567,000 | \$ 87,627,000 |
| Adjustments to reconcile net earnings to net cash from operating activities: | | |
| Depreciation and amortization | 9,968,000 | 9,228,000 |
| Deferred income taxes | 408,000 | (95,000) |
| Equity in the earnings of Somerset | (19,614,000) | (19,819,000) |
| Cash received from Somerset | 15,387,000 | 15,506,000 |
| Other non-cash items | 665,000 | 2,047,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable - gross | 3,042,000 | (11,259,000) |
| Allowances on accounts receivable | (5,976,000) | 11,298,000 |
| Inventories | (5,333,000) | (13,213,000) |
| Trade accounts payable | 2,347,000 | 2,720,000 |
| Income taxes payable | (12,965,000) | 10,200,000 |
| Other operating assets and liabilities | 71,000 | 12,363,000 |
| | ----- | ----- |
| Net cash provided from operating activities | 72,567,000 | 106,603,000 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to property, plant and equipment | (25,444,000) | (12,048,000) |
| Increase in intangible and other assets | (12,427,000) | (5,853,000) |
| Proceeds from investment securities | 56,752,000 | 16,252,000 |
| Purchase of investment securities | (15,386,000) | (20,622,000) |
| | ----- | ----- |
| Net cash provided from (used in) investing activities | 3,495,000 | (22,271,000) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash dividend paid | (12,724,000) | (10,306,000) |
| Payments on long-term obligations | (21,000) | (22,000) |
| Proceeds from exercise of stock options | 1,499,000 | 1,071,000 |
| | ----- | ----- |
| Net cash used in financing activities | (11,246,000) | (9,257,000) |
| | ----- | ----- |
| Net Increase in Cash and Cash Equivalents | 64,816,000 | 75,075,000 |
| Cash and Cash Equivalents - Beginning of Period | 127,280,000 | 75,526,000 |
| | ----- | ----- |
| Cash and Cash Equivalents - End of Period | \$192,096,000 | \$150,601,000 |
| | ===== | ===== |
| CASH PAID DURING THE PERIOD FOR: | | |
| Interest | \$ 16,000 | \$ 21,000 |
| Income Taxes | \$ 45,089,000 | \$ 27,153,000 |

See Notes to Consolidated Financial Statements

MYLAN LABORATORIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTH PERIOD ENDED
DECEMBER 31, 1995

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 December 31, 1995 and March 31, 1995 together with the results of operations and cash flows for the interim periods ended December 31, 1995 and 1994. The consolidated results of operations for the three and nine months ended December 31, 1995 and 1994 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 1995 Annual Report and Report on Form 10-K.
- C. On June 28, 1995 the Company announced a three-for-two stock split of the Company's common stock effective August 15, 1995 for shareholders of record at the close of business on July 31, 1995. The par value of the new shares issued totaled \$20,004,000 and has been transferred from additional paid in capital to the common stock account. The weighted average shares outstanding and the earnings and dividends per share reflected in these financial statements give effect to the stock split.
- D. On October 11, 1995 the Company entered into a definitive agreement to acquire 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, which is expected to be completed by early 1996, will be accounted for under the purchase method of accounting. Payment of approximately \$47,500,000 will be made through the issuance of newly registered common stock of the Company.
- E. In October 1995, the Financial Accounting Standards Board issued Statement of Financial Standards No. 123 "Accounting for Stock-Based Compensation". The new standard defines a fair value method of accounting for stock options which results in compensation cost based on hypothetical changes in the future price of the Company's stock and other assumptions. Pursuant to the new standard, the Company is not required to adopt such standard and may continue to account for these transactions under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". The Company has not yet determined if it will elect to change to the fair value method nor has it determined the effect the new standard will have on net income and earnings per share should it elect to make such a change.

MYLAN LABORATORIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTH PERIOD ENDED
DECEMBER 31, 1995

Unaudited

F. On September 29, 1995 the Company entered into a settlement agreement with Hoechst Marion Roussel Inc. (HMR) (formerly known as Marion Merrell Dow Inc.) and Tanabe Seiyaku Co. LTD (Tanabe) as discussed in Item 3 of the Report on Form 10-K for the year ended March 31, 1995. The agreement releases all parties from any further actions and suits as it relates to the manufacture of diltiazem. In consideration for such settlement HMR and Tanabe agreed to reimburse all of Mylan's defense costs incurred to date. The amount paid to Mylan was recorded as Other Income in the second quarter.

G. On September 12, 1995 the Company enhanced its strategic alliance with VivoRx, Inc. (VivoRx), a California biotechnology company. VivoRx has developed a diabetes control technology, which is in FDA Phase I/II clinical trials.

The Company has been funding VivoRx's research for encapsulated pancreatic islet cell transplants based on the attainment of milestones contained in equity and licensing agreements. The licensing agreement grants the Company exclusive rights to market and sell this product in North America. Following significant product development accomplishments, the Company expanded its commitment by investing \$15,000,000 in convertible preferred stock of VivoRx. The Company's investment is recorded at cost in Other Assets.

H. 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 nine month periods ended December 31, 1995 and 1994 are as follows: (in thousands)

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|--------------------|------------------------------------|----------|-----------------------------------|-----------|
| | 1995 | 1994 | 1995 | 1994 |
| Net Sales | \$31,916 | \$44,208 | \$82,094 | \$100,703 |
| Costs and Expenses | (12,230) | (21,744) | (32,423) | (49,881) |
| Income Taxes | (5,700) | (8,017) | (15,288) | (16,573) |
| Net Earnings | \$13,986 | \$14,447 | \$34,383 | \$34,249 |
| | ===== | ===== | ===== | ===== |

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

Under the Orphan Drug Act, Somerset has exclusivity relating to marketing the chemical compound Eldepryl for use as a treatment for late stage Parkinson's disease through June of 1996.

PART 1 - FINANCIAL INFORMATION

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

Results of Operations

Net sales for the three and nine months ended December 31, 1995 were \$91,319,000 and \$298,226,000 representing a 12% decrease and a 4% increase over the prior year comparable periods. Volume increases in all areas of the Company's business were offset in the current quarter by continued pricing pressures on the generic products particularly those introduced during fiscal 1995.

Gross margin as a percent of net sales decreased from 55% and 58% for the three and nine months ended December 31, 1994 to 48% and 52% for the three and nine months ended December 31, 1995. The higher rates for the prior periods was due to the launch of three significant products, cimetidine, glipizide and flurbiprofen. Due to the competitive nature of the generic pharmaceutical industry the sales and gross margin recognized for the three and nine months ended December 31, 1995 are not necessarily indicative of the results to be expected in future quarters.

Research and development expenditures for the three and nine month periods ended December 31, 1995 increased 38% to \$10,948,000 and 35% to \$28,560,000 over the prior year comparable periods. These increases are indicative of commitments to product development throughout the Company.

Selling and administrative expenses were 15% and 14% of net sales for the three and nine months ended December 31, 1995 as compared to 14% and 16% for the three and nine months ended December 31, 1994.

Somerset's contribution to net earnings per share for the three and nine month periods was \$.06 and \$.15 in both 1995 and 1994. Due to changes in a co-promotion agreement the decrease in net sales of Eldepryl has been offset by a decrease in co-promotion expense for the three and nine month periods ended December 31, 1995. The amended co-promotion agreement expires on March 31, 1996.

Liquidity and Capital Resources and Financial Condition

Working capital increased from \$275,032,000 at March 31, 1995 to \$319,439,000 at December 31, 1995 as a result of continued strong operations. The ratio of current assets to current liabilities was 7.9 to 1 at December 31, 1995 and 5.9 to 1 at March 31, 1995.

Net cash provided from operating activities was \$72,567,000 for the nine months ended December 31, 1995 compared to \$106,603,000 for the same period last year. The change is primarily related to the timing of income tax payments, increased research and development expenditures and reduced gross profit dollars resulting from generic price deterioration.

Additions to property, plant and equipment amounted to \$25,444,000 for the nine months ended December 31, 1995. Capital expenditures are principally related to the replacement of older properties with more updated equipment and facility expansion including ongoing construction of a 150,000 square foot research facility in Morgantown, West Virginia. Additionally the Company has acquired land adjacent to its existing manufacturing facility in Morgantown and has started expansion of that facility to meet the continued increase in demand for the Company's product.

The increase in intangible and other assets is due principally to the investment in VivoRx as described in Note G to the financial statements.

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 - There were no reports on Form 8-K during the three months ended December 31, 1995.

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 02/14/96

/s/ Milan Puskar

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

DATE 02/14/96

/s/ Frank A. DeGeorge

Frank A. DeGeorge
Director of Corporate Finance

9-MOS

MAR-31-1996

DEC-31-1995

192,096,000

14,501,000

61,277,000

8,801,000

83,426,000

365,797,000

155,537,000

44,751,000

612,662,000

46,358,000

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