

MYLAN INC.  
Form 10-Q  
November 05, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
Form 10-Q

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

For the quarterly period ended September 30, 2014  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-9114

MYLAN INC.

(Exact name of registrant as specified in its charter)

Pennsylvania

25-1211621

(State or other jurisdiction

(I.R.S. Employer

of incorporation or organization)

Identification No.)

1000 Mylan Boulevard, Canonsburg, Pennsylvania 15317

(Address of principal executive offices)

(724) 514-1800

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

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

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

Class of

Outstanding at

Common Stock

October 29,

2014

\$0.50 par value

374,273,573

Table of Contents

MYLAN INC. AND SUBSIDIARIES

INDEX TO FORM 10-Q

For the Quarterly Period Ended

September 30, 2014

Insert Title Here

	Page
PART I — FINANCIAL INFORMATION	
ITEM 1. Condensed Consolidated Financial Statements (unaudited)	
<u>Condensed Consolidated Statements of Operations — Three and Nine Months Ended September 30, 2014 and 2013</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Earnings — Three and Nine Months Ended September 30, 2014 and 2013</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets — September 30, 2014 and December 31, 2013</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows — Nine Months Ended September 30, 2014 and 2013</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
ITEM 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>37</u>
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>52</u>
ITEM 4. <u>Controls and Procedures</u>	<u>53</u>
PART II — OTHER INFORMATION	
ITEM 1. <u>Legal Proceedings</u>	<u>54</u>
ITEM 1A. <u>Risk Factors</u>	<u>54</u>
ITEM 6. <u>Exhibits</u>	<u>55</u>
<u>SIGNATURES</u>	<u>57</u>

Table of Contents

## PART I — FINANCIAL INFORMATION

## MYLAN INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Operations

(Unaudited; in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Net sales	\$2,069.4	\$1,756.1	\$5,588.8	\$5,062.8
Other revenues	14.6	11.3	48.1	37.8
Total revenues	2,084.0	1,767.4	5,636.9	5,100.6
Cost of sales	1,071.6	958.9	3,077.9	2,856.2
Gross profit	1,012.4	808.5	2,559.0	2,244.4
Operating expenses:				
Research and development	158.2	114.0	431.6	351.9
Selling, general and administrative	418.3	349.8	1,200.1	1,028.5
Litigation settlements, net	20.9	(10.1)	47.2	(1.4)
Other operating (income) expense, net	(80.0)	15.0	(80.0)	3.1
Total operating expenses	517.4	468.7	1,598.9	1,382.1
Earnings from operations	495.0	339.8	960.1	862.3
Interest expense	83.9	73.9	251.2	233.7
Other (income) expense, net	(1.5)	70.6	6.8	74.4
Earnings before income taxes and noncontrolling interest	412.6	195.3	702.1	554.2
Income tax (benefit) provision	(86.8)	35.9	(40.5)	108.6
Net earnings	499.4	159.4	742.6	445.6
Net earnings attributable to the noncontrolling interest	(0.3)	(0.5)	(2.4)	(2.1)
Net earnings attributable to Mylan Inc. common shareholders	\$499.1	\$158.9	\$740.2	\$443.5
Earnings per common share attributable to Mylan Inc. common shareholders:				
Basic	\$1.33	\$0.42	\$1.98	\$1.15
Diluted	\$1.26	\$0.40	\$1.86	\$1.13
Weighted average common shares outstanding:				
Basic	374.1	382.1	373.4	385.5
Diluted	397.3	395.5	397.1	393.9

See Notes to Condensed Consolidated Financial Statements



Table of Contents

## MYLAN INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Comprehensive Earnings

(Unaudited; in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net earnings	\$499.4	\$159.4	\$742.6	\$445.6
Other comprehensive (loss) earnings, before tax:				
Foreign currency translation adjustment	(453.8	) 113.6	(317.2	) (248.4
Change in unrecognized gain (loss) and prior service cost related to defined benefit plans	1.4	0.2	(3.7	) 4.7
Net unrecognized (loss) gain on derivatives	(23.1	) (20.2	) (98.3	) 128.3
Net unrealized (loss) gain on marketable securities	(0.1	) 0.1	—	(0.9
Other comprehensive (loss) earnings, before tax	(475.6	) 93.7	(419.2	) (116.3
Income tax (benefit) provision	(8.0	) (10.1	) (39.0	) 48.1
Other comprehensive (loss) earnings, net of tax	(467.6	) 103.8	(380.2	) (164.4
Comprehensive earnings	31.8	263.2	362.4	281.2
Comprehensive earnings attributable to the noncontrolling interest	(0.3	) (0.5	) (2.4	) (2.1
Comprehensive earnings attributable to Mylan Inc. common shareholders	\$31.5	\$262.7	\$360.0	\$279.1

See Notes to Condensed Consolidated Financial Statements

Table of Contents

## MYLAN INC. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(Unaudited; in millions, except share and per share amounts)

	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
Assets		
Current assets:		
Cash and cash equivalents	\$ 199.6	\$ 291.3
Accounts receivable, net	1,733.3	1,820.0
Inventories	1,707.5	1,656.9
Deferred income tax benefit	283.1	250.1
Prepaid expenses and other current assets	1,894.3	452.9
Total current assets	5,817.8	4,471.2
Property, plant and equipment, net	1,738.3	1,665.5
Intangible assets, net	2,541.1	2,517.9
Goodwill	4,188.5	4,340.5
Deferred income tax benefit	110.3	77.8
Other assets	778.1	2,221.9
Total assets	\$ 15,174.1	\$ 15,294.8
<b>LIABILITIES AND EQUITY</b>		
Liabilities		
Current liabilities:		
Trade accounts payable	\$ 857.9	\$ 1,072.8
Short-term borrowings	364.7	439.8
Income taxes payable	84.1	49.7
Current portion of long-term debt and other long-term obligations	1,992.6	3.6
Deferred income tax liability	0.3	1.5
Other current liabilities	1,174.3	1,396.6
Total current liabilities	4,473.9	2,964.0
Long-term debt	5,723.5	7,586.5
Other long-term obligations	1,274.3	1,269.1
Deferred income tax liability	296.1	515.3
Total liabilities	11,767.8	12,334.9
Equity		
Mylan Inc. shareholders' equity		
Common stock — par value \$0.50 per share		
Shares authorized: 1,500,000,000		
Shares issued: 545,732,255 and 543,978,030 as of September 30, 2014 and December 31, 2013	272.9	272.0
Additional paid-in capital	4,170.3	4,103.6
Retained earnings	3,425.3	2,685.1
Accumulated other comprehensive loss	(620.3)	(240.1)
	7,248.2	6,820.6
Noncontrolling interest	18.8	18.1
Less: Treasury stock — at cost		
Shares: 171,571,414 and 172,373,900 as of September 30, 2014 and December 31, 2013	3,860.7	3,878.8
Total equity	3,406.3	2,959.9

Total liabilities and equity	\$ 15,174.1	\$ 15,294.8
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See Notes to Condensed Consolidated Financial Statements

5

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Table of Contents

## MYLAN INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows

(Unaudited; in millions)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net earnings	\$742.6	\$445.6
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	398.1	373.9
Stock-based compensation expense	48.0	36.0
Change in estimated sales allowances	462.0	164.8
Deferred income tax benefit	(250.5)	(31.9)
Loss from equity method investments	65.5	13.1
Other non-cash items	120.3	90.8
Litigation settlements, net	47.2	(1.4)
Changes in operating assets and liabilities:		
Accounts receivable	(339.2)	(302.7)
Inventories	(163.4)	(177.3)
Trade accounts payable	(126.8)	129.3
Income taxes	30.4	(8.4)
Other operating assets and liabilities, net	(146.0)	(43.1)
Net cash provided by operating activities	888.2	688.7
Cash flows from investing activities:		
Capital expenditures	(220.3)	(238.5)
Change in restricted cash	(76.4)	(49.0)
Cash paid for acquisitions, net	(50.0)	(50.9)
Proceeds from sale of property, plant and equipment	8.8	—
Purchase of marketable securities	(17.6)	(13.8)
Proceeds from sale of marketable securities	16.4	8.1
Payments for product rights and other, net	(377.8)	(19.1)
Net cash used in investing activities	(716.9)	(363.2)
Cash flows from financing activities:		
Payment of financing fees	(2.4)	(20.3)
Purchase of common stock	—	(500.0)
Change in short-term borrowings, net	(75.1)	236.1
Proceeds from issuance of long-term debt	635.0	2,358.3
Payment of long-term debt	(695.0)	(2,457.3)
Proceeds from exercise of stock options	34.2	56.7
Taxes paid related to net share settlement of equity awards	(22.8)	—
Payments for contingent consideration	(150.0)	—
Other items, net	22.4	10.5
Net cash used in financing activities	(253.7)	(316.0)
Effect on cash of changes in exchange rates	(9.3)	5.4
Net (decrease) increase in cash and cash equivalents	(91.7)	14.9
Cash and cash equivalents — beginning of period	291.3	350.0
Cash and cash equivalents — end of period	\$199.6	\$364.9

See Notes to Condensed Consolidated Financial Statements

6

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Table of Contents

MYLAN INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. General

The accompanying unaudited Condensed Consolidated Financial Statements (“interim financial statements”) of Mylan Inc. and subsidiaries (“Mylan” or the “Company”) were prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and the rules and regulations of the Securities and Exchange Commission (“SEC”) for reporting on Form 10-Q; therefore, as permitted under these rules, certain footnotes and other financial information included in audited financial statements were condensed or omitted. The interim financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the interim results of operations, comprehensive earnings, financial position and cash flows for the periods presented. These interim financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013, as updated by the Company’s Current Report on Form 8-K filed on August 6, 2014. The December 31, 2013 Condensed Consolidated Balance Sheet, as updated, was derived from audited financial statements.

The interim results of operations, comprehensive earnings and cash flows for the nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full fiscal year or any other future period. Certain prior period amounts have been reclassified from selling, general and administrative (“SG&A”) expense to other operating (income) expense, net to conform to the presentation for the current period. The reclassifications had no impact on the previously reported net earnings attributable to Mylan Inc. common shareholders.

2. Revenue Recognition and Accounts Receivable

Mylan recognizes net sales when title and risk of loss pass to its customers and when provisions for estimates, including discounts, sales allowances, price adjustments, returns, chargebacks and other promotional programs are reasonably determinable. Accounts receivable are presented net of allowances relating to these provisions. No revisions were made to the methodology used in determining these provisions during the nine months ended September 30, 2014. Such allowances were \$1.62 billion and \$1.24 billion at September 30, 2014 and December 31, 2013, respectively. Other current liabilities include \$349.3 million and \$281.1 million at September 30, 2014 and December 31, 2013, respectively, for certain sales allowances and other adjustments that are paid to indirect customers.

Through its wholly owned subsidiary Mylan Pharmaceuticals Inc. (“MPI”), the Company has access to a \$400 million accounts receivable securitization facility (the “Receivables Facility”). The receivables underlying any borrowings are included in accounts receivable, net, in the Condensed Consolidated Balance Sheets. As of September 30, 2014 and December 31, 2013, there were \$544.5 million and \$723.1 million of securitized accounts receivable.

3. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued revised accounting guidance on revenue recognition that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principal of this guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. This guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This guidance is effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years and can be applied using a full retrospective or modified retrospective approach. The Company is currently assessing the impact of the adoption of this guidance on its financial position, results of operations and cash flows.

4. Acquisitions and Other Transactions

Abbott Branded Generics Business

On July 13, 2014, the Company entered into a definitive agreement with Abbott Laboratories (“Abbott”) to acquire Abbott’s non-U.S. developed markets specialty and branded generics business (the “Business”) in an all-stock transaction, in which Abbott will carve out the Business and transfer it to a new public company (“New Mylan”)

organized in the

7

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Table of Contents

MYLAN INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued

Netherlands. Immediately following the transfer of the Business, the Company will merge with a wholly owned subsidiary of New Mylan (the “Merger” and, together with the transfer of the Business, the “Transaction”), and New Mylan will become the parent company of Mylan. The new public company will be called Mylan N.V. and will be led by the current Mylan leadership team and headquartered in Pittsburgh, Pennsylvania.

On October 21, 2014, the Company and Abbott entered into an amendment in connection with pre-closing actions required to be taken pursuant to the definitive agreement implementing the Transaction, and on November 4, 2014, the Company and Abbott entered into an amended and restated definitive agreement implementing the Transaction (the “Transaction Agreement”). On November 5, 2014, New Mylan filed a Registration Statement on Form S-4 (the “Registration Statement”), which includes a proxy statement of Mylan as a prospectus.

Pursuant to the Transaction Agreement, Abbott will receive 110 million shares of New Mylan in exchange for the transfer of the Business, and in the Merger, each issued and outstanding share of Mylan common stock will be converted into the right to receive one New Mylan ordinary share. As a result of the Transaction, Mylan shareholders will own approximately 78% of New Mylan and Abbott’s affiliates will own approximately 22% of New Mylan. New Mylan and Abbott will enter into a shareholder agreement in connection with the Transaction.

The consummation of the Transaction is subject to the satisfaction of certain customary closing conditions, including regulatory approvals and the approval of the Transaction Agreement by Mylan’s shareholders. Abbott will not require shareholder approval in connection with the Transaction. The Transaction Agreement contains certain customary termination rights, including the right of either party to terminate the agreement if the Transaction is not completed by October 13, 2015, subject to extension for a period of 90 days in the event conditions relating to regulatory approvals have not been satisfied as of that date. If the Transaction Agreement is terminated in certain circumstances, including in the event that certain regulatory approvals are not obtained, approval of Mylan’s shareholders is not obtained or Mylan’s Board of Directors withdraws its recommendation of the Transaction or approves or recommends an alternative acquisition proposal for Mylan, Mylan will be required, at Abbott’s option, to reimburse Abbott’s costs and expenses incurred in connection with the Transaction (including certain restructuring related taxes), provided that Mylan will not be required to reimburse Abbott for an amount in excess of \$100 million.

The Business, which is being acquired on a debt-free basis, includes more than 100 specialty and branded generic pharmaceutical products in five major therapeutic areas and includes several patent protected, novel and/or hard-to-manufacture products. As a result of the acquisition, the Company will significantly expand and strengthen its product portfolio in Europe, Japan, Canada, Australia and New Zealand. The transaction is expected to close in the first quarter of 2015.

**Agila Specialties**

On February 27, 2013, the Company announced that it had signed definitive agreements to acquire the Agila Specialties businesses (“Agila”), a developer, manufacturer and marketer of high-quality generic injectable products, from Strides Arcolab Limited (“Strides Arcolab”). The transaction closed on December 4, 2013, and the total purchase price was approximately \$1.43 billion (net of cash acquired of \$3.4 million), which included estimated contingent consideration of \$250 million. During the three months ended September 30, 2014, the Company entered into an agreement with Strides Arcolab to settle a portion of the contingent consideration for \$150 million, for which the Company accrued \$230 million at the acquisition date. As a result of this agreement, the Company recognized a gain of \$80 million during the three months ended September 30, 2014, which is included in other operating (income) expense, net in the Condensed Consolidated Statements of Operations. The remaining contingent consideration, which could total a maximum of \$211 million, is primarily related to the satisfaction of certain regulatory conditions, including potential regulatory remediation costs and the resolution of certain pre-acquisition contingencies. The

acquisition of Agila significantly expanded and strengthened Mylan's injectables platform and portfolio, and also provided Mylan entry into certain new geographic markets.

In accordance with U.S. GAAP, the Company used the purchase method of accounting to account for this transaction. Under the purchase method of accounting, the assets acquired and liabilities assumed in the transaction were recorded at their respective estimated fair values at the acquisition date. During the six months ended June 30, 2014, adjustments were made to the preliminary amounts recorded at December 31, 2013 primarily related to working capital and deferred taxes. These adjustments are reflected in the values presented below and in the updated December 31, 2013 consolidated balance sheet. The allocation of the \$1.43 billion purchase price to the assets acquired and liabilities assumed for Agila is as follows:

Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

(In millions)

Current assets (excluding inventories)	\$45.5	
Inventories	37.3	
Property, plant and equipment	146.2	
Identified intangible assets	280.0	
In-process research and development	436.0	
Goodwill	936.6	
Other assets (including equity method investment)	152.8	
Total assets acquired	2,034.4	
Current liabilities	(242.0	)
Deferred tax liabilities	(235.1	)
Other non-current liabilities	(123.6	)
Net assets acquired	\$1,433.7	

The amount allocated to in-process research and development (“IPR&D”) 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 fair value of the IPR&D was based on the excess earnings method, which utilizes forecasts of expected cash inflows (including estimates for ongoing costs) and other contributory charges. A discount rate of 13.0% was utilized to discount net cash inflows to present values. IPR&D is accounted for as an indefinite-lived intangible asset and will be subject to impairment testing until completion or abandonment of the projects. Upon successful completion and launch of each product, the Company will make a determination of the estimated useful life of the individual IPR&D asset. The acquired IPR&D projects are in various stages of completion and the estimated costs to complete these projects total approximately \$50 million which is expected to be incurred from 2014 through 2016. There are risks and uncertainties associated with the timely and successful completion of the projects included in IPR&D, and no assurances can be given that the underlying assumptions used to estimate the fair value of IPR&D will not change or the timely completion of each project to commercial success will occur.

The identified intangible assets of \$280 million are comprised of \$221 million of product rights and licenses that have a weighted average useful life of eight years and \$59 million of customer relationships that have a weighted average useful life of five years. The equity method investment of \$125 million represents the fair value of Agila’s 50% interest in Sagent Agila LLC (“Sagent Agila”). Payments for product rights and other, net on the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014, includes payments totaling \$120 million to acquire certain commercialization rights in the U.S. and other countries. The goodwill of \$937 million arising from the acquisition consisted largely of the value of the employee workforce and the value of products to be developed in the future. All of the goodwill was assigned to Mylan’s Generics segment. At the date of the acquisition, the Company estimated that none of the goodwill recognized would be deductible for income tax purposes. As a result of a legal merger of the Indian subsidiaries of Agila with Mylan Laboratories Limited, which was approved by the relevant Indian regulatory authorities during the three months ended September 30, 2014, approximately \$739 million of goodwill related to the acquisition of Agila will be deductible for tax purposes, refer to Note 14 Income Taxes for additional information.

Significant assumptions utilized in the valuation of identified intangible assets, the equity method investment and IPR&D were based on company specific information and projections which are not observable in the market and are thus considered Level 3 measurements as defined by U.S. GAAP.

#### Pro Forma Financial Results

The following table presents supplemental unaudited pro forma information as if the acquisition of Agila had occurred on January 1, 2012. The unaudited pro forma results reflect certain adjustments related to past operating performance and acquisition accounting adjustments, such as increased amortization expense based on the fair valuation of assets acquired, the impact of acquisition financing, and the related income tax effects. The unaudited pro forma results do not include any anticipated synergies which may be achievable subsequent to the acquisition date. Accordingly, the unaudited pro forma results are not necessarily indicative of the results that actually would have occurred had the acquisition been completed on January 1, 2012, nor are they indicative of the future operating results of the combined company.

Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
(In millions, except per share amounts)		
Total revenues	\$1,797.7	\$5,243.5
Net earnings attributable to Mylan Inc. common shareholders	\$120.7	\$350.4
Earnings per common share attributable to Mylan Inc. common shareholders:		
Basic	\$0.32	\$0.91
Diluted	\$0.31	\$0.89
Weighted average common shares outstanding:		
Basic	382.1	385.5
Diluted	395.5	393.9

**Other Transactions**

On September 10, 2014, the Company entered into an agreement with Aspen Global Incorporated to acquire the U.S. commercialization, marketing and intellectual property rights related to Arixtra® Injection (“Arixtra”) and the authorized generic rights of Arixtra. The purchase price for this intangible asset was \$300 million, of which \$225 million was paid at the closing of the transaction on September 25, 2014, and is included in payments for product rights and other, net on the Condensed Consolidated Statements of Cash Flows with an additional \$75 million held in escrow that will be released upon satisfaction of certain conditions. The asset will be amortized over an estimated useful life of 10 years.

On June 30, 2014, the Company acquired certain product rights and other intangible assets in, or for, Australia, New Zealand and Brazil. In accordance with U.S. GAAP, the Company used the purchase method of accounting to account for this transaction. The purchase price for these assets was \$50.0 million. The preliminary purchase price allocation resulted in \$36.7 million of intangible assets which was included in product rights and licenses, and goodwill of approximately \$13.3 million which was assigned to Mylan’s Generics segment. Significant assumptions utilized in the valuation of identified intangible assets were based on company specific information and projections which are not observable in the market and are thus considered Level 3 measurements as defined by U.S. GAAP. The acquisition did not have a material impact on the Company’s results of operations since the acquisition date.

**5. Stock-Based Incentive Plan**

Mylan’s shareholders have approved the 2003 Long-Term Incentive Plan (as amended, the “2003 Plan”). Under the 2003 Plan, 55,300,000 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 (“SAR”), restricted shares and units, performance awards (“PSU”), other stock-based awards and short-term cash awards. Stock option awards are granted at the fair value of the shares underlying the options at the date of the grant, generally become exercisable over periods ranging from three to four years, and generally expire in ten years. Upon approval of the 2003 Plan, no further grants of stock options have been made under any other previous plans.

In February 2014, Mylan’s Compensation Committee and the independent members of the Board of Directors adopted the One-Time Special Performance-Based Five-Year Realizable Value Incentive Program (the “2014 Program”) under the 2003 Plan. Under the 2014 Program, certain key employees received a one-time, performance-based incentive award (the “Awards”) either in the form of a grant of SAR or PSU. The Awards were granted in February 2014 and contain a five-year cliff-vesting feature based on the achievement of various performance targets, external market conditions and the employee’s continued services.



Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

The following table summarizes stock option and SAR (“stock awards”) activity:

	Number of Shares Under Stock Awards	Weighted Average Exercise Price per Share
Outstanding at December 31, 2013	13,563,881	\$22.05
Granted	5,995,732	52.37
Exercised	(1,780,406 )	19.67
Forfeited	(778,004 )	38.14
Outstanding at September 30, 2014	17,001,203	\$32.31
Vested and expected to vest at September 30, 2014	16,279,361	\$32.17
Exercisable at September 30, 2014	8,417,594	\$20.32

As of September 30, 2014, stock awards outstanding, stock awards vested and expected to vest and stock awards exercisable had average remaining contractual terms of 7.1 years, 7.0 years and 5.2 years, respectively. Also, at September 30, 2014, stock awards outstanding, stock awards vested and expected to vest and stock awards exercisable had aggregate intrinsic values of \$263.7 million, \$255.1 million and \$212.0 million respectively.

A summary of the status of the Company’s nonvested restricted stock and restricted stock unit awards, including PSUs, (“restricted stock awards”) as of September 30, 2014 and the changes during the nine months ended September 30, 2014 are presented below:

	Number of Restricted Stock Awards	Weighted Average Grant-Date Fair Value per Share
Nonvested at December 31, 2013	3,321,836	\$27.13
Granted	2,091,396	40.32
Released	(1,160,689 )	25.58
Forfeited	(385,327 )	31.75
Nonvested at September 30, 2014	3,867,216	\$34.32

As of September 30, 2014, the Company had \$146.0 million of total unrecognized compensation expense, net of estimated forfeitures, related to all of its stock-based awards, which will be recognized over the remaining weighted average vesting period of 3.0 years. The total intrinsic value of stock-based awards exercised and restricted stock units converted during the nine months ended September 30, 2014 and 2013 was \$118.1 million and \$70.4 million, respectively.

Under the 2014 Program, approximately 4.4 million SARs and 1.5 million PSUs were granted. The fair value of the Awards was determined using a Monte Carlo simulation as both the SARs and PSUs contain the same performance and market conditions. The Monte Carlo simulation involves a series of random trials that result in different future stock price paths over the contractual life of the SAR or PSU based on appropriate probability distributions.

Conditions are imposed on each Monte Carlo simulation to determine the extent to which the performance conditions would have been met, and therefore the extent to which the Awards would have vested, for the particular stock price path. Once the Company determines that it is probable that the performance targets will be met, compensation expense is recorded for these Awards. Each SAR or PSU is equal to one common share with the maximum value of each Award upon vesting subject to varying limitations.

Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

The key assumptions used in the valuation of the Awards are as follows:

	2014	
Volatility	29.4	%
Risk-free interest rate	1.6	%
Expected term (years)	5.0	
Forfeiture rate	5.5	%
Weighted average grant date fair value per stock appreciation right	\$9.43	
Weighted average grant date fair value per performance award	\$34.58	

## 6. Balance Sheet Components

Selected balance sheet components consist of the following:

(In millions)	September 30, 2014	December 31, 2013
Inventories:		
Raw materials	\$ 562.4	\$ 482.8
Work in process	301.9	310.0
Finished goods	843.2	864.1
	\$ 1,707.5	\$ 1,656.9
Property, plant and equipment:		
Land and improvements	\$79.9	\$75.1
Buildings and improvements	805.6	747.0
Machinery and equipment	1,710.0	1,698.4
Construction in progress	295.3	207.7
	2,890.8	2,728.2
Less accumulated depreciation	1,152.5	1,062.7
	\$1,738.3	\$1,665.5
Other current liabilities:		
Legal and professional accruals, including litigation accruals	\$139.0	\$145.8
Payroll and employee benefit plan accruals	244.2	288.8
Accrued sales allowances	349.3	281.1
Accrued interest	69.2	68.5
Fair value of financial instruments	10.0	74.3
Other	362.6	538.1
	\$1,174.3	\$1,396.6

Contingent consideration included in other current liabilities totaled \$20 million and \$250 million at September 30, 2014 and December 31, 2013, respectively. Contingent consideration included in other long-term obligations is \$440.8 million and \$414.6 million at September 30, 2014 and December 31, 2013, respectively. Included in prepaid expenses and other current assets is \$205.6 million and \$129.5 million of restricted cash at September 30, 2014 and December 31, 2013, respectively. An additional \$100 million of restricted cash is classified in other long-term assets at September 30, 2014 and December 31, 2013, principally related to amounts deposited in escrow, or restricted amounts, for potential contingent consideration payments related to the Agila acquisition.

Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

The Company's equity method investments in clean energy investments, whose activities qualify for income tax credits under section 45 of the U.S. Internal Revenue Code, totaled \$378.2 million and \$401.7 million at September 30, 2014 and December 31, 2013, respectively, and are included in other assets in the Condensed Consolidated Balance Sheets. Liabilities related to these investments totaled \$408.0 million and \$415.4 million at September 30, 2014 and December 31, 2013, respectively. At September 30, 2014, \$360.1 million of these liabilities are included in other long-term obligations and \$47.9 million are included in other current liabilities in the Condensed Consolidated Balance Sheets.

As part of the Agila acquisition, the Company acquired a 50% interest in Sagent Agila, which was established in 2007 between Agila and Sagent Pharmaceuticals, Inc. and is accounted for using the equity method of accounting. Sagent Agila was established to allow for the development, manufacturing and distribution of certain generic injectable products in the U.S. market. The initial term of the venture expires upon the tenth anniversary of the formation. The equity method investment included in other assets totaled \$113.6 million and \$123.2 million at September 30, 2014 and December 31, 2013, respectively, in the Condensed Consolidated Balance Sheets. The results of Sagent Agila were not material to Mylan's interim financial statements.

## 7. Earnings per Common Share Attributable to Mylan Inc.

Basic earnings per common share is computed by dividing net earnings attributable to Mylan Inc. common shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per common share is computed by dividing net earnings attributable to Mylan Inc. common shareholders by the weighted average number of shares outstanding during the period increased by the number of additional shares that would have been outstanding related to potentially dilutive securities or instruments, if the impact is dilutive.

On September 15, 2008, concurrent with the sale of \$575 million aggregate principal amount of Cash Convertible Notes due 2015 (the "Cash Convertible Notes"), Mylan entered into a convertible note hedge and warrant transaction with certain counterparties. Pursuant to the warrant transactions, the Company sold to the counterparties warrants to purchase in the aggregate up to approximately 43.2 million shares of Mylan common stock, subject to certain anti-dilution provisions. In 2011, the Company entered into amendments with the counterparties to exchange the original warrants with an exercise price of \$20.00 (the "Old Warrants") for new warrants with an exercise price of \$30.00 (the "New Warrants"). Approximately 41.0 million of the Old Warrants were exchanged in the transaction. Both the Old and New Warrants meet the definition of derivatives under the FASB's guidance regarding accounting for derivative instruments and hedging activities; however, because these instruments have been determined to be indexed to the Company's own common stock and meet the criteria for equity classification under the FASB's guidance regarding contracts in an entity's own equity, the warrants have been recorded in shareholders' equity in the Condensed Consolidated Balance Sheets. The dilutive impact of the Old and New Warrants are included in the calculation of diluted earnings per share based upon the average market value of the Company's common stock during the period as compared to the exercise price. For the three and nine months ended September 30, 2014, 17.0 million warrants and 17.1 million warrants, respectively, were included in the calculation of diluted earnings per share. For the three and nine months ended September 30, 2013, 7.0 million warrants and 2.8 million warrants were included in the calculation of diluted earnings per share.

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

(In millions, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Basic earnings attributable to Mylan Inc. common shareholders (numerator):				
Net earnings attributable to Mylan Inc. common shareholders	\$499.1	\$158.9	\$740.2	\$443.5
Shares (denominator):				
Weighted average common shares outstanding	374.1	382.1	373.4	385.5

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Basic earnings per common share attributable to Mylan Inc. common shareholders	\$ 1.33	\$ 0.42	\$ 1.98	\$ 1.15
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13

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Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

(In millions, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Diluted earnings attributable to Mylan Inc. common shareholders (numerator):				
Net earnings attributable to Mylan Inc. common shareholders	\$499.1	\$158.9	\$740.2	\$443.5
Shares (denominator):				
Weighted average common shares outstanding	374.1	382.1	373.4	385.5
Stock-based awards and warrants	23.2	13.4	23.7	8.4
Total dilutive shares outstanding	397.3	395.5	397.1	393.9
Diluted earnings per common share attributable to Mylan Inc. common shareholders	\$1.26	\$0.40	\$1.86	\$1.13

Additional stock awards and restricted stock awards were outstanding during the periods ended September 30, 2014 and 2013, but were not included in the computation of diluted earnings per share for each respective period because the effect would be anti-dilutive. Such anti-dilutive awards represented 7.1 million shares and 5.8 million shares for the three and nine months ended September 30, 2014, respectively, and 1.1 million shares and 1.2 million shares for the three and nine months ended September 30, 2013, respectively.

## 8. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the nine months ended September 30, 2014 are as follows:

(In millions)	Generics Segment	Specialty Segment	Total
Balance at December 31, 2013:			
Goodwill	\$3,991.4	\$734.1	\$4,725.5
Accumulated impairment losses	—	(385.0)	(385.0)
	3,991.4	349.1	4,340.5
Acquisitions	13.3	—	13.3
Divestment	(10.5)	—	(10.5)
Foreign currency translation	(154.8)	—	(154.8)
	\$3,839.4	\$349.1	\$4,188.5
Balance at September 30, 2014:			
Goodwill	\$3,839.4	\$734.1	\$4,573.5
Accumulated impairment losses	—	(385.0)	(385.0)
	\$3,839.4	\$349.1	\$4,188.5

Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

Intangible assets consist of the following components at September 30, 2014 and December 31, 2013:

(In millions)	Weighted Average Life (Years)	Original Cost	Accumulated Amortization	Net Book Value
September 30, 2014				
Amortized intangible assets:				
Patents and technologies	20	\$116.6	\$97.8	\$18.8
Product rights and licenses	10	3,770.1	2,178.0	1,592.1
Other <sup>(1)</sup>	8	166.6	68.6	98.0
		4,053.3	2,344.4	1,708.9
In-process research and development		832.2	—	832.2
		\$4,885.5	\$2,344.4	\$2,541.1
December 31, 2013				
Amortized intangible assets:				
Patents and technologies	20	\$116.6	\$93.8	\$22.8
Product rights and licenses	10	3,559.5	2,018.1	1,541.4
Other <sup>(1)</sup>	8	174.0	59.4	114.6
		3,850.1	2,171.3	1,678.8
In-process research and development		839.1	—	839.1
		\$4,689.2	\$2,171.3	\$2,517.9

<sup>(1)</sup> Other intangible assets consist principally of customer lists and contracts.

Amortization expense, which is classified primarily within cost of sales in the Condensed Consolidated Statements of Operations, for the nine months ended September 30, 2014 and 2013, was \$269.3 million and \$260.6 million, respectively. Amortization expense is expected to be approximately \$95 million for the remainder of 2014 and \$374 million, \$292 million, \$248 million and \$203 million for the years ended December 31, 2015 through 2018, respectively.

Indefinite-lived intangible assets, such as the Company's IPR&D assets, are tested at least annually for impairment, but they may also be tested whenever certain impairment indicators are present. Impairment is determined to exist when the fair value is less than the carrying value of the assets being tested. During the nine months ended September 30, 2013, the Company recorded impairment charges related to IPR&D assets of \$5.1 million.

During the nine months ended September 30, 2014 and 2013, approximately \$6.3 million and \$6.5 million, respectively, were reclassified from acquired IPR&D to product rights and licenses.

#### 9. Financial Instruments and Risk Management

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

##### Foreign Currency Risk Management

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

Table of Contents

MYLAN INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued

The Company has also entered into forward contracts to hedge forecasted foreign currency denominated sales from certain international subsidiaries. These contracts are designated as cash flow hedges to manage foreign currency transaction risk and are measured at fair value and reported as current assets or current liabilities on the Condensed Consolidated Balance Sheets. Any changes in fair value are included in earnings or deferred through accumulated other comprehensive earnings ("AOCE"), depending on the nature and effectiveness of the offset. Any ineffectiveness in a cash flow hedging relationship is recognized immediately in earnings in the Condensed Consolidated Statements of Operations.

Interest Rate Risk Management

The Company enters into interest rate swaps in order to manage interest rate risk associated with the Company's fixed-rate and floating-rate debt. These derivative instruments are measured at fair value and reported as current assets or current liabilities in the Condensed Consolidated Balance Sheets.

The Company's interest rate swaps designated as cash flow hedges fix the interest rate on a portion of the Company's variable-rate debt or hedge part of the Company's interest rate exposure associated with variability in future cash flows attributable to changes in interest rates. Any changes in fair value are included in earnings or deferred through AOCE, depending on the nature and effectiveness of the offset. Any ineffectiveness in a cash flow hedging relationship is recognized immediately in earnings in the Condensed Consolidated Statements of Operations.

In August 2014, the Company entered into a series of forward starting swaps to hedge against changes in interest rates that could impact future debt issuances. These swaps are designed as cash flow hedges of expected future issuances of long-term bonds. The Company executed \$575 million of notional value swaps with an effective date of September 2015. These swaps have a maturity of 10 years.

The Company's interest rate swaps designated as fair value hedges convert the fixed rate on a portion of the Company's fixed-rate senior notes to a variable rate. These interest rate swaps designated as fair value hedges are measured at fair value and reported as current assets or current liabilities in the Condensed Consolidated Balance Sheets. Any changes in the fair value of these derivative instruments, as well as the offsetting change in fair value of the portion of the fixed-rate debt being hedged, is included in interest expense.

Certain derivative instrument contracts entered into by the Company are governed by Master Agreements, which contain credit-risk-related contingent features that would allow the counterparties to terminate the contracts early and request immediate payment should the Company trigger an event of default on other specified borrowings.

The Company maintains significant credit exposure arising from the convertible note hedge on its Cash Convertible Notes. Holders may convert their Cash Convertible Notes subject to certain conversion provisions determined by a) the market price of the Company's common stock, b) specified distributions to common shareholders, c) a fundamental change, as defined in the purchase agreement, or d) certain time periods specified in the purchase agreement. The conversion feature can only be settled in cash and, therefore, it is bifurcated from the Cash Convertible Notes and treated as a separate derivative instrument. In order to offset the cash flow risk associated with the cash conversion feature, the Company entered into a convertible note hedge with certain counterparties. Both the cash conversion feature and the purchased convertible note hedge are measured at fair value with gains and losses recorded in the Company's Condensed Consolidated Statements of Operations. Also, in conjunction with the issuance of the Cash Convertible Notes, the Company entered into several warrant transactions with certain counterparties. The warrants meet the definition of derivatives; however, because these instruments have been determined to be indexed to the Company's own common stock, and have been recorded in shareholders' equity in the Company's Condensed Consolidated Balance Sheets, the instruments are exempt from the scope of the FASB's guidance regarding accounting for derivative instruments and hedging activities and are not subject to the fair value provisions set forth therein. At September 30, 2014, the convertible note hedge had a total fair value of \$1.39 billion, which reflects the maximum loss that would be incurred should the parties fail to perform according to the terms of the contract. The counterparties are highly rated diversified financial institutions with both commercial and investment banking operations. The counterparties are required to post collateral against this obligation should they be downgraded below thresholds

specified in the contract. Eligible collateral is comprised of a wide range of financial securities with a valuation discount percentage reflecting the associated risk.

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

Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

The Company records all derivative instruments on a gross basis in the Condensed Consolidated Balance Sheets. Accordingly, there are no offsetting amounts that net assets against liabilities. The asset and liability balances presented in the tables below reflect the gross amounts of derivatives recorded in the Company's interim financial statements.

## Fair Values of Derivative Instruments

## Derivatives Designated as Hedging Instruments

(In millions)	Asset Derivatives September 30, 2014		December 31, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps	Prepaid expenses and other current assets	\$59.0	Prepaid expenses and other current assets	\$90.3
Foreign currency forward contracts	Prepaid expenses and other current assets	7.2	Prepaid expenses and other current assets	—
Interest rate swaps	Other assets	—	Other assets	93.1
Total		\$66.2		\$183.4

(In millions)	Liability Derivatives September 30, 2014		December 31, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swaps	Other current liabilities	\$0.5	Other current liabilities	\$15.8
Foreign currency forward contracts	Other current liabilities	—	Other current liabilities	53.1
Total		\$0.5		\$68.9

## Fair Values of Derivative Instruments

## Derivatives Not Designated as Hedging Instruments

(In millions)	Asset Derivatives September 30, 2014		December 31, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign currency forward contracts	Prepaid expenses and other current assets	\$5.2	Prepaid expenses and other current assets	\$6.4
Purchased cash convertible note hedge	Prepaid expenses and other current assets	1,387.9	Other assets	1,303.0
Total		\$1,393.1		\$1,309.4

(In millions)	Liability Derivatives September 30, 2014		December 31, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign currency forward contracts	Other current liabilities	\$9.3	Other current liabilities	\$5.4
Cash conversion feature of Cash Convertible Notes	Current portion of long-term debt and other long-term obligations	1,387.9	Long-term debt	1,303.0

Total	\$1,397.2	\$1,308.4
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Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

## The Effect of Derivative Instruments on the Condensed Consolidated Statements of Operations

## Derivatives in Fair Value Hedging Relationships

(In millions)	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives			
		Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
		2014	2013	2014	2013
Interest rate swaps	Interest expense	\$2.4	\$5.3	\$50.2	\$(4.5 )
Total		\$2.4	\$5.3	\$50.2	\$(4.5 )

(In millions)	Location of (Loss) or Gain Recognized in Earnings on Hedged Items	Amount of (Loss) or Gain Recognized in Earnings on Hedged Items			
		Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
		2014	2013	2014	2013
2016 Senior Notes (1.800% coupon)	Interest expense	\$1.0	\$(1.8 )	\$0.1	\$0.8
2018 Senior Notes (6.000% coupon)	Interest expense	2.8	0.2	3.9	14.3
2023 Senior Notes (3.125% coupon)	Interest expense	2.3	—	(28.6 )	—
Total		\$6.1	\$(1.6 )	\$(24.6 )	\$15.1

## The Effect of Derivative Instruments on the Condensed Consolidated Statements of Operations

## Derivatives in Cash Flow Hedging Relationships

(In millions)		Amount of (Loss) or Gain Recognized in AOCE (Net of Tax) on Derivative (Effective Portion)			
		Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
		2014	2013	2014	2013
Foreign currency forward contracts		\$(17.7 )	\$(37.3 )	\$(11.8 )	\$(84.8 )
Interest rate swaps		(7.7 )	4.8	(84.6 )	119.8
Total		\$(25.4 )	\$(32.5 )	\$(96.4 )	\$35.0

(In millions)	Location of Loss Reclassified from AOCE into Earnings (Effective Portion)	Amount of Loss Reclassified from AOCE into Earnings (Effective Portion)			
		Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
		2014	2013	2014	2013
Foreign currency forward contracts	Net sales	\$(10.1 )	\$(22.5 )	\$(35.4 )	\$(44.4 )
Interest rate swaps	Interest expense	(0.2 )	—	(0.5 )	(1.4 )
Interest rate swaps	Other (income) expense, net	—	—	—	(0.8 )
Total		\$(10.3 )	\$(22.5 )	\$(35.9 )	\$(46.6 )



Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

(In millions)	Location of Gain Excluded from the Assessment of Hedge Effectiveness	Amount of Gain Excluded from the Assessment of Hedge Effectiveness			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2014	2013	2014	2013
Foreign currency forward contracts	Other (income) expense, net	\$ 17.8	\$ 16.3	\$ 59.9	\$ 43.5
Total		\$ 17.8	\$ 16.3	\$ 59.9	\$ 43.5

At September 30, 2014, the Company expects that approximately \$32 million of pre-tax net losses on cash flow hedges will be reclassified from AOCE into earnings during the next 12 months.

## The Effect of Derivative Instruments on the Condensed Consolidated Statements of Operations

## Derivatives Not Designated as Hedging Instruments

(In millions)	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2014	2013	2014	2013
Foreign currency forward contracts	Other (income) expense, net	\$(60.3)	) \$13.4	\$(52.7)	) \$9.6
Cash conversion feature of Cash Convertible Notes	Other (income) expense, net	262.4	(299.2)	) (84.6)	) (442.6)
Purchased cash convertible note hedge	Other (income) expense, net	(262.4)	) 299.2	84.6	442.6
Total		\$(60.3)	) \$13.4	\$(52.7)	) \$9.6

## Fair Value Measurement

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

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

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

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

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

Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

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

(In millions)	September 30, 2014			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
Financial Assets				
Cash equivalents:				
Money market funds	\$ 111.3	\$—	\$—	\$ 111.3
Total cash equivalents	111.3	—	—	111.3
Trading securities:				
Equity securities — exchange traded funds	19.6	—	—	19.6
Total trading securities	19.6	—	—	19.6
Available-for-sale fixed income investments:				
U.S. Treasuries	—	13.3	—	13.3
Corporate bonds	—	11.9	—	11.9
Agency mortgage-backed securities	—	0.6	—	0.6
Other	—	2.1	—	2.1
Total available-for-sale fixed income investments	—	27.9	—	27.9
Available-for-sale equity securities:				
Biosciences industry	0.1	—	—	0.1
Total available-for-sale equity securities	0.1	—	—	0.1
Foreign exchange derivative assets	—	12.4	—	12.4
Interest rate swap derivative assets	—	59.0	—	59.0
Purchased cash convertible note hedge	—	1,387.9	—	1,387.9
Total assets at recurring fair value measurement	\$ 131.0	\$ 1,487.2	\$—	\$ 1,618.2
Financial Liabilities				
Foreign exchange derivative liabilities	\$—	\$ 9.3	\$—	\$ 9.3
Interest rate swap derivative liabilities	—	0.5	—	0.5
Cash conversion feature of Cash Convertible Notes	—	1,387.9	—	1,387.9
Contingent consideration	—	—	460.8	460.8
Total liabilities at recurring fair value measurement	\$—	\$ 1,397.7	\$ 460.8	\$ 1,858.5

Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

(In millions)	December 31, 2013		Level 3	Total
	Level 1	Level 2		
Recurring fair value measurements				
Financial Assets				
Cash equivalents:				
Money market funds	\$—	\$—	\$—	\$—
Total cash equivalents	—	—	—	—
Trading securities:				
Equity securities — exchange traded funds	16.6	—	—	16.6
Total trading securities	16.6	—	—	16.6
Available-for-sale fixed income investments:				
U.S. Treasuries	—	12.8	—	12.8
Corporate bonds	—	10.7	—	10.7
Agency mortgage-backed securities	—	0.7	—	0.7
Other	—	2.6	—	2.6
Total available-for-sale fixed income investments	—	26.8	—	26.8
Available-for-sale equity securities:				
Biosciences industry	0.2	—	—	0.2
Total available-for-sale equity securities	0.2	—	—	0.2
Foreign exchange derivative assets	—	6.4	—	6.4
Interest rate swap derivative assets	—	183.4	—	183.4
Purchased cash convertible note hedge	—	1,303.0	—	1,303.0
Total assets at recurring fair value measurement	\$16.8	\$1,519.6	\$—	\$1,536.4
Financial Liabilities				
Foreign exchange derivative liabilities	\$—	\$58.5	\$—	\$58.5
Interest rate swap derivative liabilities	—	15.8	—	15.8
Cash conversion feature of Cash Convertible Notes	—	1,303.0	—	1,303.0
Contingent consideration	—	—	664.6	664.6
Total liabilities at recurring fair value measurement	\$—	\$1,377.3	\$664.6	\$2,041.9

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

• Cash equivalents — valued at observable net asset value prices.

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

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

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

• Interest rate swap derivative assets and liabilities — valued using the LIBOR/EURIBOR yield curves at the reporting date. Counterparties to these contracts are highly rated financial institutions.

Table of Contents

MYLAN INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued

Foreign exchange derivative assets and liabilities — valued using quoted forward foreign exchange prices at the reporting date. Counterparties to these contracts are highly rated financial institutions.

Cash conversion feature of cash convertible notes and purchased convertible note hedge — valued using quoted prices for the Company's cash convertible notes, its implied volatility and the quoted yield on the Company's other long-term debt at the reporting date. Counterparties to the purchased convertible note hedge are highly rated financial institutions.

The fair value measurement of contingent consideration is determined using Level 3 inputs. The Company's contingent consideration represents a component of the total purchase consideration for the respiratory delivery platform, the Agila acquisition and certain other acquisitions. The measurement is calculated using unobservable inputs based on the Company's own assumptions. For the respiratory platform and certain other acquisitions, significant unobservable inputs in the valuation include the probability and timing of future development and commercial milestones and future profit sharing payments. A discounted cash flow method was used to value contingent consideration at September 30, 2014 and December 31, 2013, which was calculated as the present value of the estimated future net cash flows using a market rate of return. Discount rates ranging from 0.6% to 10.3% were utilized in the valuation. For the contingent consideration related to the Agila acquisition, significant unobservable inputs in the valuation include the probability of future payments to the seller of amounts withheld at the closing date. Significant changes in unobservable inputs could result in material changes to the contingent consideration liability. During the three months ended September 30, 2014, the Company entered into an agreement with Strides Arcolab to settle a portion of the contingent consideration for \$150 million, for which the Company accrued \$230 million at the acquisition date. As a result of this agreement, the Company recognized a gain of \$80 million during the three months ended September 30, 2014, which is included in other operating (income) expense, net in the Condensed Consolidated Statements of Operations. The remaining contingent consideration, which could total a maximum of \$211 million, is primarily related to the satisfaction of certain regulatory conditions, including potential regulatory remediation costs and the resolution of certain pre-acquisition contingencies. During the three and nine months ended September 30, 2014, accretion of \$9.0 million and \$26.1 million, respectively was recorded in interest expense. During the three and nine months ended September 30, 2013, \$8.2 million and \$23.9 million, respectively was recorded in interest expense, and a fair value adjustment to increase the liability by approximately \$15.0 million and \$3.1 million, respectively, was recorded as a component of other operating (income) expense, net.

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

Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

## 10. Debt

A summary of long-term debt, including the current portion, is as follows:

(In millions)	Coupon	September 30, 2014	December 31, 2013
Revolving Facility		\$ —	\$ 60.0
Cash Convertible Notes	3.750	% 1,933.4	1,828.3
2016 Senior Notes <sup>(a)</sup>	1.800	% 499.2	499.2
2016 Senior Notes <sup>(b)</sup>	1.350	% 499.8	499.7
2018 Senior Notes <sup>(c)</sup>	2.600	% 649.0	648.8
2018 Senior Notes <sup>(d)</sup>	6.000	% 808.6	811.4
2019 Senior Notes <sup>(a)</sup>	2.550	% 499.0	498.8
2020 Senior Notes <sup>(e)</sup>	7.875	% 1,010.9	1,012.0
2023 Senior Notes <sup>(a)</sup>	3.125	% 761.9	733.2
2023 Senior Notes <sup>(f)</sup>	4.200	% 498.2	498.1
2043 Senior Notes <sup>(f)</sup>	5.400	% 496.9	496.9
Other		0.1	0.1
		7,657.0	7,586.5
Less current portion		1,933.5	—
Total long-term debt		\$ 5,723.5	\$ 7,586.5

Instrument is callable by the Company at any time at the greater of 100% of the principal amount or the sum of the  
<sup>(a)</sup> present values of the remaining scheduled payments of principal and interest discounted at the U.S. Treasury rate plus 0.20% plus, in each case, accrued and unpaid interest.

Instrument is callable by the Company at any time at the greater of 100% of the principal amount or the sum of the  
<sup>(b)</sup> present values of the remaining scheduled payments of principal and interest discounted at the U.S. Treasury rate plus 0.125% plus, in each case, accrued and unpaid interest.

Instrument is callable by the Company at any time at the greater of 100% of the principal amount or the sum of the  
<sup>(c)</sup> present values of the remaining scheduled payments of principal and interest discounted at the U.S. Treasury rate plus 0.30% plus, in each case, accrued and unpaid interest.

Instrument was called by the Company on October 16, 2014 at a redemption price of 103.000% of the principal amount.  
<sup>(d)</sup>

Instrument is callable by the Company at any time prior to July 15, 2015 at 100% of the principal amount plus the greater of 1% of the principal amount and the excess over the principal of the present value of 103.938% of the  
<sup>(e)</sup> principal amount plus all scheduled interest payments from the call date through July 15, 2015 discounted at the U.S. Treasury Rate plus 0.50% plus accrued and unpaid interest. Instrument is callable by the Company at any time on or after July 15, 2015 at the redemption prices set forth in the Indenture dated May 19, 2010, plus accrued and unpaid interest.

Instrument is callable by the Company at any time at the greater of 100% of the principal amount or the sum of the  
<sup>(f)</sup> present values of the remaining scheduled payments of principal and interest discounted at the U.S. Treasury rate plus 0.25% plus, in each case, accrued and unpaid interest.

## Exchange Offer

In June 2013, the Company issued \$500 million aggregate principal amount of 1.800% Senior Notes due 2016 and \$650 million aggregate principal amount of 2.600% Senior Notes due June 2018. These notes are the Company's senior unsecured obligations and were issued to qualified institutional buyers in accordance with Rule 144A and to persons outside of the U.S. pursuant to Regulation S under the Securities Act of 1933, as amended (the "Securities Act") in a private offering exempt from the registration requirements of the Securities Act.

In connection with the senior notes offering, the Company entered into a registration rights agreement with the initial purchasers of the senior notes. Pursuant to the registration rights agreement, the Company was obligated to use commercially

23

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Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

reasonable efforts 1) to file a registration statement with respect to an offer to exchange senior notes (the “exchange offer”) for new notes with the same aggregate principal amount and terms substantially identical in all material respects and 2) to cause the exchange offer registration statement to be declared effective by the SEC under the Securities Act. The Company filed a registration statement with the SEC, which was declared effective on January 31, 2014 and the exchange offer was completed on March 4, 2014.

## Cash Convertible Notes

Below is the summary of the components of the Cash Convertible Notes:

(In millions)	September 30, 2014	December 31, 2013
Outstanding principal	\$ 574.0	\$ 574.0
Equity component carrying amount	1,387.9	1,303.3
Unamortized discount	(28.5 )	(49.0 )
Net debt carrying amount <sup>(a)</sup>	\$ 1,933.4	\$ 1,828.3
Purchased call options <sup>(b)</sup>	\$ 1,387.9	\$ 1,303.3

As of September 30, 2014 and December 31, 2013, the cash convertible notes were classified as current portion of <sup>(a)</sup> long-term debt and other long-term obligations and long-term debt, respectively, on the Consolidated Balance Sheets.

<sup>(b)</sup> As of September 30, 2014 and December 31, 2013, purchased call options were classified as prepaid expenses and other current assets and other assets, respectively, on the Consolidated Balance Sheets.

As of September 30, 2014, because the closing price of Mylan’s common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day in the September 30, 2014 period was more than 130% of the applicable conversion reference price of \$13.32, the \$574 million of Cash Convertible Notes were convertible. Although de minimis conversions have been requested, the Company’s experience is that convertible debentures are not normally converted by investors until close to their maturity date. Upon an investor’s election to convert, the Company is required to pay the full conversion value in cash. Should holders elect to convert, the Company intends to draw on its revolving credit facility to fund any principal payments. The amount payable per \$1,000 notional bond would be calculated as the product of 1) the conversion reference rate (currently 75.0751) and 2) the average Daily Volume Weighted Average Price per share of common stock for a specified period following the conversion date. Any payment above the principal amount is matched by a convertible note hedge.

## Senior Notes

On October 16, 2014, the Company announced its intention to redeem all of its outstanding 6.000% 2018 Senior Notes on November 15, 2014 at a redemption price of 103% of the principal amount, together with accrued and unpaid interest at the redemption date. The redemption of the 2018 Senior Notes is expected to be funded through future debt offerings or borrowings under the Revolving Facility.

## Receivables Facility

As of September 30, 2014 and December 31, 2013, the Company’s short-term borrowings under the Receivables Facility were \$350 million and \$374 million, respectively in the Condensed Consolidated Balance Sheets.

## Fair Value

At September 30, 2014 and December 31, 2013, the fair value of the Senior Notes was approximately \$5.84 billion and \$5.85 billion, respectively. At September 30, 2014 and December 31, 2013, the fair value of the Cash Convertible Notes was approximately \$1.96 billion and \$1.88 billion, respectively. The fair values of the Senior Notes and Cash Convertible Notes were valued at quoted market prices from broker or dealer quotations and were classified as Level 2 in the fair value hierarchy.



Table of Contents

MYLAN INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued

Mandatory minimum repayments remaining on the outstanding borrowings under the Revolving Facility and notes at notional amounts at September 30, 2014 are as follows for each of the periods ending December 31:

(In millions)	Total
2014	\$—
2015	574
2016	1,000
2017	—
2018	1,450
Thereafter	3,250
Total	\$6,274

11. Comprehensive Earnings

Accumulated other comprehensive loss, as reflected on the Condensed Consolidated Balance Sheets, is comprised of the following:

(In millions)	September 30, 2014	December 31, 2013
Accumulated other comprehensive loss:		
Net unrealized gains on marketable securities, net of tax	\$ 0.2	\$ 0.3
Net unrecognized losses and prior service cost related to defined benefit plans, net of tax	(11.2)	(8.7)
Net unrecognized gains on derivatives, net of tax	24.4	84.8
Foreign currency translation adjustment	(633.7)	(316.5)
	\$ (620.3)	\$ (240.1)

Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

Components of accumulated other comprehensive loss, before tax, consist of the following, for the three and nine months ended September 30, 2014 and 2013:

(In millions)	Three Months Ended September 30, 2014			Gains and Losses on Marketable Securities	Defined Benefit Plan Items	Foreign Currency Translation Adjustment	Totals
	Gains and Losses on Derivatives in Cash Flow Hedging Relationships	Foreign currency forward contracts	Interest rate swaps				
Balance at June 30, 2014, net of tax			\$39.5	\$ 0.3	\$(12.6 )	\$(179.9 )	\$(152.7 )
Other comprehensive (loss) earnings before reclassifications, before tax			(33.4 )	(0.1 )	1.2	(453.8 )	(486.1 )
Amounts reclassified from accumulated other comprehensive loss, before tax:							
Loss on foreign exchange forward contracts classified as cash flow hedges, included in net sales	(10.1 )		(10.1 )				(10.1 )
Loss on interest rate swaps classified as cash flow hedges, included in interest expense		(0.2 )	(0.2 )				(0.2 )
Amortization of prior service costs included in SG&A expenses					(0.1 )		(0.1 )
Amortization of actuarial loss included in SG&A expenses					(0.1 )		(0.1 )
Amounts reclassified from accumulated other comprehensive loss, before tax			(10.3 )	—	(0.2 )	—	(10.5 )
Net other comprehensive (loss) earnings, before tax			(23.1 )	(0.1 )	1.4	(453.8 )	(475.6 )
Income tax (benefit) provision			(8.0 )	—	—	—	(8.0 )
Balance at September 30, 2014, net of tax			\$24.4	\$ 0.2	\$(11.2 )	\$(633.7 )	\$(620.3 )

Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

(In millions)	Nine Months Ended September 30, 2014			Gains and Losses on Marketable Securities	Defined Benefit Plan Items	Foreign Currency Translation Adjustment	Totals
	Gains and Losses on Derivatives in Cash Flow Hedging Relationships	Foreign currency forward contracts	Interest rate swaps				
Balance at December 31, 2013, net of tax	\$84.8			\$ 0.3	\$(8.7 )	\$(316.5 )	\$(240.1 )
Other comprehensive (loss) earnings before reclassifications, before tax	(134.2 )			—	(4.4 )	(317.2 )	(455.8 )
Amounts reclassified from accumulated other comprehensive loss, before tax:							
Loss on foreign exchange forward contracts classified as cash flow hedges, included in net sales	(35.4 )						(35.4 )
Loss on interest rate swaps classified as cash flow hedges, included in interest expense			(0.5 )				(0.5 )
Amortization of prior service costs included in SG&A expenses					(0.2 )		(0.2 )
Amortization of actuarial loss included in SG&A expenses					(0.5 )		(0.5 )
Amounts reclassified from accumulated other comprehensive loss, before tax	(35.9 )			—	(0.7 )	—	(36.6 )
Net other comprehensive (loss) earnings, before tax	(98.3 )			—	(3.7 )	(317.2 )	(419.2 )
Income tax (benefit) provision	(37.9 )			0.1	(1.2 )	—	(39.0 )
Balance at September 30, 2014, net of tax	\$24.4			\$ 0.2	\$(11.2 )	\$(633.7 )	\$(620.3 )

Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

	Three Months Ended September 30, 2013						
	Gains and Losses on Derivatives in Cash Flow Hedging Relationships		Gains and Losses on Marketable Securities	Defined Benefit Plan Items	Foreign Currency Translation Adjustment	Totals	
(In millions)	Foreign currency forward contracts	Interest rate swaps	Total				
Balance at June 30, 2013, net of tax			\$60.8	\$ 0.4	\$(11.1 )	\$(404.8 )	\$(354.7 )
Other comprehensive (loss) earnings before reclassifications, before tax			(42.7 )	0.1	(0.2 )	113.6	70.8
Amounts reclassified from accumulated other comprehensive loss, before tax:							
Loss on foreign exchange forward contracts classified as cash flow hedges, included in net sales	(22.5 )		(22.5 )				(22.5 )
Amortization of actuarial loss included in SG&A expenses					(0.4 )		(0.4 )
Amounts reclassified from accumulated other comprehensive loss, before tax			(22.5 )	—	(0.4 )	—	(22.9 )
Net other comprehensive (loss) earnings, before tax			(20.2 )	0.1	0.2	113.6	93.7
Income tax (benefit) provision			(10.2 )	0.1	—	—	(10.1 )
Balance at September 30, 2013, net of tax			\$50.8	\$ 0.4	\$(10.9 )	\$(291.2 )	\$(250.9 )

Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

(In millions)	Nine Months Ended September 30, 2013				Defined Benefit Plan Items	Foreign Currency Translation Adjustment	Totals
	Gains and Losses on Derivatives in Cash Flow Hedging Relationships	Gains and Losses on Marketable Securities	Foreign currency forward contracts	Interest rate swaps			
Balance at December 31, 2012, net of tax							
	\$ (30.8 )	\$ 1.0			\$ (13.9 )	\$ (42.8 )	\$ (86.5 )
Other comprehensive (loss) earnings before reclassifications, before tax	81.7	(0.9 )			3.5	(248.4 )	(164.1 )
Amounts reclassified from accumulated other comprehensive loss, before tax:							
Loss on foreign exchange forward contracts classified as cash flow hedges, included in net sales	(44.4 )						(44.4 )
Loss on interest rate swaps classified as cash flow hedges, included in interest expense				(1.4 )			(1.4 )
Loss on interest rate swaps classified as cash flow hedges, included in other expense, net				(0.8 )			(0.8 )
Amortization of prior service costs included in SG&A expenses					(0.2 )		(0.2 )
Amortization of actuarial loss included in SG&A expenses					(1.0 )		(1.0 )
Amounts reclassified from accumulated other comprehensive loss, before tax	(46.6 )	—			(1.2 )	—	(47.8 )
Net other comprehensive earnings (loss), before tax	128.3	(0.9 )			4.7	(248.4 )	(116.3 )
Income tax provision (benefit)	46.7	(0.3 )			1.7	—	48.1
Balance at September 30, 2013, net of tax	\$ 50.8	\$ 0.4			\$ (10.9 )	\$ (291.2 )	\$ (250.9 )

## 12. Shareholders' Equity

A summary of the changes in shareholders' equity for the nine months ended September 30, 2014 and 2013 is as follows:

(In millions)	Total Mylan Inc. Shareholders' Equity	Noncontrolling Interest	Total
December 31, 2013	\$ 2,941.8	\$ 18.1	\$ 2,959.9

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Net earnings	740.2	2.4	742.6
Other comprehensive earnings, net of tax	(380.2	) —	(380.2 )
Stock option activity	34.2	—	34.2
Stock compensation expense	48.0	—	48.0
Issuance of restricted stock, net of shares withheld	(19.0	) —	(19.0 )
Tax benefit of stock option plans	22.5	—	22.5
Other	—	(1.7	) (1.7 )
September 30, 2014	\$ 3,387.5	\$ 18.8	\$3,406.3

29

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Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

(In millions)	Total Mylan Inc. Shareholders' Equity	Noncontrolling Interest	Total
December 31, 2012	\$ 3,340.7	\$ 15.1	\$3,355.8
Net earnings	443.5	2.1	445.6
Other comprehensive loss, net of tax	(164.4 )	—	(164.4 )
Common stock share repurchase	(500.0 )	—	(500.0 )
Stock option activity	56.7	—	56.7
Stock compensation expense	36.0	—	36.0
Issuance of restricted stock, net of shares withheld	(7.7 )	—	(7.7 )
Tax benefit of stock option plans	10.5	—	10.5
Other	—	0.2	0.2
September 30, 2013	\$ 3,215.3	\$ 17.4	\$3,232.7

## 13. Segment Information

Mylan has two segments, “Generics” and “Specialty.” The Generics segment primarily develops, manufactures, sells and distributes generic or branded generic pharmaceutical products in tablet, capsule, injectable or transdermal patch form, as well as active pharmaceutical ingredients (“API”). The Specialty segment engages mainly in the development and sale of branded specialty nebulized and injectable products.

The Company’s chief operating decision maker evaluates the performance of its segments based on total revenues and segment profitability. Segment profitability represents segment gross profit less direct research and development (“R&D”) expenses and direct SG&A expenses. Certain general and administrative and R&D expenses not allocated to the segments, net charges for litigation settlements, impairment charges and other expenses not directly attributable to the segments, are reported in Corporate/Other. Additionally, amortization of intangible assets and other purchase accounting related items, as well as any other significant special items, are included in Corporate/Other. Intersegment revenues are accounted for at current market values and are eliminated at the consolidated level. As a result of changes to the organization structure at the end of 2013, certain R&D and selling and marketing expenses that were previously a component of the Specialty segment profitability are included within the Generics segment profitability beginning in 2014. Items below the earnings from operations line on the Company’s Condensed Consolidated Statements of Operations are not presented by segment, since they are excluded from the measure of segment profitability. 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.

Table of Contents

## MYLAN INC. AND SUBSIDIARIES

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

Presented in the table below is segment information for the periods identified and a reconciliation of segment information to total consolidated information.

(In millions)	Generics Segment	Specialty Segment	Corporate / Other <sup>(1)</sup>	Consolidated
Three Months Ended September 30, 2014				
Total revenues				
Third party	\$1,616.9	\$467.1	\$—	\$2,084.0
Intersegment	1.1	2.9	(4.0)	) —
Total	\$1,618.0	\$470.0	\$(4.0)	) \$2,084.0
Segment profitability	\$511.8	\$279.2	\$(296.0)	) \$495.0
Nine Months Ended September 30, 2014				
Total revenues				
Third party	\$4,675.9	\$961.0	\$—	\$5,636.9
Intersegment	3.7	7.3	(11.0)	) —
Total	\$4,679.6	\$968.3	\$(11.0)	) \$5,636.9
Segment profitability	\$1,267.1	\$535.3	\$(842.3)	) \$960.1
Three Months Ended September 30, 2013				
Total revenues				
Third party	\$1,404.4	\$363.0	\$—	\$1,767.4
Intersegment	1.7	4.2	(5.9)	) —
Total	\$1,406.1	\$367.2	\$(5.9)	) \$1,767.4
Segment profitability	\$369.2	\$189.8	\$(219.2)	) \$339.8
Nine Months Ended September 30, 2013				
Total revenues				
Third party	\$4,275.4	\$825.2	\$—	\$5,100.6
Intersegment	4.2	18.0	(22.2)	) —
Total	\$4,279.6	\$843.2	\$(22.2)	) \$5,100.6
Segment profitability	\$1,173.5	\$387.4	\$(698.6)	) \$862.3

Includes certain corporate general and administrative and R&D expenses; net charges for litigation settlements;

<sup>(1)</sup> certain intercompany transactions, including eliminations; amortization of intangible assets and certain purchase accounting items; impairment charges; and other expenses not directly attributable to segments.

## 14. Income Taxes

The Company computes its provision for income taxes using an estimated effective tax rate for the full year with consideration of certain discrete tax items which occurred within the interim period. The estimated annual effective tax rate for 2014 includes an estimate of the full-year effect of foreign tax credits that the Company anticipates it will claim against its 2014 U.S. tax liabilities.



Table of Contents

MYLAN INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued

The effective tax rate was (21.0)% for the third quarter of 2014, compared to 18.4% for the third quarter of 2013, and was (5.8)% for the first nine months of 2014, compared to 19.6% for the first nine months of 2013. During the third quarter of 2014, the Company received approvals from the relevant Indian regulatory authorities to legally merge its wholly owned subsidiaries, Agila Specialties Private Limited and Onco Therapies Limited, into Mylan Laboratories Limited. The merger resulted in the recognition of a deferred tax asset of \$156 million for the tax deductible goodwill in excess of the book goodwill with a corresponding benefit to income tax provision for the three and nine months ended September 30, 2014.

15. Contingencies

Legal Proceedings

The Company is involved in various disputes, governmental and/or regulatory inquiries and proceedings and litigation matters that arise from time to time, some of which are described below. The Company is also party to certain litigation matters for which Merck KGaA or Strides Arcolab has agreed to indemnify the Company, pursuant to the respective sale and purchase agreements.

While the Company believes that it has meritorious defenses with respect to the claims asserted against it and intends to vigorously defend its position, the process of resolving matters through litigation or other means is inherently uncertain, and it is not possible to predict the ultimate resolution of any such proceeding. It is possible that an unfavorable resolution of any of the matters described below, or the inability or denial of Merck KGaA, Strides Arcolab, or another indemnitor or insurer to pay an indemnified claim, could have a material effect on the Company's financial position, results of operations and/or cash flows, and could cause the market value of our common stock to decline. Unless otherwise disclosed below, the Company is unable to predict the outcome of the respective litigation or to provide an estimate of the range of reasonably possible losses. Legal costs are recorded as incurred and are classified in SG&A expenses in the Company's Condensed Consolidated Statements of Operations.

Lorazepam and Clorazepate

On June 1, 2005, a jury verdict was rendered against Mylan, MPI, and co-defendants Cambrex Corporation and Gyma Laboratories in the U.S. District Court for the District of Columbia in the amount of approximately \$12.0 million, which has been accrued for by the Company. The jury found that Mylan and its co-defendants willfully violated Massachusetts, Minnesota and Illinois state antitrust laws in connection with API supply agreements entered into between the Company and its API supplier (Cambrex) and broker (Gyma) 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 antitrust claims relating to Mylan's 1998 price increases for Lorazepam and Clorazepate. Following the verdict, 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 and the remaining motions were denied on January 24, 2008. In post-trial filings, the plaintiffs requested that the verdict be trebled and that request was granted on January 24, 2008. On February 6, 2008, a judgment was issued against Mylan and its co-defendants in the total amount of approximately \$69.0 million, which, in the case of three of the plaintiffs, reflects trebling of the compensatory damages in the original verdict (approximately \$11.0 million in total) and, in the case of the fourth plaintiff, reflects their amount of the compensatory damages in the original jury verdict plus doubling this compensatory damage award as punitive damages assessed against each of the defendants (approximately \$58.0 million in total), some or all of which may be subject to indemnification obligations by Mylan. Plaintiffs are also seeking an award of attorneys' fees and litigation costs in unspecified amounts and prejudgment interest of approximately \$8.0 million. The Company and its co-defendants appealed to the U.S. Court of Appeals for the D.C. Circuit and have challenged the verdict as legally erroneous on multiple grounds. The appeals were held in abeyance pending a ruling on the motion for prejudgment

interest, which has been granted. Mylan has contested this ruling along with the liability finding and other damages awards as part of its appeal, which was filed in the Court of Appeals for the D.C. Circuit. On January 18, 2011, the Court of Appeals issued a judgment remanding the case to the District Court for further proceedings based on lack of diversity with respect to certain plaintiffs. On June 13, 2011, Mylan filed a certiorari petition with the U.S. Supreme Court requesting review of the judgment of the D.C. Circuit. On October 3, 2011, the certiorari petition was denied. The case is now proceeding before the District Court. On January 14, 2013, following limited court-ordered jurisdictional discovery, the plaintiffs filed a fourth amended complaint containing additional factual averments with respect to the diversity of citizenship of the parties, along with a motion to voluntarily dismiss 775 (of 1,387) self-funded customers whose presence would destroy the District Court's diversity jurisdiction. The plaintiffs also moved for a remittitur (reduction) of approximately \$8.1 million from the full damages award. Mylan's brief in response to the new factual averments in the complaint was filed on

Table of Contents

MYLAN INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued

February 13, 2013. On July 29, 2014, the court granted both plaintiffs' motion to amend the complaint and their motion to dismiss 775 self-funded customers.

In connection with the Company's appeal of the judgment, the Company submitted a surety bond underwritten by a third-party insurance company in the amount of \$74.5 million in February 2008. On May 30, 2012, the District Court ordered the amount of the surety bond reduced to \$66.6 million.

**Pricing and Medicaid Litigation**

Beginning in September 2003, Mylan, MPI and/or Mylan Institutional Inc. (formerly known as UDL Laboratories, Inc. and hereafter "MII"), a wholly owned subsidiary of the Company, together with many other pharmaceutical companies, were named in civil lawsuits filed by state attorneys general ("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, causing state programs to overpay pharmacies and other providers. Mylan, MPI and/or MII were named as defendants in substantially similar civil lawsuits filed by the AGs of Alabama, Alaska, California, Florida, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Massachusetts, Mississippi, Missouri, Oklahoma, South Carolina, Texas, Utah and Wisconsin, and also by the city of New York and approximately 40 counties across New York State. Several of these cases were transferred to the AWP multi-district litigation proceedings pending in the U.S. District Court for the District of Massachusetts for pretrial proceedings. Other cases have been litigated in the state courts in which they were filed. Each of the cases involved money damages, civil penalties and/or double, treble or punitive damages, counsel fees and costs, equitable relief and/or injunctive relief. Mylan and its subsidiaries have denied liability and have defended each of these actions vigorously.

In May 2008, an amended complaint was filed in the U.S. District Court for the District of Massachusetts by a private plaintiff on behalf of the United States of America against Mylan, MPI, MII and several other generic manufacturers. The original complaint was filed under seal in April 2000, and Mylan, MPI and MII were added as parties in February 2001. The claims against Mylan, MPI, MII and the other generic manufacturers were severed from the April 2000 complaint (which remains under seal) as a result of the federal government's decision not to intervene in the action as to those defendants. The complaint alleged violations of the False Claims Act and set forth allegations substantially similar to those alleged in the state AG cases mentioned in the preceding paragraph and purported to seek nationwide recovery of any and all alleged overpayment of the "federal share" under the Medicaid program, as well as treble damages and civil penalties. In December 2010, the Company completed a settlement of this case (except for the claims related to the California federal share) and the Texas state action mentioned above. This settlement resolved a significant portion of the damages claims asserted against Mylan, MPI and MII in the various pending pricing litigations. In addition, Mylan reached settlements of the Alabama, Alaska, California (including the federal share), Florida, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Massachusetts, Mississippi, New York state and county, Oklahoma, South Carolina, Utah and Wisconsin state actions, which comprise the balance of all such lawsuits that have been filed against Mylan. The Company had accrued approximately \$56.0 million at December 31, 2013. There were \$54.3 million of settlement payments made during the nine months ended September 30, 2014.

Dey L.P. (now known as Mylan Specialty L.P. and herein as "Mylan Specialty"), a wholly owned subsidiary of the Company, was named as a defendant in several class actions brought by consumers and third-party payors. Mylan Specialty reached a settlement of these class actions, which was approved by the court and all claims have been dismissed. Additionally, a complaint was filed under seal by a plaintiff on behalf of the United States of America against Mylan Specialty in August 1997. In August 2006, the Government filed its complaint-in-intervention and the case was unsealed in September 2006. The Government asserted that Mylan Specialty was jointly liable with a

codefendant and sought recovery of alleged overpayments, together with treble damages, civil penalties and equitable relief. Mylan Specialty completed a settlement of this action in December 2010. These cases all have generally alleged that Mylan Specialty falsely reported certain price information concerning certain drugs marketed by Mylan Specialty, that Mylan Specialty caused false claims to be made to Medicaid and to Medicare, and that Mylan Specialty caused Medicaid and Medicare to make overpayments on those claims.

Under the terms of the purchase agreement with Merck KGaA, Mylan is fully indemnified for the claims in the preceding paragraph and Merck KGaA is entitled to any income tax benefit the Company realizes for any deductions of amounts paid for such pricing litigation. Under the indemnity, Merck KGaA is responsible for all settlement and legal costs, and, as such, these settlements had no impact on the Company's Consolidated Statements of Operations. At September 30, 2014, the Company has accrued approximately \$63.3 million in other current liabilities, which represents its estimate of the remaining amount of anticipated income tax benefits due to Merck KGaA. Substantially all of Mylan Specialty's known claims with respect to this pricing litigation have been settled.

Table of Contents

MYLAN INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued

**Modafinil Antitrust Litigation and FTC Inquiry**

Beginning in April 2006, Mylan and four other drug manufacturers have been named as defendants in civil lawsuits filed in or transferred to the U.S. District Court for the Eastern District of Pennsylvania by a variety of plaintiffs purportedly representing direct and indirect purchasers of the drug Modafinil and in a lawsuit filed by Apotex, Inc., a manufacturer of generic drugs. These actions allege violations of federal antitrust and state laws in connection with the generic defendants' settlement of patent litigation with Cephalon relating to Modafinil. Discovery has now closed. On June 23, 2014, the court granted the defendants' motion for partial summary judgment (and denied the corresponding plaintiffs' motion) dismissing plaintiffs' claims that the defendants had engaged in an overall conspiracy to restrain trade. Additional motions remain pending.

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, 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, requesting additional information from the Company relating to the investigation. Mylan has cooperated fully with the government's investigation and completed all requests for information. On February 13, 2008, the FTC filed a lawsuit against Cephalon in the U.S. District Court for the District of Columbia and the case has subsequently been transferred to the U.S. District Court for the Eastern District of Pennsylvania. On July 1, 2010, the FTC issued a third party subpoena to Mylan, requesting documents in connection with its lawsuit against Cephalon. Mylan has responded to the subpoena. Mylan is not named as a defendant in the FTC's lawsuit, although the complaint includes certain allegations pertaining to Mylan's settlement with Cephalon.

**Minocycline**

On May 1, 2012, the FTC issued a civil investigative demand to Mylan pertaining to an investigation being conducted to determine whether Medicis Pharmaceutical Corporation, Mylan, and/or other generic companies engaged in unfair methods of competition with regard to Medicis' branded Solodyn® products and generic Solodyn® products, as well as the 2010 settlement of Medicis' patent infringement claims against Mylan and Matrix Laboratories Limited (now known as Mylan Laboratories Limited). Mylan is cooperating with the FTC and has responded to the requests for information.

Beginning in July 2013, Mylan and Mylan Laboratories Limited, along with other drug manufacturers, were originally named as defendants in civil lawsuits filed by a variety of plaintiffs in the U.S. District Court for the Eastern District of Pennsylvania, the District of Arizona, and the District of Massachusetts. Those lawsuits were consolidated in the U.S. District Court for the District of Massachusetts. The plaintiffs purport to represent direct and indirect purchasers of branded or generic Solodyn®, and assert violations of federal and state laws, including allegations in connection with separate settlements by Medicis with each of the other defendants of patent litigation relating to generic Solodyn®. Plaintiffs' consolidated amended complaint was filed on September 12, 2014. Mylan and Mylan Laboratories Limited are no longer named defendants in the consolidated amended complaint.

**Pioglitazone**

Beginning in December 2013, Mylan, Takeda, and several other drug manufacturers have been named as defendants in civil lawsuits consolidated in the U.S. District Court for the Southern District of New York by plaintiffs which purport to represent indirect purchasers of branded or generic Actos® and Actoplus Met®. These actions allege violations of state and federal competition laws in connection with the defendants' settlements of patent litigation in 2010 relating to Actos® and Actoplus Met®. Plaintiffs filed an amended complaint on August 22, 2014. Mylan and the other defendants filed motions to dismiss the amended complaint on October 10, 2014.

European Commission Proceedings  
Perindopril

On or around July 8, 2009, the European Commission (the “Commission”) stated that it had initiated antitrust proceedings pursuant to Article 11(6) of Regulation No. 1/2003 and Article 2(1) of Regulation No. 773/2004 to explore possible infringement of Articles 81 and 82 EC and Articles 53 and 54 of the EEA Agreement by Les Laboratoires Servier (“Servier”) as well as possible infringement of Article 81 EC by the Company’s Indian subsidiary, Mylan Laboratories Limited, and four other companies, each of which entered into agreements with Servier relating to the product Perindopril. On July 30, 2012, the

Table of Contents

MYLAN INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued

European Commission issued a Statement of Objections to Servier SAS, Servier Laboratories Limited, Les Laboratoires Servier, Adir, Biogaran, Krka, d.d. Novo mesto, Lupin Limited, Mylan Laboratories Limited, Mylan Inc., Niche Generics Limited, Teva UK Limited, Teva Pharmaceutical Industries Ltd., Teva Pharmaceuticals Europe B.V. and Unichem Laboratories Limited. Mylan Inc. and Mylan Laboratories Limited filed responses to the Statement of Objections. On July 9, 2014, the Commission issued a decision finding that Mylan Laboratories Limited and Mylan Inc., as well as the companies noted above (with the exception of Adir, a subsidiary of Servier), had violated European Union competition rules and fined Mylan Laboratories Limited approximately €17.2 million, including approximately €8.0 million jointly and severally with Mylan Inc. The Company has accrued \$21.7 million related to this matter as of September 30, 2014, which was paid subsequent to September 30, 2014. The Company intends to appeal the decision to the General Court of the European Union.

Citalopram

On March 19, 2010, Mylan and Generics [U.K.] Limited, a wholly owned subsidiary of the Company, received notice that the Commission had opened proceedings against Lundbeck with respect to alleged unilateral practices and/or agreements related to Citalopram in the European Economic Area. On July 25, 2012 a Statement of Objections was issued to Lundbeck, Merck KGaA, Generics [U.K.] Limited, Arrow, Resolution Chemicals, Xelia Pharmaceuticals, Alpharma, A.L. Industrier and Ranbaxy. Generics [U.K.] Limited filed a response to the Statement of Objections, and vigorously defended itself against allegations contained therein. On June 19, 2013, the Commission issued a decision finding that Generics [U.K.] Limited, as well as the companies noted above, had violated European Union competition rules and fined Generics [U.K.] Limited approximately €7.8 million, jointly and severally with Merck KGaA. Generics [U.K.] Limited has appealed the Commission's decision to the General Court of the EU. Generics [U.K.] Limited has also sought indemnification from Merck KGaA with respect to the €7.8 million proportion of the fine for which Merck KGaA and Generics [U.K.] Limited were held jointly and severally liable. Merck KGaA has counterclaimed against Generics [U.K.] Limited seeking the same. The Company had accrued approximately \$10.3 million related to this matter as of September 30, 2014 and December 31, 2013. It is reasonably possible that we will incur additional losses above the amount accrued but we cannot estimate a range of such reasonably possible losses at this time. There are no assurances, however, that settlements reached and/or adverse judgments received, if any, will not exceed amounts accrued.

U.K. Competition and Markets Authority

On August 12, 2011, Generics [U.K.] Limited received notice that the Office of Fair Trading (subsequently changed to the Competition and Markets Authority (the "CMA")) was opening an investigation to explore the possible infringement of the Competition Act 1998 and Article 101 and 102 of the Treaty on the Functioning of the European Union, with respect to alleged agreements related to Paroxetine. On April 19, 2013, a Statement of Objections was issued to GlaxoSmithKline, Generics [U.K.] Limited, Alpharma and Ivax LLC. Generics [U.K.] Limited filed a response to the Statement of Objections, defending itself against the allegations contained therein. The CMA issued a Supplementary Statement of Objections to the above-referenced parties on October 21, 2014. A decision remains pending.

South African Competition Commission

Mylan's South African affiliate received a summons and a request for appearance and information, dated February 22, 2013, from the South African Competition Committee regarding a supply agreement between Aspen Pharmacare Holdings (Pty) Ltd. and Mylan Laboratories Limited pertaining to a fixed dose combination antiretroviral product. The summons was issued in respect of two complaints in connection with this agreement. An amended complaint and Initiation Statement were received on June 21, 2013. Mylan has produced documents and information in connection

with this matter. On September 12, 2014, the Competition Commission notified Mylan that the complaint would not be referred to the Competition Tribunal, the adjudicative body for competition matters. The Competition Commission investigation has therefore been closed.

#### Product Liability

The Company is involved in a number of product liability lawsuits and claims related to alleged personal injuries arising out of certain products manufactured and/or distributed by the Company, including but not limited to its Fentanyl Transdermal System, Phenytoin, Propoxyphene and Alendronate. The Company believes that it has meritorious defenses to these lawsuits and claims and is vigorously defending itself with respect to those matters. From time to time, the Company has agreed to settle or otherwise resolve certain lawsuits and claims on terms and conditions that are in the best interests of the Company. The Company had accrued approximately \$13.4 million at September 30, 2014 and \$13.8 million at December 31, 2013. It is reasonably possible that we will incur additional losses above the amount accrued but we cannot estimate a range of

Table of Contents

MYLAN INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) - Continued

such reasonably possible at this time. There are no assurances, however, that settlements reached and/or adverse judgments received, if any, will not exceed amounts accrued.

**Intellectual Property**

On April 16, 2012, the Federal Circuit reversed and vacated a judgment of invalidity by the United States District Court for the District of Delaware in a patent infringement lawsuit by Eurand, Inc. (now known as Aptalis Pharmatech, Inc.), Cephalon, Inc., and Anesta AG against Mylan Inc. and MPI in relation to MPI's abbreviated new drug application for Extended-release Cyclobenzaprine Hydrochloride. On May 12, 2011, the District Court found, after trial, the patents-in-suit invalid as obvious. On May 13, 2011, MPI launched its Cyclobenzaprine Hydrochloride Extended-release capsules. Plaintiffs appealed the District Court's finding of obviousness to the Federal Circuit, and on May 24, 2011, the District Court issued an injunction order enjoining Mylan from selling any additional Cyclobenzaprine products pending the Federal Circuit's decision. Plaintiffs were required to post a \$10 million bond. Mylan appealed the District Court's injunction and filed a motion to stay the injunction pending resolution of the appeal. On May 25, 2011, the Federal Circuit temporarily stayed the injunction pending full briefing on Mylan's motion to stay. On July 7, 2011, the Federal Circuit reinstated the injunction preventing further sales pending a decision on the appeal. On April 16, 2012, the Federal Circuit reversed and vacated the District Court's invalidity judgment and dismissed without prejudice Mylan's appeal of the injunction. The Company filed a petition for rehearing en banc and on July 25, 2012, the petition was denied. The Company filed a petition for certiorari to the United States Supreme Court on October 23, 2012 and on January 14, 2013, the petition was denied. The case was remanded to the District Court for consideration of the issue of damages. On April 4, 2013, the District Court ordered that the effective date of approval of Mylan's Abbreviated New Drug Application shall not be earlier than the later to expire of the patents-in-suit, unless otherwise ordered by the Court, and enjoined Mylan from manufacturing, using, offering to sell, selling, or importing its products until after the later of the expiration dates of the patents-in-suit, unless otherwise ordered by the Court. On September 23, 2014, the parties executed a settlement agreement resolving the dispute and on September 24, 2014 the case was dismissed.

In these and other situations, the Company has used its business judgment to decide to market and sell products, notwithstanding the fact that allegations of patent infringement(s) or other potential third party rights have not been finally resolved by the courts. The risk invol