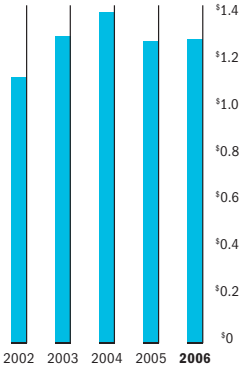
MYLAN LABORATORIES INC.

2006 ANNUAL REPORT

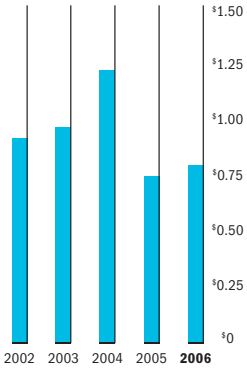
ABOUT THE COMPANY

Mylan Laboratories Inc. is a leading pharmaceutical company with three principal subsidiaries, Mylan Pharmaceuticals Inc., Mylan Technologies Inc. and UDL Laboratories, Inc., that develop, license, manufacture, market and distribute an extensive line of generic and proprietary products.

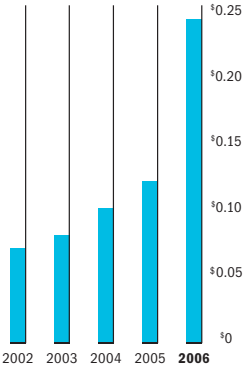
TOTAL REVENUES
(in billions)



DILUTED EARNINGS
PER SHARE



DIVIDEND
PER SHARE



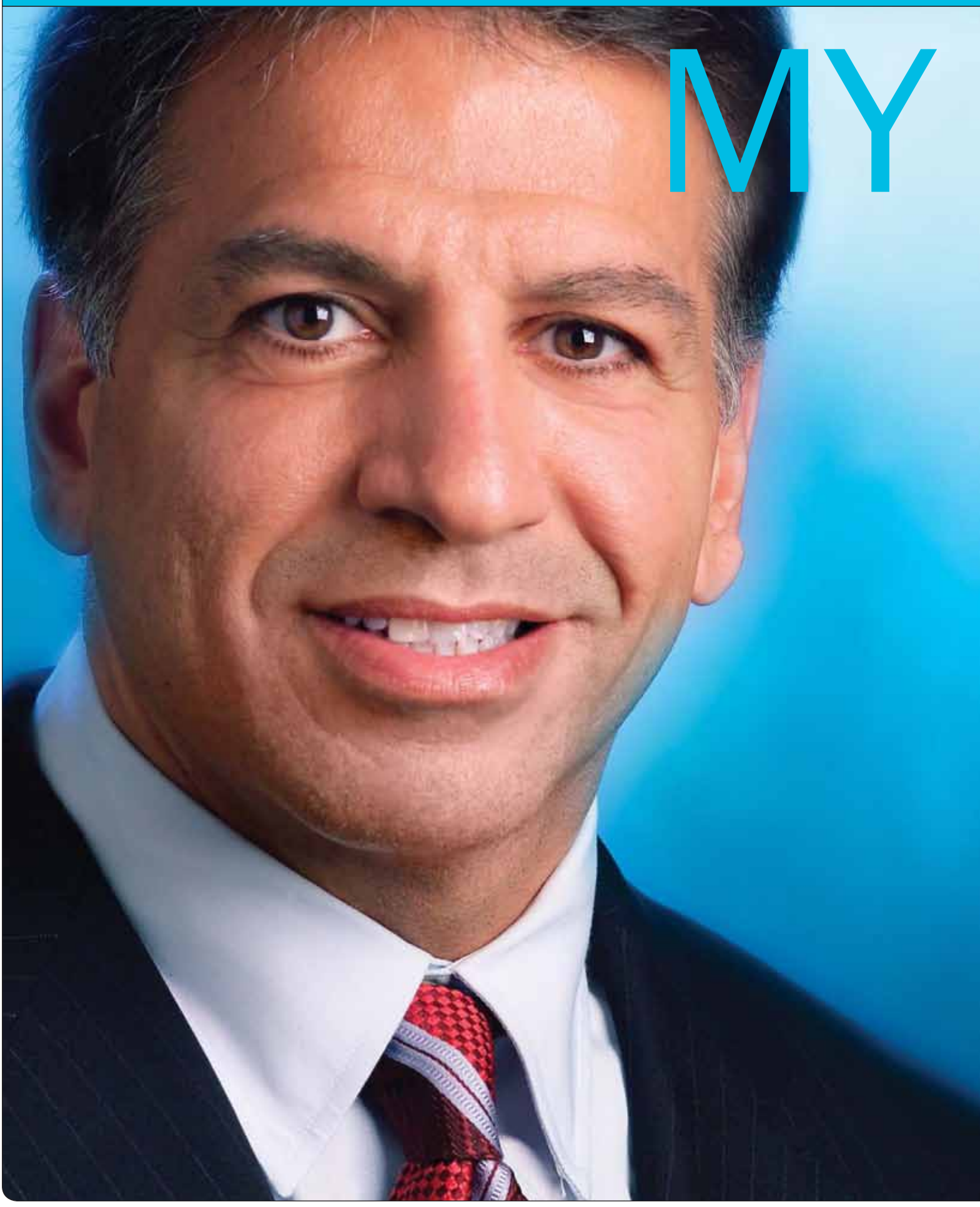
MYL

FINANCIAL HIGHLIGHTS

(in thousands, except per share data)

Fiscal Year Ended March 31,	*2006*	*2005*	*2004*	*2003*	*2002*
Total Revenues	$ 1,257,164	$ 1,253,374	$ 1,374,617	$ 1,269,192	$ 1,104,050
Gross Profit	$ 627,616	$ 623,540	$ 762,468	$ 671,436	$ 623,939
Net Earnings	$ 184,542	$ 203,592	$ 334,609	$ 272,353	$ 260,251
Cash Dividends Declared	$ 49,772	$32,261	$ 26,024	$ 21,192	$ 20,195
Per Common Share:					
Net Earnings –					
Basic	$ 0.80	$ 0.76	$ 1.24	$ 0.98	$ 0.92
Diluted	$ 0.79	$ 0.74	$ 1.21	$ 0.96	$ 0.91
Cash Dividends Paid	$ 0.24	$ 0.12	$ 0.10	$ 0.08	$ 0.07
Shareholder's Equity – diluted	$ 3.36	$ 6.75	$ 6.01	$ 5.12	$ 4.89

This report contains "forward-looking statements" including with regard to our future operations and results. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Because such statements inherently involve risks and uncertainties, actual future results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include: uncertainties regarding regulatory, legal or legislative matters; market effects; and the other factors set forth in our 2006 Annual Report on Form 10-K, which we have filed with the Securities and Exchange Commission. We undertake no duty to update our forward-looking statements, even though our situation may change in the future.


MY

VISION

Dear Fellow Mylan Shareholder:

Robert J. Coury
Vice Chairman and
Chief Executive Officer

Fiscal 2006 was a year of transition, transformation and triumph for Mylan Laboratories. Despite the increased competition, continued unpredictability and extreme volatility within the generic pharmaceutical industry, we successfully executed on each of the strategic initiatives and financial expectations that we established at the beginning of the year. This includes successfully outlicensing and transitioning our nebivolol product to Forest Laboratories and completing the $1.25 billion share buyback that transformed our balance sheet and reduced our outstanding shares of common stock by approximately 25 percent. We delivered on every element of the financial guidance that we set early in the year, including total revenues, R&D expense, SG&A expense, operating margins, and earnings per share. As a result of these accomplishments, Mylan delivered a significant return to shareholders as our share price increased 32 percent year-over-year and there was a 100 percent increase in our annual dividend.

The financial and other successes of the past fiscal year could not have been achieved without the remarkable dedication, cohesiveness and perseverance of the people of Mylan. Our company was tested in many ways; and every person in the organization, from our employees to our senior officers and board members, came together to help navigate our way through the challenges we faced. Mylan emerged as a stronger, more confident organization, and we are very proud of everyone's efforts.

We are now focused on fiscal 2007 and beyond. Mylan, as you know, is one of the founders of the generic pharmaceutical industry, and we remain one of the largest companies in the industry today. Our industry is consolidating as evidenced by the significant global merger and acquisition activity of recent years. As we have said in the past, consolidation is good for the industry, and Mylan intends to participate in this consolidation in a controlled and disciplined manner. We cannot and

will not rule out the possibility of our products, portfolio and innovation expanding beyond our existing borders. We are steadfast in our commitment to remain a leading specialty pharmaceutical company and to fulfill our longstanding mission of delivering innovation and low cost pharmaceuticals to as many patients and consumers as possible.

In order to successfully plot our course and maintain an exciting vision for our future, we must have a solid understanding of the challenges facing our company and our industry today. We would like to highlight a few of the most significant industry issues that currently face the generic pharmaceutical industry.

see this as a significant step in the right direction. Mylan's efforts along with the efforts of the industry overall appear to be gaining traction, and we believe we are moving closer to a legislative solution to potentially fully eliminate the use of authorized generics during the 180-day exclusivity period.

We also continue to work with the industry to address the issue of the misuse of citizen's petitions. Branded companies increasingly are filing citizen's petitions as a tactic to delay generic products from coming to market. Currently, the FDA reviews and resolves all citizen's petitions prior to granting final approval of a product, and branded companies recognize that the

WE ARE STEADFAST IN OUR COMMITMENT TO REMAIN A LEADING SPECIALTY PHARMACEUTICAL COMPANY AND TO FULFILL OUR LONGSTANDING MISSION OF DELIVERING INNOVATION AND LOW COST PHARMACEUTICALS.

Robert J. Coury, Vice Chairman and Chief Executive Officer, and Milan Puskar, Chairman

"Authorized generics" is a tactic increasingly used by branded pharmaceutical companies whereby they re-label their branded product as a generic and introduce it during the 180-day exclusivity period granted by law to the first true generic filer. We strongly believe that this practice has and continues to upset the natural competitive balance that exists between branded and generic pharmaceuticals in the United States and is inconsistent with the original intent of the Hatch-Waxman legislation that is responsible for billions of dollars in consumer healthcare savings. We are pleased to report that early in 2006, Congress approved budget reconciliation legislation that we consider to be an important first step in addressing this issue. Branded companies will now be required to accurately report the price of their authorized generic in the brand's "best price" that they report to the government, making the brand's Medicaid rebates more accurately reflect the lower generic price. While this legislation does not ultimately solve the issue of authorized generics, we

administrative time needed to answer these petitions can provide them with additional time to market their branded product without generic competition. We believe that branded companies are abusing an otherwise valuable public process for raising potential product issues, and this abuse ultimately delays consumer access to affordable generic products. We are confident that a clear administrative solution exists to address the misuse of citizen's petitions going forward, and we will continue to work closely with the industry and the FDA to correct this problem.

Mylan Pharmaceuticals Inc.: Expanding Our Premier Position in Generics

Mylan Pharmaceuticals Inc., our largest subsidiary, is the established U.S. market leader in developing, manufacturing and selling generic pharmaceuticals. This year, we are bringing online a significant capacity enhancement to our primary manufacturing facility in Morgantown, W.Va., which is expected to more than double our capacity. We also continue to focus on adding to our therapeutic categories and other dosage

forms outside Mylan's existing core competencies. Any discussion of our vision for the future of generic pharmaceuticals would not be complete without focusing on generic biologics. Mylan is committed to becoming a significant player in the generic biologics arena at market formation, and we are actively employing legal, regulatory and other additional strategic initiatives and working in conjunction with our trade association in order to execute the appropriate generic biologics strategy. We believe that generic biologics represent a major growth opportunity for the generic pharmaceutical industry given the extreme high cost of currently available biologic treatments which can cost tens and even hundreds of thousands of dollars a year to treat a single patient. An approval pathway for generic biologics has the potential to yield enormous savings to patients, payers and state and federal government reimbursement programs and increase access to patients who need these drugs.

MTI: Established Market Leader in Transdermals

Mylan Technologies Inc. (MTI) is our subsidiary that is now firmly established as an industry leader in transdermal drug development and manufacturing. MTI is the largest manufacturer of transdermal generics in the United States with state-of-the-art research and development and manufacturing facilities.

MTI has received four out of the first six transdermal Abbreviated New Drug Applications (ANDAs) approved by the FDA including estradiol, nitroglycerin and fentanyl, the first and currently only AB-rated generic alternative to Duragesic®*. In addition to generic transdermals, MTI has demonstrated expertise and leadership in branded transdermals with EMSAM®, the first transdermal product approved for the treatment of depression, that received final approval from the FDA on Feb. 26, 2006. MTI co-developed EMSAM® with Somerset Pharmaceuticals and is now manufacturing the product that is being commercialized by Bristol Myers Squibb. In addition to EMSAM®, MTI also entered into strategic agreements to utilize MTI's advanced transdermal technology. Our existing and future strategic alliances could have significant growth potential as we continue to combine our successful transdermal drug delivery platform with additional pharmaceutical compounds that could serve major unmet patient needs. As a result, we will continue to prepare MTI to be our platform to a sustainable branded pharmaceutical strategy.

UDL: The Nation's Leading Provider of Unit Dose Pharmaceuticals

Our UDL subsidiary continues to be the industry leader in supplying unit dose packaged products to hospitals, nursing homes and other institutions across the United States**. UDL is a valuable asset for Mylan, as it enjoys incomparable market share and is well known in the institutional marketplace for its innovations in packaging and labeling that help reduce dispensing errors and improve patient care. The demand for unit dose and specialty packaging is expected to increase in the years ahead, and we intend to continue to capitalize on UDL's unique expertise and distribution capabilities to further enhance our market-leading position within the hospital and institutional marketplace.

Fiscal 2006 was a remarkable year for Mylan. We are proud of the results achieved and proud of the people who worked so diligently to achieve them. We have a long-term vision for our company's future that is supported by specific strategies with attainable goals. We remain focused at all times on maintaining and enhancing our market-leading positions. On behalf of the Board of Directors and senior management team, we would like to thank all of our shareholders for their continuing trust and support.

Sincerely,

Milan Puskar
Chairman
Mylan Laboratories Inc.

Robert J. Coury
Vice Chairman and
Chief Executive Officer
Mylan Laboratories Inc.

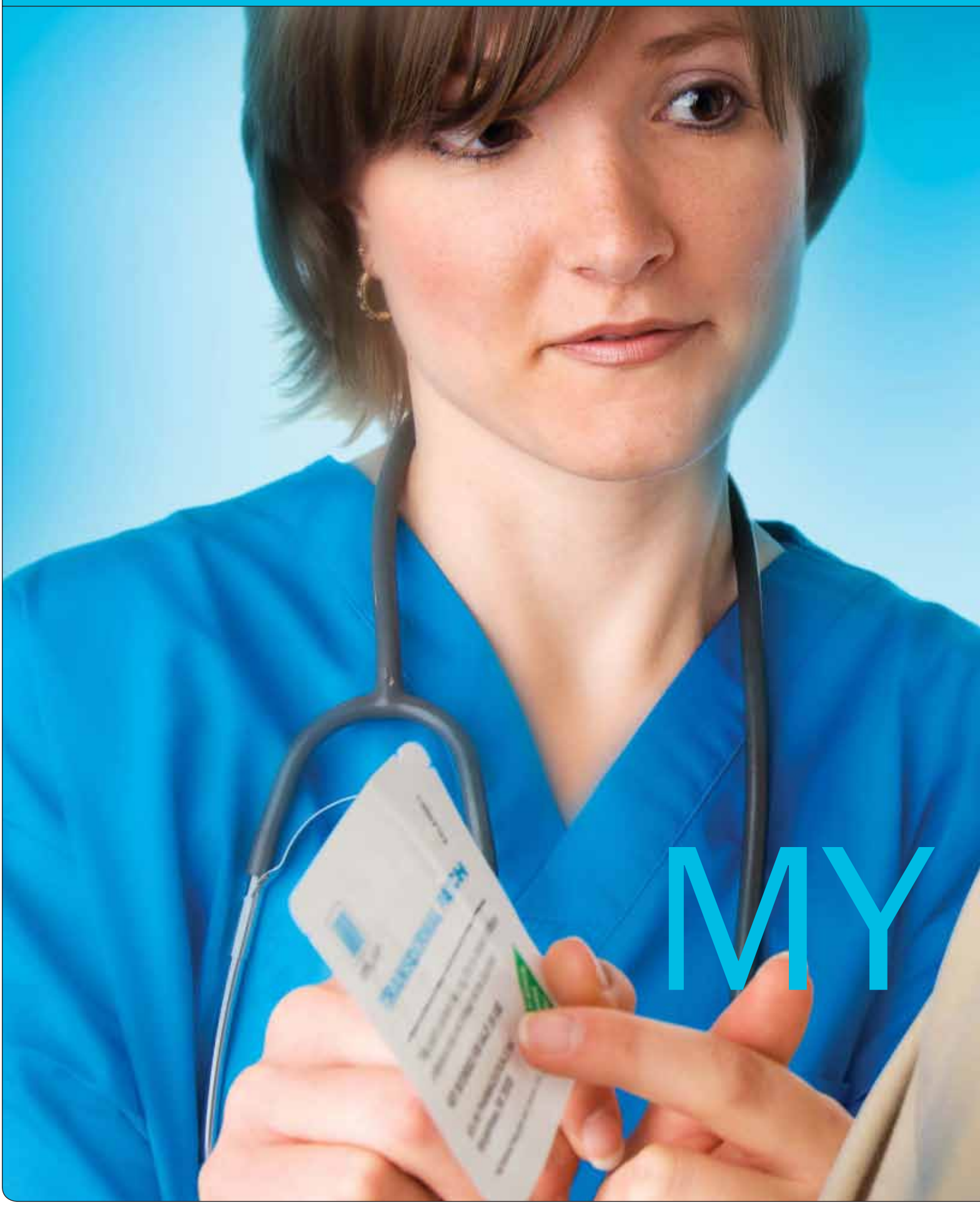
June 9, 2006

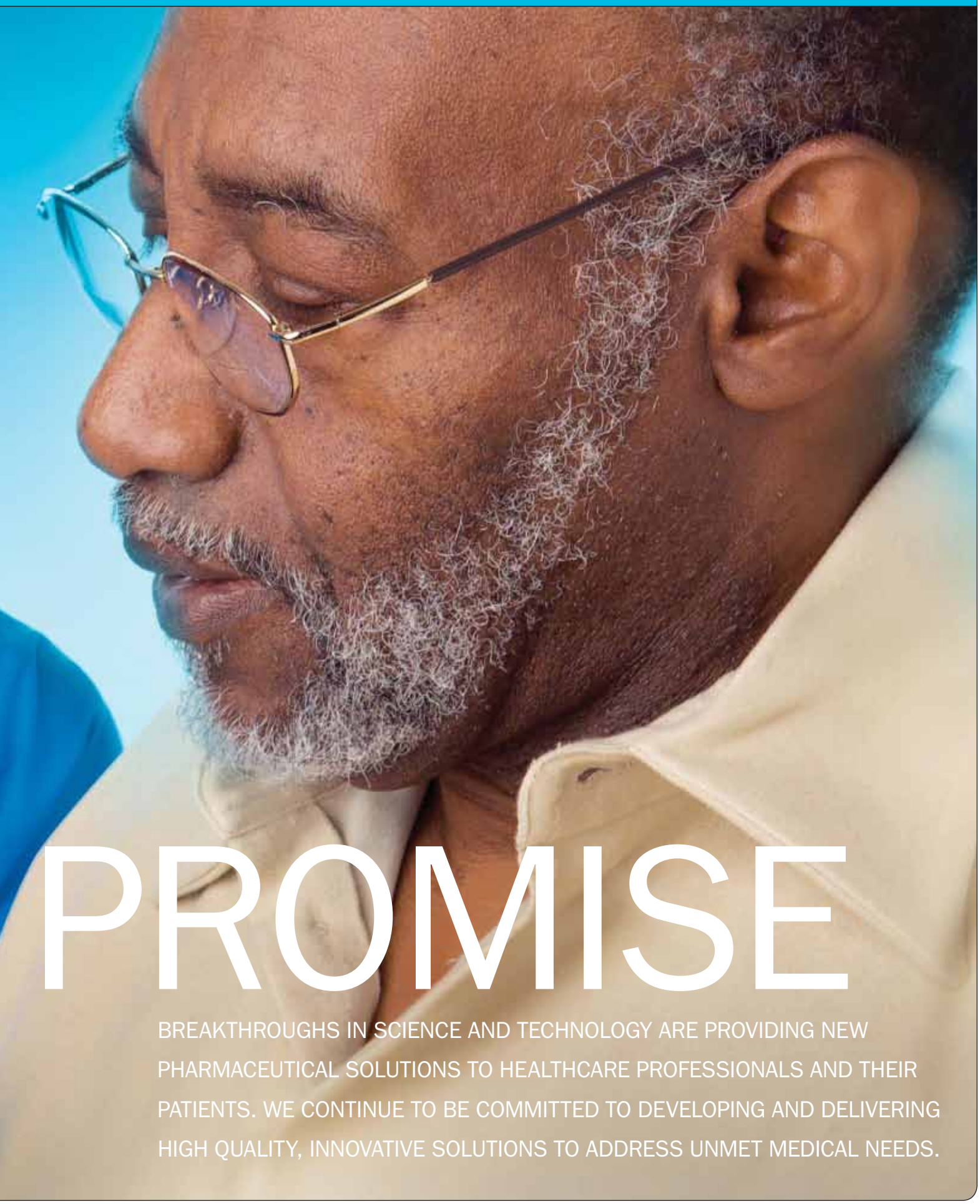
*Registered trademark of Johnson & Johnson
**IMS Health


MY

PEOPLE ARE LIVING LONGER, MORE ACTIVE LIVES. THE VALUE OF THEIR GOOD HEALTH IS PRICELESS, WHICH IS WHY WE STRIVE TO INCREASE CONSUMER ACCESS TO AFFORDABLE PHARMACEUTICALS.

HEALTH

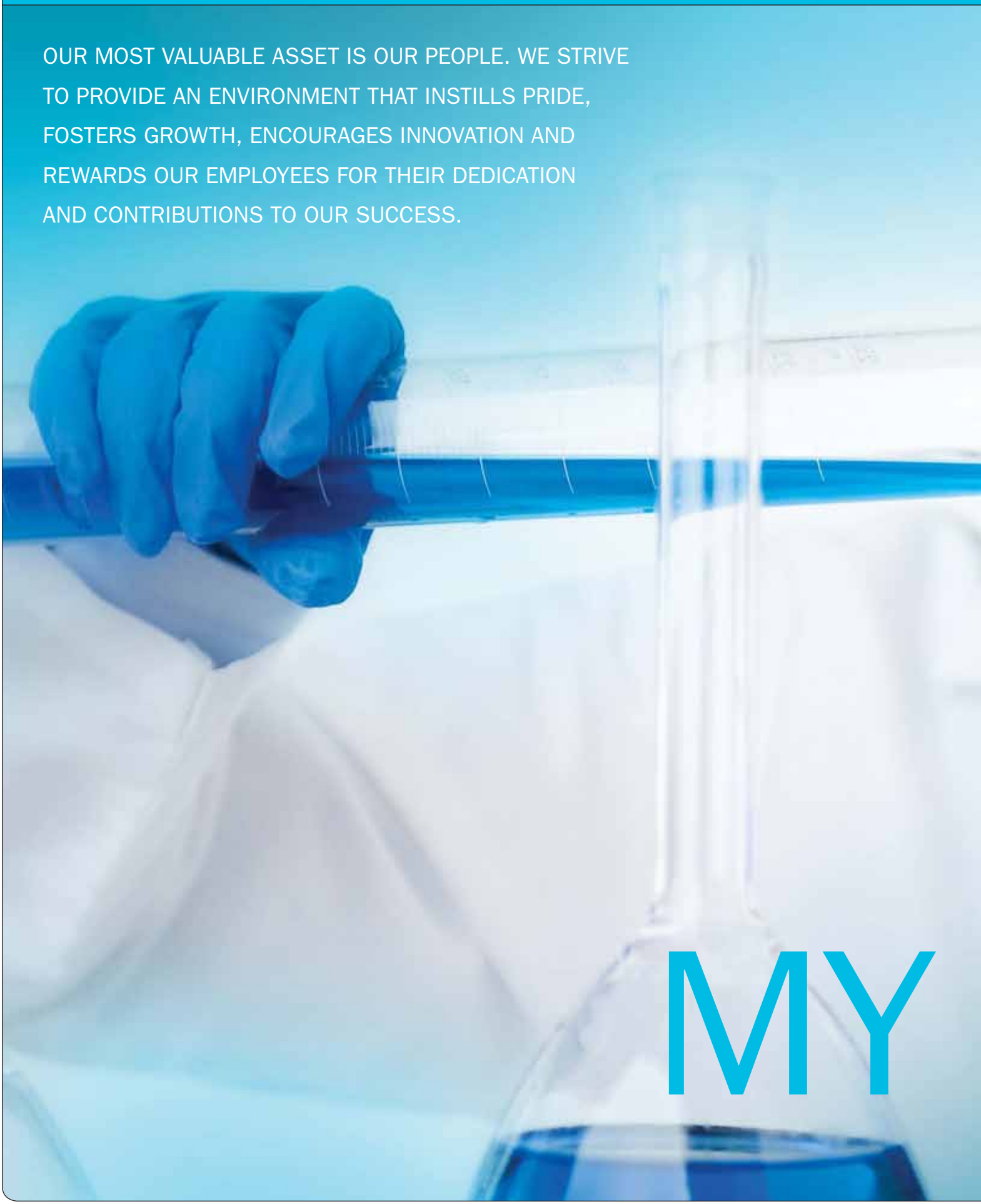

MY



PROMISE

BREAKTHROUGHS IN SCIENCE AND TECHNOLOGY ARE PROVIDING NEW PHARMACEUTICAL SOLUTIONS TO HEALTHCARE PROFESSIONALS AND THEIR PATIENTS. WE CONTINUE TO BE COMMITTED TO DEVELOPING AND DELIVERING HIGH QUALITY, INNOVATIVE SOLUTIONS TO ADDRESS UNMET MEDICAL NEEDS.

OUR MOST VALUABLE ASSET IS OUR PEOPLE. WE STRIVE TO PROVIDE AN ENVIRONMENT THAT INSTILLS PRIDE, FOSTERS GROWTH, ENCOURAGES INNOVATION AND REWARDS OUR EMPLOYEES FOR THEIR DEDICATION AND CONTRIBUTIONS TO OUR SUCCESS.



MY

COMPANY

MY LEADERSHIP

Mylan Pharmaceuticals Inc.
The Premier Domestic Generic Pharmaceutical Company

Mylan Pharmaceuticals is a founding father and a driving force in the generic pharmaceutical industry, which is now estimated to save U.S. consumers $8 to $10 billion per year in healthcare expenditures. In fiscal 2006, pharmacists filled more than 230 million prescriptions with products from Mylan, making us, once again, the No. 1 U.S.-based manufacturer of generic pharmaceutical products.*

IN FISCAL 2006, PHARMACISTS FILLED MORE THAN 230 MILLION PRESCRIPTIONS WITH PRODUCTS FROM MYLAN*.

Mylan is recognized throughout the industry for excellence in science, quality, manufacturing, customer relations and overall performance.

Recent distinctions include:

- Two prestigious Distribution Industry Awards for Notable Achievements in Healthcare (DIANA) from the Healthcare Distribution Management Association: "Best Overall Generic Pharmaceuticals Company" and "Best New Generic Pharmaceutical Product Introduction" for Fentanyl Transdermal System.
- Retail Management Magazine named Mylan "Best Partner" for 2005 based on a survey of customers and retail pharmacy decision makers. Survey respondents ranked Mylan first among competitors in five individual categories: Overall Performance, Quality of Products and Services, Sales Force Effectiveness, Advertising and Marketing Effectiveness and Overall Commitment to Retail Pharmacy.
- In a recent independent survey of U.S. pharmacists, Mylan ranked first in quality among all generic companies for the seventh straight year.
- Wal-Mart named Mylan "2005 Pharmaceutical Supplier of the Year."

During fiscal 2006, Mylan continued to invest significantly in our generic product pipeline, which is now the most robust in the company's 45-year history. We submitted a record number of product applications, including 23 original Abbreviated New Drug Applications (ANDAs) to the FDA. During the fiscal year, we received

Mylan's recognition in the field continued over the past year with several distinguished awards from the industry as well as selection as Wal-Mart's "2005 Pharmaceutical Supplier of the Year."

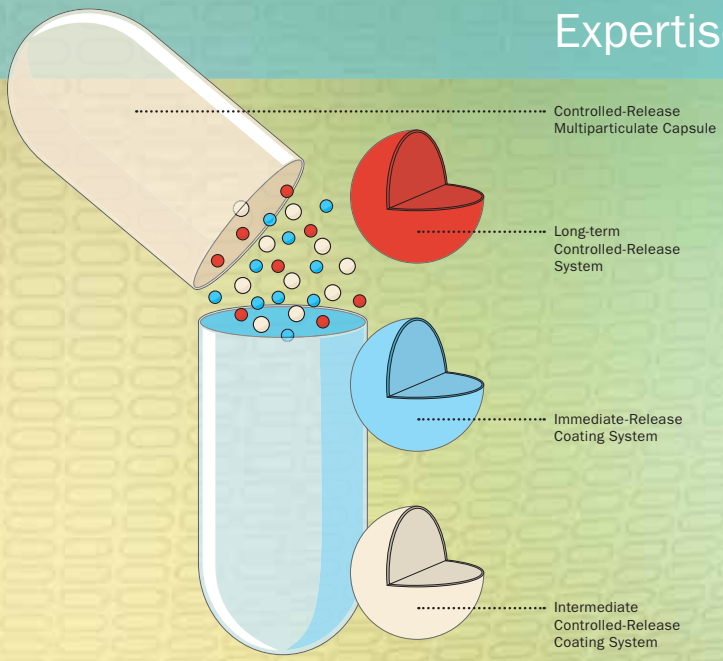
11 final ANDA approvals, four tentative ANDA approvals and one supplemental ANDA approval for a new product strength. Mylan also has approximately 60 ANDAs pending at the FDA, representing approximately $47 billion in 2005 product sales*. We currently have 17 potential first-to-file opportunities that account for approximately $12 billion in 2005 product sales*.

These new products will be added to Mylan's existing portfolio of more than 150 generic products. Mylan's portfolio is highly unique in that it combines difficult-to-formulate, high barrier-to-entry products that face limited competition with a broader offering of products that provide greater staying power. This combination increases our value to our customers as evidenced by our significant market share. More than 50 percent of Mylan's products rank No. 1 in prescriptions dispensed in the United States, and more than 75 percent rank either No. 1 or No. 2 in prescriptions dispensed*. Mylan is steadfast in its dedication to enhancing our premier position in the generic industry in the years ahead.

*IMS Health

Our commitment to R&D resulted in a record number of product applications filed with the FDA in fiscal 2006, including 23 original Abbreviated New Drug Applications (ANDAs). Mylan's pipeline is currently the most robust in the company's 45-year history.

Expertise in Difficult-to-Formulate Products



Mylan uses a variety of innovative technologies to develop effective products in difficult-to-formulate dosage forms including modified-release. One of these methods is known as multiparticulate technology. Multiparticulate products are often formulated as coated beads with different release rates and placed in a capsule. This dosage form provides flexibility in design and offers significant clinical benefits.

For example, a single capsule can be formulated with different modified-release coatings enabling a drug entity to be released at different times within the gastrointestinal tract.

Early on, Mylan recognized the commercial value of modified-release dosage forms developed by methods such as multiparticulate technology. Mylan made significant investments in both R&D and commercial activity to bring these difficult-to-formulate products to market.

MY INNOVATION

Mylan Technologies Inc.
An Innovative Leader and the Partner of Choice in Transdermals

Mylan Technologies Inc. (MTI) enhanced its position as the partner of choice in transdermal pharmaceuticals during fiscal 2006 with significant accomplishments in both generic and branded transdermals. MTI leverages industry-leading science and technology and offers a full range of capabilities that we believe are unrivaled in the transdermal industry. MTI can take a product from conception all the way through the development and regulatory approval processes and finally on to scale-up and high volume manufacturing that conforms to exacting quality standards.

Mylan is established as a market leader in generic transdermals having received four out of the first six transdermal ANDA approvals.

On the generic side, MTI is established as the clear market leader with four out of the first six generic transdermal ANDA approvals including the Fentanyl Transdermal System (FTS). Fentanyl is the first FDA-approved AB-rated generic alternative to Duragesic®*. It is also the first generic transdermal Class II opioid approved by the FDA. Class II opioid agonists such as fentanyl, morphine, oxycodone and methadone are potent pain products that require precise drug delivery technology. The technology and elegant design of the MTI matrix fentanyl patch clearly is differentiated from the original branded product. The quality and efficacy of this product are a perfect demonstration of MTI's unique capabilities.

MYLAN TECHNOLOGIES DEVELOPED AND MARKETED MORE GENERIC TRANSDERMAL PRODUCTS THAN ANY COMPANY IN THE UNITED STATES.

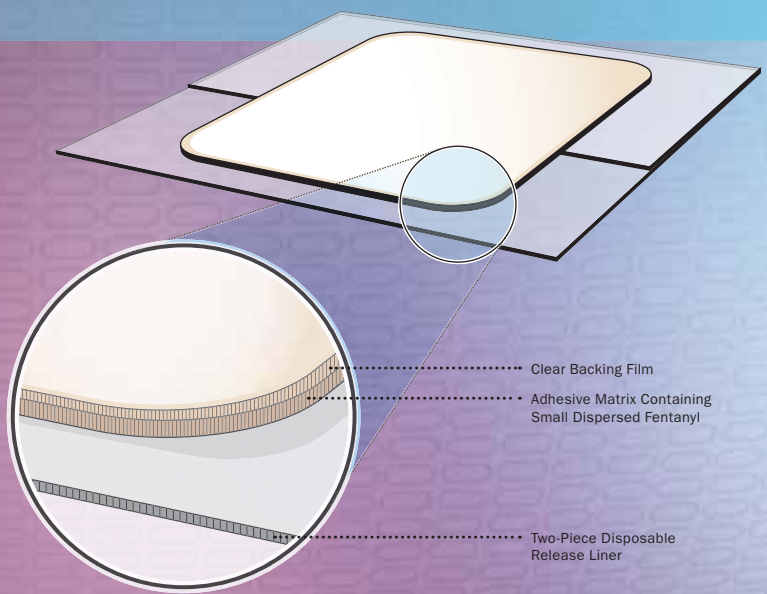
Fiscal 2006 also brought final FDA approval of EMSAM® (selegiline transdermal system), the first and only transdermal monoamine oxidase inhibitor (MAOI) for treating depressive symptoms in patients with major depressive disorder (MDD). This product was co-developed by MTI with Somerset Pharmaceuticals, is being manufactured by MTI, and commercialized and launched by Bristol Myers Squibb. EMSAM® is an excellent example of the potential benefit of transdermal delivery to address an unmet medical need.

Building on the successes of fentanyl and EMSAM®, MTI continues to focus on transdermal opportunities

that can address unmet medical needs and is actively seeking development and commercial business partnerships. During fiscal 2006, we entered into two strategic alliances to utilize MTI's innovative transdermal technology. Our intention is to continue to build these types of alliances as they have the potential to allow Mylan to participate in branded commercial opportunities without the excessive burden of R&D net costs. These agreements are the latest in what we believe will be a series of strategic alliances that further demonstrate MTI's position as the partner of choice in transdermals.

Mylan's Fentanyl Transdermal System is the first AB-rated generic alternative to Duragesic®* and the first generic transdermal Class II opioid approved by the FDA.

Elegant Design



Mylan Technologies' Fentanyl Transdermal System (FTS) is the first AB-rated generic alternative to Duragesic®* approved by the Food and Drug Administration for the management of persistent, moderate to severe chronic pain. Through innovation, FTS provides clear benefits and affordability to patients and healthcare providers.

FTS consists of a one-layer, solid matrix design. It delivers fentanyl over a 72-hour period from a clear thin matrix patch in which the active ingredient is dispersed within the product's adhesive layer.

The architecture of FTS has resulted in an elegant application that contains no membranes, bulky liquid reservoirs or gels to break, rupture or leak.

FTS is an excellent example of MTI's world-class expertise in transdermal system development and commercialization.

*Registered trademark of Johnson & Johnson

MY OPPORTUNITY

UDL Laboratories Inc.
Nation's Largest Supplier of Unit Dose Pharmaceuticals

UDL Laboratories is Mylan's unit dose packaged products subsidiary. It provides hospitals, nursing homes and other healthcare institutions with a broad portfolio of generic products delivered in individually blistered, bar-coded packaging. offers significant benefits to healthcare providers and patients including reduced professional handling, dispensing accuracy and improved inventory control. Our practice of bar coding each dose serves us well as the FDA recently

UDL SELLS MORE GENERIC PHARMACEUTICALS IN UNIT DOSE FORM THAN ANY OTHER SINGLE COMPANY IN THE UNITED STATES*.

This method of packaging assists healthcare professionals in reducing dispensing errors, increasing efficiency and improving patient safety at facilities around the country.

UDL sells more generic pharmaceuticals in unit dose form than any other single company in the United States and garners three times the market share of its closest competitor*. UDL employs a dedicated sales force that serves more than 5,400 hospitals and other healthcare organizations. Our national distribution system and dependable inventory levels help ensure maximum efficiency in the institutional pharmacy setting.

UDL's dedication to improving patient safety focuses on the "Five Rights of Medication Administration" (Right Patient, Right Drug, Right Dose, Right Route of Administration, Right Time). As a result of this commitment, we have been bar coding medicine at the patient dispensing level for more than 15 years. Bar coding individual doses mandated all companies to add bar codes to all doses packaged for hospitals and other healthcare facilities in the United States.

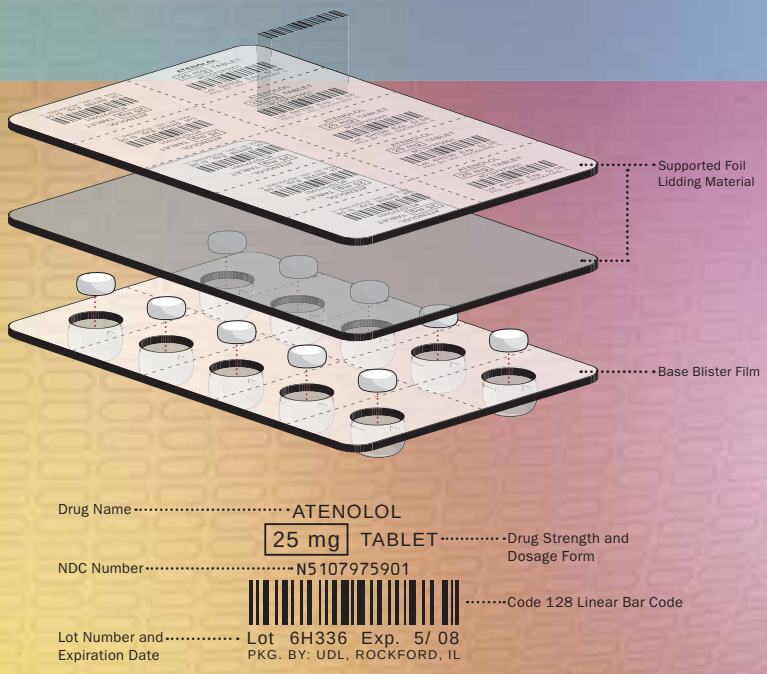
State-of-the-art manufacturing equipment allows UDL to meet the growing needs of our customers while maintaining the highest quality standards.

Patient safety issues also led UDL to use its expertise to develop other successful product lines such as Emergi-Script®, Robot-Rx™ Ready and pre-filled punch cards. In addition, UDL's commitment goes beyond its unit dose products. For instance, its two proprietary burn care products — Sulfamylon™ and Biobrane™ — are used in major burn treatment centers across the United States.

UDL enjoys access to a broad range of quality pharmaceuticals and a deep product pipeline through Mylan Laboratories and a number of other major suppliers thus serving a vital role throughout the entire pharmaceutical industry. With more than 25 years of experience, UDL is poised to capitalize on future growth opportunities in unit dose and specialty packaging.

**IMS Health*

Hospitals and healthcare facilities are adopting bar coding technologies developed by UDL to increase patient safety.



Prioritizing Patient Safety

Drug administration errors kill more than 7,000 people each year in the United States.* Easy-to-read, dependable packaging is an important factor in reducing drug administration error.

UDL offers consistent, legible labeling and is proud to have been the first in the industry to integrate National Drug Code (NDC), machine-readable bar codes on all of our individual unit dose blisters. In fact, UDL has been printing bar codes on unit dose blisters for more than 15 years.

As an additional support to our customers, UDL also offers an easy-to-use database program that assists healthcare professionals to incorporate bedside bar code scanning into their patient safety initiatives. Once loaded, unique bar codes can be read, recorded and cross-referenced to the appropriate product information and inventory databases helping hospitals and other healthcare facilities take an additional step to protect and care for their patients.

*Agency for Healthcare Research and Quality

MyPAC

Giving Employees a Voice on Issues That Affect Our Business

Decisions by federal and state lawmakers continue to have a significant impact on the generic drug industry and, ultimately, on the ability of Americans to access affordable pharmaceuticals. Mylan Laboratories has a long and successful history of working on the forefront with policymakers to shape the laws and regulations affecting the generic pharmaceutical industry. Most notably, Mylan's Co-founder and Chairman Milan Puskar worked closely with Congressional leaders as they wrote the federal Hatch-Waxman Act of 1984. This law shaped the generic industry as we know it today by providing both a pathway and an incentive for the production and marketing of affordable, high-quality generic pharmaceuticals.

Nearly 20 years after the initial policy was crafted, introduced and passed, Mylan helped lead industry efforts that resulted in a Congressional revision to the Hatch-Waxman Act, via the Medicare Modernization Act, to reflect new market realities and fairer trade practices. Mylan Laboratories also enhanced its efforts and relationships with state policymakers to promote utilization of generics as the most reliable and effective cost-containment tool for state healthcare and prescription benefit programs.

In 2003, Mylan took legislative support one step further by creating its own political action committee (PAC)—called MyPAC—to establish an even larger role for the company and its employees in the public policy process. MyPAC, the first and only PAC within a generic pharmaceutical company, is a bi-partisan organization composed of management employees.

MYPAC IS THE FIRST AND ONLY POLITICAL ACTION COMMITTEE WITHIN A GENERIC PHARMACEUTICAL COMPANY.

The group's mission is to work with elected officials who understand the distinct nuances of the generic pharmaceutical industry and make an effort to provide thoughtful leadership on issues that affect our business and the employees who make us successful.

MyPAC provides support for candidates who share the committee's collective vision for improved and healthy competition in the pharmaceutical marketplace

West Virginia Governor Joe Manchin III and First Lady Gayle Manchin recently visited Mylan's offices and met with members of MyPAC to discuss healthcare and pharmaceutical issues from a state government perspective.

Mylan has a long history of working with policymakers to help create laws that impact the generic pharmaceutical industry. A recently opened Washington, D.C., office will facilitate our continued interaction with Congress to ensure patients' rights to affordable medications.

and effective regulations that promote a vital generic industry. Contentious issues such as authorized generics, the misuse of citizen's petitions, and defining a pathway for the emerging generic biologics market are important not only to companies and employees who work within the industry but to healthcare consumers of all ages as well as businesses all over the United States.

Mylan is committed to remaining on the forefront of industry issues, and MyPAC provides our employees with an opportunity to get more directly involved in the political process that will help shape the future of Mylan and the generic pharmaceutical industry.

MYLAN®

Established in 2003, Mylan's political action committee (MyPAC) is a bi-partisan organization that supports candidates who share the committee's collective vision.

BOARD OF DIRECTORS

Milan Puskar
Co-Founder and Chairman of the Board, Mylan Laboratories Inc.

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

Wendy Cameron
Director and Co-Owner of Cam Land LLC

Neil Dimick
Retired,
Former Executive Vice President & Chief Financial Officer of AmerisourceBergen Corporation

Douglas J. Leech
Chairman, President & CEO Centra Bank, Inc. and Centra Financial Holdings, Inc.

Joseph C. Maroon, MD
Professor and Vice Chairman Department of Neurosurgery, University of Pittsburgh Medical Center

Rodney L. Piatt
President and Owner Horizon Properties

C.B. Todd
Retired,
Former President & Chief Operating Officer Mylan Laboratories Inc.

Randall L. Vanderveen, Ph.D.
Dean, John Stauffer Decanal Chair, School of Pharmacy, University of Southern California

EXECUTIVE OFFICERS

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

Edward J. Borkowski
Chief Financial Officer

Louis J. DeBone
President & Chief Operating Officer

John P. O'Donnell, Ph.D.
Chief Scientific Officer

Stuart A. Williams, Esq.
Chief Legal Officer

Section 302 Certifications and NYSE CEO Certification
Mylan Laboratories Inc. has filed the certifications of its Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 to its Annual Report on Form 10-K for the year ended March 31, 2006. In addition, the annual CEO certification required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual was submitted in November 2005.

FINANCIAL CONTENTS

SELECTED FINANCIAL DATA

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

(in thousands, except share and per share data)

Fiscal Year Ended March 31,	*2006*	*2005*	*2004*	*2003*	*2002*
STATEMENTS OF EARNINGS:					
Total revenues	$ 1,257,164	$ 1,253,374	$ 1,374,617	$ 1,269,192	$ 1,104,050
Cost of sales	629,548	629,834	612,149	597,756	480,111
Gross profit	627,616	623,540	762,468	671,436	623,939
Operating expenses:					
Research and development	102,057	87,881	100,813	86,748	58,847
Selling, general and administrative	225,754	259,478	201,612	173,070	169,913
Litigation settlements, net	12,417	(25,990)	(34,758)	(2,370)	–
Earnings from operations	287,388	302,171	494,801	413,988	395,179
Interest expense	31,285	–	–	–	–
Other income, net	18,502	10,076	17,807	12,525	13,144
Earnings before income taxes	274,605	312,247	512,608	426,513	408,323
Provision for income taxes	90,063	108,655	177,999	154,160	148,072
Net earnings	$ 184,542	$ 203,592	$ 334,609	$ 272,353	$ 260,251

March 31,	*2006*	*2005*	*2004*	*2003*	*2002*
SELECTED BALANCE SHEET DATA:					
Total assets	$ 1,870,526	$ 2,135,673	$ 1,885,061	$ 1,745,223	$ 1,619,880
Working capital	926,650	1,282,945	1,144,073	962,440	891,598
Deferred revenue	89,417	–	–	–	–
Long-term obligations	22,435	19,325	19,130	19,943	23,883
Long-term debt	685,188	–	–	–	–
Total shareholders' equity	787,651	1,845,936	1,659,788	1,446,332	1,402,239
PER COMMON SHARE DATA:					
Net earnings					
Basic	$ 0.80	$ 0.76	$ 1.24	$ 0.98	$ 0.92
Diluted	$ 0.79	$ 0.74	$ 1.21	$ 0.96	$ 0.91
Shareholders' equity – diluted	$ 3.36	$ 6.75	$ 6.01	$ 5.12	$ 4.89
Cash dividends declared and paid	$ 0.24	$ 0.12	$ 0.10	$ 0.08	$ 0.07
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:					
Basic	229,389	268,985	268,931	278,789	282,432
Diluted	234,209	273,621	276,318	282,330	286,578

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Results of Operations and Financial Condition

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

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

OVERVIEW

Mylan Laboratories Inc. and its subsidiaries (the "Company," "Mylan" or "we") develop, license, manufacture, market and distribute generic, brand and branded generic pharmaceutical products. Net revenues for fiscal 2006 were $1.24 billion compared to fiscal 2005 revenues of $1.25 billion.

Consolidated gross profit for fiscal 2006 was $627.6 million compared to $623.5 million in the prior year, an increase of 1%, while gross margins were consistent at approximately 50%. Net earnings for fiscal 2006 were $184.5 million compared to $203.6 million in fiscal 2005, a decrease of $19.0 million or 9%. In the same period, however, earnings per diluted share increased from $0.74 in fiscal 2005 to $0.79 in fiscal 2006. Current year earnings per share were impacted by share buybacks, including a modified "Dutch Auction" self-tender, which closed on July 21, 2005, whereby the Company accepted for payment an aggregate of 51,282,051 shares of its common stock at a purchase price of $19.50 per share. See below for further discussion.

Additionally, included in the current year results are expenses in the amount of $0.04 per diluted share, net of tax, with respect to a contingent legal liability related to previously disclosed litigation in connection with the Company's lorazepam and clorazepate products and $0.06 per diluted share, net of tax, of restructuring costs. Included in the financial results for fiscal 2005 were $0.06 per diluted share, net of tax, of income from the favorable settlement of other litigation.

A more thorough discussion of operating results is provided under the section "Results of Operations".

Other factors which impacted the results of fiscal 2006 were:

Nebivolol Licensing Agreement — On January 11, 2006, the Company announced an agreement with Forest Laboratories Holdings, Ltd. ("Forest"), a wholly owned subsidiary of Forest Laboratories, Inc., for the commercialization, development and distribution of Mylan's beta blocker, nebivolol, in the United States ("U.S.") and Canada. Under the terms of the agreement, Mylan received an up-front payment of $75.0 million, which will be deferred until the commercial launch of the product. Mylan also has the potential to earn future milestone payments as well as royalties based on nebivolol sales. Upon commercial launch, the up-front payment will be amortized into revenue over the remaining term of the license agreement. Forest has assumed all expenses for future nebivolol development programs and will be responsible for all sales and marketing expenses. Mylan has retained an option to co-promote the product in the future.

EMSAM® Approval — On February 28, 2006, Bristol-Myers Squibb Company ("BMS") and Somerset Pharmaceuticals, Inc. ("Somerset"), a joint venture between Mylan and Watson Pharmaceuticals, Inc., announced that the FDA approved EMSAM (selegiline transdermal system), the first transdermal patch for the treatment of major depressive disorder. In the prior fiscal year, Somerset entered into an agreement with BMS for the commercialization and distribution of EMSAM. EMSAM patches are manufactured by Mylan Technologies Inc., a subsidiary of Mylan. The product was launched in early fiscal 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Results of Operations and Financial Condition

Oxybutynin Agreements — On December 20, 2005, Mylan announced that Mylan Pharmaceuticals Inc. ("MPI") entered into two agreements with Ortho-McNeil Pharmaceutical, Inc. and Alza Corporation relating to oxybutynin chloride extended-release tablets, the generic equivalent of Ditropan XL. Under these agreements, an exclusive supply agreement on all strengths of oxybutynin will be triggered upon a final appellate court decision in the current patent litigation between the parties. Ortho-McNeil has also agreed to supply Mylan with a generic version of Ditropan XL sooner than a final appellate court decision if another generic version enters the market. Additionally, Mylan will be granted a non-exclusive, royalty bearing license to make and sell its ANDA products. The terms of these agreements differ depending upon the final outcome of the pending patent litigation. The terms of the agreements are confidential and subject to a number of conditions, including review by the U.S. Federal Trade Commission. Mylan has received tentative approval and is currently awaiting final approval from the FDA for its 5 mg and 10 mg strengths of oxybutynin. Prior to a final appellate court decision, Mylan retains all of the options that had been available to it with respect to oxybutynin prior to the signing of these agreements.

Sale of Apokyn® — On November 24, 2005, the Company announced the sale of the U.S. and Canadian rights for Apokyn to Vernalis plc. Under the terms of the agreement, Mylan received a cash payment of $23.0 million. In addition, Mylan will perform certain transitional services for one year, including supply chain management and customer service assistance. During fiscal 2006, $8.9 million of revenue associated with the sale was recognized and included in other revenues. The remainder, net of certain related assets, has been recorded as deferred revenue and is being recognized over the one-year period.

Share Buyback — On July 21, 2005, Mylan closed on its modified "Dutch Auction" self-tender and accepted for payment an aggregate purchase price of approximately $1.0 billion, 51,282,051 shares of its common stock at a price of $19.50 per share.

Subsequent to the completion of the "Dutch Auction" self-tender, Mylan completed a previously announced open market follow-on repurchase by repurchasing 12,595,200 shares of its common stock on the open market for an aggregate purchase price of approximately $250.0 million.

Financing — The share buyback described above was financed through Mylan's existing cash reserves as well as $500.0 million in Senior Notes and a $275.0 million borrowing under a $500.0 million senior secured credit facility. The Senior Notes, which were issued on July 21, 2005, consist of $150.0 million of Senior Notes due 2010, and bearing interest at 5¾% per annum, and $350.0 million of Senior Notes due 2015, and bearing interest at 6⅜% per annum. The senior secured credit facility, which was also entered into on July 21, 2005, consists of a $225.0 million five-year revolving credit facility, which the Company expects to use for working capital and general corporate purposes, and a $275.0 million five- year term loan. The term loan bears interest at LIBOR plus 150 basis points or prime plus 50 basis points at the Company's option. The interest rate in effect on the term loan at March 31, 2006, was 6.33%. At March 31, 2006, $188.0 million was outstanding under the term loan and no borrowings were outstanding under the revolving credit facility.

Closure of Mylan Bertek — During the first quarter of fiscal 2006, Mylan announced that it was closing Mylan Bertek Pharmaceuticals Inc. ("Mylan Bertek"), its branded subsidiary, and transferring responsibility for selling Mylan Bertek's products to its other subsidiaries, MPI and UDL Laboratories, Inc. In connection with this restructuring, the Company incurred restructuring charges of $20.9 million, of which $19.9 million was included in selling, general and administrative ("SG&A") expense. The restructuring charge consisted primarily of employee termination and severance costs associated with the Mylan Bertek sales force, along with lease termination costs and asset write-downs. As of March 31, 2006, the restructuring was substantially completed.

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Results of Operations and Financial Condition

RESULTS OF OPERATIONS

Fiscal 2006 Compared to Fiscal 2005

Total Revenues and Gross Profit

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

New products launched during the year contributed $6.7 million to net revenues in fiscal 2006 compared to $87.3 million in fiscal 2005, primarily due to fentanyl, which was launched in the fourth quarter of fiscal 2005. The Company considers a product to be a new product only in the year it is launched. Net revenues in fiscal 2006 however, did realize a significant benefit from a full year of sales of fentanyl, which accounted for over 10% of net revenues, as well as other products which were launched during fiscal 2005. The favorable impact of these products served to offset lower revenue on other products in the Company's portfolio, most notably omeprazole and carbidopa/levodopa. Both of these products realized lower net revenues as a result of increased competition. As is the case in the generic industry, the entrance into the market of other generic competition generally has a negative impact on the volume and pricing of the affected products.

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

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

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

Operating Expenses

Research and development ("R&D") expense for fiscal 2006 was $102.1 million compared to $87.9 million in fiscal 2005, which represents an increase of $14.2 million or 16%. This increase is primarily due to costs incurred for clinical studies related to nebivolol incurred prior to the outlicensing of the product in the fourth quarter of fiscal 2006, as well as an overall increase in the number of ongoing studies. The Company's continued commitment to, and investment in, R&D activities have resulted in a robust ANDA pipeline, and it is expected that R&D expenses will continue to increase in future periods.

SG&A expense for fiscal 2006 was $225.8 million compared to $259.5 million in fiscal 2005, a decrease of $33.7 million or 13%. Included in fiscal 2005 SG&A were costs of $22.9 million related to the terminated acquisition of King Pharmaceuticals, Inc. ("King"). Legal costs also decreased by approximately $9.0 million from fiscal 2005 to fiscal 2006, primarily as a result of the timing of certain litigation. Legal challenges continue to be an integral part of the Company's strategy and its ability to continue to deliver new generic products to the market.

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Results of Operations and Financial Condition

The remainder of the change in SG&A during fiscal 2006 is the result of the closure of Mylan Bertek as part of the Company's restructuring. Charges of $19.9 million were incurred primarily in the first and second quarters related to employee termination and severance costs, lease termination costs and asset write-downs. These costs, which were primarily related to the termination of the Mylan Bertek sales force, resulted in significant cost savings realized throughout the remainder of fiscal 2006.

Litigation Settlements, net

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

Interest Expense

During the second quarter of fiscal 2006, Mylan completed a financing of $500.0 million in Senior Notes and a $500.0 million senior secured credit facility (see "Contractual Obligations" herein). Interest expense related to this financing was $31.3 million for fiscal 2006. Included in interest expense is a commitment fee on the unused portion of the revolving credit facility and the amortization of financing fees.

Other Income, net

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

We own a 50% equity interest in Somerset and account for this investment using the equity method of accounting. The recorded loss in Somerset for fiscal 2006 was $2.5 million compared to a loss of $3.3 million in fiscal 2005. As a result of the launch of EMSAM as previously discussed, we expect to realize income from Somerset in the foreseeable future.

Income Taxes

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

Fiscal 2005 Compared to Fiscal 2004

Total Revenues and Gross Profit

Net revenues for fiscal 2005 were $1.25 billion compared to $1.36 billion for fiscal 2004, a decrease of $107.4 million or 8%. In arriving at net revenues, gross revenues are reduced by provisions for estimates, including discounts, customer performance and promotions, price adjustments, returns and chargebacks. See the section titled "Application of Critical Accounting Policies" for a thorough discussion of our methodology with respect to such provisions. For the fiscal year ended March 31, 2005, the most significant amounts charged against gross revenues were for chargebacks in the amount of $892.6 million and customer performance and promotions in the amount of $195.1 million. For fiscal 2004, chargebacks of $797.1 million and customer performance and promotions of $163.8 million were charged against gross revenues. The increase in the amounts charged against gross revenues for chargebacks in the current year is primarily the result of pricing pressures on certain products in the Company's portfolio, most notably omeprazole, carbidopa/levodopa and Amnesteem™, as well as a shift in amounts purchased by customers that are entitled to chargeback credits. Customer performance and promotions include direct rebates as well as promotional programs. The increase in the amounts charged against gross revenues for customer performance and promotions is primarily due to

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Results of Operations and Financial Condition

increased gross revenues (from which direct rebates are calculated) and promotions offered to customers in connection with the launch of fentanyl.

The decrease in net revenues was primarily the result of continued pricing pressure, including the effect of additional competition, on the Company's product portfolio. Omeprazole, which was launched during the second quarter of fiscal 2004, experienced significantly lower pricing as a direct result of additional generic competition. Increased competition also resulted in unfavorable pricing on Amnesteem and carbidopa/levodopa, which also experienced a loss of market share. As is the case in the generic industry, the entrance into the market of other generic competition generally has a negative impact on the volume and pricing of the affected products. In the near term, it is likely that unfavorable pricing will continue to impact certain products in the Company's portfolio. Additionally, net revenues were impacted by certain customers that decreased their level of purchases in order to reduce the amount of Mylan's inventory that they maintain on their shelves.

Partially offsetting the impact of the items discussed above were increased overall volume and revenues from new products. Despite the additional competition experienced in the current year, omeprazole sales volume increased due primarily to expanding the customer base and capitalizing on a higher generic conversion rate. Also, Mylan was able to establish its position as market leader, based on omeprazole prescriptions dispensed. On an overall basis, volume shipped for the year increased over 5% to 12.5 billion doses compared with the prior year.

New products launched subsequent to March 31, 2004 contributed net revenues of $87.3 million in the current fiscal year due largely to the launch of fentanyl in January 2005.

Fiscal 2004 other revenues included $13.9 million from the sale of the U.S. and Canadian rights for sertaconazole nitrate 2% cream.

Consolidated gross profit for fiscal 2005 was $623.5 million or 49.7% of revenues compared to $762.5 million or 55.5% of revenues in fiscal 2004. The decrease in gross margin is primarily the result of price erosion brought about by additional generic competition on the Company's portfolio, primarily omeprazole and carbidopa/levodopa.

Operating Expenses

R&D expense for fiscal 2005 was $87.9 million compared to $100.8 million in fiscal 2004, which represents a decrease of $12.9 million or 13%. This decrease is due primarily to the completion in late fiscal 2004 of clinical studies related to nebivolol, a product for the treatment of hypertension. The new drug application for nebivolol was submitted to the FDA on April 30, 2004 and accepted for filing by the FDA on June 29, 2004. Partially offsetting the decrease in R&D expenses as a result of nebivolol are increased R&D expenses related to other ongoing studies. The Company's continued commitment to, and investment in, R&D activities has resulted in a robust ANDA pipeline, with 44 applications pending before the FDA and 27 ANDA approvals in fiscal 2005, more than double the number from just two years ago. As clinical development programs for other products and life cycle management studies are initiated, it is expected that R&D expenses will increase in future periods.

SG&A expense for fiscal 2005 was $259.5 million compared to $201.6 million in fiscal 2004, an increase of $57.9 million or 29%. Included in SG&A expense for fiscal 2005 are approximately $18.3 million of costs directly related to the terminated King acquisition and an additional $4.6 million of consulting expenses related to the planned integration of the two companies. The remainder of the increase in SG&A expense is due to numerous factors, the most significant of which is payroll and payroll-related costs, which increased by approximately $9.8 million. Additionally, consulting expenses increased as a result of the Company's implementation of an enterprise resource planning ("ERP") system, and legal expenses increased as a result of new and ongoing litigation related to patent challenges and other product-related matters. Legal challenges continue to be an integral part of the Company's strategy and its ability to continue to deliver new generic products to the market.

Litigation Settlements, net

Net gains of $26.0 million were recorded in fiscal 2005 with respect to the settlement of various lawsuits. In June 2004, Mylan received $37.5 million in settlement of certain patent litigation claims involving omeprazole. A portion of this settlement represented reimbursement of legal fees and expenses related to the litigation. Partially offsetting this gain, Mylan agreed, also in June 2004, to a $9.0 million settlement resolving all pending litigation with respect to paclitaxel.

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Results of Operations and Financial Condition

Net gains of $34.8 million, also from the settlement of various lawsuits, were recorded in fiscal 2004. Of this, $12.5 million was related to a favorable settlement reached with respect to the marketing and manufacturing of Zagam®, and $10.2 million was related to a favorable settlement reached with respect to mirtazapine. The remainder of the settlement primarily relates to future payments to be made to Mylan totaling $10.0 million from Mylan's co-defendants in the lorazepam and clorazepate litigation.

Other Income, net

Other income, net of other expenses, was $10.1 million in fiscal 2005 compared to $17.8 million in fiscal 2004. This decrease of $7.7 million is primarily the result of lower realized gains on the sale of marketable securities in fiscal 2005 and a $5.0 million gain on the sale of an office building recorded in fiscal 2004, partially offset by less of a loss recorded in fiscal 2005 on our investment in Somerset.

We own a 50% equity interest in Somerset and account for this investment using the equity method of accounting. The recorded loss in Somerset for fiscal 2005 was $3.3 million compared to a loss of $7.1 million in fiscal 2004. The investment in Somerset was reduced to zero during fiscal 2005. As such, in accordance with Accounting Principles Board ("APB") Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, the Company temporarily ceased recording losses on this investment.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity continues to be cash flows from operating activities, which were $416.6 million for fiscal 2006. Working capital as of March 31, 2006 was $926.7 million, a decrease of $356.3 million from the balance at March 31, 2005. The majority of this decrease was the result of net sales of marketable securities and lower accounts receivable, net. In addition to long-term borrowings, the Company used existing cash and marketable securities to finance certain transactions described below.

The decrease in accounts receivable, net, is due to the timing of cash collections since the end of fiscal 2005, primarily with respect to sales of fentanyl, which was launched in the fourth quarter.

During the third quarter of fiscal 2006, the Company received $23.0 million related to the sale of the U.S. and Canadian rights for Apokyn. In fiscal 2006, $8.9 million of revenue associated with the sale was recognized and included in other revenues. The remainder, net of certain related assets, has been recorded as deferred revenue. During the fourth quarter, Mylan received $75.0 million related to its licensing agreement for nebivolol and has the potential to earn future milestone payments as well as royalties on nebivolol sales. Mylan also received payments totaling $20.0 million with respect to other licensing agreements. These payments, along with the $75.0 million, are also included in deferred revenue.

Cash provided by investing activities during fiscal 2006 was $195.1 million. Of the Company's $1.9 billion of total assets at March 31, 2006, $518.1 million was held in cash, cash equivalents and marketable securities. Investments in marketable securities consist of a variety of high credit quality debt securities, including U.S. government, state and local government, and corporate obligations. These investments are highly liquid and available for working capital needs. As these instruments mature, the funds are generally reinvested in instruments with similar characteristics.

Capital expenditures during fiscal 2006 were $103.7 million. These expenditures were incurred primarily with respect to the Company's planned expansions and the implementation of an ERP system. The Company anticipates that the majority of the remaining expenditures related to planned expansions and the ERP implementation will occur in fiscal 2007 and therefore expects capital expenditures for fiscal 2007 to be approximately $100.0 million.

Cash used in financing activities was $599.3 million for fiscal 2006. A total of $1.26 billion was used during fiscal 2006 to repurchase Mylan common stock. Of this, $1.0 billion was used to repurchase shares as part of the Company's modified "Dutch Auction" self-tender, with the remainder used to pay for expenses related to the self-tender and to repurchase shares under a previously announced open market follow-on repurchase program. In total, approximately 12.6 million shares were repurchased under the repurchase program in fiscal 2006 for approximately $250.0 million.

Cash proceeds of $775.0 million from the issuance of debt were received in the current year and used to partially finance the stock buybacks described above. During the fourth quarter of fiscal 2006, the Company made an optional principal payment of $85.0 million on its term loan, in addition to the required 1% annual amortization. This amount was in excess of the mandatory repayment obligation. Financing fees of $14.7 million were paid during fiscal 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Results of Operations and Financial Condition

In order to provide additional operating leverage, if necessary, the Company maintains a revolving credit facility under its senior credit facility providing for borrowing of up to $225.0 million. As of March 31, 2006, no funds were advanced under this facility.

Also included in cash flows from financing activities are proceeds of $56.9 million from the exercise of stock options and cash dividends paid of $49.8 million. In the first quarter of fiscal 2006, the Board of Directors voted to double the amount of the quarterly dividend to 6.0 cents per share from 3.0 cents per share, effective with the dividend paid for the first quarter of fiscal 2006.

Additionally, included in financing activities in fiscal 2006 was a $21.8 million change in the amount of outstanding checks in excess of cash in our primary disbursement accounts. The Company utilizes a cash management system under which uncleared checks in excess of the cash balance in the bank account at the end of the reporting period are shown as a book cash overdraft. The Company transfers cash on an as-needed basis to fund clearing checks. The Company does not incur any financing charges with respect to this arrangement.

The Company is involved in various legal proceedings that are considered normal to its business (see Note 16 to the Consolidated Financial Statements). While it is not feasible to predict the outcome of such proceedings, an adverse outcome in any of these proceedings could materially affect the Company's financial position and results of operations.

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

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

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations at March 31, 2006 and the effect that such obligations are expected to have on our liquidity and cash flows in future periods:

As of March 31, 2006 (in thousands)	*Total*	*Less than One Year*	*One-Three Years*	*Three-Five Years*	*Thereafter*
Operating leases	$ 9,911	$ 3,944	$ 5,466	$ 321	$ 180
Other long-term obligations	22,435	1,821	5,463	5,463	9,688
Long-term debt	691,927	6,739	8,250	176,938	500,000
Scheduled interest payments	286,889	42,660	122,817	47,967	73,445
Revolving credit facility	—	–	–	–	–
Letter of credit	975	975	–	–	–
	$ 1,012,137	$ 56,139	$ 141,996	$ 230,689	$ 583,313

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

Long-term debt consists of $500.0 million in Senior Notes and a $275.0 million borrowing under a $500.0 million senior secured credit facility. The Senior Notes consist of $150.0 million of Senior Notes due 2010, and bearing interest at 5¾% per annum (the "2010 Notes"), and $350.0 million of Senior Notes due 2015, and bearing interest at 6⅜% per annum (the "2015 Notes", and collectively, the "Notes"). The Senior Notes were originally issued on July 21, 2005, but were exchanged on January 14, 2006 in accordance with a registration rights agreement in a transaction consummated on January 19, 2006. The form and terms of the Senior Notes are identical in all material respects to the original notes except the transfer restrictions, registration rights and additional interest provisions relating to the original notes do not apply to the Notes. The senior secured credit facility, which was also entered into on July 21, 2005, consists of a $225.0

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Results of Operations and Financial Condition

million five-year revolving credit facility, which the Company expects to use for working capital and general corporate purposes, and a $275.0 million five-year term loan, of which the balance is approximately $188.0 million at March 31, 2006. The term loan bears interest at LIBOR plus 150 basis points or prime plus 50 basis points at the Company's option. The interest rate in effect on the term loan at March 31, 2006 was 6.33%. No borrowings were outstanding under the revolving credit facility at March 31, 2006.

Scheduled interest payments represent the estimated interest payments on the Notes and the senior secured credit facility. Variable debt interest payments are estimated using current interest rates, as discussed above.

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

In addition to the above, the Company has entered into various product licensing and development agreements. In some of these arrangements, we provide funding for the development of the product or obtain the rights to the use of the patent, through milestone payments, in exchange for marketing and distribution rights to the product. Because milestones represent the completion of specific contractual events and it is uncertain if and when these milestones will be achieved, such contingencies have not been recorded on the Company's Consolidated Balance Sheet. In the event that all projects are successful, milestone and development payments of approximately $13.7 million would be paid.

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

The Company does not have material financial guarantees or other contractual commitments that are reasonably likely to adversely affect liquidity. The Company does not have any special purpose entities or off- balance sheet financing arrangements.

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

APPLICATION OF CRITICAL ACCOUNTING POLICIES

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

Net Revenue Provisions

Net revenues are recognized for product sales upon shipment when title and risk of loss have transferred to the customer and when provisions for estimates, including discounts, rebates, promotional adjustments, price adjustments, returns, chargebacks, and other potential adjustments are reasonably determinable. Accruals for these provisions are presented in the Consolidated Financial Statements as reductions to net revenues and accounts receivable and within other current liabilities. Accounts receivable are presented net of allowances relating to these provisions, which were $381.8 million and $349.4 million at March 31, 2006 and 2005, respectively. Other current liabilities include $60.4 million and $51.8 million at March 31, 2006 and 2005, respectively for certain rebates and other adjustments that are paid to indirect customers.

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Results of Operations and Financial Condition

The following is a rollforward of the most significant provisions for estimated sales allowances during fiscal year ended March 31, 2006:

(in thousands)	*Balance at March 31, 2005*	*Checks/Credits Issued to Third Parties*	*Current Provision Related to Sales Made in the Current Period*	*Balance at March 31, 2006*
Chargebacks	$ 166,066	$ (1,081,389)	$ 1,106,560	$ 191,237
Customer performance and promotions	$ 69,802	$ (167,837)	$ 160,797	$ 62,762
Returns	$ 46,544	$ (39,177)	$ 44,401	$ 51,768

The accrual for chargebacks increased primarily as a result of continued pricing pressures on certain products in the Company's portfolio, most notably omeprazole and carbidopa/levodopa, as well as an increase in amounts purchased by customers that are entitled to chargeback credits. No material amounts included in the provision for chargebacks recorded in the current period relate to sales made in the prior period.

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

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

Returns — Consistent with industry practice, we maintain a return policy that allows our customers to return product within a specified period prior to and subsequent to the expiration date. Our estimate of the provision for returns is based upon our historical experience with actual returns, which is applied to the level of sales for the period that corresponds to the period during which our customers may return product. This period is known based on the shelf lives of our products at the time of shipment. Additionally, we consider factors such as levels of inventory in the distribution channel, product dating and expiration period, size and maturity of the market prior to a product launch, entrance in the market of additional generic competition, changes in formularies or launch of over-the-counter products, to name a few, and make adjustments to the provision for returns in the event that it appears that actual product returns may differ from our established reserves. We obtain data with respect to the level of inventory in the channel directly from certain of our largest customers. Although the introduction of additional generic competition does not give our customers the right to return product outside of our established policy, we do recognize that such competition could ultimately lead to increased returns. We analyze this on a case-by-case basis, when significant, and make adjustments to increase our reserve for product returns as necessary.

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Results of Operations and Financial Condition

Chargebacks — The provision for chargebacks is the most significant and complex estimate used in the recognition of revenue. The Company markets products directly to wholesalers, distributors, retail pharmacy chains, mail order pharmacies and group purchasing organizations. The Company also markets products indirectly to independent pharmacies, managed care organizations, hospitals, nursing homes and pharmacy benefit management companies, collectively referred to as "indirect customers." Mylan enters into agreements with its indirect customers to establish contract pricing for certain products. The indirect customers then independently select a wholesaler from which to actually purchase the products at these contracted prices. Alternatively, certain wholesalers may enter into agreements with indirect customers that establish contract pricing for certain products which the wholesalers provide. Under either arrangement, Mylan will provide credit to the wholesaler for any difference between the contracted price with the indirect party and the wholesaler's invoice price. Such credit is called a chargeback, while the difference between the contracted price and the wholesaler's invoice price is referred to as the chargeback rate. The provision for chargebacks is based on expected sell-through levels by our wholesaler customers to indirect customers, as well as estimated wholesaler inventory levels. For the latter, in most cases, inventory levels are obtained directly from certain of our largest wholesalers. Additionally, internal estimates are prepared based upon historical buying patterns and estimated end-user demand. Such information allows us to estimate the potential chargeback that we may ultimately owe to our customers given the quantity of inventory on hand. We continually monitor our provision for chargebacks and evaluate our reserve and estimates as additional information becomes available.

Legal Matters

The Company is involved in various legal proceedings, some of which involve claims for substantial amounts. An estimate is made to accrue for a loss contingency relating to any of these legal proceedings if it is probable that a liability was incurred as of the date of the financial statements and the amount of loss can be reasonably estimated. Because of the subjective nature inherent in assessing the outcome of litigation and because of the potential that an adverse outcome in a legal proceeding could have a material impact on the Company's financial position or results of operations, such estimates are considered to be critical accounting estimates. During fiscal 2006, the Company recorded an accrual of $12.0 million following a jury verdict of approximately that amount in the Company's lorazepam and clorazepate litigation. After a review of all other legal proceedings in which we are involved, it was determined at March 31, 2006, that the conditions mentioned above were not met. The Company will continue to evaluate all legal matters as additional information becomes available.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment*. SFAS No. 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. Under SFAS 123(R), companies will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB No. 25, *Accounting for Stock Issued to Employees*. Instead, companies will be required to account for such transactions using a fair-value method and to recognize compensation expense over the period during which an employee is required to provide services in exchange for the award. The Company has adopted SFAS No. 123(R) effective April 1, 2006. Based on the amount of options outstanding for which the requisite service has not yet been rendered by the employee, the Company expects to incur costs of approximately $11.0 million, net of tax, in fiscal 2007 as a result of the adoption of this standard.

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Results of Operations and Financial Condition

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

The following table summarizes the investments in marketable debt and equity securities which subject the Company to market risk at March 31, 2006 and 2005:

(in thousands)	*2006*	*2005*
Marketable debt securities	$ 362,458	$ 667,170
Marketable equity securities	5,545	3,178
	$ 368,003	$ 670,348

Marketable Debt Securities

The primary objectives for the marketable debt securities investment portfolio are liquidity and safety of principal. Investments are made to achieve the highest rate of return while retaining principal. Our investment policy limits investments to certain types of instruments issued by institutions and government agencies with investment grade credit ratings. At March 31, 2006, the Company had invested $362.5 million in marketable debt securities, of which $82.4 million will mature within one year and $280.1 million will mature after one year. The short duration to maturity creates minimal exposure to fluctuations in market values for investments that will mature within one year. However, a significant change in current interest rates could affect the market value of the remaining $280.1 million of marketable debt securities that mature after one year. A 5% change in the market value of the marketable debt securities that mature after one year would result in a $14.0 million change in marketable debt securities.

Long-Term Debt

On July 21, 2005, the Company issued $500.0 million in Senior Notes with fixed interest rates (which were exchanged for registered notes, as described previously) and entered into a $500.0 million senior secured credit facility (the "Credit Facility"). The Credit Facility consists of a $225.0 million five-year revolving credit facility (the "Revolving Credit Facility") and a $275.0 million five-year term loan (the "Term Loan"). Loans under the Revolving Credit Facility bear interest at a rate equal to either LIBOR plus 1.25% or prime plus 0.25% per annum, at the Company's option, and the Term Loan bears interest at a rate equal to LIBOR plus 1.50% per annum or prime plus 0.50% per annum, also at the Company's option. At March 31, 2006, no amounts have been drawn under the revolving credit facility, and approximately $188.0 million is outstanding under the Term Loan.

Generally, the fair market value of fixed interest rate debt will decrease as interest rates rise and increase as interest rates fall. As of March 31, 2006, the carrying value of our long-term debt approximated fair value. A 10% change in interest rates on the term loan would result in a change in interest expense of approximately $1.2 million per year.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

March 31,	*2006*	*2005*
ASSETS		
Current assets:		
Cash and cash equivalents	$ 150,124	$ 137,733
Marketable securities	368,003	670,348
Accounts receivable, net	242,193	297,334
Inventories	279,008	286,267
Deferred income tax benefit	137,672	119,327
Prepaid expenses and other current assets	14,900	17,443
Total current assets	1,191,900	1,528,452
Property, plant and equipment, net	406,875	336,719
Intangible assets, net	105,595	120,493
Goodwill	102,579	102,579
Other assets	63,577	47,430
Total assets	$ 1,870,526	$ 2,135,673
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Current liabilities:		
Trade accounts payable	$ 76,859	$ 78,114
Income taxes payable	12,963	44,123
Current portion of long-term obligations	4,336	1,586
Cash dividends payable	12,605	8,078
Other current liabilities	158,487	113,606
Total current liabilities	265,250	245,507
Deferred revenue	89,417	–
Long-term debt	685,188	–
Other long-term obligations	22,435	19,325
Deferred income tax liability	20,585	24,905
Total liabilities	1,082,875	289,737
Shareholders' equity		
Preferred stock – par value $0.50 per share		
Shares authorized: 5,000,000 Shares issued: none	—	–
Common stock – par value $0.50 per share		
Shares authorized: 600,000,000 in 2006 and 2005		
Shares issued: 309,150,251 in 2006 and 304,434,724 in 2005	154,575	152,217
Additional paid-in capital	418,954	354,172
Retained earnings	1,939,045	1,808,802
Accumulated other comprehensive earnings	2,450	870
	2,515,024	2,316,061
Less treasury stock – at cost		
Shares: 98,971,431 in 2006 and 35,129,643 in 2005	1,727,373	470,125
Total shareholders' equity	787,651	1,845,936
Total liabilities and shareholders' equity	$ 1,870,526	$ 2,135,673

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except share and per share data)

Fiscal year ended March 31,	*2006*	*2005*	*2004*
Revenues:			
Net revenues	$ 1,239,988	$ 1,247,785	$ 1,355,150
Other revenues	17,176	5,589	19,467
Total revenues	1,257,164	1,253,374	1,374,617
Cost of sales	629,548	629,834	612,149
Gross profit	627,616	623,540	762,468
Operating expenses:			
Research and development	102,057	87,881	100,813
Selling, general and administrative	225,754	259,478	201,612
Litigation settlements, net	12,417	(25,990)	(34,758)
Total operating expenses	340,228	321,369	267,667
Earnings from operations	287,388	302,171	494,801
Interest expense	31,285	–	–
Other income, net	18,502	10,076	17,807
Earnings before income taxes	274,605	312,247	512,608
Provision for income taxes	90,063	108,655	177,999
Net earnings	$ 184,542	$ 203,592	$ 334,609
Earnings per common share:			
Basic	$ 0.80	$ 0.76	$ 1.24
Diluted	$ 0.79	$ 0.74	$ 1.21
Weighted average common shares outstanding:			
Basic	229,389	268,985	268,931
Diluted	234,209	273,621	276,318

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except share and per share data)

Fiscal year ended March 31,	*2006*	*2005*	*2004*
COMMON STOCK — SHARES ISSUED:			
Shares at beginning of year	304,434,724	303,553,121	300,904,262
Stock options exercised	4,715,527	881,603	2,648,859
Shares at end of year	309,150,251	304,434,724	303,553,121
TREASURY STOCK:			
Shares at beginning of year	(35,129,643)	(35,129,643)	(29,143,443)
Issuance of restricted stock	35,463	–	472,500
Stock purchases	(63,877,251)	–	(6,458,700)
Shares at end of year	(98,971,431)	(35,129,643)	(35,129,643)
COMMON SHARES OUTSTANDING	210,178,820	269,305,081	268,423,478
COMMON STOCK, $0.50 PAR:			
Balance at beginning of year	$ 152,217	$ 151,777	$ 150,452
Stock options exercised	2,358	440	1,325
Balance at end of year	154,575	152,217	151,777
ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of year	354,172	338,143	304,350
Stock options exercised	54,531	9,628	25,342
Issuance of restricted stock	181	–	5,656
Unearned compensation	3,142	3,901	(9,352)
Tax benefit of stock option plans	7,221	2,500	12,159
Other	(293)	–	(12)
Balance at end of year	418,954	354,172	338,143
RETAINED EARNINGS:			
Balance at beginning of year	1,808,802	1,637,497	1,330,933
Net earnings	184,542	203,592	334,609
Dividends declared ($0.24 per share for fiscal 2006, $0.12 per share for fiscal 2005, $0.10 per share for fiscal 2004)	(54,299)	(32,287)	(28,045)
Balance at end of year	1,939,045	1,808,802	1,637,497
ACCUMULATED OTHER COMPREHENSIVE EARNINGS:			
Balance at beginning of year	870	2,496	3,718
Net unrealized gain (loss) on marketable securities	1,580	(1,626)	(1,222)
Balance at end of year	2,450	870	2,496
TREASURY STOCK, AT COST:			
Balance at beginning of year	(470,125)	(470,125)	(343,121)
Issuance of restricted stock	619	–	6,084
Stock purchases	(1,257,867)	–	(133,088)
Balance at end of year	(1,727,373)	(470,125)	(470,125)
TOTAL SHAREHOLDERS' EQUITY	$ 787,651	$ 1,845,936	$ 1,659,788
COMPREHENSIVE EARNINGS:			
Net earnings	$ 184,542	$ 203,592	$ 334,609
Other comprehensive earnings (loss), net of tax:			
Net unrealized holding gains (losses) gains on securities	1,397	(1,711)	3,009
Reclassification for losses (gains) included in net earnings	183	85	(4,231)
Other comprehensive gain (loss), net of tax	1,580	(1,626)	(1,222)
COMPREHENSIVE EARNINGS	$ 186,122	$ 201,966	$ 333,387

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

Fiscal year ended March 31,	*2006*	*2005*	*2004*
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 184,542	$ 203,592	$ 334,609
Adjustments to reconcile net earnings to net cash provided from operating activities:			
Depreciation and amortization	46,827	45,100	44,323
Realized gain on sale of marketable securities	—	–	(6,509)
Net loss from equity method investees	2,538	2,372	4,459
Change in estimated sales allowances	41,047	108,778	(24,016)
Restructuring provision	20,921	–	–
Deferred income tax (benefit) expense	(23,635)	(36,899)	32,275
Gain on sale of building	—	–	(5,000)
Other non-cash items	15,768	7,951	765
Loss (gain) from litigation, net	12,417	(25,990)	(34,758)
Receipts from (payments of) litigation settlements, net	1,691	42,990	(16,630)
Cash received from Somerset	—	–	10,000
Changes in operating assets and liabilities:			
Accounts receivable	19,081	(192,799)	18,617
Inventories	6,012	34,530	(83,020)
Trade accounts payable	20,534	8,082	(25,378)
Income taxes	(23,821)	22,010	(11,096)
Deferred revenue	106,642	–	–
Other operating assets and liabilities, net	(14,003)	(16,006)	(13,063)
Net cash provided by operating activities	416,561	203,711	225,578
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from (purchase of):			
Capital assets	(103,689)	(90,746)	(118,451)
Reduction of investment in a limited liability partnership	—	–	7,269
Sale of assets	—	–	12,000
Purchase of marketable securities	(686,569)	(780,806)	(793,539)
Proceeds from sale of marketable securities	991,060	693,289	640,511
Other items, net	(5,710)	3,372	1,884
Net cash provided by (used in) investing activities	195,092	(174,891)	(250,326)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash dividends paid	(49,772)	(32,261)	(26,024)
Payment of financing fees	(14,662)	–	–
Proceeds from long-term debt	775,000	–	–
Payment of long-term debt	(87,062)	–	–
Purchase of common stock	(1,257,867)	–	(133,088)
Proceeds from exercise of stock options	56,889	10,068	26,671
(Decrease) increase in outstanding checks in excess of cash in disbursement accounts	(21,788)	19,622	9,771
Net cash used in financing activities	(599,262)	(2,571)	(122,670)
Net increase (decrease) in cash and cash equivalents	12,391	26,249	(147,418)
Cash and cash equivalents – beginning of year	137,733	111,484	258,902
Cash and cash equivalents – end of year	$ 150,124	$ 137,733	$ 111,484
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Income taxes	$ 137,519	$ 123,725	$ 156,821
Interest	$ 29,110	$ –	$ –

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1.

NATURE OF OPERATIONS

Mylan Laboratories Inc. and its subsidiaries (the "Company" or "Mylan") are engaged in the development, licensing, manufacture, marketing and distribution of generic, brand and branded generic pharmaceutical products for resale by others. The principal markets for these products are proprietary and ethical pharmaceutical wholesalers and distributors, drug store chains, drug manufacturers, institutions, and public and governmental agencies within the United States.

NOTE 2.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation. The Consolidated Financial Statements include the accounts of Mylan Laboratories Inc. and those of its wholly owned and majority-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

During the first quarter of fiscal 2006, Mylan announced that it was closing Mylan Bertek Pharmaceuticals Inc. ("Mylan Bertek"), its branded subsidiary. Mylan previously reported its financial results in two reportable segments, Generic and Brand. With the closure of Mylan Bertek, Mylan now reports one segment, and began reporting as such effective with the first quarter of fiscal 2006. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 131, *Disclosures about Segments of an Enterprise and Related Information*, information for earlier periods has been recast and reported as one segment.

Cash Equivalents. Cash equivalents are composed of highly liquid investments with an original maturity of three months or less at the date of purchase. The Company utilizes a cash management system under which a book cash overdraft in the amount of $7,605,000 and $29,393,000 at March 31, 2006 and 2005, respectively, exists for the Company's primary disbursement accounts. This overdraft, which is included in accounts payable, represents uncleared checks in excess of the cash balance in the bank account at the end of the reporting period. The Company transfers cash on an as-needed basis to fund clearing checks.

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

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

Mylan invests its excess cash in high-quality, liquid money market instruments (principally commercial paper, government, municipal and government agency notes and bills) maintained by financial institutions. The Company maintains deposit balances at certain of these financial institutions in excess of federally insured amounts.

Mylan performs ongoing credit evaluations of its customers and generally does not require collateral. Approximately 76% and 78% of the accounts receivable balances represent amounts due from three customers at March 31, 2006 and four customers at March 31, 2005, respectively. Total allowances for doubtful accounts were $10,954,000 and $7,340,000 at March 31, 2006 and 2005, respectively.

Inventories. Inventories are stated at the lower of cost or market, with cost determined by the first-in, first-out method.

We have made, are in the process of making and/or will scale-up and make commercial quantities of certain products prior to the date we anticipate that such products will receive final U.S. Food and Drug Administration ("FDA") marketing approval and/or satisfactory resolution of patent infringement litigation involving them (i.e., pre-launch inventories). The scale-up and commercial production of pre-launch inventories involves the risk that such products may not be approved for marketing by the FDA on a timely basis, or ever, and/or that the outcome of related litigation may not be satisfactory. This risk notwithstanding, we plan to continue to scale-up and build pre-launch inventories of certain products that have not yet received final FDA approval and/or satisfactory resolution of patent infringement litigation when we believe that such action is appropriate in relation to the commercial value of the product launch opportunity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2006, we had approximately $19,000,000 of inventory relating to products pending launch while we await receipt of final FDA marketing approval and/or satisfactory resolution of patent infringement litigation. The majority of our pre-launch inventories represent inventories for which we have received tentative approval from the FDA and are awaiting satisfactory resolution of patent infringement litigation.

Provisions for potentially obsolete or slow-moving inventory, including pre-launch inventory, are made based on our analysis of inventory levels, historical obsolescence and future sales forecasts.

Property, Plant and Equipment. Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed and recorded on a straight-line basis over the assets' estimated service lives (3 to 10 years for machinery and equipment and 15 to 39 years for buildings and improvements). The Company periodically reviews the original estimated useful lives of assets and makes adjustments when appropriate. Depreciation expense was $32,126,000, $26,455,000 and $23,237,000 for fiscal years 2006, 2005 and 2004, respectively.

Intangible Assets. Intangible assets are stated at cost less accumulated amortization. Amortization is generally recorded on a straight-line basis over estimated useful lives ranging from 2 to 20 years. The Company periodically reviews the original estimated useful lives of assets and makes adjustments when events indicate a shorter life is appropriate.

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

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

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

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

Revenue Recognition. Mylan recognizes revenue for product sales upon shipment when title and risk of loss pass to its customers and when provisions for estimates, including discounts, rebates, price adjustments, returns, chargebacks, and other promotional programs, are reasonably determinable. No revisions were made to the methodology used in determining these provisions during the fiscal year ended March 31, 2006. The following briefly describes the nature of each provision and how such provisions are estimated.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Accounts receivable are presented net of allowances relating to the above provisions. No revisions were made to the methodology used in determining these provisions during the fiscal years ended March 31, 2006 and 2005. Such allowances were $381,800,000 and $349,355,000 at March 31, 2006 and 2005, respectively. Other current liabilities include $60,374,000 and $51,772,000 at March 31, 2006 and 2005, respectively, for certain rebates and other adjustments that are paid to indirect customers.

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

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

Royalty revenue from licensees, which are based on third-party sales of licensed products and technology, is earned in accordance with the contract terms when third-party sales can be reliably measured and collection of the funds is reasonably assured. Royalty revenue is included in other revenue on the consolidated statement of earnings. Additionally, included in other revenue for fiscal 2004, was $13,910,000, representing income related to the sale of U.S. and Canadian rights for sertaconazole nitrate 2% cream.

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

Three of the Company's customers accounted for 16%, 14% and 17% of the net revenues in fiscal 2006. Three customers accounted for 11%, 19% and 16%, respectively, of net revenues in fiscal 2005, and two customers accounted for 21% and 15%, respectively, of net revenues in fiscal 2004.

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

(in thousands) *Fiscal Year Ended March 31,*	*2006*	*2005*	*2004*
Central Nervous System	$ 475,898	$ 366,654	$ 322,790
Cardiovascular	422,727	484,588	530,613
Dermatology	72,843	74,048	102,513
Gastrointestinal	46,701	93,713	137,743
Other[1]	221,819	228,782	261,491
	$ 1,239,988	$ 1,247,785	$ 1,355,150

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Advertising Costs. Advertising costs are expensed as incurred and amounted to $5,435,000, $9,745,000 and $8,997,000 in fiscal years 2006, 2005 and 2004, respectively.

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

Earnings per Common Share. Basic earnings per common share is computed by dividing net earnings by the weighted average common shares outstanding for the period. Diluted earnings per common share is computed by dividing net earnings by the weighted average common shares outstanding adjusted for the dilutive effect of stock options, restricted stock or restricted units granted, excluding antidilutive shares, under our stock option plans (see Note 12). At March 31, 2006, 2005 and 2004, there were 312,750, 6,779,000 and 90,000 shares, respectively, that were antidilutive.

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

(in thousands, except per share data)

Fiscal Year Ended March 31,	*2006*	*2005*	*2004*
Net earnings	$ 184,542	$ 203,592	$ 334,609
Weighted average common shares outstanding	229,389	268,985	268,931
Assumed exercise of dilutive stock options, restricted stock and restricted units	4,820	4,636	7,387
Diluted weighted average common shares outstanding	234,209	273,621	276,318
Earnings per common share:			
Basic	$ 0.80	$ 0.76	$ 1.24
Diluted	$ 0.79	$ 0.74	$ 1.21

Stock Options. In accordance with the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, and SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123*, the Company accounts for its stock option plans under the intrinsic-value-based method as defined in Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*. The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

(in thousands, except per share data)

Fiscal Year Ended March 31,	*2006*	*2005*	*2004*
Net earnings, as reported	$ 184,542	$ 203,592	$ 334,609
Add: Stock-based compensation expense included in reported net earnings, net of related tax effects	2,649	2,543	1,553
Deduct: Total compensation expense determined under fair-value based method for all stock awards, net of related tax effects	(11,845)	(14,852)	(24,674)
Pro forma net earnings	$ 175,346	$ 191,283	$ 311,488
Earnings per share:			
Basic – as reported	$ 0.80	$ 0.76	$ 1.24
Basic – pro forma	$ 0.76	$ 0.71	$ 1.16
Diluted – as reported	$ 0.79	$ 0.74	$ 1.21
Diluted – pro forma	$ 0.75	$ 0.70	$ 1.14

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Reclassification. Certain prior year amounts were reclassified to conform to the fiscal 2006 presentation.

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

Recent Accounting Pronouncements. In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), *Share-Based Payment*. SFAS No. 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. Under SFAS No. 123(R), companies will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB No. 25. Instead, companies will be required to account for such transactions using a fair-value method and to recognize compensation expense over the period during which an employee is required to provide services in exchange for the award. The Company has adopted SFAS No. 123(R) effective April 1, 2006. Based on the amount of options outstanding for which the requisite service has not yet been rendered by the employee, the Company expects to incur costs of approximately $11,000,000, net of tax, in fiscal 2007 as a result of the adoption of this standard.

NOTE 3. RESTRUCTURING

On June 14, 2005, the Company announced that it was closing its branded subsidiary, Mylan Bertek, and transferring the responsibility for marketing Mylan Bertek's products to other Mylan subsidiaries. In conjunction with this restructuring, the Company incurred restructuring charges of $20,921,000, pre-tax, during the year ended March 31, 2006. Of this, $1,000,000 is included in research and development expense, with the remainder in selling, general and administrative expense. As of March 31, 2006, the Company's restructuring was substantially complete. The major components of the restructuring charge and the remaining accrual balance at March 31, 2006, were as follows:

(in thousands)	*Non-Cash Asset Write-downs*	*Employee Termination and Severance Costs*	*Other Exit Costs*	*Total*
Accrued restructuring costs – March 31, 2005	$ –	$ –	$ –	$ –
Restructuring charge – fiscal 2006	1,636	15,117	4,168	20,921
Amounts utilized – fiscal 2006	(1,636)	(14,603)	(2,516)	(18,755)
Accrued restructuring costs– March 31, 2006	$ –	$ 514	$ 1,652	$ 2,166

Employee termination and severance costs were primarily related to involuntary terminations, most of which were with respect to the Mylan Bertek sales force, and represent cash termination payments paid to the affected employees as a direct result of the restructuring. Exit costs consist primarily of lease termination costs incurred as a result of the restructuring.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4.

BALANCE SHEET COMPONENTS

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

(in thousands)	*2006*	*2005*
Inventories:		
Raw materials	$ 98,259	$ 119,654
Work in process	36,073	39,589
Finished goods	144,676	127,024
	$ 279,008	$ 286,267
Property, plant and equipment:		
Land and improvements	$ 10,639	$ 9,704
Buildings and improvements	175,343	161,050
Machinery and equipment	287,202	269,208
Construction in progress	144,429	85,324
	617,613	525,286
Less accumulated depreciation	210,738	188,567
	$ 406,875	$ 336,719
Other current liabilities:		
Payroll and employee benefit plan accruals	$ 24,323	$ 21,251
Accrued rebates	60,374	51,772
Royalties and product license fees	9,320	11,446
Deferred revenue	17,225	–
Legal and professional	30,074	18,148
Other	17,171	10,989
	$ 158,487	$ 113,606

NOTE 5.

MARKETABLE SECURITIES

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

(in thousands)	*Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Fair Value*
MARCH 31, 2006				
Debt securities	$ 364,266	$ 79	$ 1,887	$ 362,458
Equity securities	—	5,545	—	5,545
	$ 364,266	$ 5,624	$ 1,887	$ 368,003
MARCH 31, 2005				
Debt securities	$ 669,044	$ 194	$ 2,068	$ 667,170
Equity securities	–	3,178	–	3,178
	$ 669,044	$ 3,372	$ 2,068	$ 670,348

Net unrealized gains on marketable securities are reported net of tax of $1,287,000 and $434,000 in fiscal 2006 and fiscal 2005, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Maturities of debt securities at fair value as of March 31, 2006, are as follows:

(in thousands)	
Mature within one year	$ 82,447
Mature in one to five years	35,855
Mature in five years and later	244,156
	$ 362,458

Gross gains of $878,000, $7,000 and $7,322,000 and gross losses of $1,160,000, $67,000 and $813,000 were realized during fiscal years 2006, 2005 and 2004, respectively.

NOTE 6.

INTANGIBLE ASSETS

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

(in thousands)	*Weighted Average Life (years)*	*Original Cost*	*Accumulated Amortization*	*Net Book Value*
MARCH 31, 2006				
Amortized intangible assets:				
Patents and technologies	20	$ 118,935	$ 54,836	$ 64,099
Product rights and licenses	12	111,135	77,444	33,691
Other	20	14,267	7,245	7,022
		$ 244,337	$ 139,525	104,812
Intangible assets no longer subject to amortization:				
Trademarks				783
				$ 105,595
MARCH 31, 2005				
Amortized intangible assets:				
Patents and technologies	19	$ 118,935	$ 48,478	$ 70,457
Product rights and licenses	12	111,433	69,923	41,510
Other	20	14,267	6,524	7,743
		$ 244,635	$ 124,925	119,710
Intangible assets no longer subject to amortization:				
Trademarks				783
				$ 120,493

Other intangibles consist principally of customer lists and contracts.

Amortization expense for fiscal years 2006, 2005 and 2004 was $14,701,000, $17,708,000 and $20,155,000, respectively, and is expected to be $14,407,000, $13,637,000, $13,460,000, $12,411,000 and $11,259,000 for fiscal years 2007 through 2011, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7.

OTHER ASSETS

Other assets consist of the following components at March 31:

(in thousands)	*2006*	*2005*
Cash surrender value	$ 40,945	$ 38,965
Financing fees	12,813	–
Investments in and advances to Somerset	462	–
Other	9,357	8,465
	$ 63,577	$ 47,430

Cash surrender value is related to insurance policies on certain officers and key employees and the value of split-dollar life insurance agreements with certain former executive officers. See Note 8 for a discussion of financing fees.

In November 1988, the Company acquired 50% of the outstanding common stock of Somerset Pharmaceuticals, Inc. ("Somerset"). Mylan accounts for this investment using the equity method of accounting. The recorded loss in Somerset for fiscal 2006 was $2,538,000 compared to a loss of $3,265,000 in fiscal 2005.

NOTE 8.

LONG-TERM DEBT

A summary of long-term debt is as follows:

(in thousands)	*March 31, 2006*	*March 31, 2005*
Senior Notes (A)	$ 500,000	$ –
Senior credit facility (B)	187,938	–
	687,938	–
Less: Current portion	2,750	–
Total long-term debt	$ 685,188	$ –

(A) On July 21, 2005, the Company issued $500,000,000 in Senior Notes, which consisted of $150,000,000 of Senior Notes due August 15, 2010, and bearing interest at 5¾% per annum (the "2010 Restricted Notes") and $350,000,000 of Senior Notes due August 15, 2015, and bearing interest at 6⅜% per annum (the "2015 Restricted Notes", and collectively the "Restricted Notes"). The proceeds from the Restricted Notes were used to finance a portion of the "Dutch Auction" self-tender described in Note 11.

In connection with the completion of the issuance of the Restricted Notes, the Company entered into a registration rights agreement with the initial purchasers of the Restricted Notes (the "Registration Rights Agreement"), dated July 21, 2005. On January 19, 2006, pursuant to its obligations under the Registration Rights Agreement, the Company consummated an exchange offer of the Restricted Notes for $150,000,000 of Senior Notes due August 15, 2010, and bearing interest at 5¾% per annum ("2010 Notes") and $350,000,000 of Senior Notes due August 15, 2015, and bearing interest at 6⅜% per annum ("2015 Notes", and collectively, the "Notes"), the issuance of each of which has been registered under the Securities Act of 1933, as amended. The form and terms of the 2010 Notes and the 2015 Notes are identical in all material respects to the 2010 Restricted Notes and the 2015 Restricted Notes, respectively, with the exception of the transfer restrictions, registration rights and additional interest provisions relating to the Restricted Notes which do not apply to the Notes. Interest is payable semiannually on February 15 and August 15 and commenced on February 15, 2006.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Also, the assets and operations of Mylan Laboratories Inc. ("Mylan Labs"), the parent company, are not material, and, as such, condensed consolidating financial information for the parent and subsidiaries is not provided.

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

(B) On July 21, 2005, the Company entered into a $500,000,000 senior secured credit facility (the "Credit Facility"). The Credit Facility consists of a $225,000,000 five-year revolving credit facility (the "Revolving Credit Facility"), which the Company intends to use for working capital and general corporate purposes, and a $275,000,000 five-year term loan (the "Term Loan"), the proceeds of which were used to fund a portion of the "Dutch Auction" self-tender described in Note 11. Loans under the Revolving Credit Facility bear interest at a rate equal to either LIBOR plus 1.25% per annum or prime plus 0.25% per annum, at the Company's option, and the Term Loan bears interest at a rate equal to LIBOR plus 1.50% per annum or prime plus 0.50% per annum also at the Company's option.

The Term Loan interest rate in effect at March 31, 2006 was 6.33%. The Company is required to pay a fee on the unused portion of the Revolving Credit Facility of 0.50% per annum. At March 31, 2006, no borrowings were outstanding under the Revolving Credit Facility. The Term Loan will amortize at a rate of 1% per year for the first four years, with the balance paid in four equal quarterly installments thereafter. Subject to exceptions, the Credit Facility has mandatory prepayments with respect to certain proceeds of asset sales, debt issuances and equity issuances and with respect to the Company's excess cash flows. Also, the Term Loan may be prepaid without penalty at any time in whole or in part at the Company's option. In March 2006, the Company elected to make a principal payment of $85,000,000. Because the amount of mandatory prepayment may vary from quarter to quarter and cannot be reasonably estimated, only the 1% per year amortization is included on the balance sheet as a current liability.

The Company's obligations under the Credit Facility are guaranteed jointly and severally on a full and unconditional senior secured basis by all of the Company's wholly owned domestic subsidiaries except a captive insurance company, which is considered to be a minor subsidiary. The obligations under the Credit Facility are also collateralized by a first priority lien on, and pledge of, 100% of the equity interests of certain of the Company's wholly owned domestic subsidiaries and 65% of the equity interests of each of the Company's foreign subsidiaries.

The Credit Facility includes covenants that (a) require the Company to maintain a minimum interest coverage ratio and a maximum total leverage ratio, (b) place limitations on the Company's ability to incur debt; grant liens; carry out mergers, acquisitions and asset sales; and make investments and (c) place limitations on the Company's ability to pay dividends or make other restricted payments.

All financing fees associated with the Notes and the Credit Facility are being amortized over the life of the related debt. The total unamortized amounts of $12,813,000 are included in other assets in the Consolidated Balance Sheet at March 31, 2006.

At March 31, 2006, the carrying value of the Company's long-term debt approximated fair value.

Principal maturities of the Notes and Credit Facility for the next five years and thereafter, as of March 31, 2006, are as follows:

Fiscal (in thousands)	
2007	$ 2,750
2008	2,750
2009	2,750
2010	134,938
2011	194,750
Thereafter	350,000
	$ 687,938

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9.

OTHER LONG-TERM OBLIGATIONS

Long-term obligations consist of the following components at March 31:

(in thousands)	*2006*	*2005*
Deferred compensation	$ 18,429	$ 17,196
Retirement benefits	3,168	2,683
Other	2,424	1,032
Total long-term obligations	24,021	20,911
Less: Current portion of long-term obligations	1,586	1,586
Long-term obligations, net of current portion	$ 22,435	$ 19,325

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

NOTE 10.

INCOME TAXES

Income taxes consist of the following components:

(in thousands) *Fiscal Year Ended March 31,*	*2006*	*2005*	*2004*
Federal:			
Current	$ 104,204	$ 134,994	$ 133,223
Deferred	(22,359)	(34,513)	30,549
	81,845	100,481	163,772
State and Puerto Rico:			
Current	9,494	10,560	12,501
Deferred	(1,276)	(2,386)	1,726
	8,218	8,174	14,227
Income taxes	$ 90,063	$ 108,655	$ 177,999
Pre-tax earnings	$ 274,605	$ 312,247	$ 512,608
Effective tax rate	32.8%	34.8%	34.7%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(in thousands)	*2006*	*2005*	*2004*
Deferred tax assets:			
Employee benefits	$ 10,948	$ 10,301	$ 9,824
Legal matters	4,551	–	–
Intangible assets	14,488	10,615	9,721
Accounts receivable allowances	121,235	113,267	75,301
Inventories	4,851	3,587	1,852
Investments	6,028	6,003	8,099
Other	2,783	1,117	656
Total deferred tax assets	164,884	144,890	105,453
Deferred tax liabilities:			
Plant and equipment	21,168	22,848	19,271
Intangible assets	23,977	25,946	27,915
Investments	2,547	1,569	2,394
Other	105	105	–
Total deferred tax liabilities	47,797	50,468	49,580
Deferred tax asset, net	$ 117,087	$ 94,422	$ 55,873
Classification in the Consolidated Balance Sheets:			
Deferred income tax benefit – current	$ 137,672	$ 119,327	$ 78,477
Deferred income tax liability – noncurrent	20,585	24,905	22,604
Deferred tax asset, net	$ 117,087	$ 94,422	$ 55,873

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

Fiscal Year Ended March 31,	*2006*	*2005*	*2004*
Statutory tax rate	35.0%	35.0%	35.0%
State and Puerto Rico income taxes	4.0%	2.8%	2.7%
State and Puerto Rico tax credits	(1.5%)	(1.3%)	(0.7%)
Federal tax credits	(1.0%)	(2.1%)	(1.8%)
Resolution of prior year tax positions	(2.7%)	–	–
Other items	(1.0%)	0.4%	(0.5%)
Effective tax rate	32.8%	34.8%	34.7%

During fiscal 2006, we recorded a tax benefit of $7,530,000, primarily related to the resolution of certain positions with taxing authorities. These tax positions were resolved through the completion of audits or through the acceptance of Mylan's amended return filings.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Under Section 936 of the U.S. Internal Revenue Code ("IRC"), Mylan is a "grandfathered" entity and is entitled to the benefits under such statute through fiscal 2006. Its Section 936 federal tax credits totaled approximately $1,461,000 in fiscal 2006, $3,874,000 in fiscal 2005 and $4,732,000 in fiscal 2004. However, the decrease in the credit was offset by newly-enacted IRC Section 199, Deduction for Domestic Production Activities, which resulted in a tax benefit of approximately $3,000,000.

The Internal Revenue Service ("IRS") has substantially completed its federal tax audit for fiscal years 2002 through 2004. Tax and interest related to the negotiated settlement of certain federal tax positions as a result of those audits has been recorded as of March 31, 2006. Mylan has received notification from the IRS that it will soon commence audit of Mylan's tax returns for fiscal 2005 and 2006. In addition, beginning with fiscal 2007, Mylan will be a voluntary participant in the IRS Compliance Assurance Process, which will result in real-time federal tax audits.

NOTE 11.
PREFERRED AND COMMON STOCK

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

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

On June 14, 2005, the Company announced a $1,250,000,000 share buyback, comprised of a modified "Dutch Auction" self-tender for up to $1,000,000,000 (which commenced on June 16, 2005) and a $250,000,000 follow-on share repurchase program. In the tender offer, shareholders were given the opportunity to tender some or all of their shares at a price not less than $18.00 per share or more than $20.50 per share. Based on the number of shares tendered and the prices specified by the tendering shareholders, the Company determined the lowest per share price within the range that would enable it to buy up to 48,780,487 shares, or such lesser number of shares as were properly tendered. Additionally, in the event the final purchase price was less than the maximum price of $20.50 per share and more than 48,780,487 shares were tendered, the Company had the right to purchase up to an additional 2% of its outstanding common stock without extending the tender offer so that the Company could repurchase up to $1,000,000,000 of its common stock.

The tender offer expired on July 15, 2005 and closed on July 21, 2005, at which time the Company announced that it accepted for payment an aggregate of 51,282,051 shares of its common stock at a purchase price of $19.50 per share. The 51,282,051 shares are comprised of the 48,780,487 shares the Company offered to purchase and 2,501,564 shares purchased pursuant to the Company's right to purchase up to an additional 2%.

Additionally, during fiscal 2006, the Company purchased 12,595,200 shares for approximately $250,000,000 on the open market under the follow-on repurchase program. The follow-on repurchase program was completed on February 14, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12.

STOCK OPTION PLAN

On July 25, 2003, Mylan's shareholders approved the *Mylan Laboratories Inc. 2003 Long-Term Incentive Plan* (the "2003 Plan"). Under the 2003 Plan, 22,500,000 shares of common stock are reserved for issuance to key employees, consultants, independent contractors and non-employee directors of Mylan through a variety of incentive awards, including: stock options, stock appreciation rights, restricted shares and units, performance awards, other stock-based awards and short-term cash awards.

In August 2003 and February 2006, the Company awarded 472,500 shares and 35,463 shares, respectively, of restricted common stock to certain executives as permitted under the 2003 Plan. The shares primarily vest at the end of a three-year period. Upon issuance of the restricted shares, unearned compensation of $11,740,000 and $800,000 respectively, was charged to shareholders' equity for the fair value of the restricted stock issued and is being recognized as compensation expense ratably over the three-year period.

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

The following table summarizes stock option activity:

	Number of Shares Under Option	*Weighted Average Exercise Price per Share*
Outstanding at March 31, 2003	23,888,481	$ 13.13
Options granted	1,911,951	20.08
Options exercised	(2,667,593)	10.18
Options forfeited	(302,931)	17.12
Outstanding at March 31, 2004	22,829,908	13.99
Options granted	649,900	19.05
Options exercised	(891,092)	11.30
Options forfeited	(286,928)	19.13
Outstanding at March 31, 2005	22,301,788	14.17
Options granted	5,780,123	17.61
Options exercised	(4,729,113)	12.03
Options forfeited	(1,994,128)	18.65
Outstanding at March 31, 2006	**21,358,670**	**$ 15.16**

The following table summarizes information about stock options outstanding as of March 31, 2006:

	Options Outstanding			*Options Exercisable*	
Ranges of Exercise Price per Share	*Number of Shares*	*Average Life[1]*	*Average Price[2]*	*Number of Shares*	*Average Price[2]*
$ 6.56 – $ 10.97	2,662,396	4.25	$ 10.26	2,662,396	$ 10.26
10.97 – 13.19	6,212,368	5.30	11.71	6,202,806	11.71
13.19 – 17.45	1,918,927	6.32	14.70	1,819,077	14.63
17.46 – 17.46	5,239,186	9.34	17.46	2,298	17.46
17.72 – 26.00	5,325,793	7.17	19.55	2,519,839	19.59
$ 6.56 – $ 26.00	21,358,670	6.72	$ 15.16	13,206,416	$ 13.33

(1) Weighted average contractual life remaining in years.

(2) Weighted average exercise price per share.

The number of shares exercisable and the associated weighted average exercise price as of March 31, 2005, was 16,784,002 shares at $12.61 per share.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SFAS No. 123 requires the calculation of the fair value of options granted during each fiscal year. The fair value of options granted in fiscal years 2006, 2005 and 2004, using the Black-Scholes option pricing model, and the assumptions used are as follows:

Fiscal Year Ended March 31,	*2006*	*2005*	*2004*
Volatility	38.7%	41.8%	41.1%
Risk-free interest rate	4.0%	3.2%	2.7%
Dividend yield	1.3%	0.6%	0.4%
Expected term of options (in years)	4.5	4.2	6.5
Weighted average fair value per option	$ 5.92	$ 6.73	$ 8.51

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

NOTE 13.

EMPLOYEE BENEFITS

The Company has a plan covering substantially all employees to provide for limited reimbursement of postretirement supplemental medical coverage. In addition, in December 2001, the Supplemental Health Insurance Program for Certain Officers of Mylan Laboratories was adopted to provide full postretirement medical coverage to certain officers and their spouse and dependents. These plans generally provide benefits to employees who meet minimum age and service requirements. The Company accounts for these benefits under SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. The amounts accrued related to these benefits were not material at March 31, 2006 and 2005.

The Company has defined contribution plans covering essentially all of its employees. Its defined contribution plans consist primarily of a 401(k) retirement plan with a profit sharing component for non-union employees and a 401(k) retirement plan for union employees. The Company's matching contributions are based upon employee contributions or service hours, depending upon the plan. Total employer contributions to all plans for fiscal years 2006, 2005 and 2004 were $14,780,000, $13,382,000 and $11,927,000, respectively.

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

The production and maintenance employees at the Company's manufacturing facilities in Morgantown, West Virginia, are covered under a collective bargaining agreement that expires in April 2007. These employees represented approximately 27% of the Company's total workforce at March 31, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14.
COMMITMENTS

The Company leases certain real property under various operating lease arrangements that expire over the next eight years. These leases generally provide the Company with the option to renew the lease at the end of the lease term. The Company also entered into agreements to lease vehicles for use by certain key employees which are typically 24 to 36 months,. For fiscal years 2006, 2005 and 2004, the Company made lease payments of $3,666,000, $4,939,000 and $3,136,000, respectively.

Future minimum lease payments under these commitments are as follows:

(in thousands)

Fiscal	*Operating Leases*
2007	$ 3,944
2008	3,273
2009	1,293
2010	900
2011	285
Thereafter	216
	$ 9,911

The Company has entered into various product licensing and development agreements. In some of these arrangements, the Company provides funding for the development of the product or to obtain rights to the use of the patent, through milestone payments, in exchange for marketing and distribution rights to the product. Milestones represent the completion of specific contractual events, and it is uncertain if and when these milestones will be achieved. In the event that all projects are successful, milestone and development payments of approximately $13,650,000 would be paid.

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

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

NOTE 15.
PRODUCT AGREEMENTS

On November 24, 2005, the Company announced the sale of the U.S. and Canadian rights for Apokyn® to Vernalis plc. Under the terms of the agreement, Mylan received a cash payment of $23.0 million. In addition, Mylan will perform certain transitional services for one year, including supply chain management and customer service assistance. During fiscal 2006, $8.9 million of revenue associated with the sale was recognized and included in other revenues. The remainder, net of certain related assets, has been recorded as deferred revenue and is being recognized over the one-year period.

On January 11, 2006, the Company announced an agreement with Forest Laboratories Holdings, Ltd. ("Forest"), a wholly owned subsidiary of Forest Laboratories, Inc., for the commercialization, development and distribution of Mylan's nebivolol in the United States and Canada. Under the terms of the agreement, Mylan received an up-front payment of $75.0 million, which will be deferred until the commercial launch of the product. Mylan also has the potential to earn future milestone payments as well as royalties on nebivolol sales. Upon commercial launch the up-front payment will be amortized into revenue over the remaining term of the license agreement. Forest will assume all expenses for future nebivolol development programs and will be responsible for all sales and marketing expenses. Mylan has retained an option to co-promote the product in the future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Also on January 11, 2006, the Company announced that Mylan Technologies Inc., a wholly-owned subsidiary of Mylan Labs ("Mylan Tech") signed two strategic agreements with Cephalon, Inc. to utilize Mylan Tech's innovative transdermal technology to address certain pain and central nervous system disorders. Under the terms of the agreements, Mylan and Cephalon will collaborate with the intent to create, develop and commercialize branded transdermal products in exchange for the payment to Mylan Tech of milestones and ongoing royalties based on net sales of the products.

NOTE 16.

CONTINGENCIES

Legal Proceedings

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

Omeprazole

In fiscal 2001, Mylan Pharmaceuticals Inc. ("MPI"), a wholly-owned subsidiary of Mylan Labs, filed an Abbreviated New Drug Application ("ANDA") seeking approval from the FDA to manufacture, market and sell omeprazole delayed-release capsules and made Paragraph IV certifications to several patents owned by AstraZeneca PLC ("AstraZeneca") that were listed in the FDA's "Orange Book." On September 8, 2000, AstraZeneca filed suit against MPI and Mylan Labs in the U.S. District Court for the Southern District of New York alleging infringement of several of AstraZeneca's patents. On May 29, 2003, the FDA approved MPI's ANDA for the 10 mg and 20 mg strengths of omeprazole delayed-release capsules, and, on August 4, 2003, Mylan Labs announced that MPI had commenced the sale of omeprazole 10 mg and 20 mg delayed-release capsules. AstraZeneca then amended the pending lawsuit to assert claims against Mylan Labs and MPI and filed a separate lawsuit against MPI's supplier, Esteve Quimica S.A. ("Esteve"), for unspecified money damages and a finding of willful infringement, which could result in treble damages, injunctive relief, attorneys' fees, costs of litigation and such further relief as the court deems just and proper. MPI has certain indemnity obligations to Esteve in connection with this litigation. MPI, Esteve and the other generic manufacturers who are co-defendants in the case filed motions for summary judgment of non-infringement and patent invalidity. On January 12, 2006, those motions were denied, and a non-jury trial commenced on April 3, 2006.

Lorazepam and Clorazepate

On June 1, 2005, a jury verdict was rendered against Mylan Labs and MPI in the U.S. District Court for the District of Columbia ("D.C.") in the amount of approximately $12.0 million, which has been accrued for by the Company. The jury found Mylan willfully violated Massachusetts, Minnesota and Illinois state antitrust laws, meaning the amount of the verdict could be trebled and an award of attorneys' fees and litigation costs could be made to the plaintiffs. The case was brought by four health insurers who opted out of earlier class action settlements agreed to by the Company in 2001 and represents the last remaining claims relating to Mylan's 1998 price increases for lorazepam and clorazepate. The Company filed a motion for judgment as a matter of law, a motion for a new trial and a motion to reduce verdict, all of which remain pending before the court. If the Company's post-verdict motions are denied, the Company intends to appeal to the U.S. Court of Appeals for the D.C. Circuit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pricing and Medicaid Litigation

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

Beginning in September 2003, Mylan Labs, MPI and/or UDL, together with many other pharmaceutical companies, have been named in a series of civil lawsuits filed by state AGs and municipal bodies within the state of New York alleging generally that the defendants defrauded the state Medicaid systems by allegedly reporting "Average Wholesale Prices" ("AWP") and/or "Wholesale Acquisition Costs" that exceeded the actual selling price of the defendants' prescription drugs. To date, Mylan Labs, MPI and UDL have been named as defendants in substantially similar civil lawsuits filed by the AGs of Alabama, California, Florida, Illinois, Kentucky, Massachusetts, Mississippi, Missouri and Wisconsin and also by the city of New York and approximately 40 counties across New York State. Several of these cases have been transferred to the AWP multi-district litigation proceedings pending in the U.S. District Court for the District of Massachusetts for pretrial proceedings. Others of these cases will likely be litigated in the state courts in which they were filed. Each of the cases seeks an unspecified amount in money damages, civil penalties and/or treble damages, counsel fees and costs, and injunctive relief. In each of these matters, with the exception of the Massachusetts and Alabama AG actions discussed below, Mylan Labs and its subsidiaries either have not yet been required to respond to the complaints or have motions to dismiss pending. The Company previously reported that the U.S. District Court for the District of Massachusetts had dismissed the complaint filed by the Massachusetts AG without prejudice and with leave to amend. The Massachusetts AG since filed an amended complaint which survived motions to dismiss, and Mylan Labs answered on November 14, 2005, denying liability. In addition, the Alabama AG filed a second amended complaint which has survived motions to dismiss, and Mylan Labs, MPI and UDL answered on January 30, 2006, denying liability. Lastly, we have been advised that Mylan Labs and MPI have been included as defendants in an AWP complaint filed by the state of Hawaii. Neither entity, however, has been served with a complaint in that action. Mylan Labs and its subsidiaries intend to defend each of these actions vigorously.

In addition by letter dated January 12, 2005, MPI was notified by the U.S. Department of Justice of an investigation concerning MPI's calculations of Medicaid drug rebates. To the best of MPI's information, the investigation is in its early stages. MPI is collecting information requested by the government and is cooperating fully with the government's investigation.

Other Litigation

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Previously Reported Matters That Have Been Resolved or Dismissed

Shareholder Litigation

On November 22, 2004, an individual purporting to be a Mylan Labs shareholder filed a civil action in the Court of Common Pleas of Allegheny County, Pennsylvania, against Mylan Labs and all members of its Board of Directors alleging that the Board members had breached their fiduciary duties by approving the planned acquisition of King Pharmaceuticals, Inc. and by declining to dismantle the Company's anti-takeover defenses to permit an auction of the Company to Carl Icahn or other potential buyers of the Company and also alleging that certain transactions between the Company and its directors (or their relatives or companies with which they were formerly affiliated) may have been wasteful. On November 23, 2004, a substantially identical complaint was filed in the same court by another purported Mylan Labs shareholder. The actions were styled as shareholder derivative suits on behalf of Mylan Labs and class actions on behalf of all Mylan Labs' shareholders and were consolidated by the court under the caption "In re Mylan Laboratories Inc. Shareholder Litigation." Mylan Labs and its directors filed preliminary objections seeking dismissal of the complaints. On January 19, 2005, the plaintiffs amended their complaints to add Bear Stearns & Co., Inc., Goldman Sachs & Co., Richard C. Perry, Perry Corp., American Stock Transfer & Trust Company and "John Does 1-100" as additional defendants and to add claims regarding trading activity by the additional defendants and the implications on Mylan Labs' shareholder rights agreement. On October 26, 2005, the court approved the voluntary dismissal of these cases by the plaintiffs, with prejudice.

Paclitaxel

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

Mirtazapine

In fiscal 2004, Mylan Labs and MPI reached an agreement with Organon U.S.A. Inc. ("Organon") and Akzo Nobel N.V. ("Akzo") pursuant to which Organon and Akzo agreed to pay MPI $15,000,000 in settlement of allegations that Organon and Akzo violated antitrust laws by listing U.S. Patent No. 5,977,099 in the FDA's Orange Book, and by suing Mylan and MPI for alleged infringement of that patent. Of the $15,000,000, which was recorded in the fourth quarter of fiscal 2004, and collected subsequently, approximately $4,800,000 represented reimbursement of legal expenses. The underlying patent infringement suit was resolved in favor of Mylan Labs and MPI by summary judgment in December 2002.

Lorazepam and Clorazepate

On March 31, 2003, the Company announced a tentative settlement of a direct purchaser class action related to the sale of lorazepam and clorazepate for a total amount of $35,000,000. The Company's co-defendants agreed to an initial contribution of approximately $7,000,000 toward the $35,000,000 settlement. The Company's obligation was accrued at March 31, 2003. During the first quarter of fiscal 2004, this settlement received final court approval. Upon receiving such approval, the Company recorded a gain of approximately $10,000,000 related to additional contributions which the co-defendants agreed in April 2003 to make to the Company. This additional $10,000,000 reduces the Company's share of the total settlement to approximately $18,000,000.

Zagam®

Mylan Labs, Mylan Caribe, Inc. and Mylan Bertek filed suit against Aventis Pharmaceuticals, Inc., successor in interest to Rhone-Poulenc Rorer Pharmaceuticals, Inc.; Rhone-Poulenc Rorer Pharmaceuticals, LTD; Rorer Pharmaceutical Products, Inc.; Rhone-Poulenc Rorer, S.A., and their affiliates in the U.S. District Court for the Western District of Pennsylvania in May 2001, and the defendants counterclaimed. The Company previously identified this matter as a case in which an adverse outcome could have had a material adverse effect on the Company's financial position and results of operations. In April 2003, the Company entered into a settlement of the matter pursuant to which the Company received a payment of $12,500,000, the dismissal of the defendants' counterclaims and termination of the agreements in question.

Management's Report on

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management evaluated our internal control over financial reporting as of March 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework* ("COSO"). As a result of this assessment and based on the criteria in the COSO framework, management has concluded that, as of March 31, 2006, our internal control over financial reporting was effective.

Our independent registered public accounting firm, Deloitte & Touche LLP, has audited management's assessment of our internal control over financial reporting. Deloitte & Touche LLP's opinion on management's assessment and on the effectiveness of our internal control over financial reporting appears on page 57 of this Annual Report.

Report of

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Mylan Laboratories Inc.:

We have audited the accompanying consolidated balance sheets of Mylan Laboratories Inc. and subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Mylan Laboratories Inc. and subsidiaries as of March 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of March 31, 2006, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 12, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP

Deloitte & Touche LLP
Pittsburgh, Pennsylvania
May 12, 2006

Report of

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Mylan Laboratories Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Mylan Laboratories Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of March 31, 2006, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

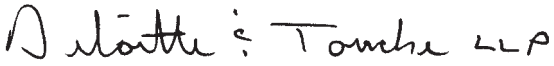
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material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

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

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

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of March 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2006, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended March 31, 2006 of the Company and our report dated May 12, 2006 expressed an unqualified opinion on those financial statements.



Deloitte & Touche LLP
Pittsburgh, Pennsylvania
May 12, 2006

QUARTERLY FINANCIAL DATA

(unaudited, in thousands, except per share data)	*1st Quarter*	*2nd Quarter*	*3rd Quarter*	*4th Quarter*	*Year*
FISCAL 2006					
Total revenues	$ 323,378	$ 297,994	$ 311,246	$ 324,546	$ 1,257,164
Gross profit	167,834	143,231	155,797	160,754	627,616
Net earnings	42,915	35,770	48,207	57,650	184,542
Earnings per share[1]:					
Basic	$ 0.16	$ 0.16	$ 0.23	$ 0.27	$ 0.80
Diluted	$ 0.16	$ 0.16	$ 0.22	$ 0.27	$ 0.79
Share prices[2]:					
High	$ 19.85	$ 19.84	$ 21.61	$ 24.92	$ 24.92
Low	$ 15.50	$ 17.36	$ 19.00	$ 19.30	$ 15.50
FISCAL 2005					
Total revenues	$ 339,012	$ 306,955	$ 290,972	$ 316,435	$ 1,253,374
Gross profit	179,753	155,253	135,347	153,187	623,540
Net earnings	82,033	48,654	34,770	38,135	203,592
Earnings per share[1]:					
Basic	$ 0.31	$ 0.18	$ 0.13	$ 0.14	$ 0.76
Diluted	$ 0.30	$ 0.18	$ 0.13	$ 0.14	$ 0.74
Share prices[2]:					
High	$ 24.59	$ 20.48	$ 18.88	$ 18.08	$ 24.59
Low	$ 20.15	$ 14.69	$ 16.42	$ 15.88	$ 14.69

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

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

SHAREHOLDER INFORMATION

CORPORATE HEADQUARTERS

Mylan Laboratories Inc.
1500 Corporate Drive
Canonsburg, Pennsylvania 15317
(724) 514-1800
www.mylan.com

NYSE LISTING

Mylan common stock is listed
on the New York Stock Exchange.
(ticker symbol: MYL)

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP
Pittsburgh, Pennsylvania

SHAREHOLDER ACCOUNT INFORMATION

American Stock Transfer & Trust Company is the transfer agent, registrar, dividend disbursing agent and dividend reinvestment agent for the Company. Shareholders of record with questions about their account, lost certificates, lost or missing dividend checks or notification of change of address should contact:

American Stock Transfer & Trust Company
59 Maiden Lane, Plaza Level
New York, NY 10038
(800) 937-5449
www.amstock.com

DIVIDEND REINVESTMENT PROGRAM

Shareholders of record have the opportunity to automatically reinvest their dividends in the Company's stock through this Automatic Dividend Reinvestment and Stock Purchase Plan. For more information and an enrollment form, contact:

American Stock Transfer & Trust Company
59 Maiden Lane, Plaza Level
New York, NY 10038
(800) 937-5449
www.amstock.com

ADDITIONAL INFORMATION

Mylan files periodic reports with the Securities and Exchange Commission that contain additional information about the Company. Copies are available on Mylan's website at http://investor.mylan.com or upon written request at the Corporate Headquarters' address.

Design: Brady Communications www.bradycommunications.com

MYLAN LABORATORIES INC.

1500 Corporate Drive

Canonsburg, Pennsylvania 15317

www.mylan.com