

ICAD INC
Form 10-Q
November 14, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from _____ to _____

Commission file number 1-9341

iCAD, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

02-0377419
(I.R.S. Employer
Identification No.)

98 Spit Brook Road, Suite 100, Nashua, NH
(Address of principal executive offices)

03062
(Zip Code)

(603) 882-5200
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large Accelerated filer Accelerated filer
Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) YES NO .

As of the close of business on November 11, 2014 there were 15,542,910 shares outstanding of the registrant's Common Stock, \$.01 par value.

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iCAD, Inc.

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Table of Contents**iCAD, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets**

(Unaudited)

(In thousands except for share data)

	September 30, 2014	December 31, 2013
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 33,443	\$ 11,880
Trade accounts receivable, net of allowance for doubtful accounts of \$50 in 2014 and \$73 in 2013	11,131	7,623
Inventory, net	2,031	1,891
Prepaid expenses and other current assets	581	649
Total current assets	47,186	22,043
Property and equipment, net of accumulated depreciation and amortization of \$4,429 in 2014 and \$4,265 in 2013	4,106	1,671
Other assets	146	419
Intangible assets, net of accumulated amortization of \$13,757 in 2014 and \$12,468 in 2013	17,931	13,674
Goodwill	28,095	21,109
Total assets	\$ 97,464	\$ 58,916
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 1,755	\$ 2,000
Accrued and other expenses	5,618	3,799
Interest payable	216	483
Notes and lease payable - current portion	5,011	3,878
Warrant liability		3,986
Deferred revenue	9,300	8,306
Total current liabilities	21,900	22,452
Deferred revenue, long-term portion	1,957	1,726
Other long-term liabilities	755	1,356
Capital lease - long-term portion	1,348	235
Notes payable - long-term portion	9,073	11,770
Total liabilities	35,033	37,539

Commitments and Contingencies (Note 7)

Stockholders' equity:

Preferred stock, \$.01 par value: authorized 1,000,000 shares; none issued.

Common stock, \$.01 par value: authorized 20,000,000 shares; issued 15,702,075 in 2014 and 11,084,119 in 2013; outstanding 15,516,244 in 2014 and 10,898,288 in 2013

	157	111
Additional paid-in capital	208,656	166,735
Accumulated deficit	(144,967)	(144,054)
Treasury stock at cost, 185,831 shares in 2014 and 2013	(1,415)	(1,415)
Total stockholders' equity	62,431	21,377
Total liabilities and stockholders' equity	\$ 97,464	\$ 58,916

See accompanying notes to condensed consolidated financial statements.

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Operations**

(Unaudited)

(In thousands except for per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue:				
Products	\$ 4,603	\$ 4,494	\$ 14,106	\$ 13,606
Service and supplies	7,969	3,796	16,653	10,326
Total revenue	12,572	8,290	30,759	23,932
Cost of revenue:				
Products	1,019	1,052	3,589	3,290
Service and supplies	1,859	998	4,038	2,865
Amortization and depreciation	527	314	1,201	981
Total cost of revenue	3,405	2,364	8,828	7,136
Gross profit	9,167	5,926	21,931	16,796
Operating expenses:				
Engineering and product development	2,086	1,951	5,952	5,244
Marketing and sales	3,448	2,589	8,912	7,321
General and administrative	2,282	1,462	5,836	4,549
Amortization and depreciation	425	278	931	837
Total operating expenses	8,241	6,280	21,631	17,951
Income (loss) from operations	926	(354)	300	(1,155)
Loss from extinguishment of debt			(903)	
Gain from change in fair value of warrant		624	1,835	484
Interest expense	(647)	(807)	(2,078)	(2,467)
Other income	11	4	27	16
Other expense, net	(636)	(179)	(1,119)	(1,967)
Income (loss) before income tax expense	290	(533)	(819)	(3,122)
Tax expense	(16)	(56)	(94)	(76)
Net income (loss) and comprehensive income (loss)	\$ 274	\$ (589)	\$ (913)	\$ (3,198)

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Net income (loss) per share:

Basic	\$	0.02	\$	(0.05)	\$	(0.07)	\$	(0.30)
Diluted	\$	0.02	\$	(0.05)	\$	(0.07)	\$	(0.30)

Weighted average number of shares used in computing income (loss) per share:

Basic	15,283	10,849	13,609	10,835
Diluted	16,348	10,849	13,609	10,835

See accompanying notes to consolidated financial statements.

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows**

(unaudited)

	For the nine months ended September 30,	
	2014	2013
	(in thousands)	
Cash flow from operating activities:		
Net loss	\$ (913)	\$ (3,198)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation	820	528
Amortization	1,312	1,291
Bad debt (benefit) provision	(27)	35
Loss on extinguishment of debt	903	
Gain from change in fair value of warrant	(1,835)	(484)
Loss on disposal of assets		49
Stock-based compensation expense	966	908
Amortization of debt discount and debt costs	908	588
Interest on settlement obligations	161	214
Changes in operating assets and liabilities (net of the effect of the acquisition):		
Accounts receivable	(2,611)	(3,474)
Inventory	(140)	116
Prepaid and other current assets	(26)	(145)
Accounts payable	(245)	78
Accrued expenses	142	(799)
Deferred revenue	437	1,110
Total adjustments	765	15
Net cash used for operating activities	(148)	(3,183)
Cash flow from investing activities:		
Additions to patents, technology and other	(59)	(24)
Additions to property and equipment	(630)	(510)
Acquisition of Radion Inc, and DermEbx	(3,482)	
Net cash used for investing activities	(4,171)	(534)
Cash flow from financing activities:		
Issuance of common stock for cash, net	28,214	
Stock option exercises	616	3
Warrant exercise	1,575	
Taxes paid related to restricted stock issuance	(110)	(25)

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Principal payments of capital lease obligations	(313)	
Principal repayment of debt financing, net	(4,100)	
Net cash provided by (used for) financing activities	25,882	(22)
Increase (decrease) in cash and equivalents	21,563	(3,739)
Cash and equivalents, beginning of period	11,880	13,948
Cash and equivalents, end of period	\$ 33,443	\$ 10,209
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,317	\$ 1,664
Taxes paid	\$ 125	\$ 117
Equipment purchased under capital lease	\$	\$ 409
Non-cash items from investing and financing activities:		
Settlement of warrant liability with purchase of common stock	\$ 2,151	\$
Issuance of common stock related to acquisition of Radion, Inc and DermEbx	\$ 8,556	\$

See accompanying notes to consolidated financial statements.

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2014

Note 1 Basis of Presentation and Significant Accounting Policies

The accompanying condensed consolidated financial statements of iCAD, Inc. and subsidiaries (iCAD or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). In the opinion of management, these unaudited interim consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position at September 30, 2014, the results of operations for the three and nine month period ended September 30, 2014 and 2013, respectively, and cash flows for the nine month period ended September 30, 2014 and 2013, respectively. Although the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in the footnotes prepared in accordance with US GAAP has been omitted as permitted by the rules and regulations of the Securities and Exchange Commission (SEC). The accompanying financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC on March 3, 2014. The results for the nine month period ended September 30, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2014, or any future period.

At any time prior to the shares acquisition date, our board of directors may redeem the rights in whole, but not in part, at a price of \$0.001 per right, subject to adjustment (the redemption price). The redemption of the rights may be made effective at such time, on such basis, and with such conditions as the board of directors in its sole discretion may establish. Immediately upon any redemption of the rights, the right to exercise the rights will terminate and the only right of the holders of rights will be to receive the redemption price.

At any time after any person becomes an acquiring person, and prior to the time any person (other than us, our subsidiaries, any of our or our subsidiaries employee benefit plan, and any entity holding shares of common stock pursuant to the terms of any such plan) becomes the beneficial owner of 50% or more of the outstanding shares of our common stock, we may, at the option and election of our board of directors, exchange shares of our common stock (or in certain circumstances, shares of Series A Preferred Stock) for all or any part of the then-outstanding and unexercised rights (other than rights that are or were beneficially owned by an acquiring person that have become null and void pursuant to the terms of the Rights Agreement) at an exchange rate of one share of our common stock (or in certain circumstances, one one-thousandth of a share of Series A Preferred Stock) per right, appropriately adjusted to reflect any stock dividend, stock split, reverse stock split, or other similar transaction that occurred after August 22, 1996.

The terms of the rights may be amended by our board of directors without the consent of the holders of the rights, except that from and after the close of business on the tenth calendar day following the shares acquisition date no such amendment may adversely affect the interests of the holders of the rights (other than rights that are or were beneficially owned by an acquiring person that have become null and void pursuant to the terms of the Rights

Agreement) and provided, however, that if such amendment occurs on or after an adverse change of control, then the rights plan may be amended only if there are continuing directors in office and such amendment is authorized by a majority of such continuing directors.

Pennsylvania Business Corporation Law

The provisions of the articles described under **Voting Rights** and **Board of Directors** above and our shareholder rights plan are in addition to certain provisions of Chapter 25 of the BCL, which may have the effect of discouraging or rendering more difficult a hostile takeover attempt against us.

Under Section 2538 of the BCL, any merger, consolidation, share exchange or sale of assets between us or one of our subsidiaries and any of our shareholders, any of our divisions in which any shareholder receives a disproportionate amount of any shares of common stock or other securities of any corporation resulting from the division, any voluntary dissolution of our company in which a shareholder is treated differently from other shareholders of the same class or any reclassification in which any shareholder's voting or economic interest in us is materially increased relative to substantially all other shareholders must, in addition to any other shareholder vote required, be approved by a majority of the votes which all shareholders other than the shareholder receiving the special treatment are entitled to cast with respect to the transaction. This special vote requirement does not apply to a transaction (1) which has been approved by a majority vote of our board of directors, without counting the vote of certain directors affiliated with or nominated by the

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interested shareholder or (2) in which the consideration to be received by the shareholders is not less than the highest amount paid by the interested shareholder in acquiring shares of the same class.

We have elected to opt out of:

Subchapter 25E of the BCL, which, if any person or group acting in concert acquires voting power over shares representing 20% or more of the votes which all of our shareholders would be entitled to cast in an election of directors, would have permitted any other shareholder to demand that such person or group purchase such shareholder's shares at a price determined in an appraisal proceeding;

Subchapter 25G of the BCL, which would have required a shareholder vote to accord voting rights to control shares acquired by a 20% shareholder in a control-share acquisition; and

Subchapter 25H of the BCL, which would have required a person or group to disgorge to us any profits received from a sale of our equity securities within 18 months after the person or group acquired or offered to acquire 20% of our voting power or publicly disclosed an intention to acquire control of Mylan.

Dividend Rights

The holders of common stock are entitled to dividends when, as and if declared by our board of directors out of funds legally available therefor. If preferred stock is issued, our board of directors may grant to the holders of such preferred stock preferential dividend rights that would prohibit payment of dividends on the common stock unless and until specified dividends on the preferred stock had been paid or in other circumstances and/or rights to share ratably in any dividends payable on the common stock.

Liquidation Rights

Upon liquidation, dissolution or winding up of our company, whether voluntary or involuntary, the holders of our common stock are entitled to share ratably in our assets available for distribution after all of our liabilities have been satisfied and all preferential amounts payable to the holders of preferred stock have been paid. If preferred stock is issued, our board of directors may grant to the holders of such stock preferential liquidation rights, which would entitle them to be paid out of our assets available for distribution before any distribution is made to the holders of common stock and/or rights to participate ratably with the common stock in any such distribution.

Indemnification

Under Section 1746 of the BCL, a Pennsylvania corporation is authorized to indemnify its officers, directors, employees and agents under certain circumstances against expenses and liabilities incurred in legal proceedings involving such persons because of their holding or having held such positions with the corporation and to purchase and maintain insurance of such indemnification. Our bylaws substantively provide that we will indemnify our officers and directors and, to the extent authorized by our board of directors, our employees and agents, to the fullest extent authorized by law, including Section 1746 of the BCL.

Section 1713 of the BCL permits a Pennsylvania corporation, by so providing in its bylaws, to eliminate the personal liability of a director for monetary damages for any action taken unless the director has breached or failed to perform the duties of his office and the breach or failure constitutes self-dealing, willful misconduct or recklessness. In addition, no such limitation of liability is available with respect to the responsibility or liability of a director pursuant to any criminal statute or for the payment of taxes pursuant to federal, state or local law. Our bylaws eliminate the

personal liability of the directors to the fullest extent permitted by Section 1713 of the BCL.

Our bylaws provide that each person who is or was serving as a director or officer of the corporation, or any person who, while a director or officer of the corporation, is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture,

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trust or other enterprise shall be entitled to indemnification as and to the fullest extent permitted by law, including the BCL or any successor statutory provision, as from time to time amended.

Our bylaws also provide that we may maintain an insurance policy which insures directors and officers against certain liabilities which might be incurred in connection with the performance of their duties.

In addition, we have indemnification agreements with our directors and contractual indemnification obligations to certain of our officers, which provide that we will indemnify such persons against any and all expenses, liabilities and losses incurred by such person in connection with any threatened, pending or completed action, suit, proceeding or investigation to which such person was or is a party, or is threatened to be made a party, because such person is or was a director or officer of our company or of any of our subsidiaries, or served at our request as a director, officer, trustee, employee or agent of another entity, provided generally that such proceeding was authorized by our board of directors.

Miscellaneous

The holders of shares of our common stock do not have preemptive rights or conversion rights and there are no redemption or sinking fund provisions applicable to our common stock. Holders of fully paid shares of common stock are not subject to any liability for further calls or assessments.

Transfer Agent and Registrar

The transfer agent and registrar of our common stock is American Stock Transfer and Trust Company. Its address is 59 Maiden Lane, Plaza Level, New York, New York 10038, and its telephone number at this location is (212) 509-1745. The transfer agent and registrar of our preferred stock will be designated in the prospectus supplement through which such preferred stock is offered.

Listing

Our common stock is listed on the NYSE under the symbol MYL .

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DESCRIPTION OF DEBT SECURITIES AND GUARANTEES

We may offer senior or subordinated unsecured debt securities, which may be convertible. Our debt securities will be issued under one or more indentures to be entered into between us and The Bank of New York.

We have summarized certain general features of the debt securities from the indentures. Indenture forms are attached as exhibits to the registration statement of which this prospectus forms a part. The following description of the terms of the debt securities sets forth certain general terms and provisions. The particular terms of the debt securities offered by any prospectus supplement and the extent, if any, to which such general provisions may apply to the debt securities, will be described in the related prospectus supplement. Accordingly, for a description of the terms of a particular issue of debt securities, reference must be made to both the related prospectus supplement and to the following description.

General

Reference is made to the applicable prospectus supplement for the following terms of the debt securities (if applicable):

title and aggregate principal amount;

whether the securities will be senior or subordinated;

applicable subordination provisions, if any;

conversion or exchange into other securities;

percentage or percentages of principal amount at which such securities will be issued;

maturity date(s);

interest rate(s) or the method for determining the interest rate(s);

dates on which interest will accrue or the method for determining dates on which interest will accrue and dates on which interest will be payable;

redemption or early repayment provisions;

authorized denominations;

form;

amount of discount or premium, if any, with which such securities will be issued;

whether such securities will be issued in whole or in part in the form of one or more global securities;

identity of the depository for global securities;

whether a temporary security is to be issued with respect to such series and whether any interest payable prior to the issuance of definitive securities of the series will be credited to the account of the persons entitled thereto;

the terms upon which beneficial interests in a temporary global security may be exchanged in whole or in part for beneficial interests in a definitive global security or for individual definitive securities;

any covenants applicable to the particular debt securities being issued;

any defaults and events of default applicable to the particular debt securities being issued;

currency, currencies or currency units in which the purchase price for, the principal of and any premium and any interest on, such securities will be payable;

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time period within which, the manner in which and the terms and conditions upon which the purchaser of the securities can select the payment currency;

securities exchange(s) on which the securities will be listed, if any;

whether any underwriter(s) will act as market maker(s) for the securities;

extent to which a secondary market for the securities is expected to develop;

our obligation or right to redeem, purchase or repay securities under a sinking fund, amortization or analogous provision;

provisions relating to covenant defeasance and legal defeasance;

provisions relating to satisfaction and discharge of the indenture;

provisions relating to the modification of the indenture both with and without the consent of holders of debt securities issued under the indenture; and

additional terms not inconsistent with the provisions of the indenture.

One or more series of debt securities may be sold at a substantial discount below their stated principal amount, bearing no interest or interest at a rate which at the time of issuance is below market rates. One or more series of debt securities may be variable rate debt securities that may be exchanged for fixed rate debt securities.

United States federal income tax consequences and special considerations, if any, applicable to any such series will be described in the applicable prospectus supplement.

Debt securities may be issued where the amount of principal and/or interest payable is determined by reference to one or more currency exchange rates, commodity prices, equity indices or other factors. Holders of such securities may receive a principal amount or a payment of interest that is greater than or less than the amount of principal or interest otherwise payable on such dates, depending upon the value of the applicable currencies, commodities, equity indices or other factors. Information as to the methods for determining the amount of principal or interest, if any, payable on any date, the currencies, commodities, equity indices or other factors to which the amount payable on such date is linked and certain additional United States federal income tax considerations will be set forth in the applicable prospectus supplement.

The term "debt securities" includes debt securities denominated in U.S. dollars or, if specified in the applicable prospectus supplement, in any other freely transferable currency or units based on or relating to foreign currencies.

We expect most debt securities to be issued in fully registered form without coupons and in denominations of \$1,000 and any integral multiples thereof. Subject to the limitations provided in the indenture and in the prospectus supplement, debt securities that are issued in registered form may be transferred or exchanged at the office of the trustee maintained in the Borough of Manhattan, the City of New York or the principal corporate trust office of the trustee, without the payment of any service charge, other than any tax or other governmental charge payable in connection therewith.

Guarantees

We or one or more of our direct or indirect subsidiaries, or any combination of them, may, severally or jointly and severally, guarantee any or all of the series of debt securities. Guarantees may be full or limited, senior or subordinated or any combination thereof. In all cases, however, the obligations of each guarantor under its guarantee will be limited as necessary to prevent the guarantee from being rendered voidable under fraudulent conveyance, fraudulent transfer or similar laws affecting the rights of creditors generally. We will describe the specific terms of any guarantees in a prospectus supplement. These terms will include some or all of the terms detailed in this section.

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All guarantees will bind the successors of the guarantors and will inure to the benefit of holders of the debt securities guaranteed. The guarantees will terminate as described in the applicable prospectus supplement.

The guarantee of a subsidiary will be released as described in the applicable prospectus supplement.

Structural Subordination

We are a holding company and substantially all of our operations are conducted through direct and indirect subsidiaries. As a holding company, we own no significant assets other than our equity in our subsidiaries, and our ability to meet our debt service obligations, including payments on the debt securities, will be dependent on dividends and other distributions or payments from our subsidiaries. The ability of our subsidiaries to pay dividends or make distributions or other payments to us depends upon the availability of cash flow from operations, proceeds from the sale of assets and/or borrowings, and, in the case of non-wholly owned subsidiaries, our contractual arrangements with other equity holders. In addition, a guarantee of our debt securities by our subsidiaries will be effectively subordinated to all of the liabilities of our subsidiaries with regard to the assets and earnings of our subsidiaries.

Global Securities

The debt securities of a series may be issued in whole or in part in the form of one or more global securities that will be deposited with, or on behalf of, a depository (the depository) identified in the prospectus supplement. Global securities will be issued in registered form and in either temporary or definitive form. Unless and until it is exchanged in whole or in part for the individual debt securities, a global security may not be transferred except as a whole by the depository for such global security to a nominee of such depository or by a nominee of such depository to such depository or another nominee of such depository or by such depository or any such nominee to a successor of such depository or a nominee of such successor. The specific terms of the depository arrangement with respect to any debt securities of a series and the rights of and limitations upon owners of beneficial interests in a global security will be described in the applicable prospectus supplement.

Governing Law

The indentures and the debt securities shall be construed in accordance with and governed by the laws of the State of New York.

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PLAN OF DISTRIBUTION

We may sell the common stock, preferred stock or any series of debt securities that may be guaranteed by certain of our subsidiaries and selling shareholders may sell common stock being offered hereby in one or more of the following ways from time to time:

- to underwriters or dealers for resale to the public or to institutional investors;
- directly to institutional investors;
- directly to a limited number of purchasers or to a single purchaser;
- through agents to the public or to institutional investors; or
- through a combination of any of these methods of sale.

The prospectus supplement with respect to each series of securities will state the terms of the offering of the securities, including:

- the offering terms, including the name or names of any underwriters, dealers or agents;
- the purchase price of the securities and the net proceeds to be received by us or selling shareholders from the sale;
- any underwriting discounts or agency fees and other items constituting underwriters or agents compensation;
- any public offering price;
- any discounts or concessions allowed or reallocated or paid to dealers; and
- any securities exchange on which the securities may be listed.

If we or selling shareholders use underwriters or dealers in the sale, the securities will be acquired by the underwriters or dealers for their own account and may be resold from time to time in one or more transactions, including:

- privately negotiated transactions;
- at a fixed public offering price or prices, which may be changed;
- in at the market offerings within the meaning of Rule 415(a)(4) of the Securities Act;
- at prices related to prevailing market prices; or
- at negotiated prices.

Any initial public offering price and any discounts or concessions allowed or reallocated or paid to dealers may be changed from time to time.

If underwriters are used in the sale of any securities, the securities may be offered either to the public through underwriting syndicates represented by managing underwriters, or directly by underwriters. Generally, the underwriters' obligations to purchase the securities will be subject to certain conditions precedent. The underwriters will be obligated to purchase all of the securities if they purchase any of the securities.

If indicated in an applicable prospectus supplement, we or selling shareholders may sell the securities and selling shareholders may sell common stock through agents from time to time. The applicable prospectus supplement will name any agent involved in the offer or sale of the securities and any commissions paid to them. Generally, any agent will be acting on a best efforts basis for the period of its appointment. We or selling shareholders may authorize underwriters, dealers or agents to solicit offers by certain purchasers to purchase securities at the public offering price set forth in the applicable prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. The delayed delivery contracts will be subject only to those conditions set forth in the applicable prospectus supplement,

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and the applicable prospectus supplement will set forth any commissions paid for solicitation of these delayed delivery contracts.

Offered securities may also be offered and sold, if so indicated in the applicable prospectus supplement, in connection with a remarketing upon their purchase, in accordance with a redemption or repayment pursuant to their terms, or otherwise, by one or more remarketing firms, acting as principals for their own accounts or as agents for us or selling shareholders. Any remarketing firm will be identified and the terms of its agreements, if any, with us or selling shareholders and its compensation will be described in the applicable prospectus supplement.

Agents, underwriters and other third parties described above may be entitled to indemnification by us or selling shareholders against certain civil liabilities under the Securities Act, or to contribution with respect to payments which the agents or underwriters may be required to make in respect thereof. Agents, underwriters and such other third parties may be customers of, engage in transactions with, or perform services for us or selling shareholders in the ordinary course of business.

Each series of securities will be a new issue of securities and will have no established trading market, other than our common stock, which is listed on the New York Stock Exchange. Any common stock sold will be listed on the New York Stock Exchange, upon official notice of issuance. The securities other than the common stock may or may not be listed on a national securities exchange. Any underwriters to whom securities are sold by us or selling shareholders for public offering and sale may make a market in the securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice.

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LEGAL MATTERS

The validity of the securities being offered by this prospectus will be passed upon by Kristin A. Kolesar, Esq., Senior Corporate and Compliance Counsel of Mylan Laboratories Inc. Ms. Kolesar is a participant in various employee benefit plans offered by us to our employees generally. In connection with particular offerings of the securities in the future, and if stated in the applicable prospectus supplements, the validity of those securities may be passed upon for us by Ms. Kolesar and/or Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York, and for any underwriters or agents by counsel named in the applicable prospectus supplement.

EXPERTS

The consolidated financial statements, the related consolidated financial statement schedule and management's report on the effectiveness of internal control over financial reporting incorporated in this prospectus by reference from the Annual Report of Mylan Laboratories Inc. on Form 10-K for the fiscal year ended March 31, 2006 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein by reference, and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of Matrix Laboratories Limited as of and for the fiscal years ended March 31, 2006 and 2005, incorporated in this prospectus by reference from the Current Report of Mylan Laboratories Inc. on Form 8-K filed on January 10, 2007, as amended on February 20, 2007, have been audited by Deloitte Haskins & Sells, independent auditors, as stated in their report, which is incorporated herein by reference, and has been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.