

PERRIGO CO
Form 10-Q
November 07, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: September 29, 2012

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 0-19725

PERRIGO COMPANY

(Exact name of registrant as specified in its charter)

Michigan	38-2799573
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

515 Eastern Avenue	49010
Allegan, Michigan	
(Address of principal executive offices)	(Zip Code)
(269) 673-8451	
(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, and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 November 2, 2012, the registrant had 93,880,801 outstanding shares of common stock.

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Cautionary Note Regarding Forward-Looking Statements

Certain statements in this report are “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created thereby. These statements relate to future events or the Company’s future financial performance and involve known and unknown risks, uncertainties and other factors that may cause the actual results, levels of activity, performance or achievements of the Company or its industry to be materially different from those expressed or implied by any forward-looking statements. In particular, statements about the Company’s expectations, beliefs, plans, objectives, assumptions, future events or future performance contained in this report, including certain statements contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” are forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as “may,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential” or the negative of those terms or other comparable terminology. Please see Item 1A of the Company’s Form 10-K for the year ended June 30, 2012 and Part II, Item 1A of this Form 10-Q for a discussion of certain important risk factors that relate to forward-looking statements contained in this report. The Company has based these forward-looking statements on its current expectations, assumptions, estimates and projections. While the Company believes these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond the Company’s control. These and other important factors may cause actual results, performance or achievements to differ materially from those expressed or implied by these forward-looking statements. The forward-looking statements in this report are made only as of the date hereof, and unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

PERRIGO COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

(unaudited)

	First Quarter 2013	2012
Net sales	\$769,810	\$725,295
Cost of sales	484,541	497,716
Gross profit	285,269	227,579
Operating expenses		
Distribution	10,767	10,264
Research and development	27,395	19,638
Selling and administration	90,534	96,125
Total operating expenses	128,696	126,027
Operating income	156,573	101,552
Interest, net	15,853	12,570
Other (income) expense, net	(62)	) 229
Income before income taxes	140,782	88,753
Income tax expense	35,202	18,295
Net income	\$105,580	\$70,458
Earnings per share		
Basic earnings per share	\$1.13	\$0.76
Diluted earnings per share	\$1.12	\$0.75
Weighted average shares outstanding		
Basic	93,607	92,900
Diluted	94,335	93,953
Dividends declared per share	\$0.08	\$0.07

See accompanying notes to condensed consolidated financial statements.

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PERRIGO COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	First Quarter	
	2013	2012
Net income	\$105,580	\$70,458
Other comprehensive income (loss):		
Change in fair value of derivative financial instruments, net of tax	1,462	(7,796)
Foreign currency translation adjustments	5,424	(52,960)
Post-retirement liability adjustments, net of tax	(41)	(17)
Other comprehensive income (loss), net of tax	6,845	(60,773)
Comprehensive income	\$112,425	\$9,685
See accompanying notes to condensed consolidated financial statements.		

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PERRIGO COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	September 29, 2012	June 30, 2012	September 24, 2011
Assets			
Current assets			
Cash and cash equivalents	\$631,993	\$602,489	\$116,615
Accounts receivable, net	584,008	572,582	521,263
Inventories	598,825	547,455	563,257
Current deferred income taxes	45,781	45,738	50,276
Income taxes refundable	4,252	1,047	8,891
Prepaid expenses and other current assets	35,872	26,610	38,789
Total current assets	1,900,731	1,795,921	1,299,091
Property and equipment	1,135,502	1,118,837	1,037,270
Less accumulated depreciation	(555,241)	(540,487)	(504,389)
	580,261	578,350	532,881
Goodwill and other indefinite-lived intangible assets	822,359	820,122	812,924
Other intangible assets, net	711,104	729,253	771,677
Non-current deferred income taxes	14,627	13,444	13,479
Other non-current assets	88,348	86,957	84,035
	\$4,117,430	\$4,024,047	\$3,514,087
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable	\$306,972	\$317,341	\$303,549
Short-term debt	1,609	90	3,750
Payroll and related taxes	57,864	89,934	72,106
Accrued customer programs	122,495	116,055	112,592
Accrued liabilities	79,756	76,406	83,374
Accrued income taxes	21,228	12,905	6,677
Current portion of long-term debt	40,000	40,000	40,000
Total current liabilities	629,924	652,731	622,048
Non-current liabilities			
Long-term debt, less current portion	1,329,827	1,329,235	1,155,787
Non-current deferred income taxes	26,297	24,126	9,604
Other non-current liabilities	166,064	165,310	182,207
Total non-current liabilities	1,522,188	1,518,671	1,347,598
Shareholders' Equity			
Controlling interest:			
Preferred stock, without par value, 10,000 shares authorized	—	—	—
Common stock, without par value, 200,000 shares authorized	512,658	504,708	478,035
Accumulated other comprehensive income	46,249	39,404	66,277
Retained earnings	1,404,977	1,306,925	998,256
	1,963,884	1,851,037	1,542,568
Noncontrolling interest	1,434	1,608	1,873
Total shareholders' equity	1,965,318	1,852,645	1,544,441
	\$4,117,430	\$4,024,047	\$3,514,087
Supplemental Disclosures of Balance Sheet Information			

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Allowance for doubtful accounts	\$2,224	\$2,556	\$9,617
Working capital	\$1,270,807	\$1,143,190	\$677,043
Preferred stock, shares issued and outstanding	—	—	—
Common stock, shares issued and outstanding	93,840	93,484	93,189
See accompanying notes to condensed consolidated financial statements.			

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PERRIGO COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	First Quarter 2013	2012	
Cash Flows (For) From Operating Activities			
Net income	\$105,580	\$70,458	
Adjustments to derive cash flows			
Gain on sale of pipeline development projects	—	(3,500)
Depreciation and amortization	33,424	34,720	
Share-based compensation	4,772	3,935	
Income tax benefit from exercise of stock options	2,068	2,125	
Excess tax benefit of stock transactions	(13,342	) (10,578)
Deferred income taxes	(3,483	) (3,084)
Subtotal	129,019	94,076	
Changes in operating assets and liabilities, net of business acquisition			
Accounts receivable	(6,682	) 8,581	
Inventories	(48,110	) (7,156)
Accounts payable	(12,574	) (47,249)
Payroll and related taxes	(32,298	) (10,681)
Accrued customer programs	6,440	(5,708)
Accrued liabilities	2,713	17,678	
Accrued income taxes	15,674	(878)
Other	(9,327	) 5,484	
Subtotal	(84,164	) (39,929)
Net cash from operating activities	44,855	54,147	
Cash Flows (For) From Investing Activities			
Acquisition of business, net of cash acquired	—	(547,052)
Proceeds from sale of intangible assets and pipeline development projects	—	10,500	
Additions to property and equipment	(14,804	) (18,953)
Other	—	(250)
Net cash for investing activities	(14,804	) (555,755)
Cash Flows (For) From Financing Activities			
Borrowings of short-term debt, net	1,519	980	
Net borrowings under accounts receivable securitization program	—	55,000	
Borrowings of long-term debt	592	250,787	
Deferred financing fees	—	(2,468)
Excess tax benefit of stock transactions	13,342	10,578	
Issuance of common stock	4,063	5,884	
Repurchase of common stock	(12,159	) (7,899)
Cash dividends	(7,528	) (6,535)
Net cash (for) from financing activities	(171	) 306,327	
Effect of exchange rate changes on cash	(376	) 1,792	
Net increase (decrease) in cash and cash equivalents	29,504	(193,489)
Cash and cash equivalents, beginning of period	602,489	310,104	
Cash and cash equivalents, end of period	\$631,993	\$116,615	

Supplemental Disclosures of Cash Flow Information

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Cash paid/received during the period for:

Interest paid	\$2,096	\$3,240
Interest received	\$1,276	\$1,127
Income taxes paid	\$20,514	\$9,151
Income taxes refunded	\$526	\$768

See accompanying notes to condensed consolidated financial statements.

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PERRIGO COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 29, 2012

(in thousands, except per share amounts)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

From its beginnings as a packager of generic home remedies in 1887, Perrigo Company (the "Company"), based in Allegan, Michigan, has grown to become a leading global provider of quality, affordable healthcare products. The Company develops, manufactures and distributes over-the-counter ("OTC") and generic prescription ("Rx") pharmaceuticals, nutritional products and active pharmaceutical ingredients ("API"). The Company is the world's largest manufacturer of OTC pharmaceutical products for the store brand market. The Company's mission is to offer uncompromised "quality, affordable healthcare products", and it does so across a wide variety of product categories primarily in the United States ("U.S."), United Kingdom ("U.K."), Mexico, Israel and Australia, as well as certain other markets throughout the world, including Canada, China and Latin America.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and other adjustments) considered necessary for a fair presentation have been included.

The Company's sales of OTC pharmaceutical products are subject to the seasonal demands for cough/cold/flu and allergy products. Accordingly, operating results for the first three months ended September 29, 2012, are not necessarily indicative of the results that may be expected for a full fiscal year. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended June 30, 2012.

The Company has four reportable segments, aligned primarily by type of product: Consumer Healthcare, Nutritional, Rx Pharmaceuticals and API. In addition, the Company has an Other category that consists of the Israel Pharmaceutical and Diagnostic Products operating segment, which does not individually meet the quantitative thresholds required to be a separately reportable segment. This segment structure is consistent with the way management makes operating decisions, allocates resources and manages the growth and profitability of the Company's business.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and all majority owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Recently Adopted Accounting Standards

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-05, "Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income." The amendments in this ASU improve the prominence of other comprehensive income items and align the presentation of other

comprehensive income with International Financial Reporting Standards ("IFRS"). These changes allow an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single statement of comprehensive income or in two separate and consecutive statements. Both methods must still report each component of net income with total income, each component of other comprehensive income with a total amount of other comprehensive income, and a total amount of comprehensive income. The amendments in this ASU are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted and the amendments should be applied retrospectively. This guidance was effective for the Company in the first quarter of fiscal 2013.

In December 2011, the FASB issued ASU 2011-12, "Comprehensive Income (ASC Topic 220) - Deferral of Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." This ASU defers the effective date for the part of ASU 2011-05, "Comprehensive

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Income (ASC Topic 220): Presentation of Comprehensive Income" that would require adjustments of items out of accumulated other comprehensive income to be presented on the components of both net income and other comprehensive income in financial statements. The changes in ASU 2011-05 would have been effective for annual and interim periods beginning on or after December 15, 2011, but those changes are now deferred until the FASB can adequately evaluate the costs and benefits of this presentation. The Company has deferred adoption of the presentation requirement and has provided the disclosures required under the remainder of ASU 2011-05 in the condensed consolidated statements of comprehensive income.

NOTE 2 – BUSINESS ACQUISITIONS

CanAm Care, LLC - On January 6, 2012, the Company acquired substantially all of the assets of CanAm Care, LLC ("CanAm"), a distributor of diabetes care products, located in Alpharetta, Georgia, for \$39,014. The purchase price included an up-front cash payment of \$36,114 and contingent consideration totaling \$2,900 based primarily on the estimated fair value of contingent payments to the seller pending the Company's future execution of a promotion agreement with a third-party related to a certain diabetes care product. In the first quarter of fiscal 2013, the Company executed the promotion agreement with the third-party and paid the seller the initial consideration of \$2,000. See Note 4 regarding the valuation of the remaining \$900 of contingent consideration. The acquisition expanded the Company's diabetic product offering within the Consumer Healthcare segment.

The acquisition was accounted for under the acquisition method of accounting, and the related assets acquired and liabilities assumed were recorded at fair value. The operating results for CanAm were included in the Consumer Healthcare segment of the Company's consolidated results of operations beginning January 6, 2012.

The final allocation of the \$39,014 purchase price was:

Accounts receivable	\$3,568
Inventory	6,391
Property and equipment	91
Other assets	126
Deferred income tax assets	625
Goodwill	15,040
Intangible assets	15,830
Total assets acquired	41,671
Accounts payable	2,237
Other current liabilities	420
Total liabilities assumed	2,657
Net assets acquired	\$39,014

The excess of the purchase price over the fair value of net assets acquired, amounting to \$15,040, was recorded as goodwill in the condensed consolidated balance sheet and was assigned to the Company's Consumer Healthcare segment. Goodwill is not amortized for financial reporting purposes, but is amortized for tax purposes. See Note 6 regarding the timing of the Company's annual goodwill impairment testing.

Intangible assets acquired in the acquisition were valued as follows:

Customer relationships	\$12,000
Developed product technology	1,600
Non-compete agreements	1,540
Trade name and trademarks	690
Total intangible assets acquired	\$15,830

Management assigned fair values to the identifiable intangible assets through a combination of the relief from royalty method and the excess earnings method. Customer relationships are based on a 15-year useful life and amortized on a proportionate basis consistent with the economic benefits derived therefrom. Developed product technology and non-compete agreements are based on a 20- and 5-year useful life, respectively, and are amortized on a straight-line basis. Trade name and trademarks are considered to have an indefinite life.

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Paddock Laboratories, Inc. – On July 26, 2011, the Company completed the acquisition of substantially all of the assets of Paddock Laboratories, Inc. ("Paddock"). After final working capital and other adjustments of \$837, the ultimate cash paid for Paddock was \$546,215. Headquartered in Minneapolis, Minnesota, Paddock was a manufacturer and marketer of generic Rx pharmaceutical products. The acquisition expanded the Company's generic Rx product offering, pipeline and scale.

The Company funded the transaction using \$250,000 of term loan debt, \$211,215 of cash on hand and \$85,000 from its accounts receivable securitization program. In fiscal 2011, the Company incurred \$2,560 of acquisition costs, of which \$1,315, \$695 and \$550 were expensed in operations in the second, third and fourth quarters of fiscal 2011, respectively. The Company incurred an additional \$5,600 of acquisition costs in the first quarter of fiscal 2012, along with severance costs of \$3,800, of which approximately \$3,200 and \$600 were expensed in operations in the first and second quarters of fiscal 2012, respectively.

The acquisition was accounted for under the acquisition method of accounting, and the related assets acquired and liabilities assumed were recorded at fair value. The operating results for Paddock were included in the Rx Pharmaceuticals segment of the Company's consolidated results of operations beginning on July 26, 2011.

The following table summarizes the final fair values of the assets acquired and liabilities assumed related to the Paddock acquisition:

	Initial Valuation	Measurement Period Adjustments	Final Valuation
Accounts receivable	\$55,467	\$—	\$55,467
Inventory	57,540	—	57,540
Property and equipment	33,200	—	33,200
Other assets	1,743	—	1,743
Deferred income tax assets	20,863	(344	) 20,519
Goodwill	150,035	(1,170	) 148,865
Intangible assets	272,000	—	272,000
Total assets acquired	590,848	(1,514	) 589,334
Accounts payable	10,685	—	10,685
Other current liabilities	2,386	—	2,386
Accrued customer programs	26,926	(677	) 26,249
Accrued expenses	3,799	—	3,799
Total liabilities assumed	43,796	(677	) 43,119
Net assets acquired	\$547,052	\$(837	) \$546,215

The excess of the purchase price over the fair value of net assets acquired, amounting to \$148,865, was recorded as goodwill in the condensed consolidated balance sheet and was assigned to the Company's Rx Pharmaceuticals segment. Goodwill is not amortized for financial reporting purposes, but is amortized for tax purposes. See Note 6 regarding the timing of the Company's annual goodwill impairment testing.

Intangible assets acquired in the acquisition were valued as follows:

Developed product technology	\$237,000
In-process research and development ("IPR&D")	35,000
Total intangible assets acquired	\$272,000

Management assigned fair values to the identifiable intangible assets through the excess earnings method. The developed product technology assets are based on a 10-year useful life and amortized on a straight-line basis. IPR&D assets initially recognized at fair value will be classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. At September 29, 2012, the IPR&D assets have not progressed to the point of establishing developed technologies.

At the time of the acquisition, a step-up in the value of inventory of \$27,179 was recorded in the opening balance

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sheet as assets acquired and was based on valuation estimates, all of which was charged to cost of sales in the first quarter of fiscal 2012 as the inventory was sold. In addition, fixed assets were written up by \$7,400 to their estimated fair market value based on a valuation method that included both the cost and market approaches. This additional step-up in value is being depreciated over the estimated remaining useful lives of the assets.

As a condition to Federal Trade Commission ("FTC") approval of the overall transaction with Paddock, immediately subsequent to the acquisition, the Company sold to Watson Pharmaceuticals four Abbreviated New Drug Application ("ANDA") products acquired as part of the Paddock portfolio along with the rights to two of the Company's pipeline development projects for a total of \$10,500. The Company allocated \$7,000 of proceeds to the four ANDA products and wrote off the corresponding developed product technology intangible asset, which was recorded at its fair value of \$7,000. In addition, the Company recorded a \$3,500 gain on the sale of its pipeline development projects.

NOTE 3 – EARNINGS PER SHARE

A reconciliation of the numerators and denominators used in the basic and diluted earnings per share ("EPS") calculation is as follows:

	First Quarter 2013	2012
Numerator:		
Net income	\$ 105,580	\$ 70,458
Denominator:		
Weighted average shares outstanding for basic EPS	93,607	92,900
Dilutive effect of share-based awards	728	1,053
Weighted average shares outstanding for diluted EPS	94,335	93,953

Share-based awards outstanding that were anti-dilutive were 112 and 66 for the first quarter of fiscal 2013 and 2012, respectively. These share-based awards were excluded from the diluted EPS calculation.

NOTE 4 – FAIR VALUE MEASUREMENTS

Accounting Standards Codification ("ASC") Topic 820 provides a consistent definition of fair value, which focuses on exit price, prioritizes the use of market-based inputs over entity-specific inputs for measuring fair value and establishes a three-level hierarchy for fair value measurements. ASC Topic 820 requires fair value measurements to be classified and disclosed in one of the following three categories:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Either direct or indirect inputs, other than quoted prices included within Level 1, which are observable for similar assets or liabilities.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

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The following tables summarize the valuation of the Company's financial instruments by the above pricing categories as of September 29, 2012, June 30, 2012, and September 24, 2011:

Fair Value Measurements as of September 29, 2012 Using:				
	Total as of September 29, 2012	Quoted Prices In Active Markets (Level 1)	Prices With Other Observable Inputs (Level 2)	Prices With Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$260,527	\$260,527	\$—	\$—
Investment securities	6,470	—	—	6,470
Funds associated with Israeli post employment benefits	15,198	—	15,198	—
Total	\$282,195	\$260,527	\$15,198	\$6,470
Liabilities:				
Contingent consideration	\$900	\$—	\$—	\$900
Foreign currency forward contracts, net	1,520	—	1,520	—
Interest rate swap agreements	15,107	—	15,107	—
Total	\$17,527	\$—	\$16,627	\$900
Fair Value Measurements as of June 30, 2012 Using:				
	Total as of June 30, 2012	Quoted Prices In Active Markets (Level 1)	Prices With Other Observable Inputs (Level 2)	Prices With Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$479,548	\$479,548	\$—	\$—
Investment securities	6,470	—	—	6,470
Funds associated with Israeli post employment benefits	14,973	—	14,973	—
Total	\$500,991	\$479,548	\$14,973	\$6,470
Liabilities:				
Contingent consideration	\$2,900	\$—	\$—	\$2,900
Interest rate swap agreements	14,706	—	14,706	—
Foreign currency forward contracts, net	5,567	—	5,567	—
Total	\$23,173	\$—	\$20,273	\$2,900

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	Fair Value Measurements as of September 24, 2011 Using:			
	Total as of September 24, 2011	Quoted Prices In Active Markets (Level 1)	Prices With Other Observable Inputs (Level 2)	Prices With Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$67,318	\$67,318	\$—	\$—
Investment securities	7,503	—	—	7,503
Funds associated with Israeli post employment benefits	15,873	—	15,873	—
Total	\$90,694	\$67,318	\$15,873	\$7,503
Liabilities:				
Foreign currency forward contracts, net	\$2,189	\$—	\$2,189	\$—
Interest rate swap agreements	14,279	—	14,279	—
Total	\$16,468	\$—	\$16,468	\$—

The carrying amounts of the Company's financial instruments, consisting of cash and cash equivalents, investment securities, accounts receivable, accounts payable, short-term debt and variable rate long-term debt, approximate their fair value. As of September 29, 2012, the carrying value and fair value of the Company's fixed rate long-term debt were \$965,000 and \$1,048,983, respectively. As of June 30, 2012, the carrying value and fair value of the Company's fixed rate long-term debt were \$965,000 and \$1,050,343, respectively. As of September 24, 2011, the carrying value and fair value of the Company's fixed rate long-term debt were \$615,000 and \$692,683, respectively. Fair values were calculated by discounting the future cash flows of the financial instruments to their present value, using interest rates currently offered for borrowings and deposits of similar nature and remaining maturities. There were no transfers between Level 1 and Level 2 during the three months ended September 29, 2012. The Company's policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period.

As of September 29, 2012, the Company had \$15,198 deposited in funds managed by financial institutions that are designated by management to cover post employment benefits for its Israeli employees. Israeli law generally requires payment of severance upon dismissal of an employee or upon termination of employment in certain other circumstances. These funds are included in the Company's long-term investments reported in other non-current assets. The Company's Level 2 securities values are determined using prices for recently traded financial instruments with similar underlying terms, as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

The Company's investment securities include auction rate securities ("ARS") totaling \$18,000 in par value. ARS are privately placed variable rate debt instruments whose interest rates are reset within a contractual range, approximately every seven to 35 days. Historically, the carrying value of ARS approximated their fair value due to the frequent resetting of the interest rates at auction. With the tightening of the credit markets beginning in calendar 2008, ARS have failed to settle at auction resulting in an illiquid market for these types of securities for an extended period of time. While a market has started to materialize for these securities, though at a much reduced level than the pre-2008 period, the Company cannot predict when liquidity will return for these securities. The Company has classified the securities as other non-current assets due to the unpredictable nature and the illiquidity of the market for the securities. The Company currently engages the services of an independent third-party valuation firm at the end of each second and fourth fiscal quarter to assist the Company in estimating the current fair value of the ARS using a discounted cash flow analysis and an assessment of secondary markets, as well as other factors. As this fair value is based on significant inputs not observable in the market, the Company has classified these securities as Level 3 in the tables above. The inputs to the discounted cash flow model include market interest rates and a discount factor to reflect the illiquidity of the investments. The discount rates used in the analysis were based on market rates for similar liquid tax-exempt securities with comparable ratings and maturities. Due to the uncertainty surrounding the timing of future liquidity, the discount rates were adjusted further to reflect the illiquidity of the investments. The Company's valuation

is sensitive to market conditions and management's judgment. A 100 basis point increase in the discount rate would result in a decrease in the fair value of approximately \$200. At September 29, 2012, June 30, 2012, and September 24, 2011, these securities were considered as available-for-sale and were recorded at a fair value of \$6,470, \$6,470 and \$7,503, respectively. The Company recorded unrealized losses (net of tax) of \$1,033, in fiscal 2012, in other comprehensive income related to the ARS. Although the Company continued to earn and collect interest on these investments at the maximum contractual rate, the estimated fair value of ARS cannot be determined by the auction process until liquidity is restored to these markets. The Company will continue to monitor the credit worthiness of the

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companies that issued these securities and other appropriate factors and make such adjustments as it deems necessary to reflect the fair value of these securities. All of the ARS investments have a contractual maturity of more than five years as of September 29, 2012. The gross realized gains and losses on the sale of ARS are determined using the specific identification method.

As a result of the acquisition of CanAm completed on January 6, 2012, the Company recorded a contingent consideration liability of \$2,900 on the acquisition date based upon the estimated fair value of contingent payments to the seller pending the Company's future execution of a promotion agreement with a third-party related to a certain diabetes care product. The fair value measurements for this liability are valued using Level 3 inputs. The terms of the acquisition agreement required the Company to pay the seller \$2,000 upon the Company's execution of the promotion agreement with the third-party. During the first quarter of fiscal 2013, the Company executed the promotion agreement with the third-party and paid the seller the initial consideration of \$2,000. Additional consideration, not to exceed \$5,000, is to be paid in an amount equal to the gross revenue associated with the promotion agreement during the first year subsequent to the endorsement of the agreement. The Company estimated the fair value of the contingent consideration using probability assessments with respect to the timing of executing the agreement with the third-party, along with the expected future cash flows during the first year subsequent to the endorsement of the agreement. The assumptions associated with expected future cash flows will be evaluated each quarter. During the first quarter of fiscal 2013, the Company updated the estimated fair value of the contingent consideration and determined there was no change to the remaining fair value of \$900.

The following table presents a rollforward of the assets and liabilities measured at fair value using unobservable inputs (Level 3) at September 29, 2012:

Assets:	Investment Securities (Level 3)
Balance as of June 30, 2012	\$6,470
Unrealized loss on ARS	—
Balance as of September 29, 2012	\$6,470
Liabilities:	Contingent Consideration (Level 3)
Balance as of June 30, 2012	\$2,900
Payments	(2,000)
Balance as of September 29, 2012	\$900

NOTE 5 – INVENTORIES

Inventories are stated at the lower of cost or market and are summarized as follows:

	September 29, 2012	June 30, 2012	September 24, 2011
Finished goods	\$255,933	\$235,593	\$268,254
Work in process	178,212	154,238	141,036
Raw materials	164,680	157,624	153,967
Total inventories	\$598,825	\$547,455	\$563,257

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NOTE 6 – GOODWILL AND OTHER INTANGIBLE ASSETS

In the first quarter of fiscal 2013, there were no additions to goodwill. The Company performs its annual testing for goodwill and indefinite-lived intangible asset impairment at the beginning of the fourth quarter of the fiscal year for all reporting units. Changes in the carrying amount of goodwill, by reportable segment, were as follows:

	Consumer Healthcare	Nutritionals	Rx Pharmaceuticals	API	Total
Balance as of June 30, 2012	\$138,910	\$331,744	\$220,769	\$86,334	\$777,757
Currency translation adjustment	2,362	—	(215)	(57)	2,090
Balance as of September 29, 2012	\$141,272	\$331,744	\$220,554	\$86,277	\$779,847

Other intangible assets and related accumulated amortization consisted of the following:

	September 29, 2012		June 30, 2012		September 24, 2011	
	Gross	Accumulated Amortization	Gross	Accumulated Amortization	Gross	Accumulated Amortization
Amortizable intangibles:						
Developed product technology/formulation and product rights	\$542,186	\$152,568	\$542,094	\$140,489	\$547,354	\$107,841
Customer relationships	342,404	56,355	341,363	50,757	328,620	36,212
Distribution and license agreements	52,634	24,876	52,609	23,686	52,455	20,508
Non-compete agreements	7,860	4,263	7,804	3,778	6,136	2,648
Trademarks	4,795	713	4,797	704	5,023	702
Total	949,879	238,775	948,667	219,414	939,588	167,911
Non-amortizable intangibles:						
In-process research and development	35,000	—	35,000	—	35,000	—
Trade names and trademarks	7,512	—	7,365	—	6,602	—
Total other intangible assets	\$992,391	\$238,775	\$991,032	\$219,414	\$981,190	\$167,911

Certain intangible assets are denominated in currencies other than the U.S. dollar; therefore, their gross and net carrying values are subject to foreign currency movements.

The Company recorded amortization expense of \$18,821 and \$20,021 for the first quarter of fiscal 2013 and 2012, respectively, for intangible assets subject to amortization.

Estimated future amortization expense includes the additional amortization related to recently acquired intangible assets currently subject to amortization. No estimate of future amortization expense related to the subsequent acquisition of Sergeant's Pet Care Products, Inc. ("Sergeant's") has been included in the table below (see Note 14 - Subsequent Event). The estimated amortization expense for each of the following five years is as follows:

Fiscal Year	Amount
2013 ⁽¹⁾	\$56,200
2014	74,900
2015	74,200
2016	72,200
2017	69,800

⁽¹⁾ Reflects remaining nine months of fiscal 2013.

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NOTE 7 – INDEBTEDNESS

Total borrowings outstanding are summarized as follows:

	September 29, 2012	June 30, 2012	September 24, 2011
Short-term debt:			
Foreign line of credit	\$1,609	\$90	\$3,750
Current portion of long-term debt:			
Term loans	40,000	40,000	40,000
Total	41,609	40,090	43,750
Long-term debt, less current portion:			
Borrowings under Securitization Program	—	—	55,000
Term loans	360,000	360,000	485,000
Senior notes	965,000	965,000	615,000
Other	4,827	4,235	787
Total	1,329,827	1,329,235	1,155,787
Total debt	\$1,371,436	\$1,369,325	\$1,199,537

The Company has revolving loan and term loan commitments of \$400,000 each. No borrowings were made against the revolving loan during the three months ended September 29, 2012. The loans bear interest, at the election of the Company, at either the Alternate Base Rate plus the Applicable Margin or the Adjusted LIBO Rate plus the Applicable Margin, as specified and defined in the 2011 Credit Agreement. The Applicable Margin is based on the Company's Leverage Ratio from time to time, as defined in the 2011 Credit Agreement. In the first quarter of fiscal 2013, the Company amended the 2011 Credit Agreement to provide flexibility to the Company in managing the capital structures of certain immaterial subsidiaries. This amendment did not change the interest rate, term or amount of the revolving loan and term loan commitments.

The Company's India subsidiary has a term loan with a maximum limit of approximately \$5,200, subject to foreign currency fluctuations between the Indian rupee and the U.S. dollar. The interest rate on this facility was 11.5% as of September 29, 2012. The Company's India subsidiary had \$4,827, \$4,235 and \$787, outstanding on this line as of September 29, 2012, June 30, 2012, and September 24, 2011, respectively.

The Company's India subsidiary has a short-term credit line in an aggregate amount not to exceed approximately \$3,900, subject to foreign currency fluctuations between the Indian rupee and the U.S. dollar. The interest rate on this facility was 11.5% as of both September 29, 2012 and June 30, 2012. The credit line expires after 180 days but can be extended by mutual agreement of the parties. The Company's India subsidiary had \$1,609, \$90, and \$3,750 borrowings outstanding on this line of credit as of September 29, 2012, June 30, 2012, and September 24, 2011, respectively.

On July 23, 2009, the Company entered into an accounts receivable securitization program (the "Securitization Program") with several of its wholly owned subsidiaries and Bank of America Securities, LLC ("Bank of America"). The Company renewed the Securitization Program most recently on June 13, 2011, with Bank of America, as Agent, and Wells Fargo Bank, National Association ("Wells Fargo") and PNC Bank, National Association ("PNC") as Managing Agents (together, the "Committed Investors").

The Securitization Program is a three-year program, expiring June 13, 2014. Under the terms of the Securitization Program, the subsidiaries sell certain eligible trade accounts receivables to a wholly owned bankruptcy remote special purpose entity ("SPE"), Perrigo Receivables, LLC. The Company has retained servicing responsibility for those receivables. The SPE will then transfer an interest in the receivables to the Committed Investors. Under the terms of

the Securitization Program, Bank of America, Wells Fargo and PNC have committed \$101,750, \$55,500 and \$27,750, respectively, effectively allowing the Company to borrow up to a total amount of \$185,000, subject to a Maximum Net Investment calculation as defined in the agreement. At September 29, 2012, \$185,000 was available under this calculation. The interest rate on any borrowings is based on a 30-day LIBOR plus 0.45%. In addition, a facility fee of 0.45% is applied to the \$185,000 commitment whether borrowed or undrawn. Under the terms of the Securitization Program, the Company may elect to have the entire amount or any portion of the facility unutilized. Subsequent to the end of the first quarter of fiscal 2013, the Company amended the terms of the Securitization Program effectively increasing the amount the Company can borrow to \$200,000.

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Any borrowing made pursuant to the Securitization Program will be classified as debt in the Company's condensed consolidated balance sheet. The amount of the eligible receivables will vary during the year based on seasonality of the business and could, at times, limit the amount available to the Company from the sale of these interests.

NOTE 8 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company accounts for derivatives as either an asset or liability measured at fair value. Additionally, changes in the derivative's fair value are recognized in earnings unless specific hedge accounting criteria are met. If hedge accounting criteria are met for cash flow hedges, the changes in a derivative's fair value are recorded in shareholders' equity as a component of other comprehensive income ("OCI"), net of tax. These deferred gains and losses are recognized in income in the period in which the hedged item and hedging instrument affect earnings. All of the Company's designated hedging instruments are classified as cash flow hedges.

All derivative instruments are managed on a consolidated basis to efficiently net exposures and thus take advantage of any natural offsets. The absolute value of the notional amounts of derivative contracts for the Company approximated \$450,700, \$415,600 and \$377,800 at September 29, 2012, June 30, 2012, and September 24, 2011, respectively. Gains and losses related to the derivative instruments are expected to be largely offset by gains and losses on the original underlying asset or liability. The Company does not use derivative financial instruments for speculative purposes.

The Company is exposed to credit loss in the event of nonperformance by the counterparties on derivative contracts. It is the Company's policy to manage its credit risk on these transactions by dealing only with financial institutions having a long-term credit rating of "A" or better and by distributing the contracts among several financial institutions to diversify credit concentration risk. Should a counterparty default, the Company's maximum exposure to loss is the asset balance of the instrument.

Interest Rate Hedging

The Company executes treasury-lock agreements ("T-Locks") and interest rate swap agreements to manage its exposure to changes in interest rates related to its long-term borrowings. For derivative instruments designated as cash flow hedges, changes in the fair value, net of tax, are reported as a component of OCI.

Interest rate swap agreements are contracts to exchange floating rate for fixed rate interest payments over the life of the agreement without the exchange of the underlying notional amounts. The notional amounts of the interest rate swap agreements are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss. The differential paid or received on the interest rate swap agreements is recognized as an adjustment to interest expense.

In the first quarter of fiscal 2012, the Company entered into interest rate swap agreements with a notional value of \$175,000 to hedge the exposure to the possible rise in the benchmark interest rate prior to the issuance of the Series 2011 Notes on September 30, 2011. The interest rate swaps, which the Company designated as cash flow hedges, were settled in the first quarter of fiscal 2012 upon entering into a definitive agreement for the issuance of an aggregate of \$175,000 principal amount of the Series 2011 Notes for a cumulative after-tax loss of \$762, which was recorded in OCI and will be amortized to earnings as an accretion to interest expense over the first 10 years of the life of those notes. The Company expects to recognize approximately \$76 in after-tax earnings as a result of the swap agreements over the next 12 months.

The Company has designated the above interest rate swaps as cash flow hedges and has formally documented the relationships between the interest rate swaps and the variable rate borrowings, as well as its risk management objective and strategy for undertaking the hedge transactions. This process includes linking the derivative to the

specific liability or asset on the balance sheet. The Company also assesses, both at the inception of the hedge and on an ongoing basis, whether the derivative used in the hedging transaction is highly effective in offsetting changes in the cash flows of the hedged item. The effective portion of unrealized gains (losses) is deferred as a component of accumulated OCI and is recognized in earnings at the time the hedged item affects earnings. Any ineffective portion of the change in fair value is immediately recognized in earnings.

Foreign Currency Contracts

The Company is exposed to foreign currency exchange rate fluctuations in the normal course of its business, which the Company manages through the use of foreign currency put, call and forward contracts. For foreign currency contracts designated as cash flow hedges, changes in the fair value of the foreign currency contracts, net of tax, are reported as a component of OCI. For foreign currency contracts not designated as hedges, changes in fair value are recorded in current

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period earnings.

The Company's foreign currency hedging program includes cash flow hedges. The Company enters into foreign currency forward contracts in order to hedge the impact of fluctuations of foreign exchange on expected future purchases and related payables denominated in a foreign currency. These forward contracts have a maximum maturity date of 15 months. In addition, the Company enters into foreign currency forward contracts in order to hedge the impact of fluctuations of foreign exchange on expected future sales and related receivables denominated in a foreign currency. These forward contracts also have a maximum maturity date of 15 months. The Company did not have any foreign currency put or call contracts as of September 29, 2012.

The Company has designated certain forward contracts as cash flow hedges and has formally documented the relationships between the forward contracts and the hedged items, as well as its risk management objective and strategy for undertaking the hedge transactions. This process includes linking the derivative to the specific liability or asset on the balance sheet. The Company also assesses, both at the inception of the hedge and on an ongoing basis, whether the derivative used in the hedging transaction is highly effective in offsetting changes in the cash flows of the hedged item. The effective portion of unrealized gains (losses) is deferred as a component of accumulated OCI and is recognized in earnings at the time the hedged item affects earnings. Any ineffective portion of the change in fair value is immediately recognized in earnings.

The effects of derivative instruments on the Company's condensed consolidated balance sheets as of September 29, 2012, June 30, 2012, and September 24, 2011, and on the Company's income and OCI for the three months ended September 29, 2012, and September 24, 2011, were as follows (amounts presented exclude any income tax effects):

Fair Values of Derivative Instruments in Condensed Consolidated Balance Sheet
(Designated as (non)hedging instruments)

		Asset Derivatives		
		Balance Sheet Location	Fair Value	
			September 29, 2012	June 30, 2012
				September 24, 2011
Hedging derivatives:				
Foreign currency forward contracts	Other current assets	\$1,559	\$578	\$1,563
Total hedging derivatives		\$1,559	\$578	\$1,563
Non-hedging derivatives:				
Foreign currency forward contracts	Other current assets	\$603	\$54	\$218
Total non-hedging derivatives		\$603	\$54	\$218
		Liability Derivatives		
		Balance Sheet Location	Fair Value	
			September 29, 2012	June 30, 2012
				September 24, 2011
Hedging derivatives:				
Foreign currency forward contracts	Accrued liabilities	\$3,485	\$5,585	\$3,331
Interest rate swap agreements	Other non-current liabilities	15,107	14,706	14,279
Total hedging derivatives		\$18,592	\$20,291	\$17,610
Non-hedging derivatives:				
Foreign currency forward contracts	Accrued liabilities	\$197	\$614	\$639
Total non-hedging derivatives		\$197	\$614	\$639

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Effects of Derivative Instruments on Income and OCI for the three months ended September 29, 2012, and September 24, 2011

Derivatives in Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in OCI on Derivative (Effective Portion)		Location and Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location and Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)			
	September 29, 2012	September 24, 2011		September 29, 2012	September 24, 2011		September 29, 2012
T-Locks	\$—	\$ —	Interest, net	\$ 91	\$91	Interest, net	\$ —
Interest rate swap agreements	(400)	(6,825)	Interest, net	(1,214)	821	Interest, net	—
Foreign currency forward contracts	(72)	(4,269)	Net sales	(83)	(413)	Net sales	—
			Cost of sales	(1,675)	1,529	Cost of sales	9
			Interest, net	43	10		687
			Other expense, net	(451)	(835)		
Total	\$(472)	\$(11,094)		\$ (3,289)	\$1,203		\$ 9
							\$667

The Company also has forward foreign currency contracts that are not designated as hedging instruments and recognizes the gain/(loss) associated with these contracts in other income (expense), net. For the three months ended September 29, 2012, and September 24, 2011, the Company recorded a loss of \$246 and \$1,290, respectively, related to these contracts. The net hedge result offsets the revaluation of the underlying balance sheet exposure, which is also recorded in other income (expense), net.

NOTE 9 – SHAREHOLDERS' EQUITY

The Company issued 466 and 499 shares related to the exercise and vesting of share-based compensation during the first quarter of fiscal 2013 and 2012, respectively.

The Company does not currently have a common stock repurchase program, but does repurchase shares in private party transactions from time to time. Private party transactions are shares repurchased in connection with the vesting of restricted stock awards to satisfy employees' minimum statutory tax withholding obligations. During the first quarter of fiscal 2013, the Company repurchased 110 shares of its common stock for \$12,159 in private party transactions. During the first quarter of fiscal 2012, the Company repurchased 87 shares of its common stock for \$7,899 in private party transactions. All common stock repurchased by the Company becomes authorized but unissued stock and is available for reissuance in the future for general corporate purposes.

NOTE 10 – INCOME TAXES

The effective tax rate on income was 25.0% and 20.6% for the first quarter of fiscal 2013 and 2012, respectively. The effective tax rate was favorably affected by a reduction in the reserves for uncertain tax liabilities, recorded in

accordance with ASC Topic 740 "Income Taxes", in the amount of \$7,452 and \$7,064 for the first quarter of fiscal 2013 and 2012, respectively, related to various audit resolutions and statute expirations. Foreign source income before tax for the first quarter of fiscal 2013 was 41% of total income before tax, down from 61% in the same period of fiscal 2012. Foreign source income is generally derived from jurisdictions with a lower tax rate than the U.S. statutory rate. In December 2011, Israel canceled the previously passed changes that would have reduced its corporate tax rates on income generated by Israeli entities to 22% for 2012, 21% for 2013, 20% for 2014 and 18% for 2015. This change has resulted in a current corporate statutory rate of 25% in Israel for non-exempt entities.

The Company's tax rate is subject to adjustment over the balance of the fiscal year due to, among other things, changes in revenue mix, unanticipated changes in applicable laws and changes in the jurisdictions in which the Company does business.

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The total amount of unrecognized tax benefits was \$105,066 and \$108,520 as of September 29, 2012, and June 30, 2012, respectively.

The total amount accrued for interest and penalties in the liability for uncertain tax positions was \$20,527 and \$20,005 as of September 29, 2012, and June 30, 2012, respectively.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Eltroxin

During October and November 2011, nine applications to certify a class action lawsuit were filed in various courts in Israel related to Eltroxin, a prescription thyroid medication manufactured by a third party and distributed in Israel by Perrigo Israel Agencies Ltd. The respondents include Perrigo Israel Pharmaceuticals Ltd. and/or Perrigo Israel Agencies Ltd., the manufacturers of the product, and various health care providers who provide health care services as part of the compulsory health care system in Israel.

The nine applications arose from the 2011 launch of a reformulated version of Eltroxin in Israel. The applications generally alleged that the respondents (a) failed to timely inform patients, pharmacists and physicians about the change in the formulation; and (b) failed to inform physicians about the need to monitor patients taking the new formulation in order to confirm patients were receiving the appropriate dose of the drug. As a result, claimants allege they incurred the following damages: (a) purchases of product that otherwise would not have been made by patients had they been aware of the reformulation; (b) adverse events to some patients resulting from an imbalance of thyroid functions that could have been avoided; and (c) harm resulting from the patient's lack of informed consent prior to the use of the reformulation.

All nine applications were transferred to one court in order to determine whether to consolidate any of the nine applications. On July 19, 2012, the court dismissed one of the applications and ordered that the remaining eight applications be consolidated into one application. On September 19, 2012, a consolidated motion to certify the eight individual motions was filed by lead counsel for the claimants. Generally, the allegations in the consolidated motion are the same as those set forth in the individual motions; however, the consolidated motion excluded the manufacturer of the reformulated Eltroxin as a respondent. A motion objecting to the removal of the manufacturer of Eltroxin from the consolidated motion was filed, and this motion is still pending. A hearing on whether or not to certify the consolidated application is scheduled for February 2013. As this matter is in its early stages, the Company cannot reasonably predict at this time the outcome or the liability, if any, associated with these claims.

Securities Litigation

On March 11, 2009, a purported shareholder of the Company named Michael L. Warner (Warner) filed a lawsuit in the United States District Court for the Southern District of New York against the Company and certain of its officers and directors, including the President and Chief Executive Officer, Joseph Papa, and the Chief Financial Officer, Judy Brown, among others. The plaintiff sought to represent a class of purchasers of the Company's common stock during the period between November 6, 2008, and February 2, 2009. The complaint alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act"). The plaintiff generally alleged that the Company misled investors by failing to disclose, prior to February 3, 2009, that certain auction rate securities held by the Company, totaling approximately \$18,000 in par value (the "ARS"), had been purchased from Lehman Brothers Holdings, Inc. ("Lehman"). The plaintiff asserted that omission of the identity of Lehman as the seller of the ARS was material because after Lehman's bankruptcy filing, on September 15, 2008, the Company allegedly became unable to look to Lehman to repurchase the ARS at a price near par value. The complaint sought unspecified damages and unspecified equitable or injunctive relief, along with costs and attorneys' fees.

On June 15, 2009, the Court appointed several other purported shareholders of the Company, rather than Warner, as co-lead plaintiffs (the "Original Co-Lead Plaintiffs"). On July 31, 2009, these Original Co-Lead Plaintiffs filed an amended complaint. The amended complaint dropped all claims against the individual defendants other than Joseph Papa and Judy Brown, and added a "control person" claim under Section 20(a) of the Exchange Act against the members of the Company's Audit Committee. The amended complaint asserted many of the same claims and allegations as the original pleading. It also alleged that the Company should have disclosed, prior to February 3, 2009, that Lehman had provided the allegedly inflated valuation of the ARS that the Company adopted in its Form 10-Q filing for the first quarter of fiscal 2009, which was filed with the SEC on November 6, 2008. The amended complaint also alleged that some portion of the write-down of the value of the ARS that the Company recognized in the second quarter of fiscal 2009 should have been taken in the prior quarter, immediately following Lehman's bankruptcy filing.

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On September 28, 2009, the defendants filed a motion to dismiss all claims against all defendants. On September 30, 2010, the Court granted in part and denied in part the motion to dismiss. The Court dismissed the “control person” claims against the members of the Company's Audit Committee, but denied the motion to dismiss as to the remaining claims and defendants. On October 29, 2010, the defendants filed a new motion to dismiss the amended complaint on the grounds that the Original Co-Lead Plaintiffs (who were the only plaintiffs named in the amended complaint) lacked standing to sue under the U.S. securities laws following a recent decision of the United States Supreme Court holding that Section 10(b) of the Exchange Act does not apply extraterritorially to the claims of foreign investors who purchased or sold securities on foreign stock exchanges. On December 23, 2010, a purported shareholder named Harel Insurance, Ltd. (“Harel”) filed a motion to intervene as an additional named plaintiff. On January 10, 2011, the original plaintiff, Warner, filed a motion renewing his previously withdrawn motion to be appointed as Lead Plaintiff to replace the Original Co-Lead Plaintiffs.

On September 28, 2011, the Court granted defendants' renewed motion to dismiss. The Court (i) dismissed the claims of the Original Co-Lead Plaintiffs; (ii) ruled that any class that might ultimately be certified could only consist of persons who purchased their Perrigo shares on the NASDAQ market or by other means involving transactions in the United States; (iii) granted Harel's motion to intervene as a named plaintiff; and (iv) ruled that Warner would also be treated as a named plaintiff.

On October 7, 2011, plaintiffs filed a second amended complaint on behalf of both Harel and Warner, alleging the same claims as in the amended complaint but on behalf of a purported class limited to those who purchased Perrigo stock on the NASDAQ market or by other means involving transactions in the United States. On October 27, 2011, the Court approved a stipulation appointing Harel and Warner as co-lead plaintiffs (the “Co-Lead Plaintiffs”).

On November 21, 2011, the defendants answered the second amended complaint, denying all allegations of wrongdoing and asserting numerous defenses. Although the Company believes that it has meritorious defenses to this lawsuit, the Company has engaged in settlement discussions with counsel for the Co-Lead Plaintiffs in an effort to move the matter to a quicker resolution and avoid the costs and distractions of protracted litigation. As a result of these discussions, the Company and the Co-Lead Plaintiffs have reached an agreement in principle to settle the case and have executed a Memorandum of Settlement outlining the essential terms of the proposed settlement. The settlement would be subject to Court approval. In order to finalize the settlement, the parties will be required to engage in a process involving a number of additional steps, including the drafting of a detailed Stipulation of Settlement and the filing of a motion asking the Court to approve the settlement after providing notice and the opportunity to be heard to the members of the proposed settlement class. There can be no assurance that a final settlement will be reached or approved by the Court. Regardless of whether the proposed settlement is finalized and approved, the Company believes the resolution of this matter will not have a material adverse effect on its financial condition and results of operations as reported in the accompanying consolidated financial statements.

Ramat Hovav

In March and June of 2007, lawsuits were filed by three separate groups against both the State of Israel and the Council of Ramat Hovav in connection with waste disposal and pollution from several companies, including the Company, that have operations in the Ramat Hovav region of Israel. These lawsuits were subsequently consolidated into a single proceeding in the District Court of Beer-Sheva. The Council of Ramat Hovav, in June 2008, and the State of Israel, in November 2008, asserted third party claims against several companies, including the Company. The pleadings allege a variety of personal injuries arising out of the alleged environmental pollution. Neither the plaintiffs nor the third-party claimants were required to specify a maximum amount of damages, but the pleadings allege damages in excess of \$72,500, subject to foreign currency fluctuations between the Israeli shekel and the U.S. dollar. While the Company intends to vigorously defend against these claims, the Company cannot reasonably predict at this time the outcome or the liability, if any, associated with these claims.

In addition to the foregoing discussion, the Company has pending certain other legal actions and claims incurred in the normal course of business. The Company believes that it has meritorious defenses to these lawsuits and/or is covered by insurance and is actively pursuing the defense thereof. The Company believes the resolution of all of these matters will not have a material adverse effect on its financial condition and results of operations as reported in the accompanying consolidated financial statements.

NOTE 12 – SEGMENT INFORMATION

The Company has four reportable segments, aligned primarily by type of product: Consumer Healthcare, Nutritionals, Rx Pharmaceuticals and API, along with an Other category. The accounting policies of each segment are the same as those described in the summary of significant accounting policies set forth in Note 1. The majority of corporate expenses, which generally represent shared services, are charged to operating segments as part of a corporate allocation. Unallocated expenses relate to certain corporate services that are not allocated to the segments.

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From time-to-time, the Company evaluates its estimates of the allocation of shared service support functions to its reportable segments. In the first quarter of fiscal 2013, management revised its allocation estimates to better reflect the utilization of shared services by segment. Management believes the update of the allocation estimates results in a more appropriate measure of earnings for each segment. This change is consistent with how the chief operating decision maker reviews segment results. Prior period results from operations have been updated to reflect the change in the Company's allocation estimates. This change had no affect on consolidated results of operations.

In the first quarter of fiscal 2013, the Company incurred acquisition charges of approximately \$1,900 related to the purchase of Sergeant's, as disclosed below in Note 14. In the first quarter of fiscal 2012, in conjunction with the Paddock acquisition, the Rx Pharmaceuticals segment incurred a step-up in the value of inventory of \$27,179, as well as \$3,200 of severance costs. In addition, during the first quarter of fiscal 2012, the Company incurred \$5,600 of acquisition charges as unallocated expenses.

	Consumer Healthcare	Nutritionals	Rx Pharmaceuticals	API	Other	Unallocated expenses	Total
First Quarter 2013							
Net sales	\$450,416	\$103,423	\$162,942	\$36,419	\$16,610	\$—	\$769,810
Operating income	\$79,288	\$3,883	\$68,504	\$13,319	\$425	\$(8,846)	\$156,573
Amortization of intangibles	\$2,263	\$7,300	\$8,402	\$463	\$393	\$—	\$18,821
First Quarter 2012							
Net sales	\$411,681	\$119,861	\$127,627	\$47,644	\$18,482	\$—	\$725,295
Operating income	\$69,189	\$7,241	\$24,485	\$14,215	\$285	\$(13,863)	\$101,552
Amortization of intangibles	\$2,245	\$9,465	\$7,353	\$521	\$437	\$—	